

**Town Council Minutes
Morehead City, North Carolina**

**Tuesday, May 11, 2010 at 8:00 a.m.
Special Meeting/Work Session**

The Honorable Council of the Town of Morehead City met in a Special Meeting/Work Session on Tuesday, May 11, 2010, at 8:00 a.m., in the Municipal Building Auditorium at 202 South 8th Street, Morehead City, North Carolina. Those in attendance were:

MAYOR:	Gerald A. Jones, Jr.
MAYOR PRO TEM:	Demus L. Thompson
COUNCILMEN:	George W. Ballou Paul W. Cordova David Horton John F. Nelson
CITY MANAGER:	R. Randy Martin
CITY CLERK:	Jeanne M. Giblin
OTHERS:	Finance Director Ellen Sewell, Fire/EMS Chief Wes Lail, Deputy Fire/EMS Chief Craig Forlines, Deputy Chief James Fulk; Reporter Mike Shutak, THE CARTERET NEWS TIMES

General Review

Mayor Jones opened the Special Meeting/Budget Work Session at 8:00 a.m.

Manager Martin began to review the budget material by highlighting on page 9 of the work session materials, the summary on impact fees from housing development. He commented that the City has collected over \$3 million from developers in the form of impact fees since the 1980's when the fee was initially established. The City continues to collect these fees, however, when development slowed, the revenues decreased. The City's impact fees have not been adjusted in a number of years. He explained that Morehead City charges quite a bit less than its peers in impact charges when building a house. This may be something the Council needs to review, however, the City does not want to slow development, but must stay current with the times.

Councilman Horton commented that it is expensive to pay the impact fees when building a house. He feels the City should encourage building within the City then the City receives the benefit of more property tax revenues.

Manager Martin commented that at the present time the City is very competitive with these fees and considerably lower than area peers.

Included in the policies and goals set for consideration in the coming year is for the Public Utilities Committee to recommend to the Council a reserve level of funds in the Water/Sewer account. The Committee met and recommended this level be the equivalent of at least a year's debt service charges [around \$2 million]. This is another way the Council can be prepared for future capital projects.

Councilman Nelson was of the opinion that the City needed to hold the line of utility expenses and not spend on capital projects in view of the current economic situation.

Manager Martin replied that the City should have a balance between the impact fees and enhancing development. He stated that many of the approved capital projects were funded by grants and all aimed at meeting current and up to 20 year needs.

Councilman Horton commented that in regard to specific capital projects, he is not 100 percent behind the proposed reuse water facilities unless it is fully grant funded. He felt the City can accomplish getting reuse water to the parks much less expensively without an elevated tank. With all the other projects the City is doing, this project may not be feasible.

Manager Martin conceded that if the grant would not fully fund the project for the City, he would not recommend borrowing money for a reuse water system.

Councilman Thompson stated that if the grant is not received he felt the City should just use a small pump type system for serving the City parks and not build a large holding tank for the system to be used by commercial developments.

Manager Martin continued reviewing page 16 which shows the projection on how the operating system is working with regard to the water/sewer fund. The rebatable water/sewer capital reserve fund on page 10 was reviewed showing the activity over the years. The traditional use of the fund is to supplement developer funds for project upgrades and to extend the utility system. This fund allows a resource to fund the City's share of extending the utility system without utilizing the regular user fee water/sewer funds. He continued that the City's share is \$169,000 to upgrade the lift station and utility lines for the development of The Vinings apartment project on Wildwood Road at the western end of the City. This expansion would bring the water/sewer lines to the end of the City's jurisdiction. The developers will reimburse the City in the amount of \$300,000 to \$400,000 for their share of the project. The Public Utilities Committee of the Council endorsed this project. The figures shown are estimates of the actual cost. It is to the City's advantage to encourage regional development of the water/sewer system. This development will provide the City the land for a lift station. The City is participating in this project with funding from the rebatable reserves.

The Council reviewed the Sidewalk Reserve Fund on page 11 which is contributed by developers. The funding will be allocated to finish a section on Mayberry Loop Road to the Kings Terrace Apartments. The City also has funding from the "Safe Roads to Schools" grant from the state to complete the sidewalk from the vicinity of the Morehead Middle School on Barbour Road to Mandy Lane. This will also include a boardwalk section at the creek.

