

**MINUTE BOOK 24, PAGE 350
CITY OF STATESVILLE COUNCIL RETREAT MEETING – March 01, 2012
STATESVILLE CIVIC CENTER – 8:30 a.m.
STATESVILLE, NORTH CAROLINA**

Mayor Costi Kutteh presiding:

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

Council Absent: None

Staff Present: Hites, Fugett, Smyth, Salmon, Currier, Cranford, Bullins, Rimmer, Watts, Cornelison, Hutchens, Pressley, Anderson, Davis, Harrell, Clodfelter, Hudson (arrived at 9:20 a.m.), Morrison (arrived at 2:00 p.m.)

Media Present: Jim McNally-Record & Landmark,

Others: Andy Lovingood-McGill & Associates, Denny Martin-McGill & Associates

Call to Order

Mayor Kutteh called the meeting to order. He advised the pre-agenda meeting would be held following the retreat meeting.

Presentation on Current Year Budget

Lisa Salmon stated her presentation would consist of three sections. First will be an update on the year to date operations for the current fiscal year, then a review of the available and obligated funds and last, the challenges the City faces in developing the upcoming budget. Mrs. Salmon reviewed the revenues and expenditures of the General Fund. As expected, property tax revenues are down 2%. Sales tax revenue lags behind about three months after the transaction actually takes place, so at this point in the fiscal year, the City has only received four months out of twelve, which makes it difficult to see a trend, however, as anticipated, sales tax revenue is down 7% as compared to the last fiscal year and does not appear to be far from what the budget estimate is. Mrs. Salmon explained the Intergovernmental revenues consists of revenues that the City receives from the State and Federal government, some of which have restricted uses, such as the Powell Bill. At this point in the fiscal year, these revenues are very close, within 1%, of the same level as last fiscal year. Investment earnings are down 28% due to lower interest rates. The City has investments that have been locked in at higher rates and are now maturing and must be reinvested at a lower rate or the investments get called and must be reinvested at a lower rate. Staff does not anticipate any gains in this area this fiscal year. Mrs. Salmon reviewed the fees that are included in the Permits, Sales, and Miscellaneous Revenues and that these revenues are within 1% of last fiscal year. She explained that the P.I.L.O.T. (payment in lieu of taxes) revenues consist of charges to the enterprise funds equivalent to a property tax bill, based on their fixed assets. The enterprise funds are also charged for the services the general fund departments provide for administration services. This revenue is approximately \$100,000 ahead of the same point as last year. Total revenues at this point are about \$16.8 million, down \$274,882 for the same period last fiscal year. We have transferred in from Capital Reserve just over \$1 million to cover the debt service for the Streetscape, City Hall and Fire Station projects. Total revenues, including this transfer in, is \$17.8 million.

Mrs. Salmon stated the Fund Balance Appropriated is shown at \$3.8 million. The original budget when it was adopted for this fiscal year included an appropriation of \$1,847,000 to balance the budget. She explained each year we have a purchase order or encumbrance rollover which amounted this year to \$1,457,000 to bring the Fund Balance Appropriated to \$3.8 million. These are contracts that are incomplete as of fiscal year end. Mrs. Salmon reviewed the Budget Amendments that have been approved since July 1st 2011, for an additional \$548,000 in Fund Balance Appropriations.

Council member M. Johnson asked how many of the \$1.4 million in purchase orders that were rolled over had been consummated. Mrs. Salmon explained this is the revenue side of the equation and you will not actually see fund balance revenue, this is for budgeting purposes to maintain a balanced budget. Council member M. Johnson asked of the purchase orders that were appropriated and rolled over, how many have been fulfilled. Mrs. Salmon explained that bills are paid weekly and that she does not have this information at this time but can provide it. Council member M. Johnson asked if everything in the \$1.4 million is associated with a purchase order, it is not a fund restriction? Mrs. Salmon stated that is correct, all are associated with a purchase order with the exception of some funds that are allocated for land acquisition and some capital items that funds are being held for, but are not actual purchases in the works. Mrs. Salmon stated she did not have detailed information for this but will provide it. Council member M. Johnson explained he is trying to find out what the bottom line is. If there are funds appropriated for land acquisition that has been rolled over, chances are it will be rolled over again this fiscal year. Council member M. Johnson asked Mrs. Salmon to provide Council with specific details of the \$1.4 million rollover.

Mrs. Salmon reviewed expenditures, pointing out they are up about \$1.1 million from the previous fiscal year. Two items basically account for this amount. Over \$800,000 is for the Streetscape debt payments, which is funded by the transfer from capital reserve, and \$400,000 for the fifteen additional firefighters and operation of Fire Station #4.

Mayor Kutteh asked if the three components of the \$3.8 million fund balance appropriation amount is \$1.847 million to balance the 2011-2012 budget, \$1.4 million in rollovers, and \$548,000 of additional expenditures that the Council has approved since the beginning of this fiscal year. Mrs. Salmon agreed this was correct.

Mrs. Salmon reviewed the Electric Fund. She explained that due to the mild winter weather, sales and demand are down. One of the City's largest utility customers, Providencia, came online but they are operating under an economic development rider which provides discounts for their electric utility usage. These discounts will start going down over the next four years. The wholesale electric rate increase last year at this time was projected by the power agency to be 4.9% however, when the actual data was available, the actual increase was 5.9%. Staff will continue to monitor this and are concerned that we may experience a loss this year due to this.

