

**City Council Work Session
May 26, 2015**

The City Council of the City of Elizabeth City met in work session on Tuesday, May 26, 2015 in Council Chambers, located on the 2nd floor of the Municipal Administration Building, 306 E. Colonial Avenue, Elizabeth City, NC.

MEMBERS PRESENT: Mayor Joe Peel
Councilwoman Jean Baker
Councilman Ray Donnelly
Mayor Pro Tem Anita Hummer
Councilman Tony Stimatz
Councilman Michael Brooks (*arrived at 5:50 p.m.*)
Councilman Darius Horton (*arrived at 6:05 p.m.*)
Councilman Johnnie Walton

MEMBER ABSENT: Councilman Kem Spence

OTHERS PRESENT: City Manager Rich Olson
City Attorney Bill Morgan
Finance Director Sarah Blanchard
Planning Director June Brooks
Chief of Police Eddie Buffaloe
Electric Department Superintendent Karl Clow
Assistant to the City Manager Angela Cole
Human Resources Director Katherine Felton
Public Utilities Director Paul Fredette
Fire Chief Larry Mackey
IT Director Matthew Simpson
Parks and Recreation Director Bobbi White
City Clerk Vivian White

The City Council work session was called to order by Mayor Joe Peel at 5:30 p.m. Mayor Peel welcomed everyone to the meeting and gave the invocation, after which he led the Pledge of Allegiance.

1. Agenda Adjustments and Approval:

Mayor Peel called for any adjustments to and approval of the agenda.

Motion was made by Mayor Pro Tem Anita Hummer, seconded by Councilman Ray Donnelly, to approve the agenda with any necessary adjustments. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz and Walton. Against: None. The motion carried unanimously. (*Brooks and Horton had not yet arrived.*)

2. Statement of Disclosure:

The City Clerk read the Statement of Disclosure. No conflict of interest disclosures regarding items listed on the agenda were made.

3. Presentation/Consideration – Fiscal year 2015-2016 Budget Recap and Call for Public Hearing;

Mayor Peel announced that the major item on the Work Session agenda was the presentation of the fiscal year 2015-2016 budget including a recap of everything that had been reviewed by the Council to date. He stated that at the end of the presentation, the Council would be requested to call for a Public Hearing on the budget to be held during the June 8, 2015 Council meeting.

Mayor Peel recognized City Manager Rich Olson and Finance Director Sarah Blanchard to present the budget information. Mr. Olson stated that staff would provide an overview of the budget, which would follow the format of the formal presentation made to the Council on April 20, 2015. He stated that the Finance Committee had held two subsequent meetings; but that two additional budget meetings had been cancelled due to a delay in receiving information from the Legislature that could possibly impact the budget.

Mr. Olson reported that he would provide the changes during his presentation that had been recommended by the Finance Committee. He said that he also would recap the entire budget for the benefit of newly-seated Councilman Johnnie Walton. He requested that the City Council confirm the changes that had been made to the budget at the request of the Finance Committee as he covered each item.

Using a PowerPoint presentation, Mr. Olson provided an overview of the proposed budget highlights, which included the General Fund and all Enterprise Funds.

Mr. Olson stated that one of the items that the Finance Committee discussed at length was the Blue Cross Blue Shield Healthy Outcomes Program, which is associated with employee health insurance. He explained that the Finance Committee made a decision to recommend that the City participate in the Achiever B program, which would provide a credit of \$89,665 if the City achieves 95% or better participation by employees. Mr. Olson stated that the program is voluntary, but staff is requesting that the City Council approve charging employees \$50 per month toward their health insurance coverage beginning in January 2016 if they do not participate in the program.

Mr. Olson advised that \$20,000 in funding to perform an employee pay and classification study is included in the budget. He stated that the Finance Committee recommended waiting until January 2016 to begin the study to allow the new Council that will be installed in December 2015 to take official action on the study.

Mr. Olson stated that the real estate market continues to be stagnant and the City has not seen an increase in property valuation. He said that he has proposed a 2.5¢

property tax increase to replace lost Privilege License Tax revenue. He reported that if a replacement revenue source is provided by the State, the proposed property tax increase will be eliminated.

