

**City of New Bern
Board of Aldermen Work Session
March 15, 2011
City Hall Courtroom – 7:00 P.M.
300 Pollock Street**

Board Members in Attendance: Mayor Lee Wilson Bettis, Jr.; Aldermen Sabrina Bengel; Victor Taylor; Johnnie Ray Kinsey; Bernard White; and Dana Outlaw.

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

1. Closed Session

Alderman Bucher made a motion to go into closed session pursuant NCGS Section 143-318.11(a) (3), seconded by Alderman Bengel. The motion carried unanimously, time being 6:05 p.m.

Meeting reconvened at 7:30 p.m.

2. Discuss Budget

a) Water and Sewer Rate Study Results

Mike Epperson, City Manager, notified the Board the water and sewer rate study was complete. Jordan Hughes, City Engineer, stated about a year ago there were a lot of questions from the Board and members of the community regarding our water and sewer rate structure, and there was actually a hard time determining the history of how that was established. After an RFQ process in the fall, the City selected Swartz Engineering Economics to look at the financial needs of the water and sewer systems and make sure the City had a rate structure that was capturing enough revenue to meet the needs of those systems. Mr. Swartz has been reviewing all of the City's historical-use data and financial data over the last 7-9 months. Hughes then introduced Mr. Steve Swartz to go over his presentation.

Mr. Swartz, President of Swartz Engineering Economics, summarized in broad terms what was in the detailed report. The City has two "factories". The first is a water "factory" which is a \$10.4 million a year factory. Seventy-one percent of those operating costs are subject to general inflation such as gas, salaries, etc. With general inflation, the City will need 1.8% more revenue each year just to pay the bills and keep doing what it's doing. On the sewer side, the sewer "factory" is a \$12.8 million a year factory. Sixty-three percent of those costs are subject to general inflation. That means for the sewer side the City needs 1.6% more revenue each year just to stay where it is, with no new programs and no new equipment.

Water and sewer utilities are not in that bad of shape financially. However, it is at the edge of running out of reserves. This has been caused because there isn't as much growth (new customers) and the significant economic down-turn. There are financial pressures brought about by little growth. Additionally, New Bern is experiencing something that is nationwide, which is residential customers using less water than they used to due to water-saving devices.

For the last three years, sales for water has dropped every year. In 2010, the City was down about 10%, which is in line with the national trend. New Bern has not been losing customers, but has actually gained a few. While it has gained a few, those customers and the historic customers are using less water as a result of conservation.

On the sewer side, New Bern's billing is down, although not as much as in water. As far as customers, there is a fair amount of growth at 4.4% more in 2010 than 2008. However, still the City is showing less billed volume. That means the sewer side is in less "good" shape than the water side.

The City should look at proactive financial management. Suggestions made included looking at a longer horizon, not just next year. Also, update the approach to setting rates and charges, specifically eliminating the 3,000 gallon/month minimum charge. Raise rates and charges to get in a position to move forward with the same amount of success and be able to meet the needs of growth and meet the City's bills. Have a year-end audit and look at what will likely happen over the next five years. Manage types of costs separately. There are really three types: 1) operating and maintenance; 2) cash/capital costs; and 3) debt-funded capital costs. They need to be managed separately because they act fundamentally different within the City's business plan. To fund repair and replacement, specifically set aside money for those items. Maintain adequate cash reserves. The State of North Carolina recommends municipalities keep in reserve 8%, but Swartz's experience is 15-20% should be in the reserve.

Capital costs are fundamentally different than operating and maintenance. They are related to physical assets that allow you to operate and provide the finished product. Operations and maintenance are those that cost you to produce and make the product and deliver it to your customer. These don't change all that much. Capital costs are usually big-ticket items such as the cost of acquiring new equipment or expanding. Always finance these by debt, as it helps you manage your cash flow. Cash flow is the fundamental principle of utilities. Asset repair and replacement are better financed by cash.

Recommend de-commission the connection charge concept and recreate two charges in its place: a tap fee (actual cost) and capital recovery fee. It is recommended new fees charged to customers be put in an interest-bearing reserve

fund so when the City needs to build a new facility in the future the money is sitting aside. Capital recovery should be \$7.00/gal per day for the water system, and the wastewater system should be \$10.25/gal per day. Find some index of inflation in construction (such as the Department of Commerce's construction cost index) and use it as a guide. If there is no inflation or there is deflation, the City could lower the price.