Mayor Kutteh pointed out that the City will not be able to reduce electric rates due to the debt of the electric fund that the City is a member of.

Lisa reviewed the Water & Sewer Fund and pointed out there has been no increase in rates and usage is down 3% from last fiscal year. System Development Fees are up about \$50,000. Expenditures are up about \$400,000 which is primarily due to capital spending.

Mayor Kutteh asked if the increase in System Development Fees is a sign that the economy is improving. Mrs. Salmon replied she did not think so, but it is a positive sign. Council member J. Johnson asked staff to provide a breakdown of what customers had paid System Development Fees.

Mrs. Salmon reported that facility fees are down in the Civic Center Fund which is to be expected in this economy but the Occupancy Tax is up, which is positive.

Mrs. Salmon concluded this report of the funds and reminded Council that 58% of the fiscal year has lapsed at this point and since revenues do not come into the general fund in twelve equal increments, it is difficult to use this as a gauge.

Council member M. Johnson expressed concern that 66% of the total water/sewer revenue stream is consumed by maintenance. Mrs. Salmon stated there is no debt service in this; the debt service for the water/sewer fund is accounted for in the water purification classification. She explained that there are more employees in the Water Maintenance Department than in sewer maintenance department and this is not a cost accounting number. Mayor Kutteh asked if water/sewer sales and water/sewer maintenance could be combined to show a more accurate cost of maintenance amount. Mrs. Salmon explained that management and supervisory positions are

included in the water maintenance expense which explains why that number seems to be too high in relation to water sales.

Council member M. Johnson asked Joe Hudson if there are any maintenance line items within the purview of the CIP that are not reflected on the CIP. Mr. Hudson replied there are items on the CIP for 3rd Creek WWTP and 4th Creek WWTP that have not been funded. Council member M. Johnson stated Council needs a clear understanding of what the funding requirements under the present day load and present day value will be ten years from now, if we do not do anything else. Mayor Kutteh stated his position on selling water to outside entities is changing and that the City should consider selling water to outside non-taxpaying entities at wholesale rates as a source of revenue, since it costs the City no more to sell what has already been treated and not being used. Council member Stallard asked Mr. Hudson if he keeps track of how much water is treated and how much is sold. Mr. Hudson replied that is tracked. Council member J. Johnson stated the City should challenge Iredell Water for taking water customers. Rob Hites explained the history of the Iredell Water situation and suggested Council direct Mr. Gaines to investigate challenging this. Council briefly discussed unpaid sewer bills as a result of this issue.

Lisa Salmon reviewed and explained available and obligated funds. Council members discussed the gross amounts in the Electric Fund, General Capital Reserve Fund, and the Airport Improvement Fund. Council member M. Johnson pointed out the City would have to purchase \$25 million in property at the airport to deplete the Airport Improvement Fund.

Challenges for the Upcoming Budget Year

Lisa Salmon stated the biggest issue the City faces in developing the 2012-2013 budget is the \$1.8 million fund balance appropriation in the current fiscal year to pay for operating costs. \$1.8 million was appropriated to balance the budget. Currently the City has \$18.2 million in the General Fund. If Council continues to take from the General Fund to balance the budget it will be completely depleted quickly. This fund can and should be used for emergencies and capital projects, but should not be used to fund recurring expenses which will deplete the General Fund quickly. Employee raises have not been funded since 2008, although Council did give a one-time 2.0% bonus last year that did not raise base pay. This issue will need to be addressed eventually and is a recurring cost that does not have a revenue stream to pay for it. Employee grant support funding for two traffic safety officers, one police investigator and three firefighters will end in 2013 resulting in an additional \$251,721 cost to the City. Adding one penny on the tax rate will produce \$281,803 and will absorb the reoccurring cost of these positions. There will most likely be a wholesale electric rate increase, the most recent projection is 5%, and it is very likely there will be a need for Water and Sewer rate increases also. Mrs. Salmon reviewed the items that were funded by the appropriated \$1.8 million fund balance and advised that the City has a deficit situation before it even begins this fiscal year budget as follows:

1.	Lower property tax revenue due to revenue neutral tax rate not enacted	\$ 693,965
2.	15 firefighters plus operations	\$ 653,500
3.	Resume Separation Allowance funding	\$ 147,000
4.	2 SIGI grant positions funding in Police Dept.	\$ 109,645
5.	Increase in retirement costs	\$ 95,000
6.	Accepted maintenance of two interchanges (temporary employees)	\$ 34,448
7.	Remaining amount to balance budget	<u>\$ 114,409</u>
		\$1,847,967

The City Manager reviewed where City revenues come from and how staff estimates yearly revenues. He explained it is established practice to estimate revenues conservatively and expenditures realistically. Mr. Hites pointed out that in 2009 estimate of revenues over expenditures was 8.14%. Part of this was due to a one time discovery by the Iredell Tax Office. In 2010, the estimate of revenues over expenditures was .60% which is amazingly accurate, and in 2011, the estimate of revenues over expenditures was <.93%>. This number should be between 2% - 10% of expenses under revenues. This was covered by transferring additional monies from the other funds and General Fund Balance. Funds carried over from uncompleted capital projects make end of year savings appear higher than they actually are.

