**MINUTES OF THE SPECIAL MEETING**

**OF THE REIDSVILLE CITY COUNCIL**

**HELD TUESDAY, FEBRUARY 5, 2013 AT 9:00 A.M.**

**FIRST-FLOOR CONFERENCE ROOM, CITY HALL**

**CITY COUNCIL MEMBERS PRESENT:** Mayor James K. Festerman

 Mayor Pro-Tem Tom Balsley Councilman Donald L. Gorham

 Councilman William Hairston

 Councilman Richard Johnson

 Councilman Clark Turner

 Councilwoman Sherri G. Walker

**COUNCIL MEMBERS ABSENT:** NONE

**CITY STAFF PRESENT:** Michael J. Pearce, City Manager

 Angela G. Stadler, CMC, City Clerk

 Chris Phillips, Assistant City Manager/Finance Director

**CALL TO ORDER.**

Mayor Festerman called the meeting to order, stating the reason for the special meeting was to hold a budget work session. He turned the meeting over to City Manager Pearce.

The City Manager first offered a few housekeeping items. He laid out the schedule for the session, which would include at 11 a.m. meeting with officials from the Reidsville Downtown Corporation for about 45 minutes. He also noted the need to have a closed session at the end of the meeting today.

**MID-YEAR REPORT.**

City Manager Pearce turned the meeting over to Chris Phillips, Assistant City Manager of Administration/Finance Director. He noted that Phillips has done a lot of work gathering the information for the Mid-Year 2012-2013 Report.

The report as presented follows:

**City of Reidsville**

**Mid-Year 2012-2013**

 **Review**

**December 31, 2012**

**This is a review of the operations and budget of the City of Reidsville for the six months ending December 31, 2012. Revenue highlights by source and departmental expenditures by category have been analyzed for midyear status. In addition, an overview of annually funded special revenue funds and internal service funds will be reported.**

**Revenues**

**General Fund**

## Taxes

**The largest source of revenue in the General Fund is Ad Valorem taxes. Table 1 compares collection of Ad Valorem taxes and interest to the budget at December 31. The collection rate for current year taxes of 73.42% of budget is up versus 67.40% in December 2011. An important percentage to evaluate is the collection compared to the total levy billed. According to the preliminary Rockingham County tax status report for December, collections compared to the levy for 2012 taxes are approximately 73%, 7% higher than the prior collections through December. Current year collections of prior year taxes are also shown in the table below.**

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## State Shared Revenues

**State shared revenue collections are presented in Table 2. Sales tax revenue from the State is directly related to sales, and therefore to the economy as a whole. The State provides a Hold Harmless Distribution to compensate for eliminated reimbursements in prior years. This is the last fiscal year covered under the current hold harmless plan. The City will have a reduction in revenue next year. Utility Franchise Taxes and Alcoholic Beverage Taxes are distributed because of their state-wide generation. Powell Bill funds are distributed to municipalities to assist in street maintenance.**

**The table below is presented using an adjusted budget. Due to the varying distribution times for these revenues, this comparison is more relevant at 12/31/12. For example, the Alcoholic Beverage Tax is always paid in May – so the December adjusted budget for that item is $0, because we know we would not have received any funds for that purpose.**

**The collections for the items below are right at the budgeted levels. The most volatile item below is sales tax. While collections for this revenue are currently on target, the number only reflects four months. For every 1% of these revenues that may not be collected, the City would have a shortfall of $23,000. This revenue source will need to be monitored and any projected shortfall will be addressed closer to the end of the fiscal year.**

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#### Licenses, Permits and Fees

**Other licenses, permits and fees appear in Table 3. These revenues are generated by fees charged by the City or from contracts the City has with other agencies. Because these fees are collected throughout the year, at 12/31/12 the adjusted budget is set at 50% for most items. Collections are close to the amount expected.**

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Other Revenues

**Other General Fund revenues are presented in Table 4. Most of these revenues are dependent upon outside factors that are hard to estimate as indicated by the sporadic collection percentages. The majority of these items are received evenly throughout the year; therefore the adjusted budget – the amount expected as of 12/31/12 – is 50% of the original budget. As shown, some items are a little ahead while others a little behind. The reimbursement for the school resource officers has been paid in full for the year. In total, these revenues are at expected levels.**

