

## MINUTES

Special Meeting: Budget Session  
George W. Clay, Jr. Utility Operations Center

May 3, 2007  
Thursday, 5:30 p.m.

**Present:** Mayor W. Ted Alexander, presiding; Council Members Christopher H. (Chris) Mabry, Robert H. (Bob) Still, Jeanette D. Patterson, Michael R. (Mike) Royster, Joel R. Shores, Jr., Dicky Amaya; City Manager Rick Howell, City Clerk Bernadette A. Parduski, Director of Finance Theodore B. (Ted) Phillips, CPA, Director of Human Resources Charles L. Webber, Director of Utilities Brad R. Cornwell, PLS, EI, Police Chief Tandy P. Carter, 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. Pruett, Director of Planning Services Walter (Walt) Scharer, AICP; and Pete DeLea of The Shelby Star

**Absent:** City Attorney Sam B. Craig

Mayor Alexander called the meeting to order at 5:40 p.m. Mrs. Patterson gave the invocation and Mr. Shores led the *Pledge of Allegiance*.

### PRESENTATION OF THE CITY MANAGER'S PRELIMINARY BUDGET RECOMMENDATIONS:

Mr. Howell announced that the presentation of his preliminary budget recommendations would continue with the proposed budgets for the Water Enterprise Fund and the Sewer Enterprise Fund for FY 2007-2008. At the conclusion of his water and sewer fund presentations, a follow-up discussion of the General Fund would be in order. Mr. Howell reminded Council that the presentation of the proposed budgets for the Natural Gas and Electric Funds is scheduled for May 8, 2007.

Mr. Phillips distributed the following handouts:

- City Manager's Preliminary Budget Message for the Water and Sewer Funds dated May 2, 2007, which is hereby incorporated by reference and made a part of these Minutes.
- Water Fund FY 2007-2008 Budget Expenditure Summary as of May 2, 2007
- Water Fund Capital FY 2008 Budget

- Sewer Fund FY 2007-2008 Budget Expenditure Summary as of May 2, 2007
- Sewer Fund Capital FY 2008 Budget

Mr. Howell began his presentation by reiterating that both the water and sewer funds are self-supporting entities and no tax money maintains them. Mr. Howell gave a brief description of the makeup of the City's water and sewer customer base. Mr. Howell enumerated the issues and challenges facing the Water Enterprise Fund and Sewer Enterprise Fund which affect the City's ability to serve its residents and customers as follows:

- Flat new customer base growth is the trend for the current fiscal year and it is anticipated in these budgets that there will be an overall decline in customer usage. The City is anticipating the loss of Copeland Corporation by December 31, 2007. Mr. Howell added that Copeland is the City's third largest sewer customer and seventh largest water customer.
- As with the General Fund, rising employee group health insurance costs in double digit percentages, despite a reduction in benefits last year and an overall good to average loss ratio.
- As with the General Fund, the retention of qualified, well-trained, and experienced employees in key positions is a concern that will hopefully be addressed by a new performance pay system.
- Elevated fuel costs continue to directly affect the delivery of services to the citizens of Shelby. Mr. Howell added that all City departments are reliant on fuel to perform the work necessary to serve citizens each day.
- The aging water and sewer infrastructure will need significant investment of capital to continue reliable service and to meet safety and regulatory standards.
- The reserves in the Water Enterprise Fund and the Sewer Enterprise 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.

Mr. Howell further stated that these challenges must be addressed consistently and systematically over time in order for the City to realize

the goals set forth in the Strategic Growth Plan adopted by Council in 2005 as well as the prioritized strategies developed at Council's retreat in February 2007 and formalized by Council's action in April 2007. Mr. Howell also stated that these goals and priorities guided his recommendations for the proposed budget and provided staff with a more defined focus for the fiscal year. The two Council endorsed strategies specifically pertaining to the Water and Sewer Enterprise Funds include:

- To provide funding for the Westside water and sewer improvements programs.
- To engage in discussion with the Cleveland County Sanitary District on the City selling water to the District and the ramifications of the District's new water reservoir.

#### **WATER ENTERPRISE FUND REVENUES**

Mr. Howell stated that a 5 percent water rate increase is recommended in this budget. The water customer base is flat and overall consumption is expected to decline slightly. The rate increase recommendation is intended to service the issuance of debt for the Westside Water Improvement Project once completed in 2008.

