

**MINUTE BOOK 23, PAGE 483
STATESVILLE CITY COUNCIL BUDGET WORKSHOP
CITY OFFICE BUILDING – 2ND FLOOR TRAINING ROOM
MAY 26, 2010 – 4:00 P.M.**

Mayor Kutteh presiding:

Council Present: Gregory, Matthews, M. Johnson, J. Johnson, Stallard, Steele, Huggins, Eisele

Staff Present: Hites, Tomlin, Fugett, Smyth, Houpe, Triplett, Salmon, Cline, Cornelison, Bullins, Pressley, Anderson

Media Present: Jim McNally – Statesville Record & Landmark

Visitors: 2

Mayor Kutteh called the meeting to order. He stated the next budget workshop meeting will be Tuesday, June 1, 2010 at 4:00 p.m. if needed.

Council Requests for More Information from Previous Meeting

Revenue and Expense Forecast without Transfers

Finance Director Lisa Salmon reviewed forecasted recurring revenues and expenses without transfers (Attachment A). Ms. Salmon stated the final figure was \$212,958 and reminded Council two projects that were funded in the 2009-2010 budget are not complete and the appropriated funds are included in that figure, for example the street paving project and the fire pumper, approximately \$1.3 million to be paid after June 30, 2010.

Estimated Cash in Electric Fund

Ms. Salmon reviewed the actual cash as of June 30, 2009 and the estimated cash available as of June 30, 2010 in the Electric Fund (Attachment B).

Council member Steele asked if funds were used from the Electric Rate Stabilization fund to avoid raising electric rates. Ms. Salmon replied yes, just over \$300,000 was used from the 2009-2010 budget.

Council member Stallard asked why the Electric Operating fund was increasing. Ms. Salmon answered the remaining cash, \$860,000 from closing the Delivery Station Capital Project fund and \$804,000 from the Sub-station 5 upgrade project was transferred back into the Electric fund. Ms. Salmon stated the \$804,000 appropriated for the Sub-station 5 project will be used when the project is completed.

Fee for Fire Department Responses

Fire Chief Bullins stated according to his personal insurance company, in order for the Fire Department to receive payment for services, the location where the services are performed must be outside of a fire protection district, a city or a taxed fire district. Chief Cline reported he had found no fire departments billing for services anywhere in North Carolina. In his research he found 3% of fire departments in Indiana were billing for services by charging either a flat rate of \$300-\$500 or an hourly charge.

Fire Chief Bullins reported he had discussed EMS rates with the EMS Director. He stated EMS collects about 50% of their rates from non-Medicare patients, overall approximately 70% including convalescent type transports. Chief Bullins stated, according to the EMS Director, franchise start up costs would be approximately \$2-3 million.

Request to Fund the City Hall Project at a Budget of \$2.2 million and the First Phase of the Streetscape Project at a Budget of \$5.5 million

Council member M. Johnson reminded Council they have approved resolutions to apply for RZB funding for the City Hall renovation and the Streetscape project. Mr. Hites stated preliminary reports indicate we will receive an 80% appropriation, \$5.6 million, of the requested \$7 million. Council member M. Johnson stated the estimated total cost of the City Hall renovation was \$2,290,522. Using RZB bonds to fund this project, the annual interest payment on \$2,290,522 at 2.75% interest would be \$262,249 for the next 10 years. He reported the estimated total cost of the Streetscape project was \$5,548,800. Of that total cost Council member M. Johnson proposed charging \$562,400 to the Water and Sewer fund, \$1,128,000 to the Electric fund and finance \$3,858,400 using RZB funding leaving the remaining amount of \$548,922 unfunded. Using the same terms as the City Hall project, the annual interest payment would be \$441,761 for the Streetscape project. The combined annual interest payment would be \$641,162 for a 10 year term. Council member M. Johnson stated if Council chose not to use RZB funding the cost to finance using traditional funding the combined total of the two projects, \$7,839,322 at 4% interest would be \$952,432 annually for a 10 year term.

Council member M. Johnson explained these were best and worst case scenarios. He stated although these figures leave \$548,922 unfunded, he had not calculated the reimbursement from NCDOT for the Streetscape project which has been approved, or the cost difference we should expect between the project estimates and the actual bids.

Mayor Kutteh asked if staff had received the City Hall final report and the Streetscape as-built survey. Mayor Kutteh felt Council should review both for unexpected issues before a final decision was made. Council member M. Johnson explained the as-built survey is a platform by which final plans are designed; unless Council planned on designing water and sewer lines or elevations on sidewalks he did not think the as-built survey would be beneficial to them.