Mr. Hites stated the \$18,218,742 of unreserved funds in the General Fund Balance is not net of the 8% reserve or the 38% recommended for use as working capital by the North Carolina Treasurer. This is not a law, but a regulation established by the North Carolina Treasurer. Cities and counties that go below the 8% receive a stern letter from the North Carolina Treasurer telling them that within thirty days they must submit a plan to the NC Treasurer to bring that rate up to 8% and until they do they may not borrow, use lease purchase or go into the market until the Local Government Commission is satisfied that the city or county is at 8% or above. It is not uncommon that small towns must raise their property taxes just to get their fund balance up to 8%. Council member J. Johnson asked what percentage the City is at currently. Mrs. Salmon replied 67% and emphasized that 38% is the very minimum recommended by the North Carolina Treasurer.

Council has reserved \$2,164,684 in the General Fund for three projects: the Airport Improvement Fund, Safety Overlay Fund, and the Warehouse Construction Fund. These funds are not tagged by state statute. Council may unreserve these funds and add them to the General Fund balance. There is \$6,194,621 in General Capital Reserves which can be used for capital projects, construction, heavy or light equipment, anything that is rated as capital. Lisa Salmon pointed out that \$4.9 million of this is designated for debt service payments for the City Hall, Streetscape and Fire Station #4 projects. All other funds are restricted by law or grant restrictions and amount to \$3,650,168. Over and above the \$18 million that is unreserved, we actually have an additional \$30 million that has been tagged over the years and most of it is restricted by statute. Of this \$30 million, \$2,164,684 could be freed up to add to this.

Mr. Hites reviewed the Electric Fund Balance which is \$6,279,499 and represents 14.96% of \$41,966,158 in annual expenditures. Each monthly power sales bill averages \$3,130,522. Fund Balance is used in months when collections fall below power sales and monthly operations. Cities are permitted to transfer up to 3% of their electric revenue to the General Fund in the same manner as the private sector permits private investor owned utilities to award their stockholders a return on their investments. Statesville stopped this practice in 1990. The 2011 net income for the Electric Fund was only \$333,386. Restricted projects in the Electric Fund total \$253,102; \$203,266 in Electric Capital Reserve Fund and \$49,836 in the Electric Rate Stabilization Fund.

Mr. Hites stated the Water and Sewer Fund has fared better over the last decade because the City has deliberately tried to keep electric rates down. \$8,800,968 in unreserved funds represents 90.17% of \$9,760,295 in annual water and sewer expenditures. Monthly operations cost \$813,358 which means that at least \$2 million of the \$8.8 million must be reserved for working capital when savings are used to fund monthly operations when collections lag in the hot summer or cold winter months. Mr. Hites stated there is no statute or regulation that prevents Council from transferring Water and Sewer funds to the General Fund, but in 2011 Water and Sewer lost \$429,294 in revenue, so he does not recommend transferring excess funds at this point. With the Third Creek WWTP, repairs to the Fourth Creek WWTP and an operations center on the drawing board, considerable Water and Sewer Fund balance will be needed over the next five years. Restricted projects in the Water and Sewer Fund amount to \$5,808,507. Of that amount, \$4,923,641 is Water and Sewer Capital Reserve and \$884,866 is the Third Creek WWTP Capital Fund.

Mr. Hites reviewed restricted and unrestricted funds in the General Fund Balance.

Mr. Hites stated one of the challenges the City faces in the next five years is that the City will start this budget year with a \$1.8 million deficit which is currently being funded by General Fund Balance. This is not a new issue for us. The City spent \$1.0 million of its General Fund Balance last year. The City is currently in good economic health but staff estimates that between 2016 and 2019, when the General Fund Balance drops below 8%, we will have to take drastic NC Treasurer mandated steps to recover in an extremely short period of time, one budget cycle. To eliminate this \$1.8 million deficit it will take almost \$473,684,210 in new tax base to create \$1.8 million in new revenue; that is equal to 1,896 homes valued at \$250,000. Staff is very concerned about the long term cash flow issues the City faces and for the City's financial health in 2018. Staff recommends that Council develop a long term plan to not only balance the operating budget with "current revenue" and cease taking funds from General Fund Balance for day to day spending, but create a cushion of current revenue that can be used for salaries, debt service and

some capital. The General Fund Balance would be reserved for capital expenses such as large vehicles, and debt service on new buildings, not for day to day operating expenses. When the economy begins to create new tax base in 2018 or 2019, the City can use those new revenues for growth oriented spending rather than for catching up with problems with our fund balance or problems created by spending our savings. The City will need every penny that is gained when the next business cycle hits in order to provide new services. We do not want to be in a position of catching up from 2012-2013. There is no easy solution to this problem; the easy solution is to keep funding out of General Fund Balance. Staff offers the following recommendations:

