

**MINUTE BOOK 24, PAGE 154
City of Statesville City Council Retreat Meeting
Marriott-Winston Salem, NC
February 24, 2011**

Mayor Kutteh presiding:

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

Council Absent: M. Johnson

Staff Present: Fugett, Hites, Gaines, Smyth, Davis, Anderson, Triplett, Bullins, Pressley, Cornelison, Currier, Hudson

Media Present: James McNally, Record & Landmark

Call to Order and Welcome

Mayor Kutteh called the meeting to order. He noted that Council member M. Johnson most likely would not be attending due to a family illness. Mayor Kutteh stated Council would hold an executive session to discuss a land acquisition matter prior to the Financial Update report.

Electric Utilities Director Larry Cranford reminded Council the Shade Tree Canopy Program resolution was adopted in July 2010. The goal of the program was the protection of the existing shade tree canopy and to develop a plan to sustain the canopy long term. The areas identified to be included in the program were East Broad Street from Tradd Street to Salisbury Road, Davie Avenue from Tradd/Water Streets to Brookdale Drive and Front Street from Meeting Street to Buffalo Shoals Road. Mr. Cranford stated the existing electric lines have very little impact on the mature shade trees in these areas. Most of the existing canopy is above the distribution line, so the City does very little tree trimming on these trees. The problems will occur when older trees are removed and are replaced with another Oak or some other species of shade tree. As the tree grows it will eventually reach the distribution line. The National Electric Safety Code requires a minimum clearance of 7.5 feet from high voltage lines to any structure, including trees. The department trims at least 10 feet in an attempt to ensure there is at least a 7.5 feet clearance throughout the trimming cycle.

The resolution instructed the City Arborist to determine a list of like species for replacement and the annual cost of removing danger trees, replanting, maintaining, trimming and fertilizing. Mr. Cranford stated that Shawn Cox and Lynn Miller had prepared a report containing this information and Council had received a copy. The resolution also stated that "no tree shall be planted on private property within 7.5 feet of the edge of a utility or street easement". Mr. Cranford advised that a list of street trees for the public to use in street rights of way was forthcoming and that Shawn Cox would meet with Council to review all of this information and answer questions if they wished.

Mr. Cranford explained the resolution had also instructed staff to study the cost to move lines underground along E. Broad Street from Tradd Street to Salisbury Road. Progressive Engineering Consultants were retained to develop cost estimates to convert this section to underground. The existing electric line that runs along E. Broad Street is 4,160 volt, three phase lines. This circuit that runs along E. Broad Street is a critical tie circuit from Substation 3 on Jefferson Street to Substation 6 at the corner of Knox and Vine Streets. Mr. Cranford reviewed a map with Council that portrayed where these current lines and substations are located. He explained there is a tie point between the two substations at East End Avenue. This gives the department the ability to back feed the other circuits and retain power if one of the substations needs to be taken out of service. This is a critical circuit due to the flexibility to feed from either direction. Progressive has suggested the existing circuit to be relocated to East Sharpe, South Green, and East Front Street. This would reduce the complexity and cost of the project, however this may not be a good approach if Council's long term goal is to underground the lines on East Front Street. To some extent, to do this would be moving a problem from one point to another.

Council member Gregory pointed out that there are no tree issues in that area. Mr. Cranford agreed.

Mayor Kutteh asked why the Broad Street line could not be put underground on Front Street when the Front Street lines are put underground. Mr. Cranford stated his thoughts were that it

would be the expense of building it there and coming back later and putting it underground but it could be done. Mayor Kutteh stated it eliminates the problem on Broad Street. Mr. Cranford agreed.

Mr. Cranford reviewed a map that showed the rerouting of the new overhead circuit up Sharpe Street, then up Green Street, across Front Street and then back up to E. Broad Street.

The existing circuit on E. Broad Street is a 4kb circuit; all those loads are served from this system. The proposed new underground system built along E. Broad Street would be at the higher voltage of 23,000 volts which is a more efficient voltage and would standardize material and equipment since the bulk of our current underground system is 23,000 volts.

Mr. Cranford reviewed a map of what is proposed for the new 23kb system on E. Broad Street. This loop design would give the department the ability to back feed in order to maintain power if there was a problem. The lines at that point would be 3-4 feet underground which makes it more difficult to reach. Studies have shown that an underground system takes 60% longer on average to repair than an overhead system, simply because it is easier to spot the source of the trouble with an overhead system.

