

AGENDA

Henderson City Council Budget Work Session #1

Thursday, 17 May 2012, 6:00 p.m.

R. G. (Chick) Young, Jr. Council Chambers, Municipal Building

134 Rose Avenue

Henderson, North Carolina

Mayor and City Council Members

Mayor James D. O'Geary, Presiding

Councilmember James C. Kearney, Sr.

Councilmember Sara M. Coffey

Councilmember Michael C. Inscoe

Councilmember D. Michael Rainey

Councilmember Brenda G. Peace—Jenkins

Councilmember Garry D. Daeke

Councilmember Lonnie Davis, Jr.

Councilmember George M. Daye

City Officials

A. Ray Griffin, Jr., City Manager

John H. Zollicoffer, Jr., City Attorney

Esther J. McCrackin, City Clerk

I. CALL TO ORDER

II. ROLL CALL

III. OPENING REMARKS

In order to provide for the highest standards of ethical behavior and Transparency in Governance as well as provide for good and open government, the City Council has approved Core Values regarding Ethical Behavior¹ and Transparency in Governance². The Mayor now inquires as to whether any Council Member knows of any conflict of interest, or appearance of conflict, with respect to matters before the City Council. If any Council Members knows of a conflict of interest, or appearance of conflict, please state so at this time.

¹ **Core Value 4: Ethical Behavior:** We value the public trust and will perform our duties and responsibilities with the highest levels of integrity, honesty, trustworthiness and professionalism.

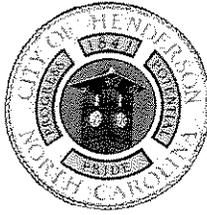
² **Core Value 10: Transparency in Governance:** We value transparency in the governance and operations of the City.

IV. REVIEW OF AND DISCUSSION ABOUT THE GLOBAL BUDGETARY SITUATION

- a)* Discussion on core services and what it takes to provide the services
- b)* Discussion on community needs and expectations vis-à-vis the budget
- c)* Revenues continue lag expenditure needs
- d)* Review of the expenditure centers

V. GUIDANCE FOR STAFF

XIII. ADJOURNMENT



City Council Minutes
Henderson City Council Budget Work Session #1
17 May 2012

PRESENT

Mayor James D. O'Geary, Presiding; and Council Members Sara M. Coffey, Michael C. Inscoc, D. Michael Rainey, Brenda G. Peace—Jenkins, Garry D. Daeke, and George M. Daye.

Council Member Elect Vernon Brown.

ABSENT

Council Member James C. Kearney, Sr. and Lonnie Davis, Jr.

STAFF PRESENT

City Manager Ray Griffin, Assistant City Manager, Frank Frazier, City Clerk Esther J. McCrackin, Finance Director Katherine Brafford, Kerr Lake Regional Water Plant Manager Christy Lipscomb and Fiscal Compliance Officer Edna Vaught.

CALL TO ORDER

The 17 May 2012 Henderson City Council Budget Work Session #1 was called to order by Mayor James D. O'Geary at 6:06 p.m. in the R. G. "Chick" Young, Jr. Council Chambers, Municipal Building, 134 Rose Avenue, Henderson, NC.

ROLL CALL

The City Clerk called the roll and advised Mayor O'Geary a quorum was present.

OPENING REMARKS

Mayor O'Geary welcomed everyone. He regretted both Council Members Davis and Kearney were unable to attend this evening.

Review of and Discussion About the Global Budgetary Situation

Mayor O'Geary asked City Manager Griffin to begin this discussion.

City Manager Griffin began by distributing and reviewing a Core Services color-coded chart that showed how all but three divisions with the City fall under the General Fund.

Kerr Lake Regional Water (KLRW) - Mr. Griffin then introduced KLRW Plant Manager Christy Lipscomb and Fiscal Compliance Director Edna Vaught and turned Council's attention to the Utilities section of the budget Work Book. He referenced several charts in the workbook and reminded Council that the only revenue for utilities comes from user fees. He mentioned KLRW is co-owned by the City of Henderson (COH), Warren County and the City of Oxford. Mr. Griffin said the anticipated plant expansion and operational needs such as chemicals and electricity are the driving forces for the proposed increase. The debt service shown in the budget is the full amount; however, Oxford and Warren County are responsible for 20% respectively. Mr. Griffin said a 1% KLRW rate increase correlates to a 1% on the City rate.

Council Member Daeke asked what 1% would yield. Mr. Griffin said approximately \$38,000. No other questions were asked at this time.

Water Fund – City Manager Griffin said he started with KLRW because that influences the Water Fund. He said the collection rate has improved over the last year and credited this mainly to the work of the Customer Service personnel in the Water Department and the establishment of the security deposit policy. Prior to requiring a security deposit, approximately 450-550 customers were on the cut-off list. With the security deposit there was a significant drop. He said there are about 300-350 customer per month that are not in compliance with bill paying and that there are approximately 8,800 total customers in the system. Mr. Griffin said the proposed budget is built on a 7% increase this year with reductions in the coming years.