The current rate structure is a demand/commodity. It is a standard form used by most utilities across the US where you have a fixed charge based on potential demand and a commodity charge based on actual use. The demand charges in the New Bern's case are linked to meter size. Commodities relate to delivery. A change Swartz recommends is that the charge be based on actual use, which is more equitable to the customer.

Changes have been recommended for capital recovery fees, funding capital repair and maintenance, and for the City to change its minimal charge. Recommended rates are for water to increase 2% per year. The City should be increasing at a rate of 1.8% anyway. Sewer would need a 12% increase next year, 11% the following year and 3.5% the years thereafter. The sewer system is almost starting out in the hole.

Making these changes would help stabilize financial performance, keep the City from damaging its creditworthiness and keep from draining cash reserves. If recommendations are followed, a customer with a ¾-inch meter with a monthly use of 1,000 gallons would see an almost \$15 a month decrease in their bill. Others may see an increase.

Alderman Bucher asked about dual meters stating a number of homes in newer communities have a meter dedicated to irrigation which have a substantial monthly charge on the meter even if there is no water use. Bucher stated people who have those meters have turned the irrigation meters off because the rate was raised from \$25/month to \$70/month, plus their use. As a result, the City receives no revenue. The Mayor explained the City wanted to know what a reasonable fee for the meter would be, and Bucher asked Swartz for his recommendations. Swartz thinks the minimum charge is appropriate. He said it is nonessential water, and if a customer chooses to have the water stand ready for use then they should be willing to pay for that convenience. If the policy is to make sure the City has water for people to live by, then there is a policy judgment as to whether irrigation water should be more costly, and he believes it should.

Hughes explained the additional meters are a 35% increase over the standard in-city charge. Typically, you see higher bills for irrigation meters because most irrigation contractors put in larger meters. The systems aren't designed to run off ¾ meters, and the rates for the 1-1.5 inch meters are higher. The Mayor asked Hughes if the

City can track how much it received before the increase in irrigation rates and after the increase when meters were being turned off by the customers. Hughes stated it wouldn't be easy to do. He further stated there hasn't been much growth or decline in the last 2-3 years in these meters.

Bucher asked for clarification on the recommendation to stop billing the 3,000 gallon minimum. For example, if a customer went away for a few months and didn't have any consumption how would they be charged? Swartz said there would be a ready-to-use charge which would be paid, but no commodity charge. In other words, there wouldn't be a \$0 bill.

Bengel asked how adding customers' impacts what the City is doing. It would bring more revenue per Swartz, allowing the City to pay their bills. If the City knew for sure it was going to increase customers, then commodity rates might could be lowered, but he wouldn't recommend lowering the demand rates. Bengel further asked for clarification on the ready-to-serve charge and what it would be. Swartz said it has not been calculated yet. Customers would only be charged a commodity charge when they "click the meter up to the next tick", which in essence means they have used a certain amount of water.

b) City Events Policy

Mike Epperson, City Manager, reminded the Board that at the January 25, 2011 meeting the Board adopted goals and objectives, and one of the objectives under the goal to improve the financial health of the city was to conduct a cost-benefit analysis of events and implement appropriate cost-recovery procedures. The City has no policy related to events, and a policy is needed to manage events better than has been done in the past. A policy would give the City the ability to say yes or no to events as well as contemplate the costs of events.

Thurman Hardison, Director of Parks and Recreation, explained a couple of keys to the City's success over the last few years has been the ability to partner with organizations to hold these events. Without some of the organizations' assistance, the events wouldn't happen. The City has a lot of events, most of which have been supported over the years by the City. A great number of events add to the overall financial vitality of the City in Hardison's opinion.

The City has procedurally being doing events for years and years. No attempt is being made to grandfather in the proposed community events. Instead, the point is to make sure the City does diligence in those events because they are vital. Hardison canvassed a number of cities based on proximity, similar size and geography (Washington, Greenville, Elizabeth City, Morehead City and Jacksonville). He found some commonalities amongst them. Most incorporate the expenses through the general fund, and very few of them have a written policy about events.

Some, if not all of these cities, are in the same situation as New Bern as to how to create a policy about events.

Epperson explained an attempt was made to categorize events. The proposed policy shows events the City puts on, and it is proposed the City continues to do that. The second category is community events. The City is spending about \$150,000/year on events. The cost associated to the community events last year was \$109,000. The third category is other events. Currently, there isn't a mechanism to say no to events. The City can, but it may be arbitrary. The policy would set criteria to evaluate. There are potential negative side effects to some of the events, such as blocking off streets, having no access to city parks, etc. Some events have a broad appeal to the community. If it's an "other" category, the proposal is to charge full fees for those. The policy also sets timelines for people to apply for their event.