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**Recreation Revenues**

**Revenues collected for recreation fees/sales through 12/31/12 total $94,418, 39.81% of the annual budget ($237,200). Recreation revenue is of a seasonal nature with some collections, particularly at the Lake, increasing in the last six months of the year. Collections appear reasonable at this time. As spring approaches and the dam/spillway project nears completion, the lake level may be increased to normal. This could be a boost to recreation revenue.**

**911 Fund**

The 911 special revenue fund has realized a collection rate of 58.64% ($58,637) of the annual budgeted revenue ($100,000) at the end of December 2012.

**Water Revenue**

**Water revenue collected for the six months ending 12/31/12 is listed in Table 5. The adjusted budget is 50% of the total amount budgeted at the half-way point in the year for these accounts. Water sales to Greensboro for the first half of the year are at 145% of the contract distribution for the year; Greensboro billings for the first six months of the fiscal year total $462,000. Total billed consumption for the system compared to the pumped is approximately 85%.**

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**Sewer Revenue**

**Sewer revenue through December 31, 2011 is reported in Table 6. As with the water revenues, sewer revenues are basically earned evenly throughout the year. The adjusted budget is for 50% of the adopted budget. The total consumption billed compared to treated is approximately 99%.**

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**For debt purposes, the two funds are considered one Combined Enterprise Utility System. The shortfall in Sewer revenues can be offset by the surplus shown in the Water fund, if this trend continues for the fiscal year.**

**Garage**

**Internal charges for the first 6 months of Garage Services ($226,077) is 37% of the amount budgeted for the year ($608,750); therefore, the garage budget appears reasonable.**

**Interest Income**

**The funds of the City are combined, when possible, so that all excess funds are available for investment. Interest income is recorded in each fund, based on the fund’s related amount of cash. At the midpoint in the current fiscal year, the City has earned approximately $41,800. Of this amount $40,000 has been allocated to the operating funds (General, Recreation, Water and Sewer). Interest in these funds was budgeted at $75,000 for the year; therefore, we are at 53% funding half way through the year*.***

**The amount budgeted for interest was cut from last year’s budget, but historically low rates have extended and dropped. There appears to be no rate relief possible before the end of this fiscal year. Certificates of deposit (CDs) continue to be the best investments for the City at this time, and two local banks have been offering competitive rates. The last CD that matured had a rate of .95% and was reinvested at .40%.**

**If rates stay at this level as other CDs mature during the year, the projected revenue from this source may not be met this fiscal year.**

Expenses

**General Fund**

**General Fund expenses are 45.37% of the budgeted amount as shown in Table 7 for the six-month period ending December 31. The budget amount shown does not include transfers to other funds. Transfers are discussed separately below. Also in Table 7, there is a breakdown of General Fund expenditures between Operating, Capital and Debt. The majority of our debt service is now on annual payment schedules, and none have come due for the current fiscal year. Economic Development is obviously well below budget. This department includes incentive payments that must be earned and other commitments that have not been requested for payment. The departments that have exceeded 50% have large contracted service contracts that are paid at the beginning of the year, skewing the numbers slightly.**

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**Parks and Recreation**

**Table 8 below shows Parks and Recreation expenditures by department as of December 31, 2012. The fund in total has spent 44.63% of the annual budget. Parks and Recreation has a lot of activity in the Spring – therefore the percentage spent to date is of some concern. There is no cushion for any large maintenance issue that may arise.**

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Fuel

One operational line item that is watched closely across several departments is fuel. In order to keep budgets consistent while preparing for potential increase in fuel cost, a contingency account of $35,000 was set up under the City Manager’s control. After six months, about 54% of the funds budgeted for fuel has been used. If this level of use continues, there will be the need to use $20,000 of the contingency. Any decrease or increase in fuel costs will have an affect; however, no additional funds, other than the contingency, should be needed.

