

RECESSED MEETING OF JUNE 1, 2010

Continued
June 14, 2010
10:00 a.m.

The City Council of the City of Salisbury met at 10:00 a.m. Monday, June 14, 2010, in Council Chambers at City Hall pursuant to the recess of the regular meeting of June 1, 2010, with the following members being present and absent:

PRESENT: Mayor Susan W. Kluttz, Presiding; Mayor Pro Tem Maggie A. Blackwell, Councilmen William (Pete) Kennedy, William Brian Miller, and Paul B. Woodson, Jr.; City Manager David W. Treme; and City Clerk Myra B. Heard.

ABSENT: City Attorney, F. Rivers Lawther.

Mayor Kluttz called the meeting to order. City Manager David Treme provided the invocation.

BUDGET WORKSHOP – GENERAL FUND

City Manager David Treme noted that Council received the proposed budget at its June 1, 2010, meeting. Mr. Treme reviewed the major changes in the proposed budget:

- 10% increase in the recycling fee based on an increase in the contract
- No new positions, but covering the cost of three police officers not funded by grant
- Addition of a privilege license for internet cafes
- Implementation of a rolling freeze
- No increase in the property tax rate
- \$500 average employee merit-based bonus
- 10% reduction in funding for special community efforts groups and special projects

Special Community Efforts Groups/Special Projects

Mr. Treme suggested Council begin with the proposed funding for special community efforts groups and special projects. He noted that the cuts totaled \$34,985 for the special community efforts groups, and \$9,000 for special projects.

Councilman Miller asked if the funds in Council's Discretionary Fund have been designated. Mr. Treme noted that the funds are available for Council projects that might come up throughout the year, and have been used to fund initiatives such as the youth and gang initiatives, and the Salisbury-Rowan READS! events in the prior year. He added that the funds are not designated, but are available for Council projects.

Mr. Miller commented that the local community organizations need to grow and he would like to fund them at their full appropriation, adding that he would be willing to give up the Discretionary Fund in order to fund the community organizations.

Mayor Kluttz stated she thinks the Discretionary Fund needs to remain in place, because a great deal can be accomplished from this small amount of money. She added that she would like to keep the Discretionary Fund, as well as fund the community organizations at their full appropriation. She commented that, in the current economy, it is the wrong time to cut these groups.

Mayor Pro Tem Blackwell noted that the City has an agreement with Rowan County to fund the Salisbury-Rowan Human Relations Council, and she would like the City to honor that agreement.

Councilman Kennedy stated that this is a small amount of money compared to the overall budget, and he would like to retain full funding for the community organizations.

By consensus, Council agreed to add the \$34,985 in funding for the special community efforts groups.

Mr. Miller commented that he feels more passionately about the special community efforts groups than the special projects.

Mayor Kluttz stated that she would like to keep the funding for special projects as well, because they are important to the City's mission. She added that without the incentive grant programs, property owners may not be able to make improvements to downtown properties during this economy.

Ms. Blackwell asked Mr. Treme if the rolling freeze would exempt public safety positions. Mr. Treme responded that it would not, and added that it will be based on the number of open positions. He assured Council that he would not allow the Fire Department or Police Department to have more than one or two frozen positions at one time. Mr. Treme explained that he will use wisdom in implementing the rolling freeze so that emergency services are not impacted, but he needs freedom to manage it as needed to meet the budget.

By consensus, Council agreed to restore \$9,000 to special projects to fund at their full appropriation.

Internet Café Privilege License

Management Services Director John Sofley informed Council that the addition of a privilege license for internet cafes has been included in the proposed budget. He noted that this is a new use that was not previously included. He stated that there will be a \$500 per machine fee, in addition to a gross sales cap of \$3,000. Mr. Sofley indicated that the State of North Carolina is currently reviewing regulations for these establishments, but until a decision is made statewide, the use should be subject to taxation. He stated that the internet cafes already open for business have been subject to the \$3,000 gross sales cap, and the only new tax will be the \$500 per machine charge.

Mr. Kennedy asked if this fee is consistent with other municipalities. Mr. Sofley responded that it is actually less than most other municipalities. Mr. Kennedy asked if revenue estimates from these fees had been made. Mr. Sofley responded that they have not yet been estimated.

By consensus, Council agreed to include the privilege license fees for internet cafes.

