

SPECIAL MEETING
BOARD OF ALDERMEN
TOWN OF WAYNESVILLE
ANDON-REID INN BED AND BREAKFAST
92 DAISY AVENUE, WAYNESVILLE, NC
MAY 13, 2011
FRIDAY, 12:30 P.M.

The Board of Aldermen held a special meeting at 12:30 p.m. on Friday, May 13, 2011, at the Andon-Reid Inn Bed and Breakfast, 92 Daisy Avenue, Waynesville. Board Members present were Mayor Gavin Brown, Aldermen Gary Caldwell, Wells Greeley and LeRoy Roberson. Also present were Town Manager Lee Galloway, Finance Director Eddie Caldwell and Assistant Town Manager Alison Melnikova.

Mayor Brown called the meeting to order at 12:30 p.m. and suggested that the group eat lunch provided by the owners of the Andon-Reid Inn, Ron and Rachel Reid. Following lunch, the Mayor noted that the purpose of the meeting was for a Budget Retreat, beginning discussions on the budget presented to the Board at its regularly scheduled meeting on May 10, 2011. Mayor Brown then called upon the Town Manager for comments.

Galloway made opening comments regarding the budget document that had been presented to the Board on May 10. He noted that there was nothing particularly noteworthy about the current budget for 2010-2011. Revenues had been pretty much as anticipated, with some signs of economic growth and recovery. While property tax collections might be off slightly and water and sewer revenues not quite up to expectations, expenditures have run lower than expected as well. The budget for 2010-2011 called for appropriations from the reserves of all four funds, but it appears the Water Fund and Sewer Fund will not expend any reserves and the Electric Fund will only need a small portion of what was budgeted. The General Fund, which called for \$906,000 in expenditures from reserves, might actually need one-half that amount. Overall, he stated, the Town will end up the year in very good financial condition.

For the 2011-2012 budget, Mr. Galloway noted that the General Fund proposed in the amount of \$13,369,440 had been almost the same amount over four years, with the 2011-2012 budget being \$24,460 less than the initial budget proposal of \$13,393,900 for 2010-2011. He praised department heads for their diligence at being able to operate at less cost and more efficiently and hold budget costs down in the face of rising health care costs and higher expenses for gasoline and diesel fuel.

Galloway noted that the Town's tax rate for 2011-2012 was proposed at 40.82 cents per \$100, and he referred to the formula prepared by the State Local Government Commission to ascertain what a "revenue neutral" tax rate would be. Finance Director Eddie Caldwell explained the formula and provided the Board members with the work sheets used to determine the revenue neutral rate. Galloway noted that in the property revaluations taking affect this year, some property went up in value and some declined in value; consequently, even if the rate remained at 40 cents per \$100, some owners would see an increase and some a decrease depending upon whether their values went up or down. The revenue neutral rate was an attempt at providing the Town with the same amount of tax revenue, allowing for the average growth in the tax base a locality has experienced over a four year period.

Members of the Board suggested that Town Staff develop some "talking points" for the Board which might be helpful for the elected officials in explaining the revenue neutral tax rate or other issues in the budget that might be contentious or raise questions from the citizens.

The Town Manager advised the Board that the budget proposed a 3% across the board, cost-of-living adjustment for all full time and permanent part-time employees. He noted that this would be the first general increase that employees had received in three years, since August, 2008. He noted that when work on the budget began in January, a cost-of-living adjustment was a priority as it was felt Town employees needed additional compensation in light of rising food and fuel costs. In addition, he pointed out that the Town had been notified of an increase of 21% in health insurance premiums, and the Town would be absorbing most of that cost on behalf of employees. An actuary study revealed that the retirement systems provided Local Government and Law Enforcement Officers needed a .53% increase in employer contributions, and this has been included in the 2011-2012 budget.

A discussion ensued about Merit Pay Increases. Galloway explained that under the Town's Pay Grade System, many employees were bunched in the lower steps of the pay grades. He said that the analysis of the pay plan done in 2008 indicated that the Town suffered from "compression" in the pay grades, by having too many employees in the lower steps. The Finance Director noted that in the past, the Town granted merit increases, and employees were promoted into higher steps on their pay grades. He noted that the last merit pay increases were funded in 2001-2002, and since then, employees had been stacking up on top of each other in the pay steps, with no one moving higher in their pay grades. Galloway pointed out that the problem with this is an employee with ten years on the job may be in pay step 4 while an employee with 2 or 3 years' experience may be on pay step 3. Had merit increases been available, perhaps the ten year employee would be on pay step 8 or 9.

