

**MINUTE BOOK 24, PAGE 432
 CITY OF STATESVILLE
 CITY COUNCIL BUDGET WORKSHOP MEETING – May 31, 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, Triplett, Salmon, Houpe, Bullins, Rimmer, Cornelison, Harrell, Cranford, Morrison

Media Present: Jim McNally – Statesville Record & Landmark

Others:

Mayor Kutteh called the meeting to order.

Lisa Salmon reviewed positions by fund of employees who had indicated they were interested in the incentive retirement program. She stated the cost savings had been recalculated because the previous numbers had a cost of living increase in it that was not included in the budget. The net first year savings for General Fund employees is \$188,166. The total in voluntary retirement savings for all funds is \$243,597. Mrs. Salmon reviewed the list of vacant General Fund positions that total a net first year savings of \$822,841 that is not included in the budget. The vacant Fire Educator position has been added to the list and is included in the budget and can now be deducted. The total long-term reduction is approximately \$1,180,964 if these positions are never filled.

Mayor Kutteh pointed out that next year the net first year savings of \$188,166 becomes \$445,308 without doing anything else.

Mrs. Salmon reviewed General Fund budget issues. She advised the Fund Balance that was appropriated to balance the 2011-2012 budget was \$1,847,967 so we start this budget with this deficit. Five new positions have been added to that that: Two Police Officers from the Traffic Safety Grant, one Narcotics Officer from the Governors Crime Commission, one position to maintain the streetscape landscape and one upgrade to a Parks position from a 10 month temporary position to a 12 month full time position to maintain the interstate interchanges for a total of \$2,085,004.

Projected Revenue that has been reduced since the proposed budget was submitted is as follows:

Property Tax changes per County Assessor	(\$26,568)
Hold Harmless change from the State	(\$53,935)

Potential solutions to this budget shortfall are:

Privilege License Fee for Internet Sweepstakes	\$233,500
20% Gas & Diesel Fuel Cost Reduction	\$158,540
Early Retirements Estimate as of 05/31/12	\$188,166
Fire Educator Vacant since budget	<u>\$ 41,422</u>

Total Changes \$541,126

Referring to the discussion regarding solid waste that was held at the May 30, 2012 Budget Workshop meeting, Mrs. Salmon stated if the Commercial Dumpster Solid Waste Service is eliminated, there would be no need to purchase the Front Loader Packer truck at the cost of \$250,000. Staff is recommending charging \$10.70 for Commercial Roll-Out service, which would result in approximately \$123,500 in revenue. If the Dumpster Service is eliminated then those three employees will be transferred to fill the positions of three employees who are retiring which will provide a savings of \$73,500.

Mrs. Salmon advised that the tax base number had changed slightly, and the \$0.03 cent tax rate is now equivalent to \$857,808.

Council member M. Johnson asked if the 22 vacant positions will be permanently eliminated. Mr. Hites stated these positions will be permanently reduced unless Council reinstates them in a future budget year and service levels will be reduced as a result.

In response to additional information requested by Council member West, Mrs. Salmon reviewed the number of jobs created and tax base increase information for Kooks Custom Headers, Pratt Industries and Providencia USA, Inc. Council member West asked that Council increase funding to Statesville Regional Development for this fiscal year to \$100,000 since they are the City's sales force. He stated SRD has brought a net tax revenue increase of \$335,337 to the City over the last seven years. Mrs. Salmon reported the City had appropriated \$690,663 to SRD from 2005 to 2012. Council member J. Johnson felt that increasing the funding to SRD would not be fair since City employees are not getting a pay increase. Council member Eisele agreed.

Council member M. Johnson felt the \$100,000 in the Capital Improvement Plan marked for Greenway Development should be put back in the Capital Reserve and allocated when needed. Mr. Cornelison explained these funds would be used for grant matches after the design phase of the Greenway is completed. Mrs. Salmon explained that these funds are not supported by any revenues. Capital Reserve funds were simply transferred as a placeholder so staff can just not make the transfer and the money will not be spent until the grants are received. Mayor Kutteh clarified these funds have no budget impact but could be applied to other Capital Expenses in the Recreation budget. Mrs. Salmon pointed out the down side of this is that the Capital Reserve Fund will be spent and there will be no funds set aside to finish the Greenway. It would be the same as using Fund Balance to pay for Operating Expenses.

Council member M. Johnson asked Chief Bullins what the absolute final date is to convert to the 800 MHz system. Chief Bullins replied December 31, 2012 mandated by the FCC. Mr. Hites pointed out that, again, staff is using Capital Reserve Funds to pay for the radio system, and it is not coming out of the Operating Fund. Council member M. Johnson stated the creation of the Capital Reserve Fund is arbitrary; the amount in the fund is based on an estimated number in order to cover future expenditures and is not set in concrete. Mrs. Salmon explained the Capital Reserve Fund is created for the accumulation of funds for future capital needs which may not be known at the time, but will help reduce spikes in future capital purchases. Council may reallocate funds however it wishes. Mayor Kutteh stated Council can transfer all of the funds into the General Fund, but doing this does not reduce expenses and is not a viable revenue stream, it will only balance the budget this year.