Councilman Thompson was of the opinion that the City should as a priority allocate sidewalk funding to sites that are heavily used by children.

Finance Director Sewell reviewed page 12 and the projections for the rest of the fiscal year. She commented that revenues in the General Fund are coming in as projected. Restricted Intergovernmental Revenues are \$417,000 under budget primarily due to several grants that were deferred or were not funded. One was Little Nine Road which was deferred to next year and another was the COPS grant which was not funded this year. Several other items were delayed such as the Mitchell Village water access site project. Page 13 explains the breakdown of the fund. The state held back 2/3 of the beer and wine tax revenues to the City. When the budget was adopted, this was unknown and not factored into the projection last year. Permits and fees are also not as much as the City had anticipated. Revenues from sales and services will be a little better than predicted. The City is also collecting from rental properties. Investment earnings will be less than projected. Miscellaneous revenues will show a positive variance. The City is currently in foreclosure procedures on several properties for unpaid taxes and when the properties sell, a considerable amount of money will be realized at one time.

Finance Director Sewell continued explaining page 12 stating that some of the expenditures were reduced especially for police services and road construction when the earlier referred grants for some projects were not funded.

Councilman Thompson commented about the City making efforts to address concerns about keeping the water channels and water access areas open. He commented that it is a necessity to keep them viable.

Manager Martin reminded the Council about the harborline study findings and that the City has never appropriated any funding to keep the water channels open, however, the City has applied for grant funding to do repairs to the channel on the waterfront [Harborline project].

Councilman Ballou endorsed the City continuing to seek grant projects to keep the Morehead City channel viable.

Finance Director Sewell stated that it is projected that the City budget revenues will exceed expenditures by \$295,000 at year end. She commented that \$650,000 was borrowed from the Sewer Fund by the General Fund for the acquisition of the Jib property. It is projected that the City will have an almost \$3 million fund balance which could be used to retire debt or fund capital projects.

Councilman Thompson commented that he would rather borrow money from another fund rather than seek conventional financing and have to pay higher interest rates.

Manager Martin commented that whenever possible having the City borrow from its own funds and paying it back to that fund is a good deal for the City both for the interest savings while having the fund which loans the money earn interest. The City also avoids loan fees charged by banks.

Manager Martin reviewed page 37 on the projected debt and debt service for the water/sewer fund.

The Council took a ten [10] minute break.

Fire/EMS Fund

The Council reviewed the Fire/EMS Fund. Finance Director Sewell stated that the revenues are expected to meet the budget estimates. The City had intended to borrow \$500,000 to purchase a site for Fire Station No. #2. Instead this year the City spent \$1 million for the purchase of the News Times building and set up a capital project fund. The City intends borrowing the funding for the entire purchase and renovation through United States Department of Agriculture financing. This project requires the City to spend \$500,000 of available reserve funding to be applied to the project. This funding was transferred to the capital project fund. Revenues received from Morehead City service to the fire/EMS district areas outside the City limits are on target. She explained that the City is expected to be \$280,000 in revenues over expenditures as the City did not have to acquire the debt service on the anticipate loan to buy land since the City paid cash this year. There is a contingency of \$100,000 which is not projected to be used. There will be \$550,000 available for appropriations for future uses.

Manager Martin stated that the City is in a position to consider acquiring a new ambulance this year rather than delay until the new budget. He distributed a report on the repairs and condition of the City's ambulance fleet from the Fire/EMS Chief Lail. He stated he had thought the county would be further advanced in their Emergency 911 project and that motivated the delay in purchasing the ambulance which was needed last year. However, the City finds itself in the position of needing an ambulance and the sooner the better. He recommended that the process begin as soon as possible as even the newest ambulance has had numerous repairs.

The Council discussed various models of ambulances and it was the consensus of Councilmen Ballou and Horton to investigate the purchase of an International brand truck as an ambulance. Chief Lail estimated the cost of a Chevrolet model to be approximately \$125,000 with the International brand expecting to be much more.

Manager Martin commented that the City would try to "piggyback" an ambulance bid of another governmental unit. The staff needed to be authorized to start the process in the current budget year. The Public Safety Committee of the Council recommended starting the process to acquire two [2] new ambulances within the next few years.

Fire/EMS Chief Lail stated that the department needs two [2] in-service ambulances at all times.

