

RECESSED MEETING OF MAY 17, 2005

Continued
May 24, 2005
11:00 a.m.

The City Council of the City of Salisbury met at 11:00 a.m. Tuesday, May 24, 2005 in Council Chambers at City Hall pursuant to the recess of the regular meeting May 17, 2005, with the following members being present and absent:

PRESENT: Mayor Susan W. Klutz, Presiding; Mayor Pro Tem, Paul B. Woodson, Jr.; Councilmen William (Bill) Burgin; William (Pete) Kennedy; Mark N. Lewis; City Manager, David W. Treme; and City Clerk Myra B. Heard.

ABSENT: City Attorney, F. Rivers Lawther

Mayor Klutz called the meeting to order. Councilman Burgin provided the invocation.

BUDGET WORKSHOP

Mr. Treme asked Council to review special projects to determine those they would like to fund. He distributed a history of appropriations over the past five (5) years for the Special Community Efforts Groups.

Salisbury-Rowan Economic Development Commission

Council discussed the request from the Salisbury- Rowan Economic Development Commission (EDC) for an increase from \$53,670 in FY2004-05 to \$69,498 in FY2005-06. All members noted the importance of Economic Development but felt the City should maintain its current funding until Rowan County, the largest contributor to the EDC, determines their budget. It was suggested that the City fund at the same amount as last year and address special projects as they are presented. By consensus, Council agreed to fund the EDC at the same amount as appropriated in FY2004-05.

Downtown Salisbury, Inc.

Council discussed the request from Downtown Salisbury, Incorporated (DSI) of \$90,000, which represents an increase of \$14,420 from last year's appropriation. Mayor Klutz noted an email received from a downtown business owner concerning the positive impact the "Friday Nights Out" have had on his business and encouraged continued support of these events. A question was raised regarding the increase requested by DSI and if it would be used for staff realignment or if it included additional marketing promotions. It was determined that the increase included funds for both staff and promotions. Council noted the importance of bringing people back to the downtown area and how it benefits all of the community. By consensus, Council agreed to fund DSI's full request of \$90,000.

United Way

Mr. Treme referred to a letter from the United Way seeking \$5,000 to assist in paying for a Needs Assessment. Council noted that it is important to know the needs of the community and felt this was a reasonable share of the cost. By consensus, Council agreed to fund the \$5,000 request from United Way.

Salisbury Community Service Council

Council discussed the request from the Community Service Council for repairs to the old Price High School. No dollar amount was submitted in the request, but Management Services Director John Sofley informed Council that approximately \$29,000 is budgeted to help remove asbestos from pipes, as well as to replace some of the older pipes that provide heat to the facility.

Rowan Business Alliance

Council discussed a request from the Rowan Business Alliance for \$5,000 to be used for a Credit Counselor. There was support among Council that this is an important service but Council agreed to hold this item until it reviewed the rest of the budget.

Fire Department

Mr. Treme stated that this year's proposed budget is directly linked to the Fire Department and the fire substation on Highway 70. He commented that some citizens in the community have felt that the need for the substation is because of the annexation on Highway 70. He added that this is not correct and noted that the land for the substation was purchased approximately ten (10) years ago. He added that the need was based on looking at the City as a whole and not just the annexation area.

Mr. Treme stated that in order to pay for the substation and the personnel and equipment to man it, a one and one-half (1 ½) cent tax increase is required; however, he pointed out that one cent of this amount, or \$224,900, can be taken from fund balance.

A question was raised concerning financing the debt rather than paying for it from fund balance. Mr. Sofley responded that the Local Government Commission is in favor of governmental entities "paying as you go". He explained that there will be no debt coming off of the budget next year that the new debt could replace. Staff does not recommend issuing debt for this project but recommends using money from fund balance.

The City's ISO rating was discussed and a question was raised asking if the City could have maintained its ISO rating if the property on Highway 70 had not been annexed. Fire Chief Bob Parnell responded that when the ISO team visited in 1995 they indicated that the City would be at its limit if one more square block, located anywhere, was annexed.

By consensus, Council agreed that the fire department is needed and it would like to determine how to fund it without raising taxes.

Staff reviewed several options that could be considered or reduced in order to fund the remaining portion of the funds needed. The options included:

- \$40,000 set aside for Highway 70 sidewalks but completion is not scheduled until December 31, 2006
- 550 radio maintenance – a project involving the 800 trunking system came in at \$29,435 less than what was budgeted
- Six (6) part-time staff positions could be hired 4/1/6 to save \$31,430
- \$20,000 in additional equipment can be postponed until the following budget year
- Remove \$10,000 for the Art and History Trail
- Postpone filling positions within the City that will be open due to retirements

There was opposition raised to removing the money for the Art and History Trail noting it is important to Salisbury's future as a cultural, environmental and historic City. Staff will review the figures and prepare a revised recommendation to be brought back to Council.

Salisbury-Rowan Utilities

Mr. Matt Bernhardt, Assistant City Manager for Utilities, gave a presentation regarding the FY2006 proposed Salisbury-Rowan Utilities (SRU) budget. He noted that a recent publication in the Water Industry cited the following trends:

- Water quantity and quality problems are growing
- Public awareness/concerns are growing
- Regulation is expanding and increasing
- Water is becoming significantly more expensive
- Huge capital expenditures will be necessary
- Consolidation is ongoing
- Consumers are practicing more efficient use
- Technology is growing and advancing
- Consumer power is growing
- Partnerships – both public and private are growing

He stated that Salisbury and Rowan County are being impacted by many or most of these trends right now.