Council member Steele asked what the difference was in how often each system goes out. Mr. Cranford replied the underground circuits are 50% more reliable than the overhead circuits, so they go out half as much.

This new system would require ground mounted/pad mounted equipment, transformers, and junction cabinets and may require additional easements in order to install. Another concern is if the equipment is a negative for the property owners. The location of the equipment is critical to protect tree roots. Everywhere a transformer is needed a hole would need to be dug, conduit turned up, then a concrete pad or poly pad built for that item to sit on.

Mr. Cranford displayed photos showing a single phase pad mounted junction cabinet, a single phase pad mounted transformer, and a three phase pad mounted junction cabinet. These various cabinets are the points where the electrical cables would come above ground for access. Electric cables differ from water in that you cannot just dig up the line, make a tap and carry it over somewhere. A junction cabinet is needed to turn up the cables and bring them above ground or some type of vault where a splice or junction can be made.

The current design calls for six of the single phase pad mounted junction cabinets. The survey of E. Broad Street showed that the entire load is single phase and the current design requires nine of the single phase pad mounted transformer cabinets. This could possibly be changed by using a larger transformer in some areas in order to have fewer cabinets. The current design requires three 3-phase pad mounted junction cabinets. The bank located between Davie Avenue and E. Broad Street is a three-phase load and is fed from the E. Broad Street side so these cabinets would be required to maintain the three-phase load.

Council member J. Johnson asked if there is any extra danger to the public such as electrocution, if a vehicle would run into one of these cabinets, how long and how expensive would the repair be. Mr. Cranford replied there could be some danger to the public, but it is unlikely because the system is fused and protected and will usually short out internally. Extensive damage to the cabinet could cause damage to the cables which could take hours to repair.

Mr. Cranford stated tree protection with a project like this is a huge issue. Shawn Cox, the City Utility Arborist has reviewed this plan and has made "best management" recommendations on how this work should be done. His tree inventory showed that fifty trees exist in this area, 45 of the trees are Willow Oaks which are extremely mature. The average diameters of the Willow Oaks are 30" class. The health of the trees are declining and fourteen, located throughout the Shade Tree Canopy areas, not just in the E. Broad Street area, are on a watch list for root rot and fungal decay. At some point these will have to come out.

Council member J. Johnson asked if spraying the new trees to stunt their growth could be done. Mr. Cranford stated that would keep some growth down, but a Willow Oak at some point would reach the electric line and the tree canopy would not be maintained if the growth was stunted.

Shawn Cox also calculated Tree Protection Zones (TPZ) on all the trees. This is the diameter at breast height (DBH) multiplied by 12". Open trenching inside this zone is prohibited and no heavy equipment should be inside the Tree Protection Zone. Mr. Cranford displayed a map

showing the tree protection zones on Broad Street. For the most part the area is a continuous tree protection zone. Due to this, Directional Boring will be required for most of this work. Heavy equipment should be kept out of the TPZ and 6" to 10" of mulch should be spread where equipment will be in the TPZ in order to avoid compaction of the soil where the tree roots are. The cost of the mulch is not included in the estimate from Progressive Engineering Consultants. This project may require more handwork and boring than anticipated by the consulting engineer.

The estimate from the consultant for the electrical relocation/undergrounding was \$500,000. This estimate does not include street lighting costs. Adding 28 Streetscape fixtures and poles 100' feet apart would add \$182,000 to the cost. According to photo metrics calculations this design would not meet the NCDOT street lighting requirements. If the City approaches this as decorative lighting only, these lights could be used but it would require one of these lights every three feet to achieve the uniformity that NCDOT would require. Mayor Kutteh asked for clarification that if street lighting is important then we could not use the decorative lighting. Mr. Cranford stated that was correct. Mr. Cranford reported that adding 22 standard street light fixtures on fiberglass poles would cost \$40,000 installed and this design would meet NCDOT requirements.

Mr. Cranford stated after the ice storm in 2002 the North Carolina Utilities Commission Public Staff published a report in November 2003 titled "The Feasibility of Placing Electric Distribution Facilities Underground". The report showed it would take 25 years to complete this, the cost would be in the billions and the rates would increase approximately 125%. Current cost estimates for such projects range from \$500,000 to \$3,000,000 per mile compared to \$120,000 per mile for installing overhead lines. The study area on E. Broad Street is approximately 1,500 feet. The cost per mile is \$1,760. This would eliminate the pole line on the south side of E. Broad Street. The pole line on the north side is AT&T with Time Warner. AT&T quoted \$175,000 to remove their line and place facilities underground. Time Warner quoted \$70,000 to underground their line. The total cost to remove all the poles is \$745,000. With the addition of street lighting at the cost of \$40,000 to \$182,000 the total estimated cost would be \$785,000 to \$927,000.