911 Fees

Below is a chart showing expenditures in the fund as of 12/31/12. The City Council previously authorized the use of these funds to pay off an eligible portion of USDA debt related to recent renovations. This payment has not yet been made.

 Water

**Table 9 below shows the Water Fund Expenditures as of 12/31/12, excluding transfers. Direct operational expenses are at 42.01%. This percentage is expected to be close to 50% at mid-year. The debt payments shown are the first installment on the bonds issued for the dam/spillway project – only one interest payment has come due to-date.**

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**Sewer**

**Table 10 below shows the Sewer Fund Expenditures as of 12/31/12, excluding transfers. Direct operational expenses are at 48.38%. The capital budget includes engineering studies that are in progress. The only debt payment to-date has been for interest; principle payments are not due until June 1st each year.**

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**Transfers**

**Table 11 has a summary of transfers as of 12/31/12. The transfers noted as cost reimbursement are only at 50%, because these amounts are being charged quarterly for cash flow purposes.**

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**Garage**

**The Garage Fund expenditure rate is 37.36% at midyear, in line with the corresponding revenue of the fund.**

**Police Separation Trust Fund**

This fund maintains the police separation allowance retirement benefits. Transfers from the General Fund are the funding source for this budget. The fund was designed to cover current costs, as well as build funds for future liability. At 12/31/12, the expenditures are at 50.28%. The annual actuarial report that reviews the data related to this fund for financial soundness, indicates that the fund balance is quite adequate compared to future accrued liabilities at this time. With several retirements falling in the last couple and the next couple of years, these expenses will be increasing. It may become necessary to use some of the accumulated fund balance for annual expenses. This will be considered at the time of annual budget preparation.

**Insurance Reserve Fund**

This fund operates as an internal service fund for tracking City health insurance; workers’ compensation; professional liability; property and equipment liability; and other insurance costs. Revenue in this fund is transferred from the operating funds that generate the costs. The expenditure rate in this fund is at 95.63%. As the year progresses, any excess in costs will be charged to each department; and they will be asked to cover the amounts, if any, from their existing budgets. The health insurance reserve is also maintained in this fund.

**Summary**

**The mid-year financial position of the fiscal year 12-13 budget appears sound based on the comparisons above of budgeted amounts for revenues and expenditures. The collection of revenues has been at a steady rate and expenditures are within the budget. Please let me know if you have any questions about any of these figures or if more detail information is desired.**

**Chris Phillips,**

**Asst. City Manager – Admin**

**Finance Director**

**1/29/13**

* **End of Mid-Year Report -**

As he went through the report, Phillips noted that tax collections are currently at 73%, which is ahead of where the City usually is this time of year. He was unsure of why, adding that we are in good shape but it is always the last 1-2% that is the hardest to collect. Mayor Festerman commented that a lot of collection comes between January 31st and July 4th. If vehicles are taken out, collection would probably reach 90%, he said.

On page 2, Phillips pointed out other State-shared revenues collected, especially the Hold Harmless funds. He explained that this is the last year the City will be receiving those funds, which this year total $194,000. He gave a brief history of these funds, which came about around 2002 due to a sales tax change. The ten-year period is up even though the sales tax change has not increased revenues like the State thought it would, City Manager Pearce said. Phillips noted that starting out the budget process for next year, the City is already in the hole that $194,000.

Upon questions from Council, Phillips noted that the Alcoholic Beverage revenue listed is different from the revenue stream provided by the ABC Store, a revenue stream which has increased since the ABC Board has paid the building off. He explained that Powell Bill funds are provided annually by the State for road repair, but he added that we usually spend three or four more times what the State gives us. With only four months collected, the percentage of sales tax collected is at 100%, Phillips said.

This led to a discussion of a proposal to get rid of income taxes in North Carolina and go to a State sales tax only. Phillips said a 1 1/2 cent sales tax increase has been mentioned. Mayor Festerman noted that under such a system, retirees would be hurt because they don’t pay tax on retirement.

City Manager Pearce stated that the City used to be conservative with sales tax projections but was now more liberal. He said currently we are about $200 over in terms of projections for the year.