Council member Steele asked for verification that staff had reviewed the Streetscape as-built survey and a determination had been made that the project could proceed. Larry Pressley answered the critical part of the project was getting NCDOT's approval to narrow the lanes, which has been obtained.

Council discussed the Streetscape project design details.

Ms. Salmon explained in order to take advantage of the RZB funding; financing must be complete by the end of this calendar year. All cities and counties must go before the Local Government Commission with the project design, bids and permitting complete. The Local Government Commission's last meeting is in December. Ms. Salmon stressed that in order to meet this timeline, many things would have to happen very quickly.

Council member M. Johnson stated these projects are not contingent upon RZB funding and he did not understand why funding for both was not already included for consideration in the 2010-2011 budget.

Mr. Hites explained at the time the budget was completed, staff did not have estimates for either project, or a motion by Council to create a Project Fund to put in the Operating budget.

Council member M. Johnson made a motion to appropriate \$7,839,322 for the City Hall renovation project and the Streetscape project.

Mayor Kutteh asked Council member M. Johnson for clarification of the motion. Council member M. Johnson clarified he wanted the \$2.2 million and the \$5.5 million added to the budget for final budget approval.

Council member Steele asked if we can change the amount we borrow in December. Ms. Salmon reminded Council that RZB funding cannot be used to finance only the Streetscape project; it must be financed with a collateral project.

Mayor Kutteh asked Council member M. Johnson if the motion passed, does he consider it another item in the budget for consideration. Council member M. Johnson replied he would consider the projects approved and the funding for the projects a part of the budget consideration process just like any other project.

Mayor Kutteh stated if he had a vote and Council was approving the projects today, he would be unable to vote in favor at this time because Council has not reviewed all of the information yet. He felt both are projects that the City will ultimately do and if the city would realize the benefit of a bargain by doing the projects now he would be in favor. For instance, if the bids came back at \$2.2 million for City Hall he would be hesitant to start the project at this time, but if the bids came back at \$1.3 million then it would be smart to do the renovation at this time.

Council member M. Johnson stated Council has voted to adopt the Streetscape project, has adopted a preliminary budget and floor plan for the City Hall renovation. He advised the City would not be spending \$7.8 million in one year and needs to resolve to either go forward with the projects or drop them.

Council member M. Johnson clarified his motion was for Council to approve \$7,839,322 for these two projects. He stated he was not making any stipulation with respect to financing or payment.

Ms. Salmon reminded Council if this motion is approved it must be funded and an official budget amendment executed. She asked if Council was ready for staff to analyze funding options.

Council member Steele stated the City has reached the point where design plans are needed for accurate estimates and she is comfortable adding both projects to the budget for consideration. Furthermore, if project bids came in below budget then the project could move forward, if not then Council would still have the option to wait.

Mayor Kutteh asked what the process was for Fire Station #4. Ms. Salmon explained funds were appropriated for the fire station construction and transferred to a Construction Fund. At that point an architect's estimate for the cost of the project was obtained. Ms. Salmon stated until the design was complete and the project was bid, the City still did not have an actual cost for the project. There was an estimate of the cost of the project, but the size and scope of the project changed from the original \$1 million appropriation. Council member Steele stated the appropriated funds were used to purchase the land and pay the architect. Council member M. Johnson asked if the funds were appropriated when the plans were just at a sketch plan stage. Ms. Salmon replied yes. She stated the project plans were complete and the project bid before the project budget was set in order to have an accurate amount.

Mayor Kutteh reiterated if he had a vote, he would not vote to commit \$952,432 of City funds for the next ten years with no idea of how it would be funded.

Ms. Salmon reminded Council a Capital Project must be budgeted and paid for in a Construction Capital Project Fund, it may not be in the Operating Fund. The appropriation of loan proceeds, cash, contractor payments, must all take place in the Capital Project Fund separate from the Operating Budget. She emphasized it was very important for Council to understand the impact of a debt service payment of almost \$1 million to the Operating Budget. Ms. Salmon explained it was not necessary to transfer the total amount of \$7,839,322, only the Debt Service Fee should transfer to the General fund. Ms. Salmon stated staff can prepare an analysis of funding options for a project such as this and its impact on the Operating Budget.

Council member Steele stated she was not as concerned about the \$2.2 million for City Hall because the City already had the funds, but the additional \$5 million concerned her.

Council member Stallard stated if we don't move forward now, the price is only going to be higher if we wait; we need to do it sooner rather than later.