Recycling Fee Increase

Public Services Director Tony Cinquemani informed Council that the City is in the second year of a three-year contract for recycling collection. He stated that the contract is increasing 10% for the upcoming year and this amount will be passed on in order to cover the cost. He noted that currently recycling is at 31% in the City, and although 31% may not sound high, those that participate usually use more than one bin.

Mayor Pro Tem Blackwell asked if the City's average is higher than the national average. Mr. Cinquemani noted that 31% is slightly higher than the national average.

Councilman Miller asked if only those that use the service pay for it, or if the cost is charged to everyone. Mr. Sofley responded that every household pays the recycling charge because it is an available service.

Ms. Blackwell asked if the recycled materials generate revenue. Mr. Cinquemani noted that the City currently allows the contractor to keep the collected materials because it has no value for the City. He stated that the market for the materials is varied and the contractor is responsible for finding the markets.

Mayor Kluttz stated she thinks the City has to take the lead to encourage everyone to recycle. She added that if the service were to be dropped it would send the signal that Council does not think it is important.

Mr. Treme noted that each year the contractor is required to provide a certified letter indicating the collected materials are being recycled, and not just taken to the

landfill. He added that the City will not use vendors who do not properly recycle the collected materials.

Mr. Kennedy stated it is important for citizens to understand the dollar amount of what is being saved by not taking these materials to the landfill, and asked Mr. Treme if he had this figure. Mr. Treme responded that he did not have this figure, but would develop the number for Council.

Mr. Sofley stated that the total contract price is \$440,000 and the increase equals \$0.31 per household.

By Consensus, Council agreed to a \$0.31 cents per household increase to cover the cost of the recycling contract increase.

Employee Performance-Based Bonus

Mr. Treme indicated that an average \$500 performance-based bonus for employees is included in the proposed budget. He noted that employees do not receive cost of living adjustments, and the merit adjustments have been modest in the last few years, with there being no merit increase available last year. He stated that last year some employees received market adjustments in an attempt to bring them to 96.5% of the minimum of the pay scale. Mr. Treme noted the proposed bonus will be a lump-sum payment, and will not impact next year's budget. He added that it will allow the City to maintain its performance appraisal system, and provide an important recognition of the employees. He noted that the total cost of the bonus is \$186,500.

Mr. Kennedy asked where these funds will come from. Mr. Treme responded that the funds will come from the General Fund. Mr. Kennedy stated that he supports the employees, but knows citizens will complain because they do not want any tax increases or increases in the water/sewer rates.

Mr. Treme stated that in preparing the budget he attempted to meet the requirements set forth from Council, and he prepared a budget with no tax increase that absorbs cost increases the City has incurred.

Mr. Sofley noted that there is approximately \$1 million in mandated costs the City had no control over. He added that these costs were absorbed in the proposed budget, while ongoing revenues for the City only increased \$300,000. He pointed out that other revenue increases were for specific items such as grant receipts.

Mr. Treme distributed a sheet showing the amount received in Powell Bill funds, and noted the decrease in the amount received.

Mr. Miller asked Mr. Treme when the employee performance bonus would be implemented. Mr. Treme responded that the employee appraisals are done in October,

and the bonus would be paid in December. Mr. Miller noted that staff should have more information on the revenue trends by this time and could adjust the bonuses if necessary.

Mr. Miller stated that he is in favor of the performance bonus, and as staff reviews the revenue trends over the next few months, to decide if it is prudent to pay the bonuses based on the trends in the budget. Mr. Sofley stated that staff will be able to determine if the budget projections meet the reality of what is received.

By Consensus, Council agreed to fund the \$500 average performance-based employee bonus.

Council discussed paving and staff noted that because of the decrease in Powell Bill funds, the Street Division is now down to being able to cover four lane miles.

Mr. Miller asked if Powell Bill funds are the funds collected by the State in the gas tax, and then remitted to municipalities. Mr. Sofley responded that this is correct, and noted the distribution formula is based on population and the number of lane miles within a municipality. He noted that as cities grow and add to their population and road miles, the amount Salisbury receives decreases.

Mr. Miller referred to Capital Expenditures and asked how the funds are allocated. Mr. Sofley stated that the Capital Replacement funds acts as a bank, and when a vehicle or equipment is purchased, it is then leased back to the department. He stated that over the life of the equipment, the funds are accumulated and then used to purchase new equipment. He noted that these funds are paid as part of the operation budget for the departments.

