

MINUTES

Special Meeting: Budget Session
City Hall Council Chamber

May 11, 2009
Monday, 12:00 Noon

Present: Mayor W. Ted Alexander, presiding; Council Members Christopher H. (Chris) Mabry, Jeanette D. Patterson, Joel R. Shores, Jr., Andrew L. Hopper, Sr.; City Manager Rick Howell, City Clerk Bernadette A. Parduski, CMC, Director of Finance Theodore B. (Ted) Phillips, CPA, Director of Human Resources Deborah C. (Deb) Jolly, Director of Utilities Brad R. Cornwell, PLS, EI, Police Chief Jeffrey H. (Jeff) Ledford, Fire Chief William P. Hunt, Director of Public Works Daniel C. (Danny) Darst, Director of Parks and Recreation Charlie Holtzclaw, Director of Housing Bryan T. Howell, Director of Development Services Brian L. Pruetz; and media representatives

Absent: Council Members Michael R. Royster and Larry G. Ware;
City Attorney Robert W. Yelton

Mayor Alexander called the meeting to order at 12:10 p.m. Mrs. Patterson gave the invocation and Mr. Mabry led the *Pledge of Allegiance*.

PRESENTATION OF THE CITY MANAGER'S PRELIMINARY BUDGET RECOMMENDATIONS – FISCAL YEAR 2009-2010:

In his opening statement, Mr. Howell said that this session would be limited to an overview of the City's General Fund revenues and expenditures. Council was provided with the City Manager's Proposed Budget Message for Fiscal Year 2009-2010, General Fund Summaries, and General Fund Line Item Detail Reports.

Due to the volatile and unpredictable circumstances of the State of North Carolina's budget, Mr. Howell introduced the concept of an interim budget for the City of Shelby. He urged Council's consideration of adopting an interim budget until the State's budget issues are resolved. Mr. Howell explained that there are certain revenues within the General Fund that the General Assembly could withhold. An interim budget also allows Council flexibility with regard to setting the tax rate.

Next Mr. Howell elaborated on the numerous challenges facing the City, which are contained in his Budget Message, as follows:

- Minimal net growth in the property tax base over the past several years has created pressure to increase the property tax rate that now stands at

43.5 cents per \$100 valuation. Mr. Howell stated that property taxes comprise approximately 42.8 percent of all General Fund revenues in the Fiscal Year 2008-2009 budget. Mr. Howell illustrated by charts that the City's property tax rate remains in the lower tier when compared to full service municipalities in the region as well as when compared to like sized municipalities throughout the State.

- Employee group health insurance costs have stabilized for the coming Fiscal Year 2009-2010 with only a minimal increase for retiree insurance expected although the past three years have seen increases in double digit percentages despite benefit reductions. It is a continuous challenge to contain costs and encourage employees to address life behaviors and choices that result in potentially avoidable healthcare claims and costs.
- Retention of qualified, well-trained, and experienced employees in key positions remains a concern but was addressed to some extent with the new performance pay system this year. However, Mr. Howell reminded Council that three years prior to Fiscal Year 2007-2008 employees went without market rate adjustments and performance pay seeing overall compensation drop the City below other competing municipalities in starting pay levels.
- Elevated fuel costs in the recent past continue to be a concern. All City departments are reliant on fuel to perform the work necessary to serve citizens each day. Although the cost of a gallon of gasoline has somewhat stabilized, the unpredictable price volatility is a lingering concern. Mr. Howell stated that a reduction in fuel usage has been emphasized to each City department. This effort can be better but no significant reduction will be accomplished simply due to the nature of the services provided.
- A continuing reliance by the General Fund on Natural Gas Fund revenue transfers especially at a time when natural gas prices continue to be higher thus causing overall consumption to be down. While some transfer may be appropriate, it would be wise for Council to establish some basis upon which the annual shifting of monies is based. At some point in time a continued reliance on this transfer will result in a major reduction in service, a major tax increase to keep these services, or a combination of both. Natural gas profits continue to decline as usage decreases due to the high market cost. In addition, the state of the economy has created some reasonable concern to the condition of our large industrial natural gas customers. A significant reduction in usage or loss of one of these customers would necessitate that this transfer be curtailed.
- Reserves in the General Fund are below levels that allow the City to appropriately manage risk, react and fund emergency situations, and

provide security for new debt issuance for infrastructure that is necessary for growth. While the City is within the acceptable range recommended by the North Carolina Local Government Commission (LGC), it should be noted it is on the lower end of this range.