Mr. Olson stated that the proposed budget reflects a 3% increase this fiscal year and an additional 3% increase in fiscal year 2016-2017 budget for water and sewer rates. He said that the increase would raise \$250,000 for the Water and Sewer Fund to help address some major issues in the Water and Sewer Department. He advised that there had been discussion in the Finance Committee regarding not including the proposed increase for fiscal year 2016-2017 and taking that proposed adjustment up during that budget.

Mr. Olson stated that no increases are proposed for the Solid Waste Department.

Mr. Olson reported that his originally proposed 14% decrease in electric rates had been changed to 13% due to the additional debt that must be issued in connection with the sale of the City's electric generating assets to Duke Energy Progress.

Mr. Olson briefly reviewed the totals for each budget service level and compared the proposed totals to the current fiscal year budget. He advised that the Finance Committee recommended no changes; however staff had made adjustments in the previously proposed projects and equipment purchases as follows: the Powell Bill Fund was decreased by \$159,000 due to elimination of a proposed bulldozer purchase; the Northeastern Park Tennis Courts rehabilitation work had been downsized by Pasquotank County to \$61,690 from \$225,000.

Mr. Olson said that staff would locate a used frontend loader with a clamshell bucket to replace the proposed bulldozer purchase and would present a budget amendment at the appropriate time.

Councilman Walton requested clarification on the proposed expenses for the Coast Guard Park improvements and the Charles Creek Park playground equipment. Mr. Olson explained that the existing playground equipment at Charles Creek Park was purchased in 1996 and needs to be completely replaced. He stated that the improvements at Coast Guard Park entail the addition of piers for which the City has a grant pending.

Councilman Walton requested information on the proposed work at Enfield Park. Mr. Olson responded that staff is proposing to systematically improve each field because the work required is too much to do all at once. He said that the work proposed is to rehab the irrigation system and fencing and complete dugout improvements on one field at a time over a five year period. Councilman Walton stated that he was not against baseball, but money had previously been budgeted at Enfield Park for basketball courts but had been removed from the budget and not placed back in. Mr. Olson agreed and stated that discussions by Council had been held regarding making the existing tennis courts a multi-purpose facility, but had been removed by the Council. Mr. Olson pointed

out that some smaller repairs had been performed such as a swing set and a drinking fountain. Mr. Olson stated that the Council could look at putting the money back in the budget, but it had been removed at the time due to lack of interest by the Council. Councilman Walton stated that there was a desire, but the matter had not resurfaced.

Councilman Stimatz inquired regarding the \$10,000 budget request for the Community Relations Commission. Mr. Olson stated that currently \$1,300 was in the proposed budget for the CRC because the \$10,000 request was received well after the budget had been presented to the City Council. He said that he did not know what Pasquotank County was going to do regarding a contribution to the CRC; and the rule previously had been a cost-share by the two governments. Councilman Stimatz disagreed and stated that normally the two governments would share costs but during the last budget, the City contributed more than the County. Councilman Stimatz stated that the Council has yet to see the documentation presented by the CRC and requested that the CRC budget be presented for consideration. Councilman Stimatz stated that the CRC is not a non-profit, but a City and County Commission to fund. He said that their request deserved consideration.

Councilman Donnelly requested that the matter be brought forward to the Finance Committee and Mr. Olson cautioned that time was running short. Councilman Brooks pointed out that the Council knows the issue, and asked why the matter should go to the Finance Committee. Councilman Stimatz responded that all that was needed was a motion, because Council procedures required that all financial items be presented to the Finance Committee prior to the Council.

Motion was made by Councilman Ray Donnelly, seconded by Councilman Tony Stimatz, that the CRC budget be taken to the full Council. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks and Walton. Against: None. Motion carried. (*Horton had not yet arrived.*)

Mayor Pro Tem Hummer stated that even though it has been stated that the CRC is not a non-profit, its funding has still been a part of the Community Support Grant funding. She stated that she felt that the Council needed to ask what all the organizations had done since last year and especially the CRC, since the Council has not heard from them in a while. She requested that activity information be submitted along with the CRC funding application.