Council Member Inscoe asked for a full accounting of the costs for chemicals and electricity at KLRW. Council Member Daeke wondered if the reduction in fees earlier this year should have taken place and Mr. Griffin said the reduction certainly made a difference. Council Member Coffey asked for a monthly percentage of customers on the cut-off list and whether the list contains the same customers. Mr. Griffin said he would research this request. Council Member Rainey asked if these are all active customers on the cut-off list. Mr. Griffin said yes. This information will be provided at the next meeting. Mr. Griffin added it is illegal for individuals to reside in a dwelling without utilities and that the Code Compliance department is now getting more involved in follow-up of situations involving lack of utilities. He went on to say arrears are slowly decreasing thus reducing the City's expose to losses. Council Member Daeke asked for more information regarding the fee structure changes made earlier and what amount the City lost with the reduction in those fees.

It was stated that Franklin County has no plans to increase their water rate; however; the information received from Warren County is that they are looking at a 5% increase on water and

0% increase on sewer. Information from Oxford will be provided when received – hopefully, the next meeting. Currently the outside rates for water in Henderson are competitive with the County.

Mr. Griffin added that payment #2 from Granville County is included in the Rate Stabilization budget figures.

Sewer Fund - The discussion then turned to the Sewer Fund. Again, Mr. Griffin directed Council to specific pages in the budget book which showed the need for the 9% increase in sewer rates. It is anticipated that the sewer rates will decrease after the renovation of the sewer plant. Specifics for the proposed increase are the renovation of the sewer plant at a cost of \$16M with \$1,000,000 in principal forgiveness; the sanitary sewer improvements at \$1M with \$500,000 in principal forgiveness and the upgrade at Sandy Creek Basin pump station at \$1.8M with \$900,000 in principal forgiveness. Mr. Griffin said due to variables such as business growth, the anticipated rate reductions could change.

Debt Service - Mr. Griffin moved on to Debt Service which is always a huge item. He said Finance Director Brafford recalculated the debt service through 2015-2016 which is important due to the refinancing of the 2001 bonds. The only items added to debt service other than those already mentioned are one new backhoe into the Water Fund, a dump truck and a tractor into the Sewer Fund. However, Mr. Griffin stated there were requests for lease purchases from Regional Water and General Fund departments, which were not considered in this proposed budget.

Mr. Griffin directed Council to the chart on page 177 of the Work Book which showed the legal debt margin since 2004. There has been a decrease in the overall debt which is a good indicator of the status of the City. It is anticipated the debt will be less than 2% in 2015 due to the pay down on the Aycock and Police buildings. Then it will increase with the improvements at both the Sewer plant and KRLW plant.

The total debt by type shows the largest areas are associated with water and sewer. The auditors and State law require this type of disclosure and they pay particular attention to the general debt because the general debt is normally supported by tax rates.

Powell Bill - This brought the discussion to the Powell Bill which is the City's share of the gasoline tax received by the State. Powell Bill dollars are distributed by the total amount collected throughout the State, the population of the municipality and the number of City maintained lane miles. Since Henderson has lost population, the amount of dollars received from the Powell Bill has decreased significantly since 2008 (see page 106 of the Budget Work Book).

(Clerk's Note: Council Member Rainey left the room at 6:55 p.m. and returned at 6:59 p.m.)

Council Member Coffey asked if there were specific uses for the Powell Bill dollars. Mr. Griffin said yes --- streets and sidewalks can be improved with Powell Bill dollars; however, other needs such as streetlights cannot use Powell Bill dollars. Council Member Daeke asked about the cost

of asphalt. Assistant City Manager Frazier said it fluxuates with oil prices and most contractors will not include a price in their proposal for more than thirty (30) days.

General Fund - The General Fund summary discussion came next with Mr. Griffin saying there are three (3) primary sources to cover the majority of the Core Services. These sources are: 1) property taxes; 2) sales tax; and 3) sanitation fees.

Council Member Coffey asked if the collection rate fluxuates. Mr. Griffin responded yes and went on to say Vescom and the hospital will help stabilize the rate. Council Member Rainey asked if the dollars shown reflected both Vescom and the hospital. Mr. Griffin said yes; however, the personal tax for the hospital has yet to be verified. Mr. Rainey asked how comfortable Mr. Griffin felt with the collection rate of 95%. Mr. Griffin responded the 95% is a goal. Mr. Rainey asked staff to find out what percentage the County has set for a goal.

Before continuing on, Mr. Griffin asked if there were any questions.