Ernie Richardson, representing Swiss Bear, said all organizations, downtown merchants and businesses, and the mall are concerned about the policy, although they understand the need for a policy. The Tourism Development Authority (TDA), Chamber of Commerce, and Swiss Bear haven't had a lot of input on the policy and that concerns him. These organizations want input on the regulations and guidelines, and Richardson hopes the Board doesn't rush into the policy without getting input. He cautioned the Board if they were not careful, they may charge a fee and as a result lose a lot of organizations that do things in New Bern. The organizations generate revenue through sales tax, room rentals and merchandise sales. He doesn't think there is a merchant in New Bern who would say Mumfest doesn't increase their sales. Swiss Bear is concerned if they charge vendors more, they will run them off. Last year, the City gave Swiss Bear \$47,500. Swiss Bear was authorized by the City and is here to serve the City. The organization does not charge fees to the City for anything they do (i.e. the moving of the plane, the spider lily sculpture, restoration of the federal courthouse, etc.) It is hard to see the City want to charge Swiss Bear. He urged the City to slow down on acting on the policy and think about it. Otherwise, he feels the City will lose revenue.

Mayor Bettis stated Swiss Bear has done a great job from his point of view. He appreciates their initiative and all that they do. The constraints are money has run out. The City doesn't want to run anyone away, but it's a tough call. He agrees the policy should be well considered and thought out.

Susan Moffat-Thomas, Executive Director of Swiss Bear, stated she understands the City has constraints. Looking at the draft policy, some of the events are really "events" when you look at them. Others are nonprofit oriented, and they do bring people and provide a great quality of life to the City. She was surprised to see Mumfest was considered a non-sponsored event by the City. Mumfest has been produced since 1987 in cooperation with New Bern. Swiss Bear plans and pays for entertainment, and the City provides labor and utilities. She thinks there is a lot to

be worked out on the policy, and a lot of groups need to be involved. If the City does choose to access fees, it should be across the board. Swiss Bear's costs are going up also. If they have to keep their fees constant because service fees are being added for the City, then Swiss Bear can't recoup their increased costs. Proceeds from Mumfest have kept Swiss Bear's doors open. If the City cuts city services to the festival, Swiss Bear would need to know that soon. She is telling vendors now they can't provide application fees or info until this is resolved, and it's hurting them. They need some direction soon as they can't keep holding on Mumfest.

Alderwoman Bengel thanked Mr. Richardson and Mrs. Moffat-Thomas for coming. She is really concerned if the City is charging the organization, and she is against that. What is actually being talked about is the cost of doing business. She said hotels were against the occupancy tax back when it began, and they were afraid they would be hurt by it. It was explained it was an extra tax which the hotel themselves weren't charging. She thinks in this case, the vendors should be charged. She has done a little research, and the fees charged by Mumfest are the lowest in the state. She still believes Swiss Bear could raise their fees and the City charge a permit fee. It shouldn't be called a service fee, but a permit fee. Bengel spoke with the City of Goldsboro, and they have a permit fee. The City will never recover its costs and shouldn't; this is about our community. She would like to see more input from the convention center and others. The City does need a policy, and she recommends the City moves forward on it, but not make it go into effect until 2012 as many major events are already in place for 2011. She thinks Swiss Bear and the other top two to three organizations along with the TDA should be in on this policy.

Alderman White stated the City shouldn't do as much as other cities do, stating New Bern needs to be a leader, not follower. Yet, at the same time New Bern is doing some of the same things other cities are doing. There are some events that take place which White didn't see on the list. His understanding is the tax generated by the events is going to the county, although he may be wrong about that. The City is on a borderline financially, although he thinks activities that keep New Bern on the map and helps our community should continue. He agrees it isn't an instant fix and will take some time to resolve. As it stands now, he is against the policy.

Alderman Taylor stated times are changing and things have to change too. He agrees with Bengel that the City should look at implementing changes for 2012 since some events are already planned for 2011. He doesn't agree with her recommendation for Swiss Bear to spearhead the policy and implementation. They generate the most money. The City should spearhead the implementation of this policy.