Mayor Kutteh asked if the AT&T and Time Warner lines from the north side could be rerouted overhead on Front Street. Mr. Cranford stated that could be a possibility but he had not explored that option yet. Council member Stallard asked if the AT&T and Time Warner lines could be run with the City's lines and they pay the City for installing them. Mr. Cranford stated the City could possibly provide conduit for them to pull their lines on but staff would need to check that and they would need access points as well. Council member Stallard noted that would be \$250,000 they would pay us to do the work and they bought the material. Mr. Cranford felt they would shift the cost back to the City. He stated there would probably still be charges from AT&T to do their work because people would need to be brought in to do the work. Also it would require a different type of cable and splicing but staff can definitely explore that option.

Mr. Cranford stated the pros of moving the lines underground were aesthetics, any species of tree could be planted, no trimming would be required for utility clearance and underground lines are 50% more reliable. The cons are that the existing trees may be damaged by construction, property owners may object to pad mounted equipment, and it would be more difficult to service new loads, for instance if a 3-phase load came in the transformer would need to be replaced which would require additional boring. Also power would need to be turned off for any work to be done and lastly the high cost of installing the lines underground. Mr. Cranford stated from an electric utility standpoint, there is not a lot of value in underground lines. The department understands the aesthetics, but when compared to the reliability, the cost and the amount of work to install the underground lines, the same amount of money could be spent elsewhere on the system and get much more bang for our buck especially if the City is looking for efficiency and reliability. The cost of the cable for underground lines is \$1.95 per foot. The cable used currently is .12 cents per foot.

Alternatives to installing underground lines are the Hendrix spacer cable and overhead rear lot line construction. The Hendrix spacer cable, basically insulated cables, overhead on a pole, in a triangular configuration, will tolerate tree limb contact and clearances can be reduced but not eliminated. The Hendrix spacer cable is being used in Gatlinburg, TN, Greeneville, TN and Franklin, VA. Our consulting engineer has recommended against using it in this application.

Overhead rear lot line construction would require additional easements, relocation of overhead circuits, existing and future loads would be served from the rear once the lines are removed from Broad Street, an increased maintenance cost due to fences that are installed where power

lines are, and would also require some tree trimming. The existing street lighting can remain if desired.

The estimated cost to relocate the lines and re-feed from the rear lot line is estimated at \$250,000. New street lighting, which would require directional boring, is estimated to cost \$124,000 - \$272,000. The total cost \$374,000 to \$522,000. The total cost to remove all overhead lines and feed from rear lot lines is estimated at \$619,000 to \$767,000 which includes cable and street lighting. This cost also includes Front Street.

Mayor Kutteh asked Council for a motion to go into executive session.

Council member J. Johnson made a motion to go into executive session to discuss a property acquisition matter, seconded by Council member Eisele. The motion carried unanimously.

Council returned to regular session. Mayor Kutteh advised that no action had been taken.

Financial Update/Funding alternatives

Assistant Finance Director Gene Triplett stated he would first review the financial results of City operations for the first six months of the fiscal year which ended December 2010. Secondly he would discuss the challenges in developing next year's budget, and then would give five year forecast scenarios.

Mr. Triplett pointed out that revenues are currently exceeding what was anticipated by \$759,000, however, expenditures are \$1,276,000 over what they were the previous year. By adding these two figures together it shows that the City is currently operating at a \$514,599 deficit. If all forecasts hold true, the City will break even at the end of the fiscal year.

Some expenditures are above where they were this time last fiscal year. Due to a \$700,000 paving contract that has been completed this year, that was not done last fiscal year, Transportation is up 73%. Street Operations are up 4% mainly due to snow removal. Police, Fire and Parks & Recreation are also slightly higher but this does not mean that they are out of sequence yet with the current year's budget.

Mr. Triplett stated the Electric Fund is doing extremely well, mainly due to a rate increase which was caused by a wholesale increase. He pointed out the majority of the Electric Funds costs are for the purchase of power.

The Water & Sewer Fund had a 6% rate increase that was effective 07/01/2010 but compared to last fiscal year is down 45% as of December 2010.

