

BUDGET WORK SESSION - APRIL 16, 2012

The Mayor and City Council held a budget work session on Monday, April 16, 2012 at 6:30 pm in the Council Chambers of City Hall located at 114 West Sycamore Street, Lincolnton North Carolina.

The following were in attendance:

RHYNE

CLONINGER

HEAVNER

HOVIS

Mayor Gilleland called the meeting to order and opened the budget work session. The first item discussed was proposed sidewalk plans for the 2012-2013 fiscal year. Mayor Gilleland called for a short delay in the meeting as he requested that City Clerk confirm requirements for entering into a closed session at the end of the meeting. It was decided that the decision to enter into a closed session would be made after consulting with City Attorney.

Mayor Gilleland spoke to the issue of installing a sidewalk on New Bold Street. Several residents of that neighborhood that are in favor of this project were in attendance. The Mayor explained that the need is a result of New Bold Street being used as a cut-through. Councilman Hovis stating that he has received numerous request regarding the area between Hwy. 321 bypass and N. Generals Blvd. from business owners along that area. Discussion was generated with City Manager Jeff Emory stating that \$75,000 was allotted in this year's budget and the same amount is being proposed for sidewalks in the upcoming budget. Mr. Emory explained that Powell Bill funds are typically divided between streets and sidewalks. He also pointed out that a pedestrian needs study was done by UNC Charlotte several years ago that included recommendations of various locations for sidewalks. This study has been used for a guide placing sidewalks in the more business type areas and heavily traveled areas. Sidewalks have not typically placed in residential areas. More discussion was generated with council agreeing to study the request, and directing staff to get a quote on this project and several other projects and submit to Council. Mayor Gilleland addressed those attending regarding this issue clarifying that although Council is not making a commitment at this time, the request will be studied further.

Mayor Gilleland continued the meeting directing City Manager Jeff Emory to speak to the proposed 2012-2013 operating budget. Mr. Emory began by stating that the draft proposal is in the same format as in years past and asked Council to please contact him if they have questions or would like additional information. Mr. Emory presented and requested to read a memorandum he prepared to supplement the budget. Memorandum was as follows:

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As I have been preparing the proposed budget for the 2012-2013 fiscal year, there are many items I have looked into that I feel should be considered not only as we prepare for the upcoming fiscal year, but for years beyond that. It is my professional opinion that for the City to continue providing the level of services we currently provide, we must find ways to bring more revenue into the current revenue stream, or make significant reductions to employee benefits. I do not believe operating expenses can be reduced to the level that will make up for the significant loss in revenue we have experienced.

Let me give an example that demonstrates what I am talking about. When revaluation took place in the year 2000, the City reduced its tax rate from \$.60 to \$.56, and still generated \$250,000.00 more in property tax collection. In 2004 the City tax rate remained at \$.56, and the City generated well over \$500,000.00 in additional revenue because of the increase in property value. In 2008 the tax rate remained at \$.56, and the City generated slightly over \$700,000.00 additional dollars in revenue due to property values increasing. In 2011 the City left the tax rate at \$.56, but took in approximately \$150,000.00 less in property taxes because our revaluation value had decreased. In the past the City has relied on revaluation years to generate additional revenue. The County has done this as well. That did not happen with this revaluation. Add this to a decrease in sales tax, and a reduction in other revenues, and this validates my earlier point of revenues simply not keeping up. I have listed below some of the issues that I feel should at least receive consideration during the budget process.

I. Definite Recommendations

- A. I recommend effective July 1st for all new employees, the City only pay the employee benefit for health and dental insurance. Dependent coverage will be provided but must be paid for by the employee.
- B. I recommend that effective July 1st the minimum requirement for receiving health insurance will go from retirement at 20 years of service, to retirement at 25 years of service. This will not affect any current employee. This will only be for employees hired after July 1st. The requirements for disability retirement will increase from 10 to 15 years under this plan as well.
- C. Under current City Charter Chapter One, all employees at age 62 or over and with 25 years of accumulative employment with the City will receive retirement pay at \$50.00 per month. I recommend that the City request to the North Carolina General

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Assembly that this be removed from the City's charter. Again, this will only apply to new hires effective July 1st.

Item A should present an immediate minimal savings to the City, while savings from items B and C will not occur until many years later.

II. Below are items I feel Council should strongly consider as part of the 2012-2013 budget process.

- A. The City should make adjustments to the current insurance plan as necessary in order to maintain the current premium levels. We have been told we are looking at an increase in premiums anywhere from 3.2% to 5.2%. Part of this will be based on whether or not the City receives a credit for our wellness plan. I simply do not believe the City can continue to afford additional expenses to insurance premiums. I will discuss in further detail options we have received that would allow the City to maintain rates at their current level. Yes, this requires more of a commitment on behalf of the employees, but I do not see how the City can spend any additional money on health insurance.
- B. I would suggest the City look at the possibility of paying employee only health benefits for dental coverage. Any dependent dental coverage would be paid for by the employee. This could save the City slightly over \$70,000.00 per year.
- C. The City could look at the possibility of reducing what is currently known as the Christmas or holiday bonus, which is equivalent to two weeks salary. This item has been discussed before. Discussions have revolved around the distribution formula of the bonus, as well as a potential savings. The bonus currently cost the City approximately \$220,000.00 per year. The City could reduce this by some percentage that would save the City money.

III. Capital Projects

- A. The City has matching funds in the budget for a intersection improvement project at Hwy. 150 and NC 27 East. It has been a goal of mine to make repairs to this intersection for years. It is one of the busiest intersections in Lincolnton, and it's ugly. The City's match for the project again will be in excess of \$100,000.00. I have always been a proponent of receiving federal or state grant funds when possible, simply because I would rather Lincolnton get the money than some other jurisdiction. At the same time a \$116,000.00 match is

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significant money. Council could decide not to accept the grants and save that match.