Limb Pick-Up

Mayor Kluttz noted that the proposed budget recommended reducing limb pick-up from once per week, to once per month. She commented that for a City that values appearance, she is concerned that picking up the limbs only once a month may create a mess.

Mr. Treme stated that Council members had shared this concern with him and he discussed with staff prior to today's meeting. He noted that he thinks the limbs can be collected once every two weeks, and still allow a reduction in cost in the budget while meeting the citizen's needs.

Mr. Treme noted that Salisbury-Rowan Utilities had been using a private contractor to resurface and pave when utility repairs were made. He stated that the Utility is now going to contract with Public Services to perform this work, which will add additional revenue to the General Fund.

Mr. Sofley noted that this arrangement will not change the water/sewer budget, but will add \$100,000 to the General Fund.

Mr. Cinquemani indicated that collecting limbs once a month would require Public Services to change its current collection methods, because with larger piles of debris, larger trucks may be needed. He added that he thinks collecting limbs every two weeks will allow Public Services to continue with its standard method of collection. Mr. Cinquemani commented that this will be a learning experience, and he thinks citizens will continue to put the limbs on the street as they are cut.

Mayor Pro Tem Blackwell indicated she is concerned that with more debris to collect, staff will lose efficiency. She asked if a schedule had been developed for how the collection will work. Street Division Manager Steve Weatherford stated he has looked at several different scenarios for the limb collection that could work from monthly collection to bi-weekly collection. He noted that if staff is pulled to work on a Utility contract, it could affect street maintenance.

Mr. Sofley noted that currently Public Services drive down every street once a week whether there are limbs to pick up or not. Mr. Cinquemani confirmed that the current level of service is to drive by every house once each week.

Ms. Blackwell commented that certain neighborhoods have a higher quantity of limbs than others, and citizens are used to weekly pick-ups.

Mr. Treme requested Council allow staff to try the limb collection on a two-week basis, and noted that until the schedule is actually attempted, he is unsure of the impact.

Mr. Miller indicated that Council has a choice of what level of service it wants to provide and how to pay for it. He noted that to keep all of the services at a high level, Council must either reduce expenses or increase income. He asked that this recommendation be given a trial period, and to inform citizens about the change. He noted that once it is implemented, and feedback is received, Council will be able to determine if it is working and make changes as needed.

Mr. Treme noted that it is very difficult to keep services exactly the same, while the costs of the services increase.

Mr. Kennedy suggested trying the limb collection every two weeks for a four-month period to determine how it works.

Mayor Klutz commented that Council needs to be prepared to answer citizen's questions regarding the collection change. She agreed that it is difficult to balance services and increasing costs, without raising taxes. She added that the Citizen's Survey indicated citizens want and like the services provided by Public Services.

By Consensus, Council agreed to try limb collection every two weeks for a four-month period.

WATER/SEWER FUND

Utility Director Jim Behmer and Management Analyst Shannon Moore reviewed handouts with Council regarding the revenues and expenses for Salisbury-Rowan Utilities (SRU). Mr. Behmer noted that the Utility's budget is based on user fees rather than taxes.

Mr. Behmer reviewed a handout that detailed the 5.57% rate increase being requested. He pointed out that a majority of the costs were mandated and not optional.

- Increases in personnel costs – accounts for an increase of \$283,467 in FY10-11 over prior year (5.5% increase over prior year and equates to 2.1% of rate increase)
 - Healthcare and retirement increases
 - Fully funding 2009 compensation/classification salary adjustments (21 SRU positions)
 - Classification status changed for 12 SRU positions (additional overtime budgeted)
 - Increase is offset with three vacancy rolling freeze (\$150,000)
 - \$500 average employee bonus based on performance
- Insurance and Workers Compensation insurance increased \$162,899 – accounts for 1.2% of rate increase
- Increase for fuel, gas and oil, and electricity cost – accounts for an increase of \$222,397 in FY10-11 over prior year (equates to 1.7% of rate increase)
 - Fuel +34% (additional generators and current year over budget projections)
 - Gas and Oil +32% (increased usage in current year which is over budget projections)
 - Electricity +15% (Duke Energy increase and current year over budget projections)
- Debt Service increased \$440,712 as a result of 2009 Bond issuance – accounts for 3.3% of rate increase
 - Increases due to additional debts issued for I-85 Sewer Project and 2007 Annexation
 - Increase represents 7.68% of increase in total debt over prior year
 - FY10-11 debt represents 26.5% of total SRU Operations budget
- Less demand – accounts of \$5,193 loss in operations revenue
 - Customer base has remained stable
 - Consumers are conserving water
 - Wet weather conditions lowered demand for irrigation water
 - Loss in operating revenue offset by additional cuts and 1.51% rate increase

