

**MINUTE BOOK 24, PAGE 423
CITY OF STATESVILLE
CITY COUNCIL BUDGET WORKSHOP MEETING – May 30, 2012
CITY OFFICES BUILDING - 2ND FLOOR TRAINING ROOM - 5:00 P.M.
STATESVILLE, NORTH CAROLINA**

Mayor Costi Kutteh presiding:

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

Council Absent: 0

Staff Present: Hites, Fugett, Salmon, Triplett, Cornelison, Hudson, Pressley, Davis, Harrell, Cranford, Anderson, Morrison, Watts, Bullins, Houpe

Media Present: Dave Veiser-Charlotte Observer

Others: Andy Lovingood – McGill & Associates, Dennie Martin – McGill & Associates

Mayor Kutteh called the meeting to order.

3rd Creek Wastewater Treatment Plant Expansion Project

Andy Lovingood stated that the 3rd Creek Wastewater Treatment Plant Project addresses antiquated technologies and aged facilities. It increases the treatment capacity of the plant from 4 to 6 million gallons per day (MGD) and includes the first stage of enhanced treatment processes necessary to meet the upcoming Total Maximum Daily Load (TMDL) regulations. Currently the City has in hand an 8 MGD NPDES permit which goes all the way to the Environmental Protection Agency (EPA). Once the design is submitted and approved we will receive the Authorization to Construct Permit. The current path prescribed by the funding source states that the project must be compliant with Stage 1 by 2016 and Stage 2 by 2019. The discharge permit renews every five years beginning in 2014 then again in 2019 and 2024. The City will be faced with new regulations by 2024. Mr. Hites stated the cities in this basin will need to be able to remove nitrogen and phosphorous by 2019. Mr. Lovingood agreed that was correct.

Mr. Lovingood reviewed tasks for the project that must be completed to stay on the path prescribed by the funding source. Plans and specifications must be submitted by December 2012. City Council must make a decision now whether or not to approve McGill & Associates to design the plant at a cost of \$300,000 (Option A). If Council chooses to abandon building the plant, then the existing 4 MGD plant must be upgraded at a cost of approximately \$22.7 million (Option D). If Council chooses to move forward at this point and contract with McGill & Associates to design the plant, then in April 2013, Council must make a decision whether or not to bid the project for a 6 MGD plant or the funding will be lost. If Council chooses to move forward at this point the cost will be approximately \$23.4 million with the completion of a 6 MGD plant completed in 2015 for a total cost of \$23.7 million with the ability to increase to 8 MGD (Option A). If Council chooses not to bid the project in April 2013, it will still have the 6 and 8 MGD permits but then Council must decide whether or not to bid the project again by April 2014 and will need to secure funding again or the 6 and 8 MGD permits will be lost and the NPDES permit will revert back to a 4 MGD permit (Option B). At this point repairs to the existing plant will need to be made at an approximate cost of \$1.5 million until Flow or TMDL regulations trigger an expansion (Option C). When this happens the City will need to reapply for a 6 MGD NPDES permit and secure funding. There will be no 8 MGD NPDES permit and the total cost with a completion date of 2021-2026 will be \$27 million (Option C).

Mayor Kutteh spoke on his view of the four options. He stated from his own personal view, Option D is not a viable option because we get nothing for the money and if Council chooses Option C the City will lose the ability to upgrade to an 8 MGD plant in the future and will lose the low interest 2.45% financing that has been secured and is probably the most favorable interest rate that the City will ever get. Mayor Kutteh advised his vote in April 2013 would be to continue on with Option A. If Council abandons the project, the City will still need to spend \$7 million to update the 3rd Creek 4th Creek WWTP. It is his opinion that this is a manageable project. Council needs to decide on Monday whether or not to approve McGill & Associates to design the expanded 3rd Creek WWTP for a fee of \$300,000.

Council member M. Johnson asked Mr. Martin to report on the model he has for accelerated water/sewer rates. Mayor Kutteh felt if we have simply a cost of living rate increase the City can handle that.

