

TOWN OF SILER CITY

The Siler City Board of Commissioners met in a Budget Workshop Session on **Tuesday, February 10, 2015** at 6:30pm in the City Hall Conference Room with Mayor John Grimes presiding.

ELECTED TOWN OFFICIALS PRESENT: Cindy Bray, Larry Cheek, Mike Constantino, Lewis Fadely, John Grimes, Bill Haiges, Thomas "Chip" Price and Tony Siler.

TOWN STAFF PRESENT: Town Manager Bryan Thompson and Finance Director Tammy Speicher.

Manager Thompson requested the following items to be added to the agenda: Insurance Exploration and Private Special Events.

A motion to approve the agenda with the additions was made by Commissioner Fadely, seconded by Mayor Pro Tem Cheek and unanimously approved.

NEW BUSINESS

Water & Sewer Rates Revenue

Manager Thompson shared the following information with the Board of Commissioners:

During the previous year's budget workshops for the current fiscal year's operating budget, the Board of Commissioners determined that a multiyear utility rate increase is necessary in order to comply with State Law, eliminate the risk of State control of the Town's local utility, address manifest deficiencies in the Town's utility infrastructure, reduce reliance on Fund Balance, replenish Fund Balance, account for depreciation, and work toward long-term systemic improvement programming to the Town's aging utility infrastructure.

The conceptual multiyear plan agreed to by the Board is a three-year stair-stepped approach. Following is an overview of the three-phased plan shaped through these discussions.

FY 2013-2014 (Base Year)

The current year rates and rate structure is as follows

Base Charge Water	23.00
Base Charge Sewer	7.00
Per 1000 Gallon Water	3.51
Per 1000 Gallon Sewer	3.51

Rates and structure, if kept static, will likely be able to cover operation and maintenance costs (including debt service) for the coming fiscal year with limited capital improvement capacity to the utility system and will not be sufficient to address depreciation.

FY 2014-2015 (Year One)

Base Charge Water	23.00
Base Charge Sewer	10.00
Per 1000 Gallon Water	3.75
Per 1000 Gallon Sewer	3.75

Operation and Maintenance:	Fully Funded	(Current Year Expense & 5% Inflation)
Debt Service:	Fully Funded	(Based on Next Year Debt Service Schedule)

Capital Improvements: \$137,000.00 (Available as Operational Expense)
 Depreciation: Funded at 25% (\$314,407.75)

FY 2015-2016 (Year 2)

Residential

Base Charge Water 23.00
 Base Charge Sewer 12.00
 Per 1000 Gallon Water 4.00
 Per 1000 Gallon Sewer 4.00

Commercial

Base Charge Water 23.00
 Base Charge Sewer 16.00
 Per 1000 Gallon Water 5.25
 Per 1000 Gallon Sewer 5.25

Operation and Maintenance: Fully Funded (Current Year Expense & 5% Inflation)
 Debt Service: Fully Funded (Based on Debt Service Schedule)
 Capital Improvements: \$137,000.00 (Available as Operational Expense)
 Depreciation: Funded at 62.5% (\$786,019.00)

FY 2016-2017 (Year Three)

Residential

Base Charge Water 23.00
 Base Charge Sewer 15.00
 Per 1000 Gallon Water 4.50
 Per 1000 Gallon Sewer 4.50

Commercial

Base Charge Water 27.00
 Base Charge Sewer 23.00
 Per 1000 Gallon Water 6.00
 Per 1000 Gallon Sewer 6.00

Operation and Maintenance: Fully Funded (Current Year Expense & 5% Inflation)
 Debt Service: Fully Funded (Based on Debt Service Schedule)
 Capital Improvements: \$137,000.00 (Available as Operational Expense)
 Depreciation: Funded at 100% (\$1,257,630.00)

Staff believes the foregoing structure is appropriate and remains relevant in present time. However, Staff is working on two projects to afford the Board another look at alternative fee structures and phases. The first effort Staff is undertaking is reviewing current year performance of the first year phase adopted with the current fiscal year operating budget. This will help demonstrate the extent to which the rates adopted by the Board for the current year are, or are not, performing as anticipated. Based on this analysis, Staff will be able to recommend any

modifications to the proposed fees for the coming year assuming continued utilization of the already identified plan (the plan charted above).