Mayor Kutteh asked for clarification of the "Other Revenues" line item under the Water & Sewer Fund revenues that had dramatically decreased from fiscal year 2009. Mr. Triplett stated the line item "Other Revenues" included tower rentals, sewer penalties, and internal sales. Mayor Kutteh asked if part of the amount in fiscal year 2009 was from the sale of the timber at the wastewater treatment plant. Mr. Triplett agreed it was. Mr. Triplett pointed out that System Development Fees are down 1% which is due to the stall in the building and construction industry.

Council member Gregory asked if funds were being set aside for the 3rd Creek Wastewater Treatment Plant expansion. Mr. Triplett stated the only monies that had been appropriated to date were for engineering fees. Rob Hites stated there is just under \$2 million in System Development Fees. Mr. Triplett stated yes they are in the Utility Reserve Fund. He explained the System Development funds go into this fund then are transferred into the Sewer Capital Reserve Fund each year.

Mr. Triplett stated the Civic Center is predominantly supported by the Occupancy Tax and Facility Fees. He explained the Occupancy Tax Fund is for Capital Improvements or debt needs in the future.

Mr. Triplett reviewed the available fund balances in all the Operating Funds. He stated the City is in a financial position to weather any future downturns in the next couple years. Mr. Triplett pointed out that typically most cities the size of Statesville the General Fund Percent of Annual Expenditures would be around 40%. Statesville's is at 67.97%.

Council member Steele asked how much of the \$17 million in the General Fund was appropriated for projects. Mr. Triplett stated all \$17 million is unencumbered, unreserved fund balance and is available for appropriation by City Council. Mayor Kutteh asked if the funds for five years of debt service payments for the Streetscape, City Hall and Fire Station #4 projects had been deducted from this amount. Mr. Triplett stated this amount reflects the fund balances as of June 30, 2010 not the current fiscal. Council member Huggins asked if the leftover funds from the construction of the new Recreation Center been transferred back to the General Fund. Mr. Triplett stated those funds would be transferred in the current fiscal year. He stated an ordinance would come before Council in March to transfer these funds and to close that project fund.

Mr. Triplett reviewed the challenges for the 2011-2012 budget as follows:

1. Revenues will be flat next year, or lower if economic recovery lags.
2. The new fire station will be complete as of July 01, 2011 and needs to be staffed and operating.
3. Capital needs will outpace sufficient level of current revenues to fund on a pay-go basis.
4. 2 years with no employee pay increases.
5. Career development and educational incentive program has been on hold.

Significant General Fund budget items for fiscal year 2011-2012 are:

1.	Fire Station #4 (Salaries/Operations)	\$ 900,000
2.	3.5% one-time employee bonus	475,000
3.	2 positions for the SIGI program	125,000
4.	2011-2012 Capital Requests	5,977,681

Mr. Triplett stated forecasts had been revised to reflect the 2% property revaluation decline. The main changes are the Property Tax revenue line item and Unrestricted Intergovernmental revenue, which are SIGI grants, Greenway grants, etc. Mr. Triplett said he foresees very little state and federal grants being given over the next few years and expects Restricted Intergovernmental revenue to decline due to this.

Mr. Triplett explained by State statute the City must be revenue neutral. According to his estimated calculations, the tax rate must be increased to 0.3990 in order to keep revenues neutral or expenditures must be cut to keep the tax rate at 0.3800.

The two major revenue sources for the City are Property tax and Sales tax. Other revenues are Franchise tax for utilities and telecommunications and Cable Franchise tax. They are coming in as expected and are remitted quarterly. Sales taxes are very difficult to forecast and are remitted monthly.

Mr. Triplett reviewed four estimated forecast scenarios. Estimate 1 has no tax increase, tax rate remains at \$.03800. Fund Balance would be used for the Fire Station 4 expenses and to fund the 3.5% employee bonus. By using this estimate the remaining unreserved Fund Balance by 2015 would be \$5,808,225. Estimate 2 uses Fund Balance in year 1 for Fire Station 4 and the employee bonus; then an estimated \$.03 tax increase for Fire Station 4 in year 2, 2013. Estimate 3 delays the opening of Fire Station 4 until fiscal year 2012-2013 and is funded at that time with a "targeted" tax increase. Estimate 4 uses Fund Balance in year 1 and a "targeted" tax increase for Fire station 4 and the employee bonus, plus a \$.02 increase on the tax rate. The purpose behind this estimate is to maintain the unreserved Fund Balance above \$10 million. This option would require a tax increase of approximately \$.06.