Mr. Martin stated in his opinion the City can manage the financial aspect of this project. Even if the expansion project is abandoned, a rate increase is still necessary to get the water/sewer fund back to where it needs to be to compensate for a loss of revenue from reduced consumption. There are projects, a series of investments, and capital related to the water/sewer program on the Capital Improvement Plan adopted by Council, that must be funded. Staff has taken a very conservative approach to anticipating revenue and expenditures and determining what is necessary in order to not only keep the fund operationally stable, but also to amortize the debt and the capital investments associated with the Capital Improvements Plan. In conjunction with what we are discussing today there are two decisions to be made. One, the decision must be made whether to make the next step on the 3rd Creek WWTP expansion. Secondly, there are two other debt packages related to the Capital Improvement Plan that has nothing to do with the expansion project but are to fix what is wrong in other places in the system, such as the 4th creek WWTP and some investments in this existing facility. Council needs to make the decision now to package these projects in such a way that staff can pursue funding from the same program as the 3rd Creek WWTP expansion funding source in September. The interest rate is even lower now than it was last year, it is at 1.89% right now, and those projects are established needs. Given the cycle in September the City really needs to make a decision to go forward in pursuit of these funds and take advantage of the opportunity to fund these other projects at less than half of what the market rate is. Mayor Kutteh pointed out that staff very conservatively predicted future growth at 1% over the next five years, and only \$265,000 in System Development Fees. When the economy starts to improve, any growth over these predictions will further improve the ability to repay this debt. The first payment on the 3rd Creek WWTP expansion project will be due in 2016.

Council member J. Johnson stated he is totally opposed to Option D because it inhibits any growth and a 7% increase is still needed so why wouldn't Council go ahead and proceed with the next step in the process.

Council member M. Johnson felt that Option C also should not be considered because if the City loses the 6 and 8 MGD permits it may never get it again even if it is needed. Council member J. Johnson agreed as long as we can still keep the 8 MGD permit.

Council member Stallard pointed out that Option A is the only option that we are sure about the costs.

Council member Huggins stated that Council is being pro-active and dealing with this issue before it becomes a problem.

Mr. Martin stated when the TMDL becomes an issue, the demand for money will be very high and we will never be able to get this much money from the State again.

Options A and B seemed to be the predominate preferences of the Council.

Commercial Sanitation Program

Larry Pressley reviewed a summary on the Commercial Sanitation Program. Eliminating front load service and setting rear load service rates at \$10.70 per month/per container will generate savings and revenue equal to approximately \$287,000 annually. There are 341 dumpster unit (various sizes 4, 6, and 8 yd capacity) and 550 roll-out containers. All industrial customers are currently served by private haulers. Presently there are 16 apartment complexes that are considered Residential and pay no collection fee. The County bills these \$52.00/unit per year as a solid waste fee (every residence in the County pays this fee). Staff's input from other cities indicates that most other cities bill apartments with dumpsters as Commercial or service is provided by private haulers. Staff found that most cities have ceased dumpster service and have retained the commercial roll-out service for a fee. Mr. Pressley reviewed the impacts to businesses with roll-outs and stated the worst case impact is to schools. Their current rate is 6 roll-outs at 3 times per week for a cost of \$46.80 per month. The proposed rate would result in a total cost of \$192.60 per month for the same number of roll-outs and pickups. Mr. Pressley advised that if Council goes to the revenue neutral rate of \$10.70 per month/per container but continues on with business as usual, a replacement truck will be needed. Staff recommends

keeping the roll-out service at the revenue neutral rate described above and eliminate dumpster pick up service for Commercial properties.

Review of the May 29, 2012 Budget Discussion

Mayor Kutteh stated that during the budget discussion held yesterday \$191,600 was added to the list of "Changes to the 2012-2013 Budget" which brings the total of changes to \$503,100. Council was told that a \$0.01 cent increase on the ad valorem tax rate is \$285,936 and a \$0.03 cent increase would be \$857,808. High volume water use was discussed. Mayor Kutteh asked staff to let Council know what amount, if any, might be generated from this in the next fiscal year. 800 MHz radios and computers were discussed and those issues were settled. Council discussed a series of electric, water and sewer capital expenditures and the purchase of a Jet Vac truck. Mayor Kutteh asked if there are other topics of revenue sources or decreases or expense decreases or increases that anyone wanted to talk about.