Mr. Howell summarized significant revenue and expenditure changes within the City's General Fund as follows:

GENERAL FUND REVENUES

- **Property Taxes** – The current tax rate of 43.5 cents per \$100 valuation is recommended to be maintained in this budget. The City's tax base growth from new construction is estimated to be less than 1 percent this year. This minimal growth in new construction is offset by the reduction of the residential value of business machinery (personal) property at the Copeland facility. Growth in the total property tax levy over the past five years stands at 11.5 percent. This lags significantly behind inflationary indexes and the increase in what it costs the City to provide services each year.
- **Solid Waste Fees** – The monthly solid waste collection fee for rollout customers is recommended to remain at \$5.70 per month. This follows a 25 cents per month increase last fiscal year that was necessary to offset a \$2.00 per ton increase in tipping fees at the County landfill, which was mandated by the General Assembly effective July 1, 2008. None of this revenue generated is retained by the City.

Mr. Howell's ongoing recommendation to Council is that strong consideration be given to transition to solid waste collection services (rollout garbage and yard waste) to an enterprise-fee supported system over the next five years.

- **Local Option Sales Tax** – Sales tax revenue is the second largest revenue source behind the property tax and accounts for 17.2 percent of General Fund revenue in Fiscal Year 2008-2009. Sales tax revenue has grown approximately 17 percent since 2005; however, because of the current economic decline, the proposed budget includes a reduction in anticipated receipts of approximately 12 percent. Receipts are expected to be down in the current fiscal year at least 5 percent.
- **Natural Gas Fund Transfer** – The Natural Gas Fund transfer is maintained at the 2008-2009 level of approximately \$1.6 million this fiscal year. This transfer is sustainable for the time being but as natural gas prices continue to be elevated, this may ultimately impact the profit margin of the system and thus the availability of funds to transfer. This transfer is

equivalent to approximately 10 cents on the property tax rate. An additional appropriation of \$200,000 from the Natural Gas Fund undesignated fund balance is included as was directed by Council in Fiscal Year 2008-2009.

- **Electric Fund Transfer** – The Electric Fund transfer is maintained at \$535,000. This amount by policy and recommendation of the LGC is fixed at 3 percent of the gross fixed assets value of the system. The transfer has also remained at or below 3 percent of the General Fund revenues.
- **Fund Balance Appropriation** – A one-time appropriation from undesignated fund balance of \$145,000 is recommended. The fund balance has stabilized somewhat and as of June 30, 2008 is maintained at 25.04 percent. This is below the level needed should the City have an unexpected cash need in an emergency situation.

GENERAL FUND EXPENDITURES

Mr. Howell stated that overall General Fund expenditures are projected to increase only slightly by one-half (.5) percent. Department heads were directed to submit their budgets with no increase unless a specific justification involving a statutory or regulatory mandate was cited.

- **Personnel Costs – Overall** – No market adjustment or performance pay increase is budgeted this year. Given the difficult economic times and the lack of revenue growth, no increase is recommended. However, if the economy rebounds and local option sales tax receipts are higher than expected at mid-fiscal year, January 1, 2010, some consideration should be given to providing performance adjustments. City staff will be expected to continue conducting performance evaluations under the current system although no increases are budgeted at this time.

Several Council members recommended that Mr. Howell share this information with City employees. Mr. Howell said he intended to conduct employee meetings specifically to address the City budget issues as they pertain to performance evaluations and adjustments.

- **Health Insurance** – No increase in health insurance is expected based upon the stated renewal received from Blue Cross/Blue Shield. This is a departure from double digit increases the past three fiscal years. The plan currently in place maintains the current Preferred Provider Organization (PPO) Plan and the high deductible Health Savings Account (HSA) Plan. Under this plan employees would again, if they maintain the PPO Plan, be subject to paying a monthly fee for their individual coverage. This amount will vary depending upon participation by the employee in the

Health Risk Assessment (HRA) process being offered to them at no cost.

- Fuel – A decrease in the cost per gallon of both regular gasoline and diesel fuel from last fiscal year is projected and an overall decrease in fuel cost is anticipated. Although the cost of fuel is unpredictable, usage remains steady. It is projected that a decrease of approximately \$200,000 will be needed for fuel purchases this coming fiscal year.

Mayor Alexander and Council expressed a desire to do something beneficial for City employees and there was discussion about adding Veterans' Day to the City's holiday schedule.

Mayor Alexander recessed the meeting at 1:37 p.m. to reconvene on Tuesday, May 12, 2009, at 12:00 noon in the same location.

Respectfully submitted,

Bernadette A. Parduski, CMC
City Clerk

W. Ted Alexander
Mayor

Minutes of May 11, A. D. 2009