

RECESSED MEETING OF JUNE 1, 2004

Continued
June 4, 2004
9:00 a.m.

The City Council of the City of Salisbury met at 9:00 a.m. on Friday, June 4, 2004, in Council Chambers at City Hall pursuant to the recess of the regular meeting on June 1, 2004, with the following members being present and absent:

PRESENT:	Mayor Susan W. Kluttz, Presiding; Mayor Pro Tem, Paul B. Woodson, Jr.; Councilmen William (Bill) Burgin; William (Pete) Kennedy; Mark N. Lewis; City Manager, David W. Treme; City Attorney, F. Rivers Lawther, Jr.; and City Clerk, Myra B. Heard.
ABSENT:	NONE

Mayor Kluttz called the meeting to order. Mayor Pro Tem Woodson provided the invocation.

BUDGET WORKSHOP

Salisbury-Rowan Utilities

City Manager David Treme explained to Council that even though the water and sewer system has been expanded there was still a shortage in sales over the last year. He informed Council that a 9.77% water and sewer rate increase is being recommended for FY2004-2005. He pointed out that 1.36% of the recommended increase is related to security improvements. If the same amount of water had been sold this year as was sold last year, the Utility would still require a 4.28% increase. He added that without the expansion that the system has achieved during the last twelve (12) to twenty-four (24) months the rate increase would have been approximately 16.4%.

Mr. Matt Bernhardt, Assistant City Manager for Utilities, briefed Council on the Salisbury-Rowan Utilities (SRU) data and proposed budget. He noted that in 2002 sales of water were conservatively projected at 5.91 million gallons per day (MGD) and 4.46 MGD of sewer. In reality 5.51 MGD of water was sold and 4.30 MGD of sewer. This represents lost revenue of \$662,030. He noted that 2002 was the record year of the drought, while 2003 was the wettest year on record. Mr. Bernhardt told Council that many water customers found ways to conserve water during the drought and have continued those practices.

Mr. Bernhardt noted that SRU is also driven by regulatory requirements and mandates such as the Fat, Oil and Grease (FOG) Program, Backflow Prevention and the Environmental Protection Agency (EPA) Vulnerability Assessment. He stated that SRU has already postponed several significant items totaling over \$1.9 million, which reduced the proposed rate increase to 9.77% even before presenting the budget to Council.

Mr. Bernhardt stated that other Utilities in the region are facing the same regulatory requirements and are experiencing the same trends. He noted that the following Utilities have proposed increases:

- Charlotte-Mecklenburg Utilities 10% proposed
- City of Statesville 8.5% proposed
- City of Kannapolis 10% proposed
- City of Concord 8% proposed

Mr. Bernhardt also reviewed the minimum monthly charges and average water bills for the Utilities in the surrounding region and noted that SRU is in the middle range with the other Utilities systems. Even with the proposed rate increase, SRU remains in the middle range of the other Utilities before factoring in their proposed increases.

Mr. Bernhardt stated that the conclusions are:

- SRU is selling less water now.
- It takes several small meters to make up and equal the loss of a few very large ones.
- The outlook is still positive. SRU has effectively doubled the capacity of the water system from twelve (12) to twenty-five (25) MGD, and are well positioned to handle Rowan County's growth needs.
- SRU still has to achieve "economy of scale" which means "sell more water" (through system expansion or growth of our own customer base, or both).

Mr. Bernhardt noted that as of May 1, 2004 SRU was running 11.2 MGD on twelve (12) MGD capacity. He told Council

that the State mandates that when a system is at eighty percent (80%) capacity the system has to be under design and at ninety percent (90%) the system has to be under construction. Mr. Bernhardt stated that SRU is now working to put the ActiveFlow units into operation.

City Manager David Treme commented that the water and sewer utility is different in that the fixed costs are not related to demand. He added that he feels SRU's strategy to expand the system, add customers and spread the debt and cost is still sound. Mr. Treme noted that the SRU budget takes into account the water and sewer extension policies and the effort to create fairness and equity with developers through tap fee reductions.

Mr. Kennedy asked if the proposed 9.77% rate increase will generate about \$2.4 million dollars. Mr. Bernhardt stated that one percent (1%) equals approximately \$160,000. It was pointed out the increase will generate approximately \$1.5 million dollars. Mr. Sofley clarified that the estimate Mr. Kennedy is referring to includes all charges, not just water and sewer sales, and it represents the actual projections for this year. He noted that this includes sewer surcharges, connection fees, tap fees and miscellaneous water sales.

Mr. Kennedy pointed out the actual expenditures for FY2002-2003 and asked about the actual expenditures for FY2003-2004. Mr. Sofley responded that the projected year-end expenditures equal \$16.3 million.

Mr. Burgin asked what portion of the 9.77% increase is for the FOG Program or Back Flow. Mr. Bernhardt noted that there is a small cost included in the 9.77% but the cost for a new position and capital needs was cut from the budget before being presented.

Councilman Lewis noted that when a system goes from twelve (12) MGD to a twenty-five (25) MGD system the fixed costs will increase significantly. He noted that adding capacity is highly complicated and expensive. Mr. Lewis commented that population figures for 2030 project a 50% increase. He stated that 2% of the 9.77% increase deals with economic development and the fairness and equity issue, which will increase the tax base and expand the customer base for the utility. Mr. Lewis stated that the economic development portion is necessary as well as required EPA mandates, which will give a minimum level of security.