The total federal Traffic Safety Grant of \$118,248 expires September 30, 2012. This grant funds the salaries and benefits for two Police Officers. The SIGI grant has one Police Officer and one non-certified employee and expires on June 30, 2011. The amount needed to fund salaries, benefits and equipment for these two positions is estimated to be \$125,000 per year. The total of these Police supported grants is \$243,248 and would be the total future cost to support these four positions. Retirement cost increases assuming a 3.5% employee bonus is \$78,026 for fiscal year 2011-2012. The Fire SAFER grant is a three year declining subsidy from FEMA. For fiscal year 2011-2012 the City pays 50% of the total salaries and benefits, \$63,690 for three fire fighters. Fiscal year 2012-2013 the cost is \$89,610 which is 70%, and in 2013-2014 the City pays 100% which is \$128,583.

Mr. Triplett reviewed the five year outlook of the City's debt in relation to the General Fund. In 2015 the General Fund debt will reduce \$330,000 plus interest when the Airport debt is paid off if the City does not borrow any money during this period. The City's debt burden is relatively small compared to nearby cities. The Electric Fund has no debt at this time. Water & Sewer has the largest portion of the City's debt and it is rate supported.

New Demands on Spending – General Fund

Rob Hites stated in 2006 the City received notification that certain areas of the City would lose its ISO rating of 4 and would have a rating of 10 because the response time was not covered for these areas which consisted of most of Council member Steele's district and the Statesville Business Park. In an effort to maintain the ISO 4 rating for these areas, City Council chose to build a fourth fire station in 2007. At that time staff predicted a \$0.2 increase in the tax rate would be needed to fund this. Due to the potential billion dollar tax base increase from the Larkin development, that tax increase was dismissed. It is now 2011 and Larkin has not come to fruition and the City may have a 2% decrease in ad valorem taxes. The City is still increasing services without any tax increases while other cities are reducing services and raising taxes. Mr. Hites reviewed the process staff goes through developing the budget. Staff expects at fiscal year end to have \$168,000 more ad valorem tax money than was predicted. The way the Department of Revenue is collecting money is not consistent in how they are sending the cities and counties their revenue which makes it very hard to predict. However, staff predicts at the end of the year the City will be \$82,000 higher than originally predicted. The City will make \$97,500 more in Recreation Revenue than was estimated, which is mainly due to revenue from the pool. Although the revaluation is a 2% decrease there will be a \$194,670 reversion that can be used in the 2011-2012 budget to offset increased costs.

Mr. Hites reviewed the following new demands on spending in the General Fund:

\$ 900,000	Fire Station #4 (\$708,384-Savings & Benefits/\$191,616 Annual Operating)
\$ 475,000	3.5% Bonus (General Fund)
\$ 125,000	SIGI – 1 Officer; 1 Civilian
\$ 118,248	2 Traffic Officers
\$ 63,690	SAFER
\$ 78,026	Retirement .50% (assuming 3.5% bonus)
\$ 31,478	Police Separation 1.57%
<u>\$1,791,442</u>	Total Personnel Related
\$ 552,000	General Fund Capital
<u>\$2,343,442</u>	Total
\$ 194,670	Less Additional Revenue
<u>\$2,148,772</u>	Budget Left to Fund

Staff estimates being able to budget only \$0.5 million for the General Fund Capital budget for this year and the following four years unless lease purchase is used. Requests of almost \$6 million have been received.

Mr. Hites stated \$.01 on the ad valorem tax rate would yield \$298,448. The General Fund balance available for appropriation is \$17,401,057. The average employee salary and benefits is \$45,000 per position. If the City set up the Sanitation and Leaf Pick-Up as an enterprise fund it would yield \$350,000.

Mr. Hites explained the proposed employee bonuses could be given weekly, bi-weekly, quarterly or all at once. Giving a bonus does not obligate the City to give a bonus next year nor will it increase payroll costs afterwards.

In terms of tax dollars, to fund Fire Station #4 from growth alone, the City would need to add \$236,700,000 to the tax base just to fund the fire station at \$0.38. That equals 947 \$250,000 homes. To fund the entire \$2,148,772 shortfall in the 2011-2012 budget, \$640,526,315 in new tax base or a \$0.215 increase in our tax base would be needed to keep this budget revenue neutral. Fund Balance could only be used till approximately 2018. At that time it would cost \$0.065 cents additional on the tax base. This is impossible to grow out of. Mr. Hites stated Council could not expect to raise services by \$900,000 a year along with a 2% drop in the tax base and not expect to have to pay any additional taxes for the \$900,000 in new services. A tax increase will most assuredly be needed by 2018. When Larkin is developed, it will be twelve months before it is added to the tax base.