1. Remove the Sanitation Division from being funded by the General Government Revenue and move to a “fee based system”. Over 75% of NC local governments provide sanitation services on a fee based system. The benefit to this is that the taxpayer does not pay the fee; the user of the service pays the fee. This fee would also include non-profit businesses that are currently exempt from paying property taxes so in essence are getting free sanitation service. Residential and Commercial Sanitation placed on a fee basis would free up \$1.6 million in General Fund Revenue.
2. Reduce the size of the City’s government through a reduction in workforce. Using the average total salary of \$52,025 (after benefits) we would have to eliminate 36 jobs and the services that go with them to achieve \$1.8 million in savings. If we eliminate every non-protective service job that has been created in the past ten years we would need to eliminate 10 protective positions necessary to reach our goal. Mr. Hites stated the City of Statesville has always been a lean city and in order to reduce the workforce he would present Council with a plan of which positions and services could be eliminated.
3. Increase General Fund Taxes by the equivalent of the reduction in general fund revenue created by the revaluation and the funding of fourteen fire fighters. That would be equal to a 5 cent increase. Fund the rest of the \$1.8 million gap through a reduction in force.
4. Carry out a combination of the above alternatives as follows:

a.	Charge 50% sanitation fee as Year 1 of three year charge to fee	\$750,000
b.	Raise taxes 3 cents \$1 = \$281803	845,409
c.	Reduce employment force by \$700,000 (fourteen employees)	<u>700,000</u>
	Total	\$2,195,409

This recommendation balances operations and current revenue, including funds for additional salary adjustments, and new capital would continue to be funded by savings.

Council member M. Johnson felt the issue is not one of General Fund Balance but the diminution of revenues into the enterprise funds which he sees as a separate issue. By his calculation, cash on cash loss in the General Fund last fiscal year was \$219,000 not \$1.8 million because all of these funds have not been spent yet, only reserved and restricted. Council member M. Johnson went on to further explain how he had calculated this amount. Lisa Salmon explained that the \$1.8 million was used to balance the budget and all the items that this funded are reoccurring expenses. After a lengthy deficit discussion, Council member M. Johnson stated the point he was trying to make is that there is \$1.2 million reserved that may or not be spent that cannot be seen in these numbers.

Mayor Kutteh said Council must trend towards higher revenue and lower expenses immediately and give staff guidance regarding which staff recommendation Council prefers.

Council member Gregory asked what the proposed monthly sanitation fee would be. Scott Harrell replied approximately \$12.43 per month.

Council member West said in his opinion balancing the budget from General Fund Balance should not even be considered an option.

Council member J. Johnson stated emphatically that Council had said it would not raise taxes when it approved the Streetscape project and now there is a proposal to raise taxes because of the

Streetscape project. Mayor Kutteh said he disagreed; the necessity to increase revenue to fund increased services and to maintain services that currently exist was not caused by funding the Streetscape project.

Council member M. Johnson reminded Council members that a significant amount of the charge for the Streetscape project came from the Electric Fund and the Water/Sewer funds, not the General Fund. He stated he would not support a 5% tax increase because it costs the same to carry the trash from a \$25,000 residence as it does from a \$1 million residence so why increase a citizen's taxes \$1,000 a year. He felt charging \$10.00 a month for trash pickup is a reasonable amount and is ready to implement it now.

Council members discussed privatizing sanitation and concluded it could be done cheaper in house. Council member J. Johnson and Mayor Kutteh explained that the expected write-offs should be calculated and included in the sanitation fee. Council member Huggins asked if trash pickup would be optional to the customer. Mr. Hites replied it would be mandatory although when an area is unilaterally annexed there is a state law that requires the current sanitation company be compensated either in one lump sum or given a mandated amount of time to operate in the area before the City takes it over. Council members directed staff to include implementing a sanitation fee in the proposed 2012-2013 budget.

Council member M. Johnson stated the reduction in the City workforce should be based on the number of employees retiring. Mr. Hites stated 65% of the City workforce in the General Fund is in protective services. Mrs. Smyth advised an average of 6-8 employees retire each year. Mayor Kutteh stated some surrounding cities are giving pay raises but are doing it through a reduction in work force. Council member M. Johnson felt that during a recession, revenue should be increased through fees for services and not by a tax increase.

Council member Gregory felt the City does not charge enough for the water it sells to Troutman and West Iredell. Mr. Hites stated the City sells water to contract users at the inside retail rate per 100 cubic feet. Lisa Salmon stated the City budgeted to collect \$45,000 from Iredell Water Company and have collected \$28,000 so far and will probably meet that estimate. \$100,000 was budgeted for West Iredell and so far \$47,000 has been collected so this estimate will probably come up short. Mayor Kutteh asked if these companies can get cheaper rates in the marketplace since our price is at the retail rate. He suggested that perhaps the City could sell more water to these entities at a discount in an effort to generate greater sales since it costs no more in labor to treat 15 million gallons than it does 1 gallon of water. He would like to see this revenue stream considered. Mr. Hites explained the agreement Troutman has with Energy United and the City of Mooresville for water. Council member M. Johnson stated that as long as the City controls the asset he was agreeable to selling Troutman services.

Mayor Kutteh asked Council members if there is any interest in directing staff to investigate a reduction in work force to balance the budget through retirement or layoffs. Mr. Hites stated he would examine the service, not the individual when determining a reduction in work force. For example, duplication of services that are provided by the County and the City, or a service that was created within the past few years and that is not a basic essential service that could be eliminated. Council members agreed that it was essential to examine a reduction in force when considering the budget.

Council members directed staff to present a proposal on fee based sanitation at the 2nd meeting in March.