- Quantity: (Blessed by) The Yadkin River
- New Technology: Actiflo/Sodium Hypochlorite
- Consolidation: Salisbury-Rowan Utilities
- Consumer Power: Bottled water/declining use
- Increasing Regulation: See SRU's new permits
- Huge Capital Expenses: \$35 million in Capital expansion
- Partnerships: County/Communities/Schools
- Increasing cost: Proposed 9.46% rate increase

Mr. Bernhardt commented that all of these impact the budget and rates. He discussed reasons for the recommended 9.46% rate increase noting:

- Community growth
 - Salisbury was ranked 25 out of 30 in a list of the largest growing communities in North Carolina between 1990 and 2000
 - Salisbury's growth was twelve (12) percent
 - 1990s population was twenty three thousand, six hundred twenty-six (23,626)
 - 2000s population grew to twenty six thousand four hundred sixty-two (26,462) – a difference of two thousand eight hundred thirty-six (2,836)
 - Current population after annexations – twenty nine thousand two hundred twenty-six (29,226)
 - Other local communities growth:
 - Huntersville 726%
 - Concord 105%
 - Monroe 60%
 - Charlotte 37%
 - Statesville 33%
 - Kannapolis 24%

- Economy of Scale
 - When SRU instantly lost three (3) of its top customers (Cone Mills, American-Efird, and Frito-Lay) in 1998-99, it lost sales of over one million three hundred fifteen thousand eight hundred (1,315,800) gallons per day
 - Based on SRU's average residential use of one hundred sixty two (162) gallons per day (6.5 billing units per month) it would take eight thousand one hundred twenty-two (8,122) additional residences to make up the difference
 - Remember, growth has only been seven hundred nine (709) additional residences (population increase of two thousand eight hundred thirty-six (2,836))
- Customer conservation and declining volume

Mr. Bernhardt further explained what the rate increase represents:

- 2.86% Operational impacts
 - Broadbanding impact
 - Contracted Services
 - Chemicals & Process Changes
 - Professional Services
 - Gas & Oil
- 6.6% increase due to lost demand in the past twelve (12) months:
 - water – 13,770 billing units/month = \$408,142.80
 - sewer – 13,274 billing units/month = \$504,942.96
 - Total demand impact = \$913,085.76

Mr. Bernhardt reviewed a comparison of the rates for FY2005 and the proposed rates for FY2006 for SRU and other water systems in the region and noted that SRU is in the middle (7 out of 13) for both.

He then discussed several conclusions:

- SRU is still selling less water. SRU has held back over \$600,000 in planned/budgeted projects and expenses to balance its current budget at year-end
- It takes several small meters to make up equal the loss of a few very large ones, but SRU's plan has helped and it is working
- SRU's outlook is still positive: SRU has effectively doubled the capacity of its water system from twelve (12) to twenty-five (25) mgd, and are well-positioned to handle Rowan County's growth needs
- The name of the game is still "economy of scale" which means sell more water (through system expansion or growth of our own customer base, or both, as well as diversify revenue through new services)
- SRU has seized the opportunities to expand its capabilities and capacity, and is "staking out" the service area (within this County and Region) that SRU will continue to grow into
- While some recent trends have slowed and undercut/offset recovery, SRU still believes that it has the right plan
- SRU's primary target: large (one (1) mgd) water user with small discharge
- SRU has moved down (comparatively) in the region, and is not losing ground even with the proposed rate increase
- SRU is learning to be more of a "business" and less of a government agency
- It is simply a matter of time, growth and patience

Council asked if SRU's budget includes the assumption of the Landis and China Grove utility systems. Mr. Bernhardt responded that it did include personnel for maintenance of the lines but the increase would be the same either way because it was agreed that the systems would only be taken over if it caused no increase for the existing customers.

Council requested adjusted budget figures to exclude the assumption of the Landis and China Grove systems. A request was also made to include consumer data for the greater Salisbury area, rather than just the City itself, since SRU now provides water to approximately forty (40) percent of the entire County.

Council discussed the increase in utility rates each year due to consumer use going down, and consumer use going down because the rates are increasing. Mr. Treme commented that he felt the drought and the change in the State's economy due to the loss of manufacturing and textile plants is one cause of the cycle. He added that marketing SRU's laboratory services, considering the sale of bottled water, contract management, creating a more balanced customer base, and continuing to create partnerships to add customers will help SRU move out of the rate increase/decline in customer use cycle and add income to the utility system. He stated that one cannot think short-term on a fifty (50) year projection and added that SRU has positioned itself to come out of this and to grow.

Mr. Treme pointed out the recycling fee increase from \$1.44 to \$1.66 and noted that it had been \$1.44 for the past twelve (12) years and was increasing due to gasoline and Consumer Price Index increases. He stated that the City has one of the lowest recycling contract costs in the State and noted that it is self-supporting. By consensus, Council agreed to increase the recycling fee.

Council indicated that they would still like to cover additional areas of the budget and still had questions to be addressed. Council agreed to conduct another budget workshop Tuesday, May 31, 2005 at 10:00 a.m. in Council Chambers.

RECESS

A **Motion** to recess the meeting until May 31, 2005 at 10:00 a.m. in Council Chambers was made by Mr. Burgin, seconded by Mr. Woodson. All council members agreed unanimously. The meeting was recessed at 2:00 p.m.

Mayor

City Clerk