

**City of New Bern
Board of Aldermen
Work Session
January 18, 2011
City Hall Courtroom 6:00 P.M.
300 Pollock Street**

Board Members in Attendance:

Mayor Lee W. Bettis, Jr.; Aldermen Sabrina Bengel; Victor Taylor; Denny Bucher; Johnnie Ray Kinsey; Bernard White; and Dana Outlaw.

Also in Attendance: Mike Epperson, City Manager and Scott Davis, city Attorney.

Mr. Epperson, City Manager introduced the Director of Public Works, Mark Stephens, P.E. and thanked Chief Bobby Aster for all his hard work as Acting Public Works Director.

Frank Palombo, Chief of Police announced his retirement effective June 1, 2011.

1. Financial Review and Update.

- Financial Condition Presentation by Bill Rivenbark, UNC School of Government.

Mr. Rivenbark, UNC School of Government gave an overview of the city's financial conditions. Mr. Rivenbark benchmarks the comparisons with Elizabeth City, Greenville, Kinston and Statesville, North Carolina.

Mr. Rivenbark showed a graph that the city's general fund expenditures have exceeded revenue since the fiscal year of 2005. The graph pin pointed the ratio of the city's general fund revenues to expenditures has been below 1.0 since the fiscal year 2005. The general fund expenditures exceeding the revenues should be addressed immediately. This issue may be addressed by either increasing the tax rate or adjusting the expenditures. In reality the revenues should exceed the expenditures, if this was true the operational ratio would be 1.0 or higher. Mr. Rivenbark further stated the ratio is a major drive of how the city generates its fund balance, which is surplus revenue accumulated over time. The quick ratio graph shows the lack of cash. In order for the city to come from under the watchful eye of the Local Government Commission, the general fund balance should not drop below 8%. The city's cash flow needs to be increased; there are no rainy day funds, stated Mr. Epperson, City Manager.

Mr. Rivenbark also spoke on the city electric, water and sewer funds. These funds are known as the enterprise funds. He pointed out that these funds are self sufficient meaning these funds are able to cover their expenses. However, the

transfer of enterprise funds to the general fund is leaving the cash in enterprise funds lean. The general fund should be able to stand by itself. On a scale of from 1-10, the City of New Bern is rated as a four (4), stated Mr. Rivenbark.

- Overview of General Versus Enterprise Funds.

Jon Rynne, Director of Electric Utilities explained the enterprises funds consist of the Electric Fund \$62,780,055, the Sewer Fund \$12,935,522; and the Water Fund \$11,204,535. The enterprise funds contribute 9.9 million to the general fund in the fiscal year 2011. The enterprise funds contribute a certain percentage to the general fund organizations. These percentages are to cover the costs of shared services such as Governing Board, Information Technology, Human Resources, City Administration, Accounting; and etc. This total of 9.9 million equates to 28.10 percent of the total general fund. The graph indicated that 85 percent of the legal cost and 90 percent of the city administration costs are paid from enterprise funds. It was stated that no one on the current board could explain how the percentages were determined for distributing the funds from the enterprise to the general fund. After a lengthy discussion, "I do not think you are going to run into anything that you are seeing on the graph of how that data might compare with the city's peers", stated Rivenbark.

Mr. Rynne, Director of Electric Utilities further explained the difference between the Interfund Transfers and Interdepartmental Charges. Interfund Transfers: The Local Government Commission allows for the transfer of a payment in lieu of property taxes on Enterprise Funds. The amount of the payment is calculated by applying the city's property tax rate to the value of the un-depreciated fixed assets in the Enterprise fund from the audit statement. A transfer of 3% of the un-depreciated fixed assets in the Electric Fund is allowed to fund other city activities.

Interdepartmental Charges: Interdepartmental Charges are payments that are made to various funds for services rendered. Various divisions in the General Fund provided services to the Enterprise Funds. The Accounting, Information Technology, Human Resources Departments and others play a role in the operations of the enterprise funds that may receive payment for their services.

- Mid-Year Financial Status Report.

Mary Muraglia, Director of Finance gave an overview of the city mid-year finances. This year's estimates are less than projected. Estimated revenues are 1.5 million less than budget. The reasons for the shortfall are as follows: property tax revenue is \$130,000 less due to the revaluation appeals done by Craven County; building permits and planning fees are \$125,000 less than budget; public works revenues are projected \$80,000 less than budget; grants received will not have full activity this year and the grant revenues of \$484,140 is less than budget; interdepartmental revenue is \$578,500 less than budget because departmental expenditures are down;

and sales tax revenue could be as budget or \$125,000 less. The city has not received the sales tax information from the state. The expenditures are less than budget due to the following: spending constraints in place; the majority of the capital purchases have not been made; numerous vacant positions not filled throughout the departments and a saving of \$373,000 in salaries and fringe benefits in the police department; and a budget contingency of \$152,472 that will not be spent.

Revenues are also down due to delinquent taxpayers that owe large amounts. The top ten (10) delinquent taxpayers for the fiscal year 2010 totals are over \$394,000. Sales taxes are not what the city anticipated, and if any unit's tax rate changes, it will impact the distribution percentage. The distribution is based on a proportionate share of the total ad valorem taxes levied for the units. The percentage for New Bern is 19.31%.

Ronald Antry, Tax Administrator updated the board on the real property revaluation. North Carolina requires that a revaluation be conducted in each county at least every eight years. Craven County was last revalued in 2002. The purpose of a revaluation is to provide equalization among property classes. Revaluations are not conducted in order to increase the revenue of the county. The countywide revaluation did not affect the tax bills until 2010. Mr. Antry further stated if an individual has justification to support that their value is not a reasonable estimate of the current market value, they may request the county review their records. If they are still not satisfied with the results of the review, they have four levels of appeal. The county had over 5,000 appeals and the appeal board met until late December 2010. The appeal board will be meeting again February 8, 2011 to hear the remaining appeals. The results of the appeals hearing have not been in favor of the county, therefore, taxes for the county and city will be less than budgeted.

Mr. Epperson, City Manager stated the staff is currently studying the goals and objectives for the City of New Bern and the directions to proceed. The short term objectives would be completed within 6-12 months, medium objectives completed within 1-2 years; and long term objectives to be completed within 2 years. An objective analysis needs to be done to see what other cities are doing, stated Mr. Epperson. This would be a starting point for the City of New Bern in order to revamp the entire financial conditions within the organization. Mr. Epperson, City Manager further stated as a starting point, the board may wish to put into place an event policy. The board along with the city staff would determine what is a city sponsor event or a non-city event. A summary of non-city events and city events was distributed to the board members. This summary information consisted of regular and overtime salaries as well as regular and overtime fringe benefits. The decision to seeking recovery money from these events would be a decision from the board. Currently, the list for non-sponsored events for salaries and benefits totaled \$105,893.62, and this total does not include operational equipment. Mr. Epperson

stated this is a lot of information to digest; the staff would continue to update the board.

2. Adjourn.

Alderman Taylor made a motion to adjourn the work session meeting, seconded by Alderman Bengel. The motion carried unanimously, time being 9:25 P.M.

Mayor

City Clerk