Phillips then moved to the Licenses, Permits and Fees section of his report, which he said includes the local ABC revenues. The Mayor asked where are we on Internet Cafes? Phillips said they would be listed under Privilege Licenses. It was noted that we could lose about $15,000 due to the loss of these cafes.

Phillips explained that the Tourism Development Authority (TDA) and Occupancy Tax are exactly the same. All of these revenues are sent back to us, he said. Privilege License collections are low because those are billed in the spring, the Finance Director noted. City Manager Pearce reminded Council members that it was agreed during last year’s budget review that staff would look to see if any of these fees need to be adjusted. He said they would get those recommendations to Council early in the budget process.

Regarding Other Revenues listed on page 3, Phillips pointed out that the school system paid for the school resource officers in advance. The school system pays for 85% of the three officers’ salaries and benefits. Police grants are somewhat low because of the timing of filing, he said. The Sales of Fixed Assets comes from any City auctions held. Questioned about whether the City will have an auction this year, Pearce indicated that departments are evaluating their stock. He said he thought we have enough older rolling stock to justify an auction.

There was a brief discussion on the rental revenues of Market Square, much of which comes in the spring. The City Manager noted that we are new to the rental business. He was not sure what the rental rates were but he noted that many people are turned away by the insurance policy requirement. The Mayor asked if we should look at marketing Market Square better for rental? It was agreed that we should. Councilman Gorham asked what the average cost of a $1 million insurance policy was, but staff was not sure. Mayor Festerman asked if we should look at cutting the policy back? Pearce said that had been cut back once already and cautioned against it in case something happened, and we didn’t have enough insurance to cover it. Phillips said that is true of all of our facilities, not just Market Square.

Looking at Recreation Revenues, approximately 40% of fees and sales through the year have been collected, Phillips continued. He added that these revenues usually pick up in the spring. The 911 revenues are fine, he said.

Water revenues are already at 117% halfway through the year, but Phillips explained this was due to the City of Greensboro being at 145% of its contract. If they stay at the same rate, it should mean a half million dollars extra in revenues, the Finance Director said. Greensboro only has to pump 250,000 gallons a day through the lines to keep the lines from being stagnant, he added. Even if Greensboro cuts back, we should still break even, he said. Phillips did note that one of our largest water users seems to be down a little in water usage, which does make a difference.

This led to a discussion of the separate Water and Sewer Funds, which are cumbersome to manage. For debt purposes, they are considered as one utility fund. In fact, while they will be kept and managed separately on the books, this year’s budget will show them as a combined fund, Phillips said. Since staff is using the funds as authorized by Council, this will eliminate the need for the City Manager to come back to City Council to pay bills between the two funds. Giving the Council a historical perspective, Phillips explained 25 years ago these funds had been combined.

The Mayor asked about the surcharge fees which are listed at a 339% collection rate. It was noted that this is “a wash” because there were expenses charged such as cleanup fees.

Mayor Pro Tem Balsley asked about the status of the dam project. City Manager Pearce said the project was just finishing up. With the recent rains, the water is two inches below water level at the dam with water going over the spillway for the first time in two years, he continued. The State still wants the water to be four feet below but staff is trying to get that changed to two feet below, he said. Pearce said the contractor is about a week or so from doing everything, and the City should see some cost savings, especially on the inspections side. Councilwoman Walker asked about the boat ramp extension. Pearce said. The ramp is not finished but they hope to finish it after the lake level is down again. Phillips said he doesn’t know what the actual cost savings will be. City Council had approved a resolution which means the City will probably be able to pay ourselves back for all of the upfront costs, he said. Councilman Gorham expressed interest in touring the dam project.

The Garage Fund is only at 37% of what has been budgeted. Phillips said this is just the activity they’ve had so far this year. Councilman Hairston asked if staff was still looking into the garage and its efficiency? Pearce said that would be discussed later in the meeting.