- In order to meet a 5.57% rate increase, an additional \$217,632 was cut from operations (mostly in contracted services, professional services, travel and training) in order to absorb the above increase (1.6% rate offset)

Mr. Behmer also reviewed a comparison of historical data and noted that over a five-year period the demand for water has increased slightly, while water/sewer has decreased. He pointed out that weather events, such as drought or heavy rain, influence consumption. Mr. Behmer pointed out that staff reviewed data and found there is no major trend indicating an increase in rates causes a decrease in use.

Mr. Behmer stated that a 1% increase in the utility rate equals approximately \$160,000 in revenue. He noted that with the proposed rate increase, the average user's bill will be \$72.78.

Mr. Treme noted that when textile plants closed, the City lost its major water users, and the user base is now mostly residential, commercial and small business.

Councilman Woodson stated that he feels the rate should not be increased this year, and Council needs to ask citizens to use more water.

Mr. Treme indicated that the utility is a public necessity operated 24 hours a day, 365 days a year. He noted that cuts have been made to the budget, but SRU must still make its debt payments. He added he is concerned that the City is spending less to maintain the aging system. Mr. Treme noted that SRU is doing less with what it has, but with no rate increase he cannot guarantee SRU's budget will be covered.

Councilman Miller stated the Utility has mandated costs and expenses which must be covered. He noted that the increase is covering less of the expenses than in the prior year, and Council has a fiduciary responsibility to cover the costs.

Mr. Miller indicated that increased water usage will help, and noted that the I-85 sewer extension was completed in the hopes of recruiting a high capacity water user. He added that if a high capacity user could be located in this corridor, it would have a major impact on the system. He stated that SRU has the capacity, and Council should encourage the Economic Development Commission to recruit companies with high water consumption.

Mr. Kennedy noted that the General Fund is absorbing the mandated costs, and questioned why the Water/Sewer Fund cannot do the same. Mr. Behmer responded that one reason is the increase in electricity costs, which is a cost of service delivery and is part of the utility rate.

Mr. Kennedy asked the status of the City's offer to sell water to Kannapolis. Mr. Treme stated that he felt the City made a good offer to Kannapolis, but because

Kannapolis is so closely linked with Concord, he believes they have decided to purchase water from them.

Mr. Kennedy asked about a request from China Grove to renegotiate its rate. Mr. Treme indicated that he anticipates discussing a consolidation of the China Grove and SRU systems in approximately six months. He added he has been clear that the City will not take on any system that will cost the current rate payers additional money. He added that he looks forward to bringing a recommendation to Council in December that will assist with China Grove's rates.

Mr. Kennedy stated that he is not happy with the proposed rate increase, but he sees the need and cannot find where any other changes could be made. He added that it is evident the surrounding communities have to do the same in order to maintain their systems.

Mr. Miller noted that no one is pleased with the increase, but the cost recovery is long-term, and making short-term cuts would not be beneficial.

Mayor Kluttz commented that Council must provide reliable and quality water and sewer services for its citizens, and this is what is necessary to provide that utility.

Summary

Councilman Kennedy recapped the changes agreed to by Council, noting limb collection every two weeks for a four month period, a \$500 average employee performance bonus, 10% increase in recycling, 5.57% water/sewer rate increase, and no reduction for special community efforts groups or special projects. Mr. Treme noted that Council also agreed to the proposed privilege license for internet cafes.

Mr. Treme indicated he will incorporate these changes into a Budget Ordinance and present to Council at its June 15, 2010 meeting.

Mayor Kluttz thanked Mr. Treme and staff for their work in developing the proposed budget, adding that Salisbury is in a better position than many other municipalities.

There being no further business before Council, Ms. Blackwell made a motion to adjourn. Mr. Woodson seconded. All council members agreed unanimously to adjourn the meeting at 12:58 p.m.

Susan W. Kluttz, Mayor

Myra B. Heard, City Clerk