Mr. Hites stated the budget can be held relatively constant for the next four years with 3.5% annual bonuses. If fund balance is used for this, taxes will have to be increased by 2018. Sales tax increases will be used to fund inflationary costs. Instead of using fund balance, services could be reduced. Staff would prepare a service reduction plan recommending what services/personnel could be reduced for a total of 54 employees. A targeted ad valorem increase to fund the \$900,000 cost of the Fire Station #4 would reduce this gap by 42%. Mr. Hites recommended allowing one to two more years for the recovery of the economy and target an ad valorem increase in 2012 or 2013 to fund the Fire Station #4. Mr. Hites reminded Council that over the last three years staff had reduced their budgets to a minimum level. Everything that could be cut that means anything in terms of real dollars has been. Once this kind of gap in the budget is reached, reducing services and personnel may be necessary.

Mayor Kutteh asked Mr. Hites to address the reasons revenues as of 12/31/10 are over 12/31/09 by \$759,467. Mr. Hites stated this number includes funds from the Construction Accounts which he disagrees with this because it artificially inflates the day to day operational revenue. The City will not have an extra \$700,000 in current year revenues at the end of the year. Gene Triplett pointed out that the City will not be receiving much more in property taxes for the rest of the fiscal year so this will decline dramatically.

Mayor Kutteh reminded Council that the City must pay the debt for the Streetscape and City Hall projects, which is almost \$1 million per year, in addition to the over \$2 million presented today that must be funded in next year's budget. Even though this money has been set aside it will not be in the fund when the projects are finished.

Mr. Hites pointed out that this budget also seriously underfunds Capital purchases. Department Heads are asking for \$6 million to replace equipment, vehicles, etc. and there is only half a million budgeted for the whole general fund.

Mayor Kutteh asked if Department Heads felt the City had reached a critical point by continuing to defer capital expenditures. Mr. Hites stated the fleet was updated prior to the downturn in the economy in 2008. Garbage trucks and heavy dump trucks that were deferred back in the early 2000's because they were not ready to be replaced at that time now need to be replaced. Mr. Hites stated economists forecast this region will not recover from this recession until at least 2018.

Council member J. Johnson stated he was not in favor of giving an employee bonus if employees would be laid off, hours cut, or services cut to fund it.

Council member Gregory was in favor of giving the bonus. He stated no raises or bonuses had been given for the last two years. He recalled the City's plan was to keep employee wages competitive with surrounding cities.

Council member Steele stated she would not vote for the bonus if it included Council members. She emphasized that grant funded staff should be kept because the City has already trained them and has an obligation to them even when the grants have expired.

Mayor Kutteh felt no bonus is preferable to any kind of reduction in force except through attrition.

Council member Huggins and Mayor Kutteh both agreed savings should not be used to pay day to day expenses.

Council member Stallard asked if Fire Station #4 could be opened with fewer funds, possibly with a reduction in personnel. Chief Bullins stated fifteen firemen are needed in order to fully cover each shift. Council member Stallard felt everything on the New Demands on Spending list should be cut except for the salaries for Fire Station #4.

Council member J. Johnson reminded Council that when the Fire Station, the Streetscape and City Hall projects were voted on, it was said that all these projects could be done without a tax increase. He emphasized he would not vote for any kind of tax increase.

Council members agreed by consensus that reducing staff at Fire Station #4 or delaying its opening is not an option.

Council discussed increasing ad valorem taxes by 1.5 cents to .39 ½ cents in order to achieve a tax neutral rate. This would generate approximately \$475,000 in revenue. A majority of Council

agreed by consensus to direct staff to include the tax neutral rate increase in the 2011-2012 budget proposal.

Council reviewed a list of General Fund Capital items proposed for purchase in an effort to possibly eliminate some of the items. It was determined that no cuts could be made from this list.

Lynn Smyth reported that the City of Concord had given a \$600.00 bonus to all employees who had a satisfactory performance review. Mooresville had budgeted \$100,000 for performance bonuses of 2-5%. Salisbury gave bonuses that averaged \$500.00 per employee. On the other hand though, Concord froze 23 positions in their 2010-2011 budget, Huntersville reduced three full-time positions to 20 hours per week, in Salisbury a vacant position must be re-justified before it can be filled and Iredell County eliminated all positions that were funded by grants.