Mr. Olson stated that the Finance Committee recommended that the purchase of a public safety building be moved from the current budget to the next fiscal year budget. He pointed out that would have no effect on the budget itself because the debt payment of \$70,000 was already included. Mayor Pro Tem Hummer requested further explanation of this matter. Mr. Olson responded that the issue involves the purchase of the JC Penny Building on which the City had previously placed an offer. He advised that the most recent letter provided to the Councilmembers by Mr. Jim Gregory was in error because the City had never offered \$550,000 for the building. Mr. Olson stated that he would be writing a letter to Mr. Gregory and would provide a copy of the original offer to him. He said that if the City were to acquire the building, the \$700,000 budget

amount included necessary improvements to the building. Councilman Walton inquired about the 20 parking spaces mentioned in Mr. Gregory's letter. Mr. Olson responded that the parking spaces issue was another outstanding issue, and advised that the City did not have 20 spaces available to provide with the deal. Councilman Stimatz stated that the parking spaces would add \$36,000 to the transaction over a ten-year period. Mayor Pro Tem Hummer reminded Mr. Olson that the matter should be presented to the Finance Committee for additional consideration.

Mr. Olson presented new information that had been received from the County Manager and stated that the Finance Committee had not seen the data. He stated that revised budgets had been received for Central Communications from \$387,000 to \$424,017 and for Animal Control from \$144,000 to \$147,688. Mr. Olson explained that these differences were reflective of County salary and benefit issues, 911 system upgrades and cost overruns for the animal control shelter.

Mr. Olson reported that the total proposed state collected revenue for the next fiscal year is \$5,211,674 compared to \$4,892,521 for the current fiscal year. He stated that the major difference is based on projected sales tax increases provided by the League of Municipalities. He said that staff had been very conservative in their projections.

Mr. Olson stated that the projected property tax collection of \$6,700,000 included an increase of 2.5¢ per \$100 valuation. He also pointed out that the previously proposed Pasquotank County recreation fee of \$1,201,772 had been decreased to \$1,023,462 due to the downsized tennis courts project at Northeastern Park.

Councilman Stimatz asked how the County's proposed 1¢ property tax increase would impact the City's sales tax revenue. Mr. Olson stated that the City's proposed 2.5¢ increase would create a small increase for the City, but would not be realized until the following 2016-2017 fiscal year.

Mr. Olson reported that a matter discussed at length by the Finance Committee concerned the percentage of unrestricted fund balance at year end. He stated that current projections indicate that the City will have 8% at June 30. Councilman Stimatz stated that a previous Council discussion concerned the percentage of operating expenses available. He said when the Council set a recommended percentage some years ago at 15%, he was thinking the percentage was of operating expenses, but had since learned that was not the case. He stated that the operating expense percentage should be reported separately, because the 8% LGC unrestricted fund balance definition was different.

Councilman Walton requested that a record of all budget amendments made during the fiscal year be provided to him.

Mayor Peel inquired if action was being requested on the items that had been presented thus far in the presentation. Mr. Olson responded in the affirmative and recognized Finance Director Blanchard for a recap.

Finance Director Blanchard stated that the first action requested was on the Healthy Outcomes program associated with employee insurance.

Councilman Walton inquired if there would be any allowable exemptions to the program, such as for those with religious objections to having blood drawn. Mr. Olson responded that the Finance Committee held those discussions and it was recognized that if an employee had a religious affiliation and could provide documentation for an exemption, then the employee would not be charged for not participating.

Motion was made by Councilwoman Jean Baker, seconded by Councilman Michael Brooks that the Council request employees to participate in the Healthy Outcomes Program and, as of January 1, 2016, those employees who do not will be charged \$50 per month towards their health insurance coverage.

Councilman Walton requested a friendly amendment to add an exemption for verifiable religious or medical reasons. Councilwoman Baker accepted the friendly amendment.

Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

Ms. Blanchard stated that the next consideration involved whether a 3% increase in water and sewer rates should be included in the budget ordinance for fiscal year 2016-2017.

It was the consensus of the City Council that the proposed increase in water and sewer rates for fiscal year 2016-2017 not be included at the current time.