- B. Speaking of matching grants, an item that I believe needs serious attention during this budget process is the airport. I will have additional numbers for you to consider as we have this discussion, but the bottom line is there is an immediate request by the airport for the City to provide \$285,000.00 for a major airport improvement project. Approximately \$135,000.00 of this amount has been previously committed to by the City. This leaves a new commitment of \$150,000.00. Should the City choose to provide the match, I am recommending that this be done over a two year period, and secondly I am requesting that City Council take the position that there will be no more grant matches from the City in the foreseeable future. Keep in mind we will still be obligated to provide yearly operating expenses. I want to discuss this with City Council as well.

IV. Revenues

- A. I am recommending in this budget that electric rates be increased by 8.1%. 5.1% of this is an additional expense to the City for the wholesale purchase of power. I am also recommending that the City continue to utilize the water/sewer model study to determine any potential necessary water and sewer increases for the upcoming year.
- B. I know no one wants to talk about the property tax rate. As City Manager I feel it is my job to. I simply do not know how the City of Lincolnton can continue providing the level of services we provide with our current staff without additional revenues of some kind in the General Fund. Keep in mind water and sewer and electric revenues in no way help the General Fund. I believe the City's tax rate is too low for what we are trying to accomplish and I believe the City should consider a strategy similar to Lincoln County's to adjust the rate accordingly as the cost for providing services increases.

Jeff said, "These were just some thoughts I had as we go through budget discussions for this year. This has definitely been the toughest budget year since I've been in Lincolnton, and I believe the issues facing the City are very real, and some difficult decisions are going to have to be made. Thank you".

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Mr. Emory opened the floor for any questions Council had concerning the contents of the memorandum. There was discussion generated with Mayor Gilleland asking about projected negative cash flow. Mr. Emory expressed concern that revenues in the General Fund will not meet expenditures. Mr. Emory provided another document comparing the City and Lincoln County which showed the differences in tax revenue in the revaluation years. With more discussion Mr. Emory stated that he would like to see the budget down to \$11,000,000.00 as the target amount. Mr. Emory addressed health insurance, as well as pointed out there being no cost of living or salary increased proposed for employees other than the tenure step program. Directing Council back to the beginning of their budget work books, Mr. Emory proceeded by addressing each tab and briefly speaking to each item.

With Mr. Emory concluding his summery of the proposed budget, Mayor Gilleland opened the floor for any questions for Mr. Emory from Council. Mr. Emory reminded Council that he feels the City has done extremely well for the level of services provided but acknowledges the fact that revenues are not keeping up with demands. Discussions shifted to the funds request from the airport. Mr. Emory went on to explain that in addition to the \$135,000.00 commitment already made, airport representatives are requesting an additional \$150,000.00 grant match for a total of \$285,000.00 in one year. Mr. Emory explained that he is proposing that the City divide the \$285,000.00 total into two fiscal years with the understanding that no other funds be granted for several years. More discussion was generated regarding ownership of the airport. Councilman Rhyne stated that although he did agree that something needed to be done, he voiced his concern over the ill-will and/or other problems that may result if the City decides to relinquish ownership. Mr. Rhyne acknowledged that he would be more supportive of giving additional funds to the airport if it were physically a part of the city. Mayor Gilleland also spoke to the airport issue saying that he realizes that the airport has helped the City in many ways however he is strongly in favor of drawing a line in the sand regarding additional funding request. Mayor Gilleland also pointed out that the current grant request will bring the airport up to the standard of the surrounding competitors which adds to the point of the sales side of things. Councilman Rhyne stressed that as half owners of the airport the City has a right to ask for and see the business plan. Discussion on this issue ended with Mayor Gilleland confirming that Council would request to see the airports business plan before moving forward on making a decision regarding funding.

Discussion shifted to the intersection project with Mayor Gilleland asking about the possibility of waiting until next year for a decision on the project. Mr. Emory responded that he would look into the specifics of the grant. Councilman Rhyne commented on the danger of moving projects to next year with no proof of an economic change. Mr. Emory verified that cost out

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of pocket for the intersection being \$116,250.00. Councilman Rhyne voiced his opinion by saying that the project is a good idea if the tax rate, services remain at the same level with nothing being taken away from the employees. He said, "I would not be in favor of pursuing a grant for intersection improvements on the backs of our employees".

Councilman Hovis spoke to the School Resource Officer. Mr. Hovis stated that the City needs to make sure that the \$13,456.40 being spent on this position is recouped and that City residents not pay twice for the same service. Mr. Hovis suggest writing a letter to the school board confirming that the City be reimbursed or no longer provide the service.

This item generated much discussion with City Manager Jeff Emory and City Attorney T.J. Wilson pointing out that the officer is a City employee working for City after school hours, and two months full time during the summer. Councilman Rhyne agreed, as did the other Council members, that an officer must be at the school. He continued suggesting that the City officers be asked about their thoughts regarding this issue and Council not make a decision that would affect the departmental moral in a negative way. He encouraged Council to talk with those involved before making a motion and or decision.

After verifying that no other questions or issues were to be discussed Mayor Gilleland called for a short recess, to reconvene at 8:30 pm.

With no other questions regarding the budget, Mayor Gilleland reconvened the meeting by entertaining a motion to adjourn. The next budget work session was set for May 14th at 6:30 pm. The City Clerk was directed to advertise accordingly.

Councilman Cloninger made the motion unanimously approved to adjourn.

DONNA C. FLOWERS, CMC
CITY CLERK

JOHN O. GILLELAND, Jr.
MAYOR