On page 5, Phillips pointed out under Interest Income, the City has not been earning a lot on investments. The City’s last Certificate of Deposit (CD) to mature had been at a rate of .95% but was re-invested at .40%, he explained. He said that $75,000 has been budgeted for such income, and we arecurrently at $40,000. He said we should get to the $75,000 projection, but it will either be right on it or a little short. The Finance Director continued to talk about the City’s investment possibilities, including the North Carolina Capital Management Trust. Pearce noted that the City doesn’t want to invest at such low rates for too long a period of time in case the interest rates go back up.

Moving to the expenses side of the report for the General Fund, Phillips showed that the expenditures to date are at only 45.37%. He stressed that the departments are very conservative with their monies. Pearce added that they are expected to come in less than what was budgeted. Phillips noted that if each department saves about $100 per line item, that turns into thousands of dollars of savings. Mayor Pro Tem Balsley asked what are the next big projects out there? Pearce said the senior center is one such project, even if this year only sees the expenditure of architectural design fees for the proposed facility.

Reviewing the table on page 6, the IT (Information Technology) Department is at 59% of its budget. Phillips said many of the IT contracts are done in July and that’s when the number goes up. The Economic Development number is low at 7% because the City is waiting to pay out those monies once the companies meet their requirements for the incentives, it was explained. The debt service listed is for vehicles and a fire truck, Phillips noted. These payments have not come due for the fiscal year. The Police and Street Departments are starting to see some turnover in employees which may be a sign that the economy is doing better, he said.

Mayor Festerman asked if we scrutinize Maintenance and Repair line items enough? There was a brief discussion about these line items and how they are spent. Staff stressed the need to keep these accounts because repairs are unpredictable. Some years are better than others, Pearce noted.

Parks and Recreation expenditures were discussed. Phillips explained that more monies are used in the spring when there are more sports activities. In response to a question, it was noted that Assistant City Manager Wiggins’ full salary comes out of Community Development.

Fuel is budgeted in each department. The City also has a contingency account, Phillips explained. Currently, the funds are at 54%. Mayor Festerman said he thought it was a good idea to put aside this account for fuel costs citywide. If this level continues, $20,000 of the $35,000 in contingency funds may be needed. Phillips said he thinks the contingency fund is working well.

Out of the 911 Fees fund, only $32,676 has been spent, Phillips said. The debt service of $200,000 can be paid out in a lump sum payment owed to the United States Department of Agriculture (USDA) this year, he added. Phillips stated that it may be good to do this since the funds are not making any money at current rates. Mayor Festerman questioned whether USDA grants can be used for water and sewer improvements? Phillips said the City is too large since such grants are based on population and need to be under 10,000. Phillips praised the current USDA agent for his help in securing grants and letting the City know of opportunities. Pearce said the a large part of the proposed Senior Center might be eligible.

The Water and Sewer Fund expenditures are in good shape at less than 50%, Phillips said. Debt payments haven’t come through yet, he added. Transfers for cost reimbursements are done quarterly, he stated. He gave as an example that 50% of the City Manager’s salary is paid through these funds based on all the projects going on right now although such percentages will vary.

The Police Separation Trust Fund is at 50%, which is where it should be, Phillips said. The Insurance Reserve Fund, which is at 95%, pays its premiums upfront, thereby dictating that any excess costs are paid by departments throughout the year.

In summary, Phillips said the City is where we should be and in “good shape.”

In response to a question from Councilman Hairston regarding the wellness program, Pearce said staff is preparing a report for March. Phillips said the City does its insurance renewal in April or May, and staff will come to Council if an increase in rates is needed. It was noted that the City is struggling to get employees to jump in the wellness program. Efforts are being made to incentivize people to take part, but it has been slow, Pearce acknowledged.

Mayor Festerman complimented Phillips’ Mid-Year Plan and its simplified format.