Ms. Blanchard stated that the next consideration is whether or not to include the financing source and associated debt payment for the proposed public safety building in the budget.

Mr. Olson stated that staff's request is for the authority to negotiate to purchase a building worth \$700,000, which will have no impact on the budget because it is already in the current fiscal year budget. He stated that the item is simply being moved to the next fiscal year budget. He stated that the Finance Committee and City Council would still have to approve any action taken.

Councilman Stimatz pointed out that the item is only a placeholder. Councilman Donnelly stated that the key term is purchase "a" building, not necessarily the building currently being considered.

Motion was made by Councilman Tony Stimatz, seconded by Councilwoman Jean Baker, to amend the budget to include the authority for a placeholder of \$700,000 in next year's budget for the potential purchase of a building. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

Mr. Olson stated that the next consideration is to remove the purchase of the bulldozer in the Powell Bill fund, which is staff's recommendation.

Motion was made by Councilman Tony Stimatz, seconded by Mayor Pro Tem Anita Hummer, to remove the bulldozer purchase from the Powell Bill Funding. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

Ms. Blanchard stated that the last consideration is to clarify that the goal of 15% of the City's fund balance be based on the operating budget rather than total budget, which includes capital. Mr. Olson said that this is more of a change to the Council's goals and objectives, not a direct budget-related item.

Motion was made by Councilman Tony Stimatz, seconded by Councilman Ray Donnelly, to include an additional specific objective to maintain an operational fund balance goal of 15% by the end of the fiscal year in the General Fund. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

Mr. Olson stated that this concluded the presentation of the General Fund.

Councilman Walton stated that there was no mention of the funding that was taken away from the budget a year ago for Enfield Park. Mr. Olson responded that there was no money available in the current proposed budget for that initiative but staff would include it in the items to be additionally discussed along with the Community Relations Commission matter.

Councilman Brooks inquired about the replacement boardwalk at Fish Courts Park. Mr. Olson responded that the project was already under contract and was scheduled to begin during the first of June.

Mr. Olson reported that the next portion of his presentation involved Enterprise Funds and he began his review with the Electric Fund.

He stated that the impending sale of the City's generating assets to Duke Energy Progress would yield a total savings of 22%. He said that the City owes \$23 million in defused debt associated with the sale that will require an annual debt payment of \$2.31 million. He reported that this payment will decrease the overall savings by 6%, resulting in a net savings of 16% to the City. Mr. Olson advised that he had budgeted for a 13% decrease for the City's utility customers, which would equate to roughly \$24 per month for an average customer. He stated that the City's rates will always be competitive with Duke and Progress system rates.

Councilman Donnelly inquired about keeping the customer rate decrease at the originally projected 14%. Mr. Olson responded that roughly \$400,000 would have to be eliminated from the Electric Fund budget in order to do that.

Councilman Walton stated that \$24 was not much of a savings. Mr. Olson stated that \$24 would be the amount of savings for an average customer, but those customers with

\$600 to \$700 bills would see a much greater decrease, such as \$125 to \$150 per month.

Mr. Olson provided information regarding future electrical rate increases over the next five years as proposed by Duke through existing filings with the NC Utilities Commission and compared those increases to projections by NCEMPA for the same period without the sale of assets. The total NCEMPA increase in rates for the City without the sale to Duke is projected to be 21.2% over the next five years; while over the same period, City customers would see a 3.9% decrease overall with the sale of the City's assets to Duke. Mr. Olson emphasized that the City would continue to experience yearly increases in rates most likely beginning next year, because whatever Duke charges its wholesale customers, the City would have to pay. He pointed out that the rates would have to be approved by FERC and the NC Utilities Commission.

Councilman Brooks stated that it was important for the City's customers to understand that the proposed rate decrease would not be forever and that there would continue to be rate increases.

Councilwoman Baker inquired about the Favored Nation Clause. Mr. Olson stated that the City has this clause in its agreement with Duke, which means Duke cannot sell power cheaper to anyone else. He pointed out that the NCEMPA cities will comprise 14% of Duke's overall load, which makes the 32 cities a substantial customer.