Councilman Nelson commented that the equipment needs of the Fire/EMS Department should be the decision of the fire personnel as to identify what ambulances need to remain in service and which unit should be taken out of service.

The Council concurred to start the process on the acquisition of a new ambulance and to proceed with the "piggyback" bid process for approval on the next Town Council agenda. At the same time it would be prudent to investigate the pricing on an International unit and the trade-in value of the 2006 ambulance.

City Manager Martin introduced the matter of the financing for the acquisition and renovation of Fire/EMS Station No. #2 on Arendell Street which was initially discussed at the April 13, 2010, Council Meeting with the decision continued while management sought additional information. He explained to the Council that according to the feedback which he

received from the United States Department of Agriculture [USDA] Rural Development on the proposed loan and grant is that if Morehead City does not accept the offer “on the table” the City will be back in a competitive position or in essence an “open market” with no assurance of receiving financing from the USDA. He continued that at the prior Council Meeting the Council was concerned with the structure of the funding with the City funding having to be spent before the monies from the loan and grant. The Manager advised that the USDA wanted a response within 30 days of the offer so a decision needed to be made as soon as possible.

The offer from the USDA is for an approximately 4 percent fixed interest rate for a 40 year term in an amount up to a \$2.075 million loan with the opportunity for a \$200,000 grant if the project cost exceeded the City upfront allocation from reserves and the authorized loan amount. The City does not, however, have to use any more funding than what would be needed and authorized by the Council for the project. The set funding must be allocated in the form of a capital project appropriation for the project which cannot be exceeded unless the Council agrees by approving a budget amendment. Finance Director Ellen Sewell confirmed the limitations noted by the Manager. It was City Manager Martin's recommendation that the City accept the offer. The alternative would be to have the City fund the project with conventional financing. The City has already funded a substantial amount of monies specifically the costs associated with site acquisition for the project. The USDA loan requires no interim interest or pre-payment penalties which results in a significant cost savings. The 40 year debt service lowers the impact on the City's budget for the coming fiscal year. He recommended that the Council authorize acceptance of the terms of the offer with the clear understanding that the City will not borrow more than what the Council would authorize to fund the project.

The Manager and Finance Director confirmed it is important, in terms of the audit and the negative impacts on the City's financials, that the financing for the project be completed before June 30, 2010. Otherwise, the City will not be reimbursed timely which will significantly reduce the City's June 30, 2010, reserve totals by more than a million dollars which the City will receive as reimbursement for to date expenses on the project. The USDA funding does not require State Local Government Commission approval the timing of which for alternative financing would delay closing beyond fiscal year end. The current rates and terms for conventional financing would also strain the City's budget flexibility to pay the required higher annual debt service and cost the City more in closing costs and other charges.

Councilman Ballou commented that he wanted it fully understood that the budget on this project would not be increased by the action currently before the Council. He advised the Public Safety Committee discussed this in detail and the Committee Members have been assured by the City Manager that they will be active in the design process with the goal of staying within budget to the maximum extent possible.

Councilman Ballou MOVED, seconded by Councilman Nelson, and carried unanimously, to adopt Resolution 2010-23, with the clear understanding that the Council is not increasing the capital project funding by authorizing acceptance of the USDA offer for financing, and to formally accept and authorize the offer from the USDA, Rural Development for the Fire Station No. #2 Project in an amount of up to a \$2,075,000 loan and \$200,000 grant.

Councilman Horton questioned how the City staff initially arrived at the cost of \$2 million for the project.

Manager Martin stated that a very preliminary architectural estimate was developed prior to the purchase of the property and based upon an arbitrary per square foot unit cost estimate which with other associated typical project cost estimates totaled \$1.3 million for renovation and site improvements and \$1.05 million for the land acquisition.

It was mentioned that preliminary plans for the facility would provide available space for the Morehead City Police Department to occupy a small portion of the Fire/EMS Department Station #2 facility dedicated to their needs as a satellite police station. Councilman Ballou noted this would save the costs associated currently with rental of the current satellite police office.

Councilman Horton commented that he would like to see some real plans developed and have the entire Council involved with the planning of the project.

Councilman Cordova questioned the plans for the current Fire Station No. #2 location once the new station site is complete. He understands that the property would revert back to the county schools as stipulated in the deed if the City ceased using it. He wondered whether the building would have to be removed by the City.