Discussion then returned to the wellness program. Councilman Gorham asked how many full-time employees there are? Pearce said 173 full time, and with dependents and retirees, over 300 people can take part in the wellness program. Initially, 83% signed on, he noted, adding that some employees have participated in parts of the program but the percentage is still low. Mayor Pro Tem Balsley asked if Council can access the health coach, to which the answer was in the affirmative. Our current health coach is leaving in May, Pearce added. He also said they have been stressing that the wellness coach, who is employed by the Wellness Coalition, can access health information. Employees of the City cannot. Councilman Gorham asked, the health coach works two days a week at what salary? Pearce replied that the insurance company pays the health coach, but the City does pay $30,000 a year for that service. The money comes from the insurance premiums, he explained. Our insurance company told us that finding the two people to be diabetic during the first screening probably paid for the program, the City Manager added. Phillips pointed out that the City also receives a credit with our re-insurer for having the program.

Following a short break, discussion turned to the S&R Plan.

**SUSTAINABILITY & RESILENCY PLAN.**

City Manager Pearce explained that in order to assist with the annual budget, they have been looking at potential expenses for the next 5-10 years, evening out those expenditures to determine a predictable amount of capital to put into projects. They have been looking at various things, including the effects of 9-1-1, the garage, etc. This has provided them with the “bones” of a plan so they can then get figures together for needed capital improvements and operational plans. Pearce said they first wanted to talk to City Council and get a general consensus on a concept as they move forward. As they go forward in the budget process, this plan will start to take shape, he added.

Their basic concept, Pearce said, is to continue to provide and sustain our current services, which is the first step. Mayor Pro Tem Balsley noted that “sustainability” is big buzz word right now. He asked if that incorporates thinking about revenue flows, etc.? Phillips said they are thinking about the next five years. Revenues will probably be flat with small increases in revenues and expenditures offsetting each other so they are looking at the big things, he said. Pearce added we are asking how can we do it with flat revenues and big projects? With the S&R Plan, they can project a sustainable picture for the future.

Phillips then went through the plan as follows:



**SUSTAINABILITY**

**&**

**RESILIENCY**

**PLAN**

**SUSTAINABILITY - Identifying and providing for the current services and liabilities of the City of Reidsville.**

**RESILIENCY - The protection of the City of Reidsville’s sustainability as conditions change.**

**Executive Summary**

It is the desire of the management of the City of Reidsville to build upon the level of accountability presented in each annual budget. To do this, information has been compiled looking out over the next five years. This information was obtained within the scope of a few assumptions – basically that there are no major increases expected in revenues and that the City desires to continue the core services currently offered. This Plan is presented at a level of detail deemed appropriate. In some cases, the Plan raises questions that will need to be answered by departments going forward. Some recommendations are being presented within the Plan.

The first section of this report further explains the Plan and the assumptions used to prepare it. The report then moves into some challenges and opportunities in the first year of the plan. These are known items that contradict the assumptions, such as decreases in revenues.

The remainder of the Plan discusses the capital needs of the City and how those needs could be met. There is a section on the two primary resources the City has for capital purchases – fund balance and debt. While no formal policies are recommended, there are a few parameters presented for both of these sources.

Departments were asked to submit capital needs for five years. These requests were then categorized, without a detail review or substantiation. The Plan then recommends how to approach providing for these requests. Some small capital items and maintenance may be provided by utilizing potential surpluses in the current year. At this time, the detailed requests are not being presented. These request need to be further analyzed and supported before specific recommendations can be made. This information will used as needed as current budget discussions progress.

A major issue outlined in this section of the Plan is to further analyze the possibility of moving toward outsourcing fleet services. This possibility would work in concert with a recommendation to reduce the size of the City’s fleet and moving toward maintaining a younger fleet.

Further information can be provided as needed for the items presented in the Plan. Going forward, the Plan should be updated and supplemented as needed for it to be useful in the budgeting process.

**The Plan**

In order to enhance the City of Reidsville’s (the “City”) annual General Fund budget process, this sustainability and resiliency plan (the “Plan”) is being presented. This Plan is proposed to be a living document to be adjusted and updated annually as relevant information is received.

The Plan has been compiled under a few basic assumptions:

* The City provides a set of core services to our Citizens that are desired to maintained;
* Revenues show no sign of significant recovery in the next five years;
* To maintain the services currently provided, operating costs should remain fairly constant over the next five years;
* Capital expenditures and debt service are the most variable parts of the annual budget;
* Capital equipment will need to be assessed and replaced as needed to maintain core services (replacement should not be based on a pre-set retention schedule).