3rd Creek Wastewater Treatment Plant Update – Andy Lovingood – McGill & Associates

Andy Lovingood reminded Council at the previous discussion regarding this project it was decided to use a phase approach. The two key aspects of this project is to expand the capacity of the plant from a 4 to a 6 million gallon per day (mgpd) and it also includes the first stage of the enhanced treatment that will be necessary to meet the upcoming nutrient loads for everybody upstream of High Rock Lake. The City was successful in getting a pledge from the North Carolina Construction Grant and Loans Section for \$23 million in low interest funds for the 6 mgpd project. Along with the pledge of money, there is a schedule the City must adhere to in

order to keep projects from lingering in the system for an extended period of time. There are two permits involved, the NPDES discharge permit, which the modification is in negotiations to have the 8 mgpd permit with the 6 mgpd limits inserted, but will still have the larger 8 mgpd permit. The engineering report and the environmental documents that modify the plant from an 8 mgpd to a 6 mgpd are being reviewed by the State. To remain on CG&L's prescribed schedule, Council's next decision in early June 2012 is to decide whether or not to proceed with modifying the design to a 6 mgpd plant. That allows enough time to get the design and the permits in place to move to the next step. Andy explained this is competitive funding and is based on priority points for environmental concerns. Expansion projects do not fare well in a competitive environment so this project does not score very high on priority points. At the time this was submitted, the competition was low and the fund had enough money to cover this project. In the future as nutrients become an important issue and those around us must improve their wastewater plants to meet these new regulations, the competition is going up. With this plant being an expansion project, our odds are low to get this funding, so the City is in a very fortunate position. Rob Hites explained the \$23 million that is set aside for this project is available till we turn it down or if we do not maintain the schedule set by CG&L. Andy stated the project must be advertised for bid March 01, 2013 and awarded June 01, 2013.

To continue with the existing 4 mgpd plant, although a study has not been done, would cost approximately \$3.5 - \$4.5 million and the City would still be faced with the need to make improvements to the plant in order to meet new nutrient limits, which would cost an additional \$6-7 million. Influent sewers and a deeper pump station would also be needed to receive from the development. The total cost to continue with the existing plant is \$13-\$15 million. These costs do not include the 100 year flood abatement and does not reset the useful life of the plant. Equipment that is not replaced will eventually wear out and will need to be replaced and these numbers do not include all items at the plant. There are hydraulic limitations at the 4 mgpd plant, it is not easy to expand upon, and so expansion of what technology we have will be difficult. If we expand what we have, the technology that we are using there is a less efficient plant than what we would be building. There are a lot of things that are intrinsic to this new plant that the old plant simply does not have because of the age and the technology and was never designed to do what we are going to ask it to do in the future.

Mayor Kutteh asked what dates would need to be complied with to continue with the existing plant. Andy replied he recommended doing study on the plant with the capital improvements plan in order to know all the priorities when those things would have to be triggered. He said there is some need now because there are some deferred repairs however, this could be phased. The design, permitting and funding would then need to be put back in place. Rob Hites asked when the TMDL is going to require that the nutrient limits be complied with. Andy replied there are two permits, one is to construct the plant inside the gate, and the other is a permit to discharge into the stream. The discharge permit that has been negotiated for the City has a discharge of 8 mgpd; it has the nutrient limits set in it already because the TMDL study being done by the state is not finished. If Council decides to stay where it is with this plant, McGill & Associates recommends this permit be renegotiated based on what is to be done to the plant. It may not be advantageous to keep those limits in there when we are moving forward if we stay with the existing plant. The TMDL process is still happening, the state is still pretty aggressive on that and the EPA is now involved. Ultimately there will be nutrient limits set in North Carolina; High Rock Lake is already impaired. At the request of Mr. Hites, Andy explained what total daily load is.

Council member M. Johnson stated that at this point Statesville TMDL's are not divided and will be ahead of the discharge limit division process when the High Rock Lake TMDL numbers are divided up. Andy agreed and stated the new plant will be future ready for these regulations and will already have in place the first step toward nutrient removal with the ability to easily add components in the future to make it even more efficient for the removal of these nutrients.

Mayor Kutteh asked for further clarification of the discharge limits divisibility. Andy explained that included in the permit is a placeholder for a future discharge limit. As the study is finished by the State, Statesville is already in place and has a plant in place to deal with tighter discharge limits.

Mr. Hites asked if the \$23 million could be used to upgrade the existing plant. Andy replied it could not; it is specific to the application that was submitted. If Council decides to stay with the existing plant, this application would be withdrawn and we would reapply for funding after the revised project was developed. Mr. Lovingood stated he still recommended the SRF program as the best program to finance this project.

Third Creek Waste Treatment Plant Project Financing Alternatives – Denny Martin-McGill & Associates

Denny Martin with McGill & Associates stated the constants in this process are: a decision must be made eventually, the City must have a wastewater treatment plant that is compliant and growth at some point in time will again be a factor for wastewater services. He said in his opinion the City is financially able to manage this project. The SRF loan is for \$23.4 million at 2.45% for twenty years. The average annual debt service for the loan is \$1,480,000 and then \$1.6 million in year four due to the way the debt is structured. Every 1% that is added to water and sewer revenue produces an average of \$93,000 which this amount would be higher at the end of ten years. By 2016 when the debt service starts, the City needs to accumulate 15% in additional revenue to cover the debt service on this project; this assumes some minimal use of fund balance. Complicating factors are that the annual fund revenues are decreasing right now; the estimate for this fiscal year is 3% less than last year. The natural inflation in this fund is negative right now, in other words, the natural revenues in the fund are increasing at a rate that is slower than the rate of inflation for cost (expenditures). Operating costs are increasing fairly dramatically, 9.6% between the last audited year and what City staff estimates the operating costs will be for this fiscal year. Another complicating factor and future cost is that as new capital projects are built, the value of that new capital must be listed on the fixed asset report then the General Fund must be paid the value of the capital improvement based on the formula in place for payment in lieu of taxes (PILOT).