The second effort of Staff is engaging the UNC School of Government. UNC SOG offers utility rates analysis utilizing more sophisticated designs to best determine utility rate structures. The primary focus of this study is to avail alternative methods of billing (i.e. predicating rate structure and billing on meter size).

These two efforts will offer the Board more complete information and will enable the Board to make a more informed decision on rate increases.

Staff is not asking for any action on this matter, and discussion is anticipated to be relatively limited until the aforementioned projects are complete and data can be shared with the Board. Staff is, however, seeking to entertain discussions about rates in a more general sense. This will enable the Board and Staff to be congruent in our expectations and anticipated goals when moving forward with this discussion once more information is available.

The Board of Commissioners discussed the Water and Sewer Rates.

Fadely: Will all the research be done by UNC SOG or will staff be working on this as well.

Thompson: Both

Fadely: What is the time trade off? What would staff be giving up to work on this?

Speicher: We would have to fill out a spreadsheet and UNC SOG will feed the information into a model. We have not started yet, I can't answer that question.

Bray: The base rate will stay the same, the sewer will go up, the water will go up about \$2, and then we are talking about having an increase in tipping fees. We are looking at \$8 a month increase on the bill, what is that percentage? That seems like a high percentage to go up and is there not something else we can do?

Thompson: The water rates effect the Water Sewer Fund and the tipping fees effect the General Fund. We are losing \$100,000 in the General Fund because the NCGS repealed the privilege license. That's where the idea of the tipping fees came in, where we can identify the current expense for the services customers are receiving and we can recoup the privilege license monies. In the Water Sewer Fund, last year the State sent us a letter, putting us on notice that we are not sustainable and we are not covering out expenses with the fund.

Fadely: The recommended study of the meter size, would that be cheaper?

Thompson: We don't know.

Fadely: The senior citizen may not be impacted as much?

Thompson: We don't know.

Grimes: When someone has a leak, they find the leak, and bring an invoice to the Town showing they had the leak repaired, is there adjustment made on the bill?

Thompson: The adjustment is made on the sewer side only. That's a long standing policy, one that many other communities share. We look at the 6 month average sewer and give a credit. We don't credit the water because the expense has been processed.

Haiges: The Debt Service and Deprecation is what we have now. If we do additional water lines, it is not recognized, right?

Thompson: Right.

Fadely: How has the Water Filtration Program worked?

Thompson: One application in review, but not much traction.

Pay Study

Manager Thompson shared the following information with the Board of Commissioners:

Discussions concerning pay plan analysis and a review of existing positions and employee numbers and types (for current and future years) spanned several meetings of the Board of Commissioners, including strategic goal setting and budget retreat meetings. Resulting from the discussions held at these meetings the Board directed Staff to identify vendors that could offer a scope of service to conduct such analysis and the anticipated costs and timeframe for the same. The intent offered by the Board is to conduct the subject analysis during the current fiscal year, which will allow the Board to make budgetary decisions for FY2015-16.

Scope of Analysis

Between the strategic planning meeting and the budget workshop, the following scope was generally identified:

- Workforce Adequate Staffing:
- Identify current level of services and operations
- Determine optimal staffing levels based on services and operations
- Determine appropriate staffing level growth for future years
- Determine what levels of human resources services is needed (outsource vs. in-house hire)
- Conduct pay study to ensure current employee compensation is appropriate and competitive in the relative market

Currently, Staff is soliciting several vendors to identify the extent to which they offer services that align with the scope as herein identified and the associated costs for said scope. At this time, Staff has received one proposal. This proposal is from the Mercer Group, and it is attached, following this memorandum. The subject proposal involves the last point identified in the above, under "Scope of Analysis" (employee pay study). Staff is seeking a fuller proposal to determine cost and capacity of this, and others, for conducting the greater range of activities.

In speaking with Phillip Robertson of the Mercer Group, Staff was instructed that the pay study will likely require 2.5 to 3 months to complete. Since this is the case, and as the intent of conducting the pay study is to assist and inform budget discussions, getting started with the process as soon as possible is important. Staff will make all efforts to have more complete and additional proposals to the Board as early as we are able.

In addition to the process timeframe, Staff was advised to only conduct the study if there is a real commitment to implement some level of action on the heels of the study's results. The rationale issued by the Mercer Group is that taking no action following such a study may tend to have an adverse impact on employee morale. It's important to note, Staff will not have revenue projections available for review until some point in the month of March. This is afforded to timelines of revenue information being made available for analysis. Such information includes valuation data from the County and other large revenue data respective of sales tax, franchise shares and Powell Bill projects. These projections are filtered down from the State and the NCLM.