Councilman Walton inquired as to who would keep up with the information. Mr. Olson stated that the City was still a member of ElectriCities and that would be their responsibility.

Mr. Olson reviewed the various cost centers in the Electric Fund and compared the proposed budget to the current year's budget. He pointed out that the big change is in the Non-Departmental budget, which is where the payment for power is accounted for. He noted that the current year's budget was \$34,555,166 and will decrease to \$28,529,722 for the next fiscal year.

Mr. Olson pointed out that the Electric Distribution cost center increased from \$2,957,263 to \$4,935,186 to account for the Nexgrid Fixed Area Network System. He stated that staff estimates that the fixed area network will cost \$2,250,000 to implement through a five-year installment purchase of \$450,000 per year. He said that staff is still doing the cost-benefit analysis, but current estimates show a savings of \$1 million per year in the City's ability to shave peaks. He reminded the Council that a previous study indicated that 30% of the City's load management switches are not operating correctly. He said that the Nexgrid System will provide information regarding the workability of all switches.

Councilman Walton asked if customers will have to keep up with the data. Mr. Olson responded that they would only do so if they wanted to. He said that the advantage to City staff will be the ability to show customers how and when they are using their energy, which is critical to educating the public. Mr. Olson also stated that during power

outages, City staff will be able to show exactly which homes are affected and that would help from a reliability point of view.

Councilwoman Baker asked if it would be correct to say that once the Nexgrid system is in place, the issue will never be about rates but about consumption. Mr. Olson stated that was a bit optimistic and pointed out that the real issue is that the City has customers that can't afford to pay their utility bill no matter how inexpensive it is because of their lack of income. Councilwoman Baker responded that it is also about education. She said that the system will provide information to help staff know where to educate and where the issues are; and it will then not be about the rates being too high, which is the current misnomer.

Councilman Brooks commented that landlords need to get involved to fix electrical issues in rentals in order to help the working poor who are struggling to make ends meet and pay their electric bills. Mr. Olson stated that the City may need to expand its weatherization program in order to help with issues such as inefficient hot water heaters. He said that is something that may need to be discussed with Energy Officer Dennis Gordon. Councilman Brooks made the point that he had been on the Council for nearly a decade and had never seen someone making a decent living wage come before the podium to complain about their high electric bill. He said that those who cannot pay their bills have the assumption that they are being charged a different electric rate. Mr. Olson agreed that he had heard the same thing, but noted that it was the quality of the housing stock that caused people to have increased consumption because everyone pays the same rate. Councilman Walton stated that even though it is not occurring, it could happen because it is according to what is put into the computer that determines what comes out of it. Mr. Olson pointed out that the State of California has just adopted a time of use rate as a conservation method, which could be done with the use of the Nexgrid system. He cautioned that he would never propose a time of use rate for the City because of the controversy surrounding it.

Councilman Walton inquired if the smart grid system could have a flaw in it. Mr. Olson stated that the system only reads what customers have in their house. Councilman Walton stated that some grid systems won't operate correctly if a magnetic field is located nearby. Mr. Olson stated that the Nexgrid system is hardwired and sends a signal via a network back to customer service, so it would not be affected by something like a magnetic field.

Mr. Olson reported that the Finance Committee recommended increasing the Weatherization Program by \$200,000 and he stated that staff had decreased Contingency by \$200,000 to achieve that goal.

Councilman Stimatz inquired if a motion was needed on that matter. Mr. Olson responded in the affirmative.

Motion was made by Councilman Ray Donnelly, seconded by Councilwoman Jean Baker, to increase weatherization and decrease contingency by \$200,000.

Councilman Walton stated that the City Manager had mentioned doing some things differently in the weatherization program. He asked what the budget was for the previous year for weatherization. Mr. Olson responded that it was \$160,000; and the Finance Committee's recommendation would raise that amount to \$360,000. Mr. Olson commented that Councilman Walton's concern seemed to be about what would be included in the program. He said that this consideration would be to simply allocate the resources.

Councilman Walton asked if all funding had been spent in the current fiscal year. Mr. Olson responded that the City was scheduled to spend all the money in the current fiscal year. Councilman Walton stated that his point was that if the City has programs, but those programs are not doing what they should be doing; or if reasons cannot be shown that the programs are viable, why should the budget continue to be increased. He asked what benefit there was to the City to have \$160,000 spent for weatherization.