Obviously, the resources the City has to sustain services, Fund Balance and debt capacity, are limited. Therefore, the service needs are competitive. Using a broader scope will allow the City to prioritize and maximize borrowing power. Resources will be considered across the needs of the entire City, not purely at the department level.

The plan can be used and accessed as follows:



**Challenges and Opportunities for 2013**

**Revenues**

One of the basic assumptions of the Plan is that revenues will not change significantly within the next five years. The City has three primary revenue sources that are reflective of the economy: property tax, sales tax and investment earnings. These revenues are lagging sources – there must be improvement before we see increases. Once the National, State and Local economies start to improve, construction will increase, purchases will increase and the interest rate will rise. Some small growth is to be expected in revenues.

At the current time, there are a few known revenue issues that must be considered.

**Hold Harmless Distribution**

The City is slated to lose $194,000 in the 2013-2014 fiscal year from the State Transitional Hold Harmless distribution. These funds were established as part of a sales tax change in 2002. The payment was initially set up to be paid for a certain number of years. Over that time period, it was thought that the new sales tax process would consume the old process and naturally eliminate the hold harmless amount. That was happening, as shown by the annual decrease in the City’s distribution until the 2008 financial downturn. The hold harmless amount increased to its current level. Unless legislative action is passed to extend the distributions, the hold harmless payments will end.

**Charges and Fees**

Almost all of the charges and fees of the City are not designed to cover the related costs of the service provided. The sanitation rate included on the monthly utility bill, for example, is to cover the corresponding tipping fee charged by the landfill. It was not set to cover the cost of the entire operation. Likewise, none of the recreation programs charge enough to cover the cost of the service provided. If the true cost was allocated to each participant through user fees, the charge would be prohibitive for participation. Other general revenues are meant to support the services of the City, primarily property tax and sales tax. With that in mind, it is the responsibility of each department to charge a relevant fee for some services. These charges should be comparable to like services charged by other governments or service providers. In a few instances, the City should try to recoup any direct cost of a service if possible. Animal control is a good example. The City should charge at least the amount that is charged by the County when an animal is taken there to await pick-up. Each year during the budget process, one or more departments may request a certain fee be increased. For 2013, each department is being asked to assess every fee charged and to make recommendations for increases that are warranted.

**Grant Revenues**

The City has been fortunate to receive grant funding for several services from Federal, State and Local agencies. It appears that this type of funding is on the decline. When funding is received for a new or expanded program, it is with the understanding that the program must be examined once the funding ends. Some grants include a continuation clause for the program. The City will always explore grant opportunities, with a focus on providing funding for established programs when possible, in lieu of expending services. The loss of grant funding has the most impact in the Police Department as discussed in more detail below.

**Expenditures**

Another basic assumption of the plan is that maintaining services with no additions or expansion, will control costs. While this is true, there will be natural inflation over the next five years. Small offsetting increases in revenues can be expected to offset some expenditure increases.

Below are expenditures outside of the basic assumption that need to be considered.

**Salaries and Benefits**

The City’s employees are the largest resource and the one of which to be most proud. The City will consider cost-of-living and potential merit increases with every annual budget. It also the plan of the City to continue doing annual job studies to ensure salaries are fair and competitive, as long as changes in the market make such studies relevant.

It has been the position of City’s management over the last couple of years that all open positions be considered for changes before being opened to be filled. The City never instituted a hiring freeze, but because of the opportunity of attrition, job consolidations or moves to part-time employees was encouraged when possible. The elimination of the Parks and Recreation Director is one successful example.

**Reidsville Police Department (“RPD”)**

As alluded to earlier, some of the revenue and expenditure items to consider reflect directly on the RPD. In fact, due to various circumstances, the RPD is the most contradictory City department in relation to the basic assumptions of this plan. Fortunately, this also means that there are some significant opportunities at the RPD as well. Highlighting the RPD is not intended to be a critique of the department; they, simply, are the area that currently has some issues that need consideration.