Board members suggested that they would like to consider a merit pay system in the future, though they realized that it would be difficult to implement such a system now with the economy not generating the needed funds for the Town's budget to take on such an expense. Galloway did note that in some communities, there are no cost-of-living adjustments, only merit increases. He suggested that if the Town is to put a merit system into practice, department heads would need training to assure any promotions or pay increases are truly based upon merit and not simply because an individual is on the job. He noted that in the past when merit raises were granted, a poor performing employee got the same merit increase as an employee giving 110%. Until the raises are truly based upon merit, he could not support a merit system. Assistant Manager Alison Melnikova reminded Mayor Brown that he had expressed interest in Performance Measurements in the past, and that this might be a way to implement that program. Staff will look into a merit pay system during the coming fiscal year.

Galloway continued a review of the General Fund, noting that much of the capital outlay had been removed from the 2011-2012 request when the Board agreed to allow nearly \$170,000 in added capital expenditures from the 2010-2011 budget. He did note that there was a \$90,000 appropriation to resurface the two swimming pools at the recreation center, an extra \$100,000 for the resurfacing of streets and \$60,000 for sidewalks. Requests for other sanitation equipment had been turned down at this time as we wait on the results of the solid waste study to determine future direction.

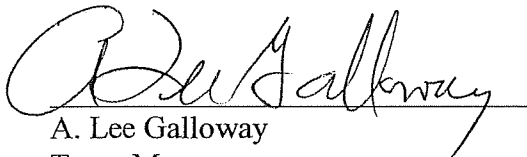
Caldwell noted that the Town was buying 105,000 gallons of gasoline and diesel fuel to operate vehicles and equipment, and the increased cost had meant significantly higher expenditures for the Town. Galloway noted that for each penny the price went up, it cost the Town another \$1,050, and for a \$1.00 increase, it meant \$105,000 more in costs annually.

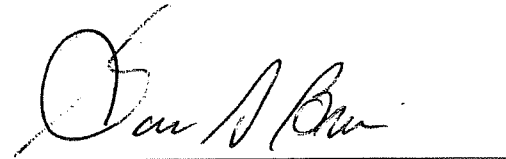
The Board discussed health insurance costs briefly, and Mr. Caldwell explained that the new rates proposed by Blue Cross-Blue Shield would mean a 21% increase in premiums. The reasons for the rate increases were discussed and the manager noted that for much of the year, the losses were less than the premiums. At some point that changed and the insurance carrier had to make adjustments to cover the losses. The Town's agent will be meeting with Town representatives on Tuesday, May 17, to discuss the increases and any options that might be available. The Town is also requesting quotes from other firms in search of a way to hold costs down.

The Town Manager referred the Board members to the report on the Town's debt and the payment schedules found in Sections 6 and 7 of the Budget. In reviewing the list, he pointed out that while the Town's finances may be tight at present, over the next five years the Town will be paying off a considerable amount of debt in both the General Fund and in the Enterprise Funds. Mayor Brown referred to the list and in a quick calculation noted that by the end of the 2015-2016 fiscal year, the Town will have paid off \$8,950,000 in principal and interest out of the \$19,639,420 in total principal and interest owed by the Town. Galloway noted that while there will likely be some new debts for equipment and smaller projects, there should not be many other large projects and expenditures such as the ones made for the recreation center, fire station, police station and development office, large water tank projects and the electric substation. He noted that the only other large items in the \$1,500,000 to \$2,000,000 range should be renovations to the municipal building and the aeration basin at the wastewater treatment plant. Otherwise, he estimated that the Town will be paying off much more debt than it will be incurring.

The Finance Director suggested that when the Town pays off some of its debts over the next five years, it might use some of the funds that become available to make extra payments on structures financed for longer periods, such as the fire station and the police station and development office. The Town will never be debt free, but the debt may be much less. Mayor Brown advised the Board that under State law, the Town is eligible to incur debt of around \$75,000,000 under a formula that allows a percentage of the Town's tax base; however, with slightly less than \$20,000,000 in debt, the Town is well below the maximum allowed.

Having arrived at the end of the General Fund discussion, Mayor Brown suggested that the Board members set a time for continuing discussion on the proposed 2011-2012 budget. Members agreed that Monday, May 16, 2011, at 5:30 p.m. was acceptable. On a motion by Alderman Roberson, seconded by Alderman Caldwell, the meeting was recessed at 4:20 p.m., to reconvene at 5:30 p.m. on Monday, May 16, 2011.


A. Lee Galloway
Town Manager


Gavin A. Brown
Mayor