Mr. Kennedy noted that the projection for year-end expenditures is \$16.3 million and the budgeted amount is \$16.9. He asked if this means a \$600,000 surplus. Mr. Sofley stated that the projected revenues will decrease because water consumption is less and added that they are actually projecting a deficit.

Mr. Kennedy stated that he feels staff has done an excellent job and this comes down to Council being able to defend its decision.

General Fund

Mr. Treme told Council that in developing the budget he has tried to build in as many goals as possible and maintain the current level of service. He told Council that forty (40) new positions have been requested but he recommends no new personnel in the general fund.

Mr. Treme stated that one of Council's goals is to attract and retain quality employees. He noted that the City is seventeen and two tenths percent (17.2%) below market on comparable positions, fourteen percent (14%) below the minimum for starting salaries for nonexempt employees, and five percent (5%) for the exempt. Mr. Treme has included \$585,360 to make these adjustments.

Mr. Treme recommended a four percent (4%) average merit increase and noted that no cost of livings have been given since 1986. \$348,000 is budgeted for this item. He noted that one percent (1%) of merit increase equals approximately \$87,000.

The other recommendations for increases included:

- \$30,000 for the development of a Fire Department Strategic Plan.
- \$1,237,500 for certain transportation, sidewalk and Greenway Projects.
- \$40,000 for the Civic/Convention Center feasibility study.
- \$20,000 to match an equal amount of funds provided by the Salisbury Community Development Corporation to conduct a business incubator feasibility study.
- \$30,000 annually for a five (5) year period to fund the Rowan County Committee of 100, with the first year's funding to be appropriated from the FY 2003-2004 budget.
- \$15,828 to fund a portion of the Salisbury-Rowan Economic Development Commission (EDC) market study from the FY2003-2004 budget.
- \$15,000 to support Downtown Salisbury, Inc.

- Appropriations to all other special community efforts groups be funded at the FY2003-2004 level.
- A one time grant of \$5,000 be awarded to Rowan Business Alliance to provide start up costs for the creation of a credit counseling service. This is to be funded out of the FY2003-2004 Budget.
- \$5,000 for the completion of the Farmers Market that opened May 15, 2004.

Mr. Treme pointed out that the salary market adjustments equal \$585,360 and the four percent (4%) average merit \$348,000, for a total of \$933,360.

In an effort to balance the budget Mr. Treme recommend the following:

- A vehicle tax of \$10 which will generate \$200,000.
- Waste collection fee equalization which will equalize the cost of the service for both residential and commercial roll-out garbage. This is estimated to generate \$693,774.
- A \$.02 property tax increase generating \$432,804.

These three (3) new revenue sources will generate \$1,326,578. He noted that a big portion of the cost is in personnel.

Mr. Sofley told Council that each year staff reviews all fees budgeted throughout the City. He reminded Council that in 1999 Council instituted a waste collection fee for all businesses and apartment complexes, and while they pay for garbage pick up, residential customers do not. He stated that staff felt this may be an inequity issue and recommended a waste collection fee for all customers. Each customer will pay their proportionate amount of the cost to pick-up. The City recoups 82.6% of its collection contract, which equates to a fee of \$6.68 for residential and \$9.00 for business. Mr. Sofley noted that this fee will be on the water bill. Mr. Woodson asked if water can be disconnected if the fee is not paid. Mr. Sofley replied that water can be disconnected for non-payment of the waste collection fee.

Mr. Woodson asked about the vehicle tax. Mr. Sofley noted that this tax will be on an individual's regular property tax bill.

Mr. Kennedy asked how much revenue the City receives from property tax on vehicles. Mr. Sofley responded that the City receives approximately \$1 million dollars, adding that the Tax Assessor's office estimates there are twenty thousand (20,000) registered vehicles in the City limits.

Mr. Lewis mentioned using 100% cost coverage. Mr. Treme noted that many cities treat their solid waste collection as a utility and have 100% cost coverage. Mr. Sofley added that by instituting a fee no one pays a disproportionate share of the cost.

Mr. Woodson commented that last year the budget had Solid Waste Management and this year it has Waste Management and Management Other. Mr. Sofley responded that it has always been in the budget but it was consolidated in another area and noted that it reflects the additional cost to pick up waste beyond the normal roll-out container pick up. He noted that it had previously been included as a division under Street Department.

Mr. Treme stated that he liked the idea of setting up waste management as a separate item that pays for itself and would like to move in this direction. He pointed out that the big increase for this year is for the salary adjustments for existing employees and the four percent (4%) average merit increase.

Mayor Klutz commented that she appreciated the presentation and added that Council has a lot of work to do. She added that she would like Council to meet for their next work session before the public hearing.

RECESS

Upon motion of Mr. Woodson, seconded by Mr. Kennedy, and with Messrs. Burgin, Kennedy, Lewis, Woodson, and Ms. Klutz voting AYE, the meeting was recessed at 12:00 p.m., until Wednesday, June 9, 2004 at 9:00 a.m. in the Council Chambers at City Hall. (5-0)

Mayor

City Clerk