Mr. Martin distributed and reviewed a financial analysis reflecting where the project started and where it is now. Analysis A reflects financials from August 31, 2011 for the 8 mgpd plant, Analysis B shows the numbers submitted to CG&L based on the 6 mgpd plant, Analysis C shows the financials today and reflects last year's audit, this year's budget and some of the other variables that have changed since last summer. Out of those financial analyses, we have given you some bottom line numbers that are comparable from one analysis to another. Analysis C reflects the estimate of negative inflations; it considers the increased transfer to the General Fund and maintains the financial officer's goal of maintaining 50% of operating costs plus transfers in cash reserves.

In conclusion, a 5-6% increase in revenues, logically this would come from rate increases, is needed to stabilize the fund. After the needed revenue adjustments, annual increases of 4% for 10 years are needed to retire the debt, address capital needs, cover continued negative inflation and to maintain the fund balance. Until the City begins to grow again, the expenses are going to continue to deal with continued negative inflation. Mr. Martin stated the question should not be "can we afford to do this project" it should be "can we not afford to do this project". There is no question the existing plant must be fixed. The basic issues are "will we grow in the future and therefore need to expand the capacity that we have at the treatment plant" and "is it better to pay to comply and grow now, or later".

Council members discussed using capital reserve funds to remediate costs. Mayor Kutteh stated he would like an analysis that shows the cost of waiting and building the plant when the revenue source to pay for it is there rather than doing it now. Mr. Lovingood stated this is such a difficult decision because the City is positioned so well to start the project at this time. It has an 8 mgpd permit that, if lost, would be very difficult to regain, if not impossible, and funding that once turned down, could also not be regained. The permit for the 8 mgpd permit renews every five years, but it has this first phase of this project built into it, it anticipates the City moving forward with this project, so if Council decides to not move forward with this, the compliance schedule must be renegotiated. Council briefly discussed what steps could be taken to keep the 8 mgpd permit.

Mayor Kutteh stated Council needs to know if there are any alternatives besides what has been presented that can be done to delay the construction of the plant till it is needed and still keep the 8 mgpd permit. Mr. Lovingood explained that if the City decides to move forward the cost exposure is the redesign of the plant to 6 mgpd and that buys time till March 01, 2013. At that point Council must decide whether to advertise the project for bids, and then by June 01, 2013 a decision must be made to award the project. If Council decides to put the project on hold, the discharge permit would need to be renegotiated, and the funding would be gone. When Council decided to bring the project back to the table, the application for funding must be resubmitted, and new environmental work must be done, basically the entire process would begin again. This can be done, but most likely the City would not have the 8 mgpd discharge permit, it would probably be a 6 mgpd and when the plant reaches maximum capacity level, the City would then need to expand again and it would fall subject to TMDL's. Council member M. Johnson pointed out this plan does not include the 4th Creek WWTP which will become non-compliant at the same time the 3rd Creek WWTP will if nothing is done.

Mayor Kutteh stated he would like information that will show whether or not the City can maintain its ability to grow and still defer building the plant. Mr. Martin suggested a study that will show how the City can correct the existing plant as an alternative to building the new plant and determine when costs must occur, what the milestones are in that process and the timing for them. Mayor Kutteh stated that is not the information he is asking for because the existing plant cannot expand beyond 4 mgpd. Mr. Lovingood asked if Mayor Kutteh wanted information as to what happens if the proposed plant is put on hold. Mayor Kutteh stated he would like their professional opinion as to what would happen if the City starts the process all over again and what the financial implications might be. Rob Hites pointed out that if the new plant is not built, there are a number of deferred maintenance items on the CIP that will need to be completed and most likely the City does not have the cash to fund this and will need to borrow it. Council member M. Johnson stated to complete the deferred maintenance items for the 3rd Creek and the 4th Creek plants will cost \$7.4 million. Mrs. Salmon explained that is not deferred maintenance items; they are items that are in the CIP that are different. Council members briefly further discussed the cost of deferred maintenance items for both plants.

Mayor Kutteh asked if there are any alternatives that McGill & Associates has not examined. He felt that was not being said right now. Mr. Lovingood stated the City must balance the risk of losing the permits and the funding against their worth. He explained that the City has an expansion permit in a basin that has no TMDL limits which is what makes this situation unique. For example, if Winston-Salem applied for an expansion permit, they would have a very difficult time getting it. Council member J. Johnson pointed out that the City is already committed to serving the Larkin development as far as the State is concerned.