Upon questioning by the Mayor, Bengel clarified she thinks implementation should be in January 2012, not FY2012. Epperson suggested a proposed list of fees be

brought before the Board for consideration at a subsequent work session. If fees aren't going to be implemented until the second half of FY2012, the budget would be prepared with that in mind. The policy is not a substantial fix for the budget, but one piece in the puzzle.

Epperson stated Mumfest would continue to be a City-sponsored event, as would all community events listed. Under the two vendor fees that were proposed in discussion with Mrs. Moffat-Thomas, one resulted in \$9,250 coming back to City and the other \$7,640 coming back to City. The City would still be contributing about \$50,000 in staff costs to the event. Epperson went on to say the City bears the burden and brunt of trying to put on events, but needs to have control in doing that. There has been a lot of concern about the fees, but the rest of the policy is something the Board needs to make sure the City has control over and that can be looked at outside of the fees. Bengel asked that Swiss Bear, the TDA and different organizations get a copy of the policy as they are stakeholders. Taylor stated all organizations listed should get a copy of the policy, not just the top five.

An unidentified man in the audience stated the impact of the events may not be immediate, but may show up later. For example, someone attending the car show came back to his business weeks later and made a large purchase. They didn't do it the day of the event, but his business got exposure during the event and that brought a customer in to his establishment.

Bucher pointed out the policy is a draft. He thinks maybe it should be simplified and more concise as it is lengthy.

c) Update on Tax Levy Valuation

Mary Muraglia, Director of Finance, stated the appeals process on tax evaluations is still ongoing. According to the County Tax Collector, the City is at a point where the tax values probably will not change much more, although there is still a chance they could. Right now, the values have gone down since the Board met in January and discussed them. As of today, it looks like the City's tax value is \$2,912,000,000. The City based its FY2010-11 budget on \$2,950,000,000. New Bern's revenues year to date are \$12,759,200, but the budget was based on an estimate of \$12,874,000. The collection rate has to be factored into this.

The Tax office is continuing to work hard to collect taxes and has a current collection percentage of 95.8%. She projected the City will collect 97.5%, which means the City will collect about \$200,000 more in tax revenue between now and June 30th. In projecting for next year's budget, she estimates the City will receive \$390,730 less than budgeted this year. The impact of this will be a tax rate of 42.32 cents. Currently, the tax rate is 41 cents.

Muraglia provided an itemized list of the City's top 10 delinquent tax accounts. Alderman White asked for the list of top 10 delinquent taxpayers to be updated as payments are made.

Bucher asked for clarification on the change in the real property estimates and whether it was based on property owners asking for their property to be reevaluated. Muraglia confirmed that was the case. When the budget was prepared, estimates were based on the values that were initially provided by the County. Since that time, there have been a lot of appeals.

Epperson stated direction was needed from the Board. Projections for next year's budget at the current 41 cent rate would be \$390,730 less than was budgeted for in the current fiscal year. To help prepare the budget for the Board's review, he needs to know whether a revenue-neutral rate should be used. That would require a levy rate of 42.32 cents.

Outlaw stated he does not anticipate any water, sewer, electric or tax rate changes. Bengel, Taylor, White and Bettis agreed with Outlaw's comment. Bucher stated he could not provide an opinion at this time without knowing what the rest of the budget would look like, such as sales tax. It is his desire, however, not to raise taxes. He felt no one wanted to do that.

Bengel asked about the trend in sales tax revenues. Muraglia stated this year the taxes were up compared to this time last year. The quarterly franchise tax, telecommunications tax and natural gas tax all came in today and were approximately \$50,000 more than she had projected. The sales tax received was for the fourth quarter of 2010.

Based on the Board's comments, Epperson stated the initial budget for the Board's review would be based on 41 cents. Bettis stated that was a good starting place.

d) Discuss Establishing New Special Revenue Fund for Grants Programs Currently in General Fund

Mary Muraglia, Director of Finance, explained the City has about \$1.5 million in grant programs. Some of the grants are multi-year grants. Sometimes a grant is received in one year, but not completed until the following. That causes some difference in what the City's budget is and what is actually spent. In the past, the City was held to a standard of not having more funds than what was needed. However, there is a new accounting standard that is in effect this year which relates it is perfectly acceptable to have a multi-year grant in a separate fund by itself or to have a grant fund that has multiple grants.