Council member Stallard felt that the City Manager and Department Heads should be the ones to decide where to make cuts whether it is personnel or other.

Council members agreed by consensus not to fund the proposed 3.5% employee bonus in the 2010-2011 budget.

Mr. Hites stated this is basically a four year spending plan. He will bring options on non-essential services to Council for consideration.

Chief Anderson described the grant funded positions (SIGI and Traffic Officers) and their importance to the City. Council member Stallard asked for back-up statistics on traffic accidents and deaths in relation to the traffic officer positions.

Council member Steele was in favor of a 39.5 cent ad valorem tax increase, omit the employee bonus, omit .50% retirement cost and use \$1 million from the General Fund to reach a balanced budget with no layoffs.

Mr. Hites clarified what non-essential services consisted of. He stated we have a number of services that certain groups, such as the Historic Districts, are used to enjoying, that could be considered non-essential. Mayor Kutteh asked how many unfilled positions the City has at this time, excluding Police and Fire. Lynn Smyth estimated three positions. Mayor Kutteh asked if these were essential positions. Mrs. Smyth stated staff would need to evaluate those positions to determine that. Mayor Kutteh suggested the City could put a hold on filling vacant non-essential positions.

Mr. Hites reminded Council that unless the City has an enormous explosion of growth, a tax increase by 2016-2018 is inevitable.

McGill Associates – Third Creek Wastewater Treatment Plant Expansion Update

Andy Lovingood with McGill Associates stated project involves two aspects: First to increase the treatment capacity of the plant from 4 to 8 million gallons per day (MGD). Secondly the expansion also includes the first phase of enhanced treatment processes necessary to meet the upcoming Total Maximum Daily Load (TMDL) limits, triggered by the impairment of High Rock Lake. TMDL's will restrict the discharge of the nutrients (nitrogen and phosphorus) in all tributaries upstream of the lake; therefore, all wastewater treatment plants that discharge upstream of High Rock Lake will face TMDL limits. This includes both of the City's wastewater plants.

The plant expansion project has the first stage of the nutrient removal treatment process incorporated into the project. The approximate cost of the construction is \$29 million. If the current schedule is adhered to, the project will be completed and in operation the spring of 2014.

Mr. Lovingood stated there are two key permits associated with this project. The NPDES permit, which is regulated by the Division of Water Quality (DWQ), is for the discharge of the wastewater into the receiving stream of Third Creek. The second permit, issued by Construction Grants & Loans, covers the construction inside the plant. Both of these agencies are under the North Carolina Department of Natural Resources Division of Water Quality and are delegated from the EPA. Construction Grants & Loans permits all the wastewater projects in North Carolina and they provide low interest loans and grants for these projects. The City of Statesville is in one of these programs to obtain funding for this project. The NPDES permit

modification increases the discharge flow limit from 4 to 8 MGD. This permit must be obtained before permission is given to construct a plant. The NPDES permit is currently being drafted by the DWQ with phased effluent treatment limits for the expanded 8 MGD plant. The design plans and specifications for the project have been prepared and submitted to CG&L for review for the Authorization to Construct (A to C) permit.

CG&L is the controlling agency for the Authorization to Construct and the project funding. CG&L has prescribed the schedule according to their rules related to the Ready-to-Proceed funding program. Staying on this schedule keeps the project eligible for these funds. Currently the schedule is to advertise for bids on May 19, 2011. Bids would then be received around July 30, 2011. In order to remain on the Ready-to-Proceed status funding list, these dates must be adhered to. The next decision the City must make is whether or not to proceed with bidding the 8 MGD Stage 1 nutrient removal plant. Some important factors in that decision include the economics of the project, the "shelf life" of the permits, the value of the 8 MGD discharge permit, and the inevitable impact of the upcoming TMDL limits to both wastewater treatment plants. In preparation for that decision point, McGill Associates have listed the following three scenarios for Council's review:

1. Moving forward with the project as originally planned.
 - a. City would work to maintain eligibility under CG&L's Ready-to-Proceed status funding program for \$17,500,000 (This program is no longer available to new projects, or those that do not meet the Ready-to-Proceed status. Funding is now based solely on a more competitive priority points basis).
 - b. City would determine the best mix of local funds and privately placed funding for the balance of the project costs.
 - c. Advertisement for bids would occur approximately in late May, 2011.
 - d. Award of the construction contract would occur approximately in mid-August, 2011.
 - e. Complete Construction phase in early summer of 2013.