Denny Martin stated he asked CG&L if it was possible to defer principle payments for some period of time and their answer was no. He asked if it was possible to renegotiate the interest because the interest rate beginning this month is lower than the rate the City has and CG&L replied no, that the City has a contract and there is no possibility without going through the process of contracting again and the City giving up the allocation it already has. He asked CG&L if there is any other flexibility in the program that could benefit the City. Their reply was, the only precedent they had other than doing what is in the contract, is to negotiate equal payments of principle and interest as opposed to equal payments of principle and the City would need the Local Government Commission's (LGC) approval to do that. This would help the City in the early years of the amortization and is probably worth going to the LGC to request this.

Mayor Kutteh asked what McGill & Associates would charge to explore further options that may be available to protect the priorities and what must be given up to do that. Mr. Lovingood replied a few thousand or it could be reviewed on an hourly basis. Council member M. Johnson asked if it was possible to park the money at this rate for a period of time. Mr. Martin stated this is not possible because there is a schedule assigned to this by the State and when the City violates the schedule, the money is lost.

Council members agreed by consensus to authorize McGill & Associates to do a study exploring other options, the timelines for any other options, and the financial implications. McGill &

Associates will submit a cost proposal to Mrs. Salmon and this item will be presented at the March 5, 2012 Council meeting for consideration of approval.

Single Stream Recycling – Scott Harrell

Mr. Harrell explained what single stream recycling is and how it is different from how the City currently collects recycles. The annual collection cost is \$115,000 with annual revenue from the recycled material of \$10,500. Citizens do not need to sort the recycle materials which results in a higher participation rate and an increase in volume. Single stream recycling allows for automated collection which produces increased efficiency, lower labor costs, and less employee exposure to injury.

The Town of Troutman began their recycling program in 2010 and they contract with Benfield Sanitation Services to do their collections at a cost of \$3.61 per household and commercial businesses. The town charges \$1.80 per month to all customers, the program is mandatory, and has an 80% participation rate. A one-time grant in the amount of \$33,960 was received from NC DENR to offset program costs. Start up costs was \$0, annual operating costs are \$61,298 and annual revenue is \$30,564. The city of Mooresville began their recycling program in 2011. The recyclables are collected by city personnel, residential only, participation is optional, there is no fee charged for participation and there is a 72% participation rate. Mooresville received a one-time grant from NC DENR of \$100,000 to offset the purchase of containers. Start up costs was \$470,000 and they anticipate the need for a second truck at \$270,000. Annual operating costs are \$176,000 with annual revenue of \$0.

If Statesville chose to follow Troutman's model and contract with a private hauler the cost to citizens would be \$3.61 per month, per container. Start up costs would be \$0, annual operating costs \$420,000 and annual revenue of \$210,000. If the City were to collect recyclables with City personnel, start up costs would be \$445,000; this amount reflects the purchase of an automated truck and the purchase of carts and the grant that the City would be eligible for. Annual operating costs of \$75,000 include the truck, personnel, maintenance, and an allotment for fuel, with annual revenue of \$0. The City would continue to pick up bi-weekly.

The City would benefit from this by the reduction of two positions, the environment would benefit and providing this service will increase the amount of recyclables picked up by 300%. Statesville currently collects an average of 113 pounds per household yearly and it is estimated this would increase to 322 pounds with single stream recycling. Mr. Hites advised the current recycle truck is coming up for replacement in 2015; this is an opportunity to switch to the automated truck before budgeting for this.

Mayor Kutteh pointed out the net annual cost to do this is less than what the cost currently is with the benefit of 300% more collected at no charge to the citizens if Option 2 is used.

Mr. Harrell stated the downtown recycling center located in the Police Department parking lot that collects mixed paper, steel cans and brown glass will be replaced by a new single stream container available through Benfield Sanitation Services. This container will accept aluminum, plastics, all glass, cardboard and newsprint. No sorting is required. The City's cost is \$25 per month and includes weekly pick up service by Benfield Sanitation Services. Council members discussed other areas in the City to place one of these containers. Mr. Harrell stated staff had discussed this and wanted to see how this container worked and that costs did not deviate from what was agreed upon before putting these containers in other areas.

Additional Improvements to City Hall

Paula Steele stated during the process of renovating City Hall, some items were discovered that needed to be repaired but could not be due to budgetary reasons. After the project was completed, she and Scott Annis, the project supervisor, compiled a list of items with an estimated cost to repair. First on this list is to repair the roof and seal the exterior brick above the line of the copper overhang. Mrs. Steele felt someone should be put in charge of having rotating shows such as art, photo, pottery, etc., so that the public continues to come into the building during working hours. Council member J. Johnson asked about renovating the kitchen in the basement

to a catering kitchen. Mrs. Steele explained there had been some discussion about using the building for small wedding receptions or for any type of small receptions and she felt redoing the kitchen as a catering only kitchen, such as what is in the Civic Center, rather than a kitchen to actually cook a meal in, would make the building more usable. Mayor Kutteh advised Mrs. Steele that any funds leftover from the City Hall project must be spent on the building, so there may be funds left to do many of these projects.

Mayor Kutteh stated the Downtown Art Crawl is scheduled for April 20th and it is the City's intention to host a local artist in the City Hall building.

Mayor Kutteh stated Council members have expressed concern regarding the height of the dais. Mr. Pressley replied staff has investigated chairs that are higher and will be bringing one in for Council to try.

Council member M. Johnson stated he would like to see an original piece of art by a local artist in the building and since Robert Steele will be in town soon, he would like to ask him to look at the space. Council members agreed.

