

**MINUTES OF THE SPECIAL MEETING
OF THE TOWN COUNCIL
TOWN OF CAROLINA BEACH**

May 7, 2007

The Town Council of the Town of Carolina Beach met in a special work session for the purpose of reviewing the proposed Budget for FY 2007/2008 on May 7, 2007 at 4:00 p.m. in the Council Room at the Municipal Administration Building, 1121 N. Lake Park Blvd., Carolina Beach, North Carolina. The following were present: Mayor, Bill Clark; Mayor Pro Tem (MPT), Alan Gilbert; Councilwoman, Pat Efird; Councilman, Jerry Johnson; and Councilman Joel Macon. Also present was Town Manager, Tim Owens and Town Clerk, Lynn N. Prusa.

Mayor Clark called the meeting to order.

PRESENTATION BY TOWN AUDITOR CONCERNING WATER AND SEWER FUND

The town manager introduced the town Auditor, Clement Goodson. Mr. Goodson said the town manager asked him to take a look at the Water and Sewer Fund over the last couple of years because we were having some shortages in the user fees. He was asked to look at the incoming expenses without the other user fees and tap fees in there so we could get a look at what we normally would charge our customers for water and sewer usage and what we would actually pay out for the normal operating expenses of the Water and Sewer Fund. With that said, Mr. Goodson presented a spreadsheet outlining what we've actually charged for w/s services during the last 7 years and number of customers for past 5 years (couldn't find that information for the 2 years prior to that), normal water/sewer operating expenses (doesn't include drainage fees), debt payments that we had to make each year during that time. So if you look at column 5 the total expenses and revenues for each year our normal operating revenues are not covering our normal operating expenses. So you wonder how we've been able to do this every year. There are several things that have come in that haven't been considered such as interest each year, user fees and taps fees and we have always showed a profit in the water and sewer fund for the last seven years so we haven't been short on money but this year we might because we have been budgeting a lot of user fees to come in this year and those user fees are not coming in as anticipated. He previously discussed with the town manager looking at our revenues again in 1999-2000, we had total water sewer charges of \$2,032,000 and last year total charges of \$2,167,000 and you can see how our customers have grown over the last 5 years. There was a decrease of water/sewer rates in 2002/2003. Tim said this is because we dropped the water rates and added a storm water charge. Mr. Goodson said his whole point of the presentation is that it would appear that the amounts we are charging for the water and sewer services is not enough to cover the expenses that we are paying out for the water and sewer services and that is what he tried to highlight in the spreadsheet. It appears that we need more revenue in the water/sewer fund.

Mr. Owens said this year we had \$415,000 water/sewer connection fees budgeted and next year we are proposing \$75,000. Facility fees (which are your impact fees) \$1.2 million dollars budgeted this year, before we did the adjustments, and we are going for \$225,000 is what we are proposing. Anything made more than \$225,000 then you have done well and it can be used for debt service for a project.

HEALTH INSURANCE AND WORKERS' COMPENSATION FOR PROPOSED BUDGET 2007/2008

The town's Human Resources Officer, Sarah Archibald, presented the health insurance proposal for FY 2007/2008. Ms. Archibald said the health insurance was put out to bid and it wasn't a very competitive year. All declined to bid except for one and that was our current insurance carrier, United Health Care. She felt the lack of participation was due to some existing catastrophic claims that we're experiencing. The good news is the options that were presented to us are good. Ms. Archibald presented the various options to Council. The town manager said in the future the town may want to consider converting to an HRA bridge option in order to keep a decent health insurance for the employees and to lower the cost. A motion was made by Councilwoman Efirm to stay with the current plan and that the employee absorb the additional increase for dependent or spouse coverage. **MOTION CARRIED UNANIMOUSLY.**

Next, Ms. Archibald presented the workers' compensation insurance. She shared with Council the final numbers for plan year FY 06/07 and estimated for FY 07/08. She said there was a 70% increase in premium. The first premium was \$190,000 and then when the auditor looked at the actual payroll the adjusted amount was about \$35,000. The experience modifier went down and that is based on history.

GENERAL FUND, WATER/SEWER FUND AND TOURISM FUND

The town's Finance Director, Dawn Johnson, provided Council with a spreadsheet. She anticipated what our collections would be between now and June 30th and the expenditures with a \$139,000 difference exceeding in revenues vs. expenditures for those two months. If you look at the revenues versus expenditures from July of last year through April there is \$118,000 increase which would bring our revenues in higher than our expenditures for the year at \$257,000 for the General Fund; however, if you look at our revenues you will see that we appropriated \$315,000 in this year's budget so if you deduct the two, the appropriation versus the collection, you will actually be going into the fund balance this year to balance the General Fund. The town manager said when all is said and done that means potentially \$55,000 so that is not too bad when all things are considered.