Council Member Inscoe thanked Mr. Griffin and the staff for compiling the detailed Work Book. He went on to ask for the thoughts of other Council Members stating he was not in favor of a property tax increase and Council could either send a request through the City Manager to find ways to decrease the budget without a tax increase or Council could review the budget line item by line item. He felt Henderson had been hit hard by the recession well before 2008 and felt the elderly, retirees and small businesses were hurting too much to absorb the proposed increases. Mr. Inscoe asked Mr. Frazier to confirm the proposed water increase with the suggestions made by the engineers working on the water plant upgrade. He suggested reducing the dollars for water meter replacement by \$25,000 to help balance the budget.

Council Member Rainey agreed that he would like to see no tax increases and asked that the Manager attempt to keep the budget as close as possible to the current year.

Council Member Coffey said she has mixed feelings. Council Member Peace-Jenkins felt everything should be done to lower the increases and Council Member Daeke said the budget document was well done and showed the Manager's experience and expertise but he agreed with Mr. Inscoe and Rainey that taxes should not be raised. He also said the sanitation fee might require an increase.

Council Member Daye spoke to his first-hand knowledge about having to pay late fees and could not help but to sympathize with citizens on fixed income who would find tax increases difficult to meet.

Council Member Coffey felt the water meter purchases would be a start toward reducing the tax increases and felt the sale of old water meters as scrap metal would also contribute toward the reduction.

Mr. Griffin responded as far as the water collection rate, there are definite needs for recurring revenue sources and the revenue lost from the reduction in the utility fees made a difference. He said the meter replacement project is important as many old, existing meters are not working. The new meters provide for actual usage rather than an estimate which ultimately provides for more efficiency and more accurate collection rates. Mr. Griffin said this is an important priority for the next year.

Council Member Inscoe called for a polling of Council Members to request staff to find cuts to eliminate the tax increase and to preserve as much of the fund balance as possible.

Mayor O'Geary asked Council for their pleasure.

Council Members Coffey, Inscoe, Rainey, Peace-Jenkins, Daeke and Daye were all in agreement with the request to staff to find cuts to eliminate the tax increase and preserve the fund balance as much as possible. Council discussed reducing the Fund Balance allocation by \$41,000.

Council Member Rainey mentioned the increase for Waste Industries and asked if the City is actually saving dollars by using this company. Mr. Griffin said yes; the City saved over \$500,000 in fleet replacement and the customer satisfaction rate exhibits the good service provided by Waste Industries. Mr. Rainey felt figures such as this should be made public as many citizens only see one side --- the cost to them and they do not know about the cost-savings over the years.

Council Member Peace-Jenkins asked if the REEF Project was included in the budget. Mr. Griffin said no. It was cut in an effort to balance the budget and he understood this cut to be unpopular.

Council Member Inscoe said the only way to not raise taxes and still get what Council sees as important is to look for grants. Council Member Coffey agreed saying Code Enforcement is asked to enforce but then they are not given the "teeth" to finish their job. Mr. Inscoe suggested staff use the \$25,000 reduction of meter purchases as a starting point.

Mr. Griffin asked for clarification regarding the sewer rate increase and it was decided to leave that discussion for another night.

Council Member Daeke again asked for more information regarding the dollars lost when the utility fees were lowered thinking the reinstating of these fees might help reduce the budget. Council Member Rainey said the fees are not guaranteed and would probably not contribute much to the overall budget.

Mr. Griffin asked if the Budget Work Session Scheduled for Monday, 21 May could be cancelled to allow time for staff to work on Council requests.

The Mayor polled Council members and it was the consensus of Council to cancel the Monday night meeting and to reconvene on Tuesday, 22 May to continue discussion. Those in favor of cancelling the meeting on 21 May (Monday) were: Coffey, Inscoc, Rainey, Peace-Jenkins, Daeke and Daye.

Mayor O'Geary asked if there was anything else Council wished to discuss. There were no questions so Mayor O'Geary asked if Council wished to adjourn.

Guidance for Staff:

To summarize the discussion, Council would like see 0% property tax and a reduction of 1% respectively in the Water Fund, Sewer Fund and Regional Water Fund.

Council would like:

- a) Specific chemical and electricity costs for KLRW
- b) Percent of repeat customers on cut off list
- c) Dollars lost when utility fees were reduced
- d) Revenue lost re: Powell Bill
- e) County goal for collecting taxes
- f) Collection rate for County greater than City
- g) Water rate increase compared to suggested rate increase by engineers
- h) Savings recognized by using Water Industries

ADJOURNMENT

Council Member Rainey moved for adjournment. Motion seconded by Council Member Coffey and unanimously approved. The meeting adjourned at 7:47 p.m.

James D. O'Geary
Mayor

ATTEST:

Esther J. McCrackin
City Clerk