City Manager Martin replied that there are really no definite plans for use of that building at this time. He acknowledged that if and when the City abandons the property, it reverts back to the Carteret County School System unless the City continues to utilize it for the purposes stipulated in the deed [i.e., emergency services]. He and Fire/EMS Chief Lail acknowledged that the county or community college may have some interest in use or the county schools may need it, but the building would likely need significant renovations.

The Council concurred to review all options.

Fire/EMS Chief Lail stated that the department is reviewing a grant to acquire a fireboat and distributed information on the grant. He continued that the present fireboat is currently out of service and has had multiple repairs.

Manager Martin commented that the City received an award for the joint work with the Town of Atlantic Beach for their response to the boat accident that happened under the Morehead City/Atlantic Beach Bridge this fiscal year.

Deputy Fire Chief Craig Forlines stated the department is using the Police Department skiff for emergency response currently. He spoke about fighting a fire from the water side.

The Council concurred to pursue the application for a grant for a fireboat.

The Council took a ten [10] minute break.

Manager Martin spoke about the City property on 5th Street where a City well was located. The well will be capped and the City should attempt to sell the property. It was stated that the property was formerly owned by Tidewater Electric.

Personnel

Manager Martin advised that the retirement system which had not had a change in over 28 years will have an employer rate increase which will adversely impact the General Fund in the amount of \$53,000 and the entire City funds for over \$87,000. This is a mandated increase which will utilize funds that could otherwise be considered for providing salary adjustments.

He continued that the employee health insurance from Blue Cross has increased. To keep the current benefits there is an increase of at least 6.08 percent which equates to over \$52,000 in additional costs. For the family benefits there is an increase of 7.3 percent. Dental insurance had a nominal increase of 50 cents per month per employee which would cost the City less than \$1,000. However, there is an increase of \$1 for the family coverage paid by employees per month. These items negatively affect the City's ability to consider increases in salaries as well. He commented on the consideration of a health reimbursement account for future budgets, but this will have to be reviewed carefully.

Manager Martin explained that, according to the school superintendent, there is a good chance that the state will not fund enough money for the school resource officer position at the Morehead City Middle School. If this is not funded, the City will not pay to maintain this position. He also explained that the grant to fund two [2] police officers was not funded and these positions will remain frozen.

He recommended freezing the same positions which are currently not funded. He also stated it may not be possible to give any increases in salaries given the budget restraints and the lack of growth in revenues.

Councilman Nelson stated that two priorities for this budget in terms of capital projects should be to start renovating the Jib property and the planning process for the Charles Wallace School.

Manager Martin advised that the City has some funding to pursue the required architectural evaluation to qualify for use of tax credits for the Charles Wallace School renovation if the building is deemed an approved historic structure. The county has expressed a continued interest in space at the site. The City has been earning revenues from the rental of part of the building to the Cape Lookout Charter School, however, the school may lose its charter at the end of the school year.

The Council spoke about the current police station at 202 South 8th Street and how to proceed once it is vacated by the Police Department. The Manager advised he is evaluating options to utilize the structure in the short term for staff to alleviate some crowding at the current City Hall and eliminate paying rent.

Councilman Nelson questioned the status of the Newport River boat access project

Manager Martin replied that soil samples from the Newport River access site were submitted for analysis to determine if it would be acceptable to place the dredged material at the State Port spoils area. CAMA is awaiting this information after which their permit will be issued and project bids taken.

The Council set the date of Thursday, June 3, 2010, at 5:30 p.m. [Clerk's Note: This time was later changed before being advertised to 5:00 p.m.] for the Public Hearing on the FY2010/2011 budget. The Council also set the date of Tuesday, May 18, 2010, at 8:00 a.m. for a Special Meeting/Budget Work Session.

Councilman Thompson MOVED, seconded by Councilman Ballou, and carried unanimously, to enter into CLOSED SESSION as per G.S. 143.318.11[a][5][i][6], for the purpose of discussing property acquisition and personnel.

Councilman Horton MOVED, seconded by Councilman Thompson, and carried unanimously, to return to OPEN SESSION.

The meeting was adjourned at 12:00 noon.

Gerald A. Jones, Jr., Mayor

Attest:

Jeanne M. Giblin, City Clerk