Council member Matthews asked what was the difference between putting the projects in the budget and putting them in the budget for consideration. Mayor Kutteh explained that nothing in the 2010-2011 budget had been approved yet; anything could be added or omitted. If this motion is approved we start off with \$7,839,322 already approved in the budget, on top of the \$25 million budget prepared by staff.

Mr. Hites asked for further clarification on behalf of the staff. He asked Council member M. Johnson if he was requesting staff to establish a Project Budget, which is a separate fund, for the City Hall renovation and the Streetscape project, then amend this budget to show the impact this Project Fund has on this coming fiscal year. Mr. Hites stated the first year, the expense load would be the only thing included in the Operating Budget and if bids came in over budget, Council could reject the bids and cancel the project.

Council member M. Johnson asked Council if they agreed that street and water and sewer improvements should be charged to the appropriate enterprise fund. Council agreed. He stated if the various funds were charged, the amount financed for Streetscape is \$3.8 million over ten years. He inquired what would be the difference between writing a check for \$2.2 million for City Hall and \$3.8 million for Streetscape.

Mayor Kutteh stated Council had not asked the Finance Director what the impact to the budget would be for this year, next year or ten years from now, nor did Council know where the funding would come from.

Council member M. Johnson reported the impact to the General Fund for Fire Station #4 was over \$2 million dollars. He stated a check for both of these projects could be written, the funds are available.

Council member J. Johnson reminded Council that \$11.2 million has been cut from Capital Improvement funding, this is the second year employees are not getting a pay increase, and \$700,000 in street improvements have been cut. He inquired when Council would fund these items and emphasized he disagreed with adding a \$1 million debt service payment and would not vote for it.

Council member Huggins stated Council needs to prioritize which projects to fund during these tough economic times.

Council member M. Johnson stated in regard to employee pay increases, the City made a 1.55% contribution to every City employee's retirement account to make up the \$441 million deficit the State of NC lost on real estate investment in the retirement account. The City also contributed 1.64% for healthcare totaling 3.19% in benefits. Furthermore, the total increase this year in the employee contribution for spouses and dependents for actively employed employees was \$72,734.40, with the addition of retirees it was \$89,274.

Council member Steele asked what happens to these two projects if this motion does not pass. Mayor Kutteh replied nothing unless another motion is made to add them to the budget for consideration and ask for an analysis from staff.

Council member J. Johnson asked what was going to happen next year to all of the items that were being put on hold last year and this year.

Mayor Kutteh asked if there was a second to the motion made by Council member M. Johnson to appropriate \$7,839,322 for the City Hall renovation project and the Streetscape project. Council member Eisele seconded the motion.

Council member Gregory felt City Hall needed only paint, carpet and an upgraded sound system. He stated as far as Streetscape goes, Center St. is the only street that needs new water and sewer lines and since NCDOT has agreed to do the paving on Center, the City should take advantage of that but there is no value in widening the sidewalks.

Council member Steele asked what M. Johnson expected to happen next if the motion passed. Council member M. Johnson replied a completed design plan and the projects go to bid.

Mayor Kutteh called for a vote on the motion. The vote was as follows:

Ayes: M. Johnson, Eisele

Nays: Stallard, J. Johnson, Steele, Huggins, Gregory, Matthews

Motion failed 6-2

Council member Steele made a motion to add the City Hall renovation and Streetscape Project to the budget and for staff to present Council with a financial plan for funding, seconded by Matthews. The vote was as follows:

Ayes: Steele, Matthews, Stallard, Huggins, M. Johnson (abstain), Eisele (abstain)

Nays: Gregory, J. Johnson

Motion carried 6-2

Ms. Salmon reviewed the following questions submitted by Council.

How much would a 1% pay increase cost?

Approximately \$180,000 per 1 percentage point

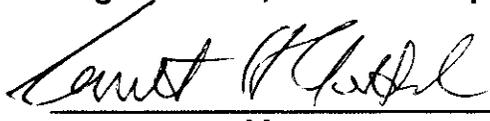
Are there other areas of revenues or cuts to the budget?

Ms. Salmon suggested a garbage fee, and various user fees that could be considered. Ms. Salmon stated Council could cut any item from the budget they wished, but additional cuts could result in a loss of or a change in services.

Economic Development

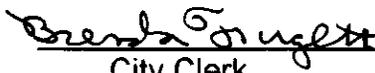
There is a recommended appropriation in the General fund to pay the various economic incentive contracts with companies such as Lowe's, Rubbermaid, etc.

Council member Steele made a motion, seconded by Council member Stallard, to continue this meeting to June 1, 2010 at 4:00 p.m.



Mayor

ATTEST:


City Clerk