2. Delaying the project for a limited period of time.

This scenario would rely on the "shelf life" of the major permits. Should this option be considered, McGill Associates recommend meeting with CG&L to discuss project implementation and explore alternate funding.

- a. The A to C permit and Project Funding – CG&L
According to CG&L's schedule, if the bid for the construction contract is not approved by July 30, 2011 then the project will lose the funding commitment from the CG&L's Ready-to-Proceed program and must reapply under their new priority point based funding program. The new funding program is more competitive and based on priority points similar to how ARRA funds were managed. The City's project would then compete against other projects for the low interest loan funds. This new funding program does offer a higher loan amount of up to \$25 million in an effort to attract larger cities. The A to C permit would expire 24 months from the date of issuance or approximately on April 30, 2013, when construction must start. It may be possible to negotiate a reasonable extension beyond 2013.
 - b. NPDES Discharge Permit-DWQ
This permit controls the capacity of the plant and the level of treatment required. The NPDES permit renewal cycle for the existing plant will occur June 30, 2014. The new NPDES permit's 8 MGD capacity allocation would at that point become at risk. The new NPDES permit itself will have a five year compliance schedule to meet phase 1 nutrient limits, or approximately June 1, 2016.
3. Delaying the plant expansion indefinitely
 - a. The City will need to request continuance of the current Third Creek WWTP NPDES permit.
 - b. The Ready-to-Proceed program funding conditions will be lost.
 - c. The negotiated NPDES phased nutrient permit limits will be lost.
 - d. The expanded capacity to 8 MGD will be lost.
 - e. The TMDL limits will likely occur during NPDES permit renewals in June 30, 2014 or 2019.
 - f. TMDL limits would also be triggered if City requests any level of expansion to the plant at any point in the future.

- g. A Preliminary Engineering Report would be needed to determine the best alternatives for TMDL compliance at both wastewater treatment plants.
- h. We would also recommend that an updated Capital Improvements Plan (CIP) be accomplished to include recommendations from the PER as well as any other needed repairs at both plants, \$3.5-\$4.5 million.

Mr. Lovingood stated this estimated price does not include any type of influent pump station to receive wastewater flow from Larkin or anything at Exit 45 that is coming in approximately 45' ft. deep. There is nothing on the site that would receive wastewater that deep in the ground and bring it to the plant. The existing plant would also face the TMDL's because it does not do biological nutrient removal. The existing 4 MGD plant will require \$6-\$7 million to be modified for biological nutrient removal.

Larry Pressley asked what it would take to remain in line for the \$17.5 million in low interest funding. Mr. Lovingood stated the City must advertise for bids on May 19, 2011 and receive bids on May 30, 2011. The decision to bid the project must be made by March 21, 2011.

Council discussed using revenue bonds to fund the project. Mr. Hites stated a rate base must be in place before bonds are sold. System Development Fees cannot be sold until they are paid. Mr. Hites expressed concern that if the City loses the 8 MGD permit it will not be able to get it again, but in two years the City's nutrient level will be over limit and the 8 MGD will be needed. Mr. Hites stated unless this project is phased, the City's existing rate base cannot support it. It will cost \$2.50 per gallon to upgrade the existing plant.

In summary the project is on schedule having met several critical milestones. The project is currently under review at CG&L. The NPDES discharge permit is currently being drafted by DWQ, and is expected to be issued approximately April 25, 2011. Once the A to C permit and NPDES discharge permits are issued, the City will then reach a "Go or No Go" decision point. If the City desires to delay the project, certain prescribed milestones for the current funding program will be missed, then later the increase in treatment capacity will become at risk. Those dates are as follows:

1. Bids approved by CG&L by July 30, 2011.
2. The loss of the A to C permit in April 30, 2013 (unless negotiated otherwise).
3. The loss of the negotiated NPDES permit in June 30, 2014.

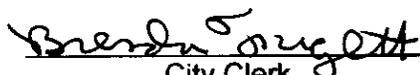
Council directed Larry Pressley and McGill & Associates to present them with more detailed cost and funding information no later than the March 17, 2011 pre-agenda meeting.

Meeting adjourned at 5:00 p.m.




Mayor

ATTEST:


City Clerk