The Tourism Fund is a better situation. Revenues for May and June are anticipated to be \$438,975.00, expenditures \$367,000 which would leave a surplus for May and June

\$71,975.00 and July through April a surplus of \$164,816 so that fund at the end of the year should be up by \$236,000.

The Water/Sewer Fund for May and June revenues at \$2 million approximately and expenditures \$891,754, again if you note the fund balance appropriation for the Water and Sewer Fund is at \$936,000 for this year. If you take into account July through April we have been under collecting an \$904,000 so if you deduct the two, we will have to go into fund balance at about \$700,000+ for the Water and Sewer Fund. The town manager said that is not where you want to be but that is attributed to the facility and connection fees that we are trying to resolve this year so it doesn't happen again.

PROPOSED FEE CHANGES

The town manager and operations director went over the facility fees for restaurants. He said for example a 60 seat restaurant in Carolina Beach would equate to \$30,000 in facility or impact fees. In Shallotte it would be about \$16,000 for the same size restaurant, City of Wilmington \$10,000-11,000, Surf City \$8,200, etc. Southport is the most comparable at \$25,000. The Town of Carolina Beach is on the top and the town manager said he feels that it is a little steep in comparison with most. We charge \$500 per seat. It was the general concensus of Council that the fees are a little too high. The town manager said he will look into it further and bring some numbers back.

Next, the town manager and fire chief went over fire related fees. He said the new fees fall in line with the New Hanover County fees in order to keep it consistent. The fire chief said the biggest change is the plan review fee schedule. This is a new fee that we haven't charged, but all of the other governmental agencies in New Hanover County charge.

Moving on to the water/sewer/storm water fees, the manager went over the changes with one fairly significant change which is a proposal for reconnection that if you get your water cut off it will go from \$45.00 to \$80.00. Mr. Pagley said the OAC felt if you send a man out twice to lock it and in some cases 3-4 times because they have customers that turn it back on and then you have to put the bullet locks on which is a cost to the water department. MPT Gilbert asked, don't you have some kind of tampering fees? It seems that this should cover it.

Another proposed change is from home office, computer rooms, dens, media rooms, etc. to be treated just like bedrooms. The town manager said, as you know, sometimes those dens get converted over into bedrooms. So if it looks like a bedroom it will probably be charged as a bedroom.

There was a reduction of barber shop chair costs, self-service laundry machine was reduced about \$1,000, an increase in the office square footage from \$300 to \$350 but we included bathrooms in the office. In a situation with a bathroom in a lobby you would be charged that way.

Restaurants, bar stools, seats are \$500, but we will take another look and see if that is reasonable. Outdoor fees should be roughly half of the indoor seat cost.

There was a reduction in day care facility.

There was a reduction per person in schools, and it should have been \$250.00 instead of what is before you now.

Medical facilities went up \$50 per 100 square feet.

Car washes came down in cost.

Swimming pools for residential single came down from \$750 to \$500. We also changed the way we figure multi-family pools.

The manager said we also propose wells for irrigation a permit for \$50 so we can track those wells for conservation purposes.

MPT Gilbert asked about outdoor seating restaurants. He asked, when there may not be enough space would you consider seating greater than 10 because if you put 2 chairs out there it could be \$500 or \$1,000? He said that he doesn't think we should make it difficult for the person with a small mom and pop business that puts a small table outside with a couple of chairs. He feels if the outside seating exceeds a certain amount then it could have an impact. The town manager said they will reconsider it.

MPT Gilbert said he doesn't feel that the increase that you looking at for reconnection fees is justifiable. If you are going out 2 or 3 times then there should be some kind of fine because the way it is now it seems a little heavy handed and we should consider that we are a transient community. The finance director said we now give a lot of options that we didn't have before such as on-line bill pay. She said that generally we have the same people that are always cut off. The manager said he doesn't mind going down to \$45 or \$50 so we will consider doing an increased fee each time it has to be reconnected.

This concluded the proposed rates increases.