That said, Staff was further informed that "taking action" does not necessarily mean making full compensation adjustments all at once. Rather, it was suggested, that in the event there is limited fiscal wherewithal to take a full measure at one time, that a multi-year incremental plan is a sound measure that can be utilized in bringing compensation to market norms over a longer period of time. This could be done with a 3 to 5-year compensation adjustment plan.

The vendor suggested that the Group's observations find that typically, such studies result in a 1.5% to 2.5% range. However, it was indicated that under more extreme instances, the Group has seen ranges upward of 14%.

In addition to the above considerations, if the Board does decide to move forward with the study and commit to taking some form of action following the study, the Board and Staff should also look to how such compensation increases, if any, should be operationalized. One thought is to approach market compensation adjustment as a one (or multi-year) across-the-board adjustment similar to a cost of living adjustment (COLA). The alternative approach may revolve more heavily around a merit-based program that brings individual compensation levels up to market standard by way of performance measures over the course of one or multiple years.

The Board of Commissioners discussed the Proposed Pay Plan Study.

Cheek: I would like to see the Town do some COLA and some type of merit.

Haiges: Do we know what amount of money is available?

Price: We should come up with a figure and set it aside.

Grimes: We are not a private enterprise, we have retirement etc.

Bray: Some supervisors may not want to give a merit.

Capital Request List

Manager Thompson shared the following information with the Board of Commissioners:

A list of all capital requests for each Fund and the Departments. Capital Items identified for multiyear financing are identified in the spreadsheet as well, with a four-year outlook on debt obligation associated with the financed items. Thompson stated this information should help the Board recognize the annual budget implications of the noted requests.

The Board of Commissioners discussed the Capital Request List.

Bray: Where is the greatest need?

Fadely: What are the top 2? Requests need to compare apples to oranges or vehicle to vehicle and employee to employee.

Waste Management Tipping Fee

Manager Thompson shared the following information with the Board of Commissioners:

During the latest annual budget retreat, the Board discussed migrating the solid waste service fee closer to a "user-base" fee. Currently, the subject fee covers the actual cost of the contracted service provided the Town by Waste Management (household and recycling curbside service). The cost associated with the tipping fees relating to these services are not presently recuperated through the Town's fee schedule.

A spreadsheet produced by Finance that demonstrates tipping fee charges to the Town by Waste Management for contracted services for the last five calendar years – beginning January 2010 and ending December 2014. In addition, the spreadsheet also notes the additional amount that would have been billed to individual accounts to cover the subject tipping fee charged to the Town.

The data shows, there is no discernable trend that can be readily identified, as the annual tipping fee amounts tend to fluctuate from year to year. Therefore, this will look at two measures: 1) utilize end-of-year January 2014 as a baseline projection for fiscal year 2015-2016; 2) utilize actual average of the past five calendar years as a

representative projection for the next fiscal year. The former will result in a lower projected expense, while the latter will render a higher projection.

Using year ending January 2014 as a general projection of tipping fee expenses for the coming fiscal year, the Town may anticipate a gross payable to Waste Management of approximately \$161,000.00. Dividing this amount by the customer base receiving solid waste services through Waste Management, and further dividing by 12 months; the projected fee increase would be \$5.81.

When applying the five-year average as a basis for projecting future year expenditures for contracted services tipping fees, the monthly increase to the individual customer will be \$6.11. This rate increase would be projected to generate \$169,369.00 of additional revenue to account for the subject costs. This represents an \$8,000.00 difference to the projected annual revenues as compared to a \$5.81 rate increase.

A Town fee schedule adjustment based on either of the projections herein identified will move the Waste Management contracted services for solid waste collection and disposal for household and recycling waste closer to a 100% cost recovery model. However, all other solid waste services provided by the Town (loaner truck program, white goods, brown goods, and yard waste) would remain as a set of services subsidized by other revenue sources of the Town.

The Board of Commissioners discussed the Tipping Fees.

Bray: We need to verify the number of recycling carts available.

Grimes: Look at good success other municipalities.

Speicher: If the house is vacant, the cart remains. If the house is abandoned we pick up the cart.

Haiges: The fees don't include yard waste pick up.