#### **WATER ENTERPRISE FUND EXPENDITURES**

Mr. Howell stated that the overall Water Fund expenditures are projected to increase approximately 5.5 percent. Mr. Howell summarized the notable changes as follows:

- The overall personnel costs for the Water Fund will decrease by 5.3 percent for two reasons: 1) The increase of allocated cost to the General Fund to pay for GIS personnel and 2) Turnover in the Field Operations Unit has allowed for the hiring of positions at lower rates of pay.
- A 3.5 percent performance pay allowance is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system under development.
- A 20 percent increase in health insurance is expected based upon the stated renewal from Blue Cross/Blue Shield. An alternate plan that would maintain the current Preferred Provider Organization (PPO) Plan, but also offer a high deductible Health Savings Account (HSA) Plan is under consideration.

- The significant change in the Water Distribution System is an increase on the transition from manual meter to the electronic meter conversion. It is proposed that approximately half of the meters that are over 20 years old be replaced. This amounts to approximately 1,200 meters and projected payback is 2.5 years. The upfront cost is approximately \$175,000.
- It is anticipated that utility costs will be the most significant increase (3.05 percent) at the Water Plant. The 2008 budget figure is based upon projections of current year expenditures.

### **SEWER ENTERPRISE FUND REVENUES**

Mr. Howell stated that a 5 percent sewer rate increase is recommended in this budget. The sewer customer base is flat and overall usage is expected to decline slightly. The rate increase recommendation is intended to service the issuance of debt for Phase 1 of the Eastside Sewer Project expected to be completed in spring 2008.

### **SEWER ENTERPRISE FUND EXPENDITURES**

Mr. Howell stated that the overall Sewer Fund expenditures are projected to increase approximately by 8.7 percent. Mr. Howell summarized the notable changes as follows:

- The overall personnel costs for the Sewer Fund will decrease by 11.5 percent for two reasons: 1) The increase of allocated cost to the General Fund to pay for GIS personnel and 2) The elimination of one position at the Wastewater Treatment Plant.
- A 3.5 percent performance pay allowance is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system under development.
- A 20 percent increase in health insurance is expected based upon the stated renewal from Blue Cross/Blue Shield. An alternate plan that would maintain the current PPO plan, but also offer a high deductible (HSA) plan is under consideration.
- Two notable increases in Sewer Administration: 1) An increase in the transfer of funds to fund balance (FY 2006-2007 was the first in many years that the City was able to transfer funds into a reserve account for emergency situations and future capital projects.) and 2) An increase in the actual debt service payment due next year in anticipation of an interest only payment on the Eastside Sewer

Project and the Influent Pump Station Improvement Project completed earlier this year.

- The significant increase in the Sewer Collection System Operations is tied to the accelerated transition from the manual meters to the electronic meters. This cost is approximately \$75,000 and is shared because sewer revenue is derived from these meter readings.
- A significant capital purchase is included at the Sewer Plant. It is necessary to replace the stump/brush grinder at a cost of approximately \$270,000 currently in service at the Sewer Plant Compost Facility.

#### **FOLLOW-UP DISCUSSION REGARDING GENERAL FUND PRELIMINARY BUDGET RECOMMENDATIONS:**

Council raised the following concerns and issues regarding the General Fund expenditures and revenues as initially presented by Mr. Howell:

- Clarification of the performance pay allocation and the evaluation process
- Providing monetary incentives for City employees including a one time bonus or longevity pay with bonus money
- The cumulative effect of a performance pay plan and the ongoing funding of the plan
- Retention of City employees
- The possibility of utilizing reserves (unrestricted funds) in the General Fund
- The number of new vehicle purchases and the number of vehicles the City maintains as rolling stock

As an alternative, Mr. Shores suggested revising the budget to include a 2.5 percent performance pay allocation, one new officer for the Police Department, and retaining the one new code enforcement officer as initially recommended.

Mr. Mabry stated that Mr. Howell's original recommendations were reasonable and acceptable to him, but he would be amenable to an adjustment to the performance pay allocation and the tax rate.

By consensus, Council preferred that the monthly solid waste collection fee increase of \$2.00 be reduced to no more than .75 cents.