REVENUE NEUTRAL TAX RATE

Next, Mr. Owens turned over to the finance director the presentation of the revenue neutral tax rate. Ms. Johnson said the way that we did the projections is we took the 2006/2007 tax base and added an average increase of 5.22%. Now when you do the average you have to take out any areas that have been annexed within the last 8 years, so we had to take out the Wilmington Beach area since that was annexed within the last 8 years. That brought the tax valuation up to \$941,719,000 and divide that by 100 gives you the \$ 9,417,000 multiply by the \$.38 cents that we currently charge and multiply that

by the collection rate which is 98.62. The \$3.5 million is what we would be produce based on revenue neutral. If you take our current value of \$2,043,000,000 and divide that by 100, multiply that by 1 cent and that would give you \$244,000. In order to be revenue neutral your final tax rate would be about \$14.5 for the coming year versus the \$.38 cents. The town manager said keeping that in mind we still need to be a little conservative taxing into account that there could be a lower percentage of collection due to taking into account some appeals, the economy, the additional revenue to pay taxes, etc.

OPTIONS FOR BALANCING THE BUDGET

The town manager presented the following options for Council's consideration:

Option 1

Proposes a \$17.5 cents tax rate, and add in debt service for a fire truck and building expansion with that \$17.5 cents tax rates. Transfer \$450,000 to your Water Sewer Storm Water Fund from your General Fund to off-set the revenue shortfall in that Storm Water Fund. That will fund all but about \$17,000 of the storm water budget and the shortfall would be made up by water and sewer rates. There is no proposal for storm water monthly fee increase. The proposal for water would be a \$5.00 flat rate with a \$1.00 variable rate increase to generate about \$520,000 of additional revenue total between the two funds. There was a SCADA project in WWTP, but although it is an important project, Lift Station #1 wasn't programmed into this budget and the manager would rather reprogram that into this budget. He said this is administrative more than anything else. It still requires a \$250,000 General Fund appropriation and a reserve fund appropriation of \$120,000 from the Water and Sewer Fund and Storm Water Fund and after the numbers are tweaked we may not have to allocate the whole \$250,000 from the reserve fund but this is how we are moving this Option #1.

Option 2

This option is somewhat similar. It increases the storm water monthly fee to \$10.00 which is up from \$5.25. It would generate \$300,000 more dollars over the current year's revenue stream. The proposal of water and sewer rates being increased \$2.00 variable rate which increases some revenue. The tax rate would go down from \$.17.5 cents to \$.16 cents which would be \$1.5 cents above revenue neutral. There is still some appropriation from both fund balances.

Option 3

Basically ad valorem tax rate be set at \$.16 cents; water and sewer flat rate increase of \$10.00; variable rate at \$2.00 and no increase in storm water fees.

Option 4

This option is a little harder to understand. The ad valorem tax rate at \$.16 cents; water sewer flat rate of \$4.00 per month; variable rate stay the same but you be charged at that first gallon used.

Option 5

Setting ad valorem tax rate at \$16.5 cents; transfer \$250,000 from Water and Sewer Fund from the General Fund to help off-set the shortfall revenue in the Water and Sewer Fund; your flat rate would go from \$6.00 increase with a \$1.00 variable rate. The storm water fee would go up \$3.00. The problem with this would be you would still have some fund balance appropriation from both funds, and then you probably wouldn't be able to afford the fire truck or expansion.

The manager said none of these are good scenarios, but they are options. He has been wavering between option 1 and 2, but overall he recommends option 2 which backs off the tax rate somewhat.

Mayor Clark asked the fire chief to come forward concerning the fire truck issues. Chief Roberts said they estimate the truck to be between \$800,000-900,000. The building expansion, depends on the option, but shouldn't exceed \$500,000 and all total about \$1.5 million. The town manager said debt service wise that is about \$100,000 per year with a 20 year loan on each.

Council discussed the various options. MPT Gilbert made a motion to approve option 1 considering the critical services that we have to provide. He suggested that the town manager may be able to skim this down. The manager said if he can get it down to \$.17 then he will, but he doesn't know if he can. Mayor Clark asked for a show of hands and **MOTION DENIED.**

MPT Gilbert asked how many people would vote for option 1 with a \$.17 tax rate, giving the manager a little more direction. The town manager said he will just have to not fund something or come back on something. MPT Gilbert said so his option right now is either don't raise storm water fee and only raise the flat rate a total of \$5.00 and the variable rate \$1.00. Councilman Macon said he wouldn't support it because he is a renter and he has a water bill ... I don't mind paying more for water but I'm not paying any for storm water. The rest of the Council was in general agreement. The town manager said in the next few weeks he will trim as such as he can.

There being no further business, Councilwoman Efirm made a motion to adjourn.
MOTION CARRIED UNANIMOUSLY.

Respectfully submitted,

Lynn N. Prusa
Town Clerk

Approved: _____