Council member West asked Mr. Hites and Mrs. Salmon what direction staff is going with the high volume water usage program. He stated citizens are assuming that the City is going to do 7%. Mr. Hites stated this item has gotten more complicated. He explained that the City needs 7% just to break even. If we give them a high volume water break and they don't pay the 7%, then the City still has a deficit. In order to plug the million dollar deficit we may have to go up to a \$12.00 a month basic water fee to give the upper users the break they need for their wholesale water costs. The City is trying to sell more water, not trying to save people money. He stated he wants consumer to purchase more water, not save them money on the water they are currently buying. Council member J. Johnson explained that if a consumer normally uses 1 million gallons a month they will pay that rate, but if they use 15 million gallons then they get a discount on the increased volume. Mrs. Salmon clarified that the budget before Council right now includes a 7% rate increase across the board. She stated that staff has not gotten far enough along in developing a different rate structure that would really change that and that this is just one of the ideas that staff has proposed. Mayor Kutteh asked if the City can anticipate any revenue as a result of this. Mr. Hites stated he could call some people tomorrow and see what their opening bargain would be and if we would even be close. Mayor Kutteh stated that any gain in net water revenue is equivalent to a 1% rate increase in the water department.

Council member Huggins asked if the 7% rate increase is going towards the debt for Lookout Shoals. Mrs. Salmon replied it is not. The 7% increase is needed to stabilize the water and sewer fund as there have been losses in these funds the last three fiscal years and we expect a loss again this year.

Council member M. Johnson brought up personnel costs and frozen positions. He asked if the fourteen vacant positions number has changed. Mayor Kutteh replied it has not. Council member M. Johnson asked where the frozen positions are and what is the total number of frozen positions. Mrs. Salmon explained that the only position that has become vacant since the budget was presented was the Fire Educator position, (\$41,422) and it has been frozen. The vacant and frozen positions are one and the same. Council member M. Johnson asked if the number of rehires has changed. Mr. Hites replied it had not. Council member M. Johnson asked if any other employees have taken the retirement incentive. Mr. Hites stated the total number of employees at this point taking the retirement incentive is fourteen (14). Mayor Kutteh asked if these are positions that do not need to be filled. Mr. Hites stated that is correct. Mayor Kutteh asked if the \$130,000 is gross savings or net 1st year savings. Mr. Hites replied this is gross savings.

Council member M. Johnson asked what the total gross of the retirement value is. Mrs. Salmon replied \$818,560. Council member M. Johnson feels the City needs to continue with employee reductions. He presented an option to reduce payroll by as much as \$350,000 annually over the next 3-4 years cumulatively. He also requested that Council be made aware of vacant positions so they could approve filling the positions. Several Council members agreed and want to continue with employee reductions over the next few years. Mr. Hites advised that the majority of the water/sewer employees are licensed by the state and we have to have them. 68% of the General Fund employees are police and fire, to accomplish this goal, we will be taking fire and police off the street or he can take every one of the General Fund employees regardless of their years of service and we still could not achieve this goal without taking fire and police officers off the street. Council member Stallard stated that over the next five years, 58 employees will have 30 years or more of service and this will be an opportunity to further reduce payroll. Council member Huggins pointed out the problems associated with grant positions and increasing payroll. Mayor Kutteh felt the frozen and retirement positions are

enough of a reduction for this fiscal year and did not see the need for involuntary employee reductions. He asked Council if they wished to reduce employees by more than 29 this fiscal year. Council member Stallard commented that you cannot cut yourself into a healthy situation. Mr. Hites stated he can provide a recommendation for a multi-year process for reducing the employee force but it will also involve cuts in the Police and Fire departments because that is where the growth has been. Mayor Kutteh suggested Council concentrate on this fiscal year regarding employee reductions.

Council member West asked Council to consider increasing funding to GSDC (now Statesville Regional Development, SRD) to the same amount it was a few years ago. He stated this organization brings tremendous revenue to the City. Mr. Hites advised the City currently pays GSDC \$95,000 and their funding was reduced by 5% in 2008-2009. The County pays them approximately \$119,000 and Troutman pays around \$9,700. Mayor Kutteh pointed out that they were in the \$60,000 range and when they hired John Marek the City increased their funding to pay a portion of his salary. Mayor Kutteh asked staff to provide Council with the history of the City's payments to GSDC and what revenue GSDC has brought to the City. Council member Stallard asked what amount Council member West is requesting. Council member West stated he would like to increase it to \$101,000.

There being no further business, Council member West made a motion to continue this meeting until Thursday, May 31, 2012 following the Pre-Agenda meeting in the 2nd floor training room of the City Offices building, seconded by Council member Stallard. The motion carried unanimously.

ATTEST:


Brenda Fugett, City Clerk




Constantine H. Kutteh, Mayor