Whatever Happened To List

Mr. Hites explained the City of Statesville was the only city in the county that had walking trails under construction and complete when the Threadtrail program began. Since Statesville had shovel ready projects ready, it was first in line for actual funding. The City received a \$75,000 grant in time to complete the design for the walking trail under Highway 21. Staff is in the process of finishing up a contract to do that design work. This link will tie our 2.2 miles of existing trail to the balance of the trail system. To be able to tie all of our recreation facilities together to Ft. Dobbs in a common trail is a wonderful selling point for Statesville.

Larry Cranford gave an update on the substation 5 construction. The new transformer should provide the downtown circuit with much better, smoother service.

Brent Cornelison reported all the upgrades to Abernathy Park have been completed except for the Community Garden which is planned to be completed by spring.

Rob Hites stated the \$25,000 grant from the NC Forest Service has been received to replant 3rd Creek. The roots left from the trees that were cut down have been dug up and a line formed with them in an effort to keep 4-wheelers out of the 300 acres. 80,000 Loblolly Pines will be planted next week. The existing wetlands will be used for hardwood replacement although staff may not make the planting season this year. Two acres has been set aside for a hardwood replenishment project so the City can grow its own street trees instead of having to purchase them from nurseries for \$600 each. Staff hopes that in 5-6 years this will be a great demonstration project that people can take guided tours through since it is an "Urban Forest" by definition.

Larry Pressley reported the airport taxiway/runway project has been completed and there have been no issues with the project. The paving of Grey Street has been repaved and the curb and gutter installed. The City did receive \$5,000 from the school towards the cost of this.

Mr. Hites stated the trees that were cut down at the newspaper office, east Broad Street and Elm Street will be replanted this season.

Mr. Hites reported that staff has started dividing grave spaces into cremation plots for cremated remains instead of using an entire grave space for cremated remains although the opening and closing costs remain the same. This lowers the cost for citizens and saves the City full size grave spaces. The cost of the cremation plots are calculated by simply dividing the cost of the grave plot by the number of cremation plots that it can hold. A flat marker can still be placed on the plot. Council member J. Johnson clarified that a full grave space may still be purchased for a cremation burial if the purchaser wishes.

Council member Eisele asked what the status is on the sidewalk that is 50% complete along Mitchell Avenue. She recalled the project was held up because the owner was having a baby.

Mr. Pressley stated staff did delay this project due to this and before staff proceeds again, it needs to be discussed with this citizen because they are still not in favor of the sidewalk. Council member Matthews explained he was the one that brought this issue up because of the child that was hit on that street. He just wanted the sidewalk to go out the other direction; he did not even consider the lower end of it when he set it in motion. The other end came on and the person that lives on the corner lot called and said he had problems with this. He and Larry Pressley met with the family and there are a whole other set of issues that must be dealt with to work with them. I don't know if it is a benefit to take it all the way to the end. Council member Eisele stated there are school children cutting across the street there from Oakland and it is dangerous because they are walking in the street. There may not be a sun issue there like it was on the other end. Matthews explained this citizen's main concern that is against the sidewalk, is that his driveway is nice and it juts out and has an island in it. There is a hill where he has trees planted that would need to be relocated; he has put in underground fencing that must be relocated. He is concerned if the sidewalk comes through, there is not much proximity between the sidewalk and his house and people will be walking on his property even though it is the City's right-of-way. Council member J. Johnson said if it is not really needed why upset him and install the sidewalk. Council member Eisele stated it is not any closer to his house than anybody else's. Council member Matthews said he and Larry Pressley had looked at it and the sidewalk could be taken to another section and this part left alone. Council member Eisele stated she would skip it if Council member Matthews wants to. Council member J. Johnson said there are so many areas where people want sidewalks, why install one here when the citizen does not want it.

Council member Gregory stated children are walking in the street to the YMCA from Northview School and it is dangerous and will become even more dangerous when construction begins on the bridge. He reminded Council members that a rule had been passed by Council years ago that sidewalks would be installed to every school. Mayor Kutteh stated a sidewalk discussion will be held at the Council meeting on Monday and instructed Mr. Pressley to investigate this area prior to the meeting.

Council member Roy West reported he had met with the county inspector regarding the Steve Hill exhibit. Lynn Niblock advised Mr. West that to keep the exhibit from being considered an assembly business to install a scanner and sell copies of prints, then the business becomes retail. If there is no change of occupancy, then the only inspection required is the Fire Marshall.

Lisa Salmon distributed information for the tax rates of cities with a population of 21,000 and over. Rob Hites pointed out that Indian Trail, Cornelius, Mint Hill, Matthews, and Huntersville have volunteer fire services and their tax rates reflect a volunteer fire department. Mayor Kutteh stated amongst cities over 21,000 Statesville has the fifth lowest tax rate for cities that have a full fire department.

In answer to a question that was asked earlier in the day, Lisa Salmon reported that of the \$1.4 million not subject to rollover purchase orders, \$500,000 is for land acquisition on Highway 115, \$83,603 is for the greenway project that is not committed for anything other than greenway development and \$167,337 is used to match airport grants as they are awarded.

Mayor Kutteh closed the retreat meeting and called the Pre-Agenda meeting to order.




Constantine H. Kutteh, Mayor

ATTEST:


Brenda Fugett, City Clerk