This is such a large budget amendment that Muraglia is working on that she wanted to bring it to the attention of the Board. It is not often that \$1.5 million is moved out of the general fund, but that is what she will propose and likely bring before the Board next month in an amendment. She feels it would be better for those funds to be in a special revenue fund. She has checked with the auditor and State Treasurer's office, and this is something the City needs to do and put in place now. It will have somewhat of an impact on the general fund at the end of the year. There will be less expenditure in the general fund, but it will only be a minimal amount. Muraglia further explained if the City has a match that has to be made for a grant, a transfer may have to be made from the general fund to the special revenue fund.

e) Update on Financing for Radio and Substation Project

Mary Muraglia, Director of Finance, stated back in January the radio system project was brought before the Board. At that time, the plan was to finance it next January. She had talked with the staff at the State Treasurer's office after our midyear review and after they had others make application for debt for their opinion on the city going forward. At this point, if the City wants to go forward with presenting a financing proposal for the radio system and substation project, the State Treasurer's office can support that as long as the City's year-end numbers still look good. Those numbers do look good per Muraglia.

What all this means is right now if the City went out and obtained financing that did not require the State's approval, it would be looking at a 59-month financing. Getting the State's approval would mean the City could finance the radio system for over 10 years and anywhere from 10-20 years on the substation. That is a good thing as it allows the City to spread out the payments. As part of the process, Muraglia would bring a resolution to the Board next month to apply to the State for financing on the loan. She asked if the Board would like to proceed in this manner, and they expressed their desire to do so.

f) Change Calendar Dates for Budget Work Sessions

Mike Epperson, City Manager, stated the Board had directed him to move some things up sooner from the proposed list of dates from February 16. Everything on the list has now been accomplished. The cost of service study and interfund transfers was removed from the list, and there is now an additional work session proposed for April 5th. This session will cover those two items as well as all the special appropriations. At the May 17th work session, the proposed budget will be presented, which was originally proposed to be presented on May 24th. There are two work sessions scheduled for staff presentations which have been moved up to May 25th and June 1st. Those will be open for public comment. June 14th will be the official required public hearing for the budget.

Scott Davis, City Attorney, asked for a motion to adopt the meeting dates. Alderman Kinsey made a motion to change the calendar dates for the budget work sessions. The motion was seconded by Alderman White and unanimously carried.

3. **Discuss Lease Agreement with Religious Community Services**

Scott Davis, City Attorney, explained this involved city-owned property in which Religious Community Services (“RCS”) built a community building back in the early 1980’s. There was a 20-year lease with the City on the property, which expired in 2004. An agreement was entered into where the City would entertain recommendations from RCS regarding prospective nonprofit tenants for the facility.

Bengel said there had been some discussion about the use of the building. She met with Bobbie Hewlette, Executive Director of RCS, to discuss this, and Bobbie had a meeting with Mary Peterkin to talk about maybe potentially sharing the use of the building. Two other nonprofits have inquired about it, one being The Little Red Bookmobile. This organization provides tutoring services from the bookmobile to children who do not have a place to go after school, and who are in need of a larger place. There are questions about who would maintain the building and who would take care of it.

Hewlett stated Kirby Smith, RCS’ Board Chair in 2010, wrote a letter to Mr. Epperson about some things RCS would like to do such as work with Ms. Peterkin for her use of that building. RCS has also spoken with Neuse River Community Development Corporation and Catholic Social Ministries who would both like to offer financial planning, budgeting, homeownership classes and things such as that. The building is currently divided into two classroom spaces with some small office spaces in the front, so lends itself well to these type of activities. A classroom could be used for AA meetings or other self-help meetings. RCS has also talked with the Department of Social Services about the possibility of opening up some offices for social workers to come in and take food stamp or Medicaid applications for clients with transportation hardships. The building is in a good walking distance of the largest poverty population in New Bern.

Davis said RCS has raised a few questions. One of those is the possibility of a month-to-month lease versus a yearly lease. Davis said that was acceptable with him if the Board agreed. Another issue is maybe some work and updating needs to be performed on the building. He will talk with the City Manager to see if City staff can help with that.

Bengel said this building is at the doorsteps of Duffyfield and Dryborough, and the Board wants to do some work in that area. Working with RCS, who is already working with that population, would be a good idea. Hewlett is proposing to bring many services under one roof, and Bengel feels it is important that the Board work with them on that. Davis stated he would bring the documents before the Board at the first regular meeting in April.

4. **Adjourn.**

Alderman Kinsey made a motion to adjourn the meeting, seconded by Alderman Bucher. The motion carried unanimously, time being 9:35 p.m.

Mayor

City Clerk