Mr. Howell offered the following responses regarding his budget recommendations to date. Mr. Howell acknowledged that the City cannot

afford both cost of living allowances and merit increases for all City employees and preferred the opportunity to develop a pay for performance plan to reward City employees. Mr. Howell advised Council that the City operates at service levels which are not sustainable without substantial growth or additional revenue. Mr. Howell further stated that the City has traditionally provided tremendous services, including but not limited to the operation of a golf course and three cemeteries, and in order to continue these services, he anticipated consequences in the very near future affecting the tax rate, fees, and/or a reduction of City services. Mr. Howell explained no fund balance appropriations are included in the proposed budget. Mr. Howell expected the final health insurance options would be available next week for inclusion in the budget. Mr. Howell will provide Council with four budget options including Mr. Shores' alternative and a zero tax increase plan for their review on May 7, 2007.

At Council's request and with their consensus, Mr. Howell stated that a closed session will be scheduled on May 21, 2007 to conduct the evaluation of the City Clerk.

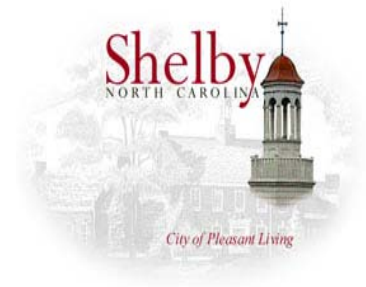
Adjournment: There being no further business for Council's consideration, Mayor Alexander adjourned the meeting at 7:22 p.m.

Respectfully submitted,

Bernadette A. Parduski  
City Clerk

W. Ted Alexander  
Mayor

Minutes of May 3, A. D. 2007



May 2, 2007

To: The Honorable Mayor and City Council  
From: Rick Howell, City Manager  
Subject: City Manager's Budget Message - Fiscal Year 2007-2008  
Water Fund and Sewer Fund

Presented for your consideration at this time are the proposed budgets for the Water Enterprise Fund and the Sewer Enterprise Fund for fiscal year 2007-2008. The budget is balanced and meets all the applicable requirements of the North Carolina Local Government Budget and Fiscal Control Act. A public hearing has been scheduled as required by NC General Statute 159-12 for your regular meeting of June 18, 2007 in City Council Chambers. Following the close of the hearing Council may act on the proposed budget. The budget must be adopted by City Council prior to June 30, 2007.

It should go without saying that the budget adoption is the most important annual fiscal decision that City Council will make. It is the basis from which I base my day to day decisions and for the services provided to the citizens of Shelby. It has again been a difficult budget preparation process. There continues to be numerous challenges facing the Water Enterprise Fund and the Sewer Enterprise Fund that affect our ability to serve citizens, residents, and customers today and into the future. These include, but are not limited to:

- 1.) Flat net customer base growth is the trend for the current fiscal year and it is anticipated in these budgets that there will be an overall decline in customer usage due to the anticipated loss of Copeland by December 31, 2007.
- 2.) Rising employee group health insurance costs in double digit percentages despite a reduction in benefits last year and an overall good to average loss experience.

- 3.) Retention of qualified, well trained and experienced employees in key positions is also a concern that I hope will be addressed with a new performance pay system this year.
- 4.) Elevated fuel costs continue to directly affect the delivery of services to the citizens of Shelby. All of our departments are reliant on fuel to perform the work necessary to serve citizens each day.
- 5.) Aging water and sewer infrastructure will need significant investment of capital to continue reliable service and to meet safety and regulatory standards.
- 6.) Reserves in the Water Enterprise Fund and the Sewer Enterprise 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.

These challenges must be addressed consistently and systematically over time in order for the City to realize the goals set forth in the Strategic Growth Plan adopted by Council in late 2005. A commitment to the City's economic development efforts, the provision of desired, quality and reliable services to citizens and the efforts by both local and outside business interests can over time help to overcome these challenges.

During the City Council annual planning retreat held February 2-3, 2007, you developed and prioritized 11 strategies that were to guide my recommendations for the proposed budget and provide staff with a more defined focus for the fiscal year beginning July 1, 2007. These strategies were formalized by Council action through Resolution No. 28-2007 adopted April 2, 2007. They are enumerated here below for reference and are cited in the text and are some of the basis of my budget recommendations. Two of them specifically pertain to the Water Enterprise Fund (D&K) and one of them to the Sewer Enterprise Fund (D).