Price: We need some service for yard waste and we need to look at other ways of doing business.

Grimes: We need to come up with options.

Constantino: With a loss of \$100,000, we need to come up with options.

Insurance Exploration

Manager Thompson shared the following information with the Board of Commissioners:

Insurance premiums, deductibles, and programs represent a substantial portion of the annual operating budget for each of the major Funds of the Town. Workers' Compensation, Property, Liability, Life, and Medical insurance are the several parts of the Town's annual insurance picture. Presently, the Town works through the North Carolina League of Municipalities (NCLM) to supply the Town with these respective coverages and services. The Town's relationship with the NCLM, in this regard, is long-standing, and to Staff's knowledge, none of these items have been "shopped-out" for a considerable period of time.

Multiple values and variables should be considered when entertaining possible transitions in any one of these insurance pieces. The following are just a number of such considerations:

- The value in coordinating and operating through a single vendor,
- The extent to which the various coverages are relevant and appropriate,
- The extent to which the broker, through which such coverages are established and administered, understands and remains engaged in providing for the particular needs of the Town,
- The extent to which the broker is able to present dynamic alternatives to more accurately address and fit the changing needs and demands of the Town,

- The flexibility of the vendor to offer such alternatives,
- The extent to which the underwriter is able to withstand annual, or short-term, market influences (internal and external),
- The fidelity of the vendor in advocating for the Town,
- To the extent applicable - the performance of overseeing the policy/program (working soundly and effectively with the Town, its employees, other regulatory agencies/systems, underwriting, etc.), and
- The balance of the foregoing against the actual costs of the subject policy/program.

By most, and arguably all, accounts, the NCLM has performed well for the Town of Siler City. However, Staff believes periodic market-testing is a healthy practice and one that can a viable alternative to the Board for their consideration.

Understanding that the NCLM is a valuable partner to our Town, and communities across the whole of North Carolina, Staff seeks guidance from the Board to determine if the Board is interested in gaining information for such alternatives, or if the Board prefers remaining with the NCLM.

Staff seeks this guidance before committing to this project since the process will require considerable time and attention on Staff's part. In addition, if there's not a strong desire from the Board to consider moving from the NCLM to another vendor, Staff would want to be respectful of the time of the other vendor(s) that might otherwise be tapped to assist in this process.

The Board of Commissioners discussed the Insurance.

Special Events

Manager Thompson shared the following information with the Board of Commissioners:

The Town of Siler City has enjoyed a long-standing tradition of community festivals and special events that infuse a concentration of culture and celebrates a collective history and community pride, and tends to bring the larger community together and attracts those from outside the Siler City area into our Town. Some events such as the Chicken Festival and Siler City Alive have discontinued for various reasons, yet giving way for other community activities and festivals such as the Milo Holt Film Festival and the annual National Night Out. Irrespective of the staged location or name, such events inspires and informs our sense of community, pride in our community and exhibits the spirit of Siler City.

The benefits engendered by these events are largely intangible, but no less real. However, over the course of several recent communications with the Siler City Board of Commissioners and Town Staff, fiscal considerations have become increasingly relevant especially in light of the number of proposed events currently being realized during exceedingly strained economic times. The primary focus expressed by the Board in this regard relates to the actual cost to the Town during these events – more specifically the cost of providing personnel.

Following this memorandum is an updated cost analysis of what a "typical" festival event costs the Town of Siler City. "Typical" is defined by an eight-hour event consisting of minimum Police and Public Works personnel. This definition of typical incorporates the assumption that all other factors remain equal; however, it should be noted that not all events are equal and require varying levels of public resources. Therefore, the attached information serves as general guidance. Please also note, additional law enforcement personnel is required when multiple intersections are being closed for an event.

According to the following spreadsheet calculations, an eight-hour event can cost the Town upwards of \$2,600. Staff seeks guidance from the Board to identify practices of other communities when events of private individuals/organizations seek to close public roadways to facilitate such events.

The Board of Commissioners discussed Special Events.


Price: We need to look at the money events bring into the Town.

Grimes: Some businesses are open on Saturday. We need to identify cost recovery for special events.

Grimes: We need to look at other towns and the number of intersections used.

ADJOURNMENT

With no further business the Board of Commissioners adjourned.



John F Grimes, Mayor

ATTEST:



Jennifer J Everage, Town Clerk