Mr. Olson stated that the City saw no direct benefit, but that it was the utility customers of the program that averaged a 25% to 30% reduction in the amount of energy they used.

Councilman Walton stated a young lady appeared during the last Council meeting to complain that she had a problem with the contractor that did weatherization work on her home. Mr. Olson acknowledged that the City now requires that customers accept the proposed scope of work to be performed on their home because of the disagreement with that particular customer. Councilman Walton restated that he did not think the City should continue to increase the budget for the program until it was at the standard desired.

Mayor Peel stated that in his mind, if a customer can save 25% to 30% on their electric bill that is a program that is doing a lot of good for a lot of people. He said one of the things talked about for the proposed increase is to benefit an area that the City has not been able to impact, which is rental units. He said the increase is proposed in order to work with landlords to try and impact rentals.

Councilman Walton stated that while campaigning, he found that there are a lot of vacant houses. He questioned putting money into a program that is not benefiting the whole City.

Councilman Horton asked if there is a waiting list of persons wanting to have their home weatherized. Mr. Olson stated that there is a waiting list, but he was unsure of the number of persons. Councilman Horton inquired if there is a set amount appropriated for each house. Mr. Olson said that there is a target amount of \$3,200, but sometimes it was more and sometimes less depending on the home. He stated that staff could provide a breakdown of the amount of money spent on each home that had been weatherized. Councilman Horton stated that he would like to see that information.

Councilman Brooks stated that in the situation involving the customer who complained to the City Council, there is no program with 100% effectiveness. He said that he had recognized that if a citizen comes to the podium, the issue has festered for some time.

He commented that he was certain the City has had good reports with weatherization efforts, but offered that there also could be bad reports. He stated that people with bad reports usually do not come before the Council to talk about their bad experiences. He suggested that to make the weatherization program appear to be what the Council keeps saying that it is, he thought the City needed to make the customer that complained whole, because one bad customer can destroy a lot by word of mouth. He pointed out that the customer had been adamant that the work contracted out was shoddy and he suggested that there could have been some merit that needed to be explored.

Mr. Olson reported that the City performs a pre- and post-blower door test on the homes weatherized and the contractor is not paid unless the results are positive. He stated that this particular customer received a substantial amount of savings in the amount of air being lost. Mr. Olson offered to track the utility bill savings for the customer and reiterated that the analytical tests performed suggested she should have lower energy bills.

Mayor Peel announced that four minutes remained before the beginning of the regular session and suggested that action needed to be taken regarding the motion on the floor.

Councilman Donnelly asked if the City maintains records of homes that are not acceptable for weatherization due to the structure itself. Mr. Olson responded in the affirmative. Councilman Donnelly asked if that information could be available to renters and buyers throughout the City. Mr. Olson stated that specific utility information could not be provided by state law, but customers could request energy usage by square footage of any structure in the City.

Mayor Peel asked for action regarding the motion on the floor.

Motion was made by Councilman Johnnie Walton, seconded by Councilman Darius Horton, to table the motion for more discussion during the regular meeting before voting on it. Those voting in favor were: Baker, Hummer, Stimatz, Brooks, Horton and Walton. Against: Donnelly. Motion carried.

Motion was made by Councilman Tony Stimatz, seconded by Mayor Pro Tem Hummer to table the rest of the discussion and the budget presentation until the regular session. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

Motion was made by Councilman Tony Stimatz, seconded by Mayor Pro Tem Hummer to move the Committee Report to the regular session. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

Motion was made by Councilman Tony Stimatz, seconded by Mayor Pro Tem Hummer to move the call for the public hearing on the budget to the

regular session. Those voting in favor were: Baker, Donnelly, Hummer, Stimatz, Brooks, Horton and Walton. Against: None. Motion carried.

4. Adjournment:

There being no further business to be discussed, Mayor Peel adjourned the meeting at 6:57 p.m.

Joseph W. Peel
Mayor

Vivian D. White, CMC/NCCMC
City Clerk