- D** Provide funding for the Westside water and sewer improvement programs.
- K** Engage in discussion with the Sanitary District on the City selling water to the District and ramifications of the Sanitary District's new water reservoir.

Below and on subsequent pages I have summarized significant revenue and expenditure changes within these two funds.

### **WATER ENTERPRISE FUND REVENUES**

- **Water Charges**

A 5% water rate increase is recommended in this budget. The water customer base is flat and overall consumption is expected to decline slightly. The rate increase recommended is intended to service the issuance of debt for the Westside Water Improvement Project once completed in 2008.

### **WATER ENTERPRISE FUND EXPENDITURES**

Overall Water Fund expenditures are projected to increase approximately 5.5%. Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (Water Fund Only)**

The overall personnel costs for the Water Fund will decrease by 5.3% primarily for two reasons. The first involves the increase of allocated cost to the General Fund to pay for GIS personnel. The second factor affects the decline to a much lesser extent. Turnover in this area has allowed for the hiring of positions at lower rates of pay.

A 3.5 % performance pay allowance is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 20% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. We continue to work toward an alternate plan that would maintain the current PPO plan, but also offer a high deductible (HSA) plan. Under this option employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

- **Water Distribution System (24.2% increase)**

The only significant change in this department is an increase on the transition from manual meter to the electronic meter conversion. It is proposed that approximately ½ of the meters that are over 20 years old be replaced. This amounts to approximately 1,200 meters. The projected payback is 2.5 years. The upfront cost is approximately \$175,000.

- **Water Plant (3.05% Increase)**

It is anticipated that utility costs will be the most significant increase in this department. The 2008 budget figure is based upon projections of current year expenditures.

### **SEWER ENTERPRISE FUND REVENUES**

- **Sewer Charges**

A 5% sewer rate increase is recommended in this budget. The sewer customer base is flat and overall usage is expected to decline slightly. The rate increase recommended is intended to service the issuance of debt for Phase I of the Eastside Sewer Project expected to be completed in spring 2008.

## **SEWER ENTERPRISE FUND EXPENDITURES**

Overall Sewer Fund expenditures are projected to increase approximately 8.7%. Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (Sewer Fund Only)**

The overall personnel costs for the Sewer Fund will decrease by 11.5% primarily for two reasons. The first involves the increase of allocated cost to the General Fund to pay for GIS personnel. The second factor involves the elimination of one position at the wastewater treatment plant.

A 3.5 % performance pay allowance is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 20% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. We continue to work toward an alternate plan that would maintain the current PPO plan but also offer a high deductible (HSA) plan. Under this option employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

- **Sewer Administration / Debt Service / Transfer to Fund Balance (22.1% inc)**

There are two notable increases in sewer administration. The first is an increase in the transfer of funds to fund balance. The fiscal year 2006-07 budget was the first in many years where we were able to transfer funds into a reserve account for emergency situations and future capital projects. The second increase to be noted is an increase in the actual debt service payment due next year. This anticipates an interest only payment on the Eastside Sewer Project and the Influent Pump Station Improvement Project completed earlier this year.

- **Sewer Collection System Operations (5.27% decrease)**

The only significant increase in this department is tied to the accelerated transition from the manual meters to the electronic meters. This cost is approximately \$75,000 and is shared because sewer revenue is derived from these meter readings.

- **Sewer Plant (1.8% increase)**

A significant capital purchase is included in this department. It is necessary to replace the stump/brush grinder now in service at the sewer plant compost facility. This cost is

approximately \$270,000.

**Final Comments**

I do wish to convey to Council that this budget has been scrutinized. Significant reductions in the proposed expenditures cannot likely be achieved without changes in the 3.5% performance pay allocation, group health insurance program or the recommendations that reflect Council priorities (Westside Water and Sewer Improvements) set back in February. It is my intent today to introduce these changes and to allow for initial questions and discussion. A follow up discussion for the Natural Gas and Electric Department proposed budgets is scheduled for Tuesday. The budget is balanced as noted previously and respectfully submitted to the Honorable Mayor and City Council for your thoughtful consideration at this time.

Respectfully,

Rick Howell  
City Manager