Council members reviewed each item presented by staff as General Fund budget issues and potential solutions. A majority of Council members agreed on the following items in the proposed budget:

1. Fund two police officers from the Traffic Safety Grant
2. Fund one Narcotics Officer from the Governors Crime Commission Grant
3. Fund one position to maintain the streetscape landscape and necessary maintenance supplies
4. Upgrade a Parks position from ten months to 12 months.
5. Impose a privilege license fee for Internet Sweepstakes businesses
6. An approximate 20% reduction in gas and diesel costs based on current conditions
7. Early retirements estimate as of 05/31/2012
8. Leave the Fire Educator position vacant which occurred after the proposed budget was presented

Council member M. Johnson asked if other employees would retire if the incentives offered were increased. Mr. Hites stated that keeping affordable health insurance seems to be the biggest problem keeping employees from retiring. Council members discussed possible options and agreed they would like for staff to be as aggressive as possible in finding employees who wish to retire and extended the time frame to December 31, 2012 but the employee must make their decision by June 30, 2012.

A majority of Council agreed with staff's proposal to eliminate the Commercial dumpster service, eliminate the purchase of the Front Loader Packer, and increase the Commercial roll out fee to \$10.70 per container. Council member Huggins asked for additional information from staff

regarding leaf pickup. Mr. Hites stated he did not see how any city in a Stormwater I or II area could not have leaf pick up because it is integral to keeping the gutters clean. Council member M. Johnson stated cities that do not have leaf pick up require the leaves to be bagged.

Council members discussed the proposed \$0.03 property tax rate increase. Council member Stallard stated he would support the property tax increase of \$0.03 as long as the open positions are not filled. Council member M. Johnson clarified that all the open positions created by retirees could not remain open, but would be evaluated and filled through internal promotion or a redistribution of duties. It seems that Council has agreed to pursue Option A for the 3rd Creek WWTP and if we can reduce the size of government, control our costs and expand the City's cash flow, then we have a good reason to do it that this community will benefit from far into the future. Council member Stallard agreed and stated that Statesville's property tax rate is one of the best in the state. He felt Council is asking 400 City employees to bear the cost of not increasing the property tax rate instead of 24,000 City residents who are benefitting from it. Mayor Kutteh clarified that Council member Stallard was in favor of the ad valorem property tax rate increase from \$0.38 to \$0.41 and that this is coupled with a plan that the open positions created through retirements would not be filled without an analysis by staff and Council as to whether or not the position needed to be filled. Council member J. Johnson emphasized he would not vote in favor of this property tax rate increase and reminded Council members that he had stated this during all the streetscape project discussions. Mayor Kutteh disagreed and stated the debt service payments for the streetscape project is not in the operating fund and is not \$0.03 on the property tax rate and is not what is causing the budget shortfall this year. Council members briefly discussed the need for the \$0.03 property tax rate increase. In an informal poll, Council members Matthews, Eisele, Stallard, West, Gregory and M. Johnson were in favor of the tax increase. Council member Huggins is unsure and Council member J. Johnson is against.

All Council members agreed they were against implementing a Residential Sanitation fee and against increasing the appropriation to Statesville Regional Development to \$100,000.

Council members discussed a 7% water/sewer rate increase. Council member Eisele asked if the Jet-Vac purchase is really needed this year. Council member M. Johnson suggested staff try to purchase a used one. Mayor Kutteh asked what amount expenses need to be reduced to lower water/sewer rates by 2% down to a 5% increase. He stated if staff can purchase the equipment cheaper, this could work just for this year to reduce the water/sewer rate increase but would not be a long term solution. Council agreed staff should search for cheaper equipment replacements to try to keep water/sewer and electric rates lower but did accept staff's proposal for a 7% rate increase. Mrs. Salmon reminded Council that if they deviate from the analysis done by McGill & Associates and their recommended rate increases, it will affect what happens in subsequent years.

Council members agreed to accept the 7% electric rate increase. Mrs. Salmon advised the expected wholesale rate increase is 5.4%. Mr. Cranford stated that Duke Power had asked for a 14% rate increase and was awarded 7%.

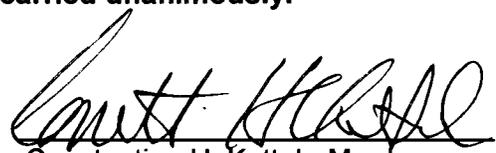
Mr. Hites asked if Council wished to reconvene a Budget Workshop meeting before June 18, 2012. Mayor Kutteh stated he would like for the budget to be approved at the June 18, 2012 meeting. He said further any personnel issues will be discussed for a short time following the June 14, 2012 pre-agenda meeting.

There being no further business, Council member West made a motion to adjourn, seconded by Council member Matthews. The motion carried unanimously.

ATTEST:


Brenda Fugett, City Clerk




Constantine H. Kutteh, Mayor