Grants

The RPD has been very fortunate to receive grant funding over the last several years from Federal and State agencies. These grants have provided much needed stand alone equipment and equipment related to grant officer positions.

Below is a summary of the grant positions obtained by the RPD:



As shown above, the grant opportunities pursued by the RPD brought a significant amount of resources into the department. The City contributed approximately $386,000 in matching funds for these programs. Prior to receiving any of these grant positions, the RPD had 44 sworn officers; this number has grown to 50 thru these grants. When the funding for the Domestic Violence and Gang Reduction Investigator ended in 2011, the RPD requested the City continue the two positions. The need for the specific service was cited. The knowledge of the officer in the gang grant was presented as invaluable. That officer has since been reassigned, through a promotion, to patrol. These two positions cost approximately $88,000 a year for salaries and benefits. If the six grant positions that are still in existence are funded once the grant funding has ended, the City will incur approximately $270,000 a year for salaries and benefits. There are also additional costs associated with training, equipment, vehicles, etc., for each of these officers. Every year, these positions should be reviewed to determine if the City can continue to provide the related specific public safety service.

Retirements – Separation Allowance

In the late 1980’s, the NC General Assembly approved the NC Separation Allowance for Eligible Law Enforcement Officers. This act created supplemental retirement income for sworn officers that met specific requirements. The officer must complete 30 years of service, or have a combination of age and service. The service has to be specific to law enforcement for a certain amount of time as well. If eligible, the retired officer draws an amount based on a defined calculation of years of service X salary X .85%. The benefits continue until the retired officer turns 62 or returns to work in a position covered by the same retirement system. The amount of the benefit is not adjusted over the time period paid.

The RPD is in the middle of losing a class of officers that came to work in the early 1980’s to retirement. With this round of retirements the State mandated separation allowance being paid to eligible retired officers will grow to a peak in the 2013-2014 fiscal year. In addition, most of these officers have earned post-employment health insurance benefits as well. The City has been able to set aside funds for these benefits over the fiscal years since the legislation was passed. That fund currently totals approximately $530,000. Most recent fiscal years, the City has contributed an annual amount to the fund equal to that year’s payout; this is pay-as-you-go budgeting. One recent fiscal year, no contribution was made and the entire payout was paid from the accumulated funds. In theory, the officers being hired to replace the retiring veterans should be paid less, resulting in cost offsets for the benefits being paid out. It is the recommendation of this Plan to leave the contribution to the separation allowance fund at the 2012-2013 level and to pay for the increased payments out of the accumulated funds for the next few fiscal years, until the payments begin to decline again. This practice will help to stabilize the RPD budget.

The following chart shows the projected benefits and the effect of the budget plan on the accumulated separation allowance funds:



As shown, if the budget is set at a constant, the accumulated reserve will decrease from $530,000 to $333,500 in the 2017-2018 fiscal year. In the last two years projected, the allowance will begin to increase again because as the retirees age the benefits will decrease below the set budgeted amount. There is an experience gap at the RPD after this round of officers retiree. The next grouping of experience in the current employment at the RPD were hired in 1994; therefore, the benefits will see another upswing around 2024 and this issue will need to be addressed again. The allowance will be replenished before that group of officers begin to retiree.

911 Communications Center

Due to pending requirements adopted by the State’s 911 Board, the separate 911 centers in Rockingham County decided to merge services. The consolidated 911 center is in the planning stages with a significant State grant. Once complete, all 911 emergency traffic for the City will be answered in the consolidated center. This consolidation should result in cost savings for the City.

The agencies are now discussing how to handle non-emergency calls. Currently, these calls are handled by the City’s telecommunicators that also handle the 911 calls and officer dispatch. The decision on how to handle these calls will have a financial effect on the process. If the non-emergency calls are sent to the consolidated 911 center and transferred back to the RPD, the current contract will probably need to be adjusted. This could lead to additional charges to the City for this extra service. If the calls are to be answered at the RPD, staffing will have to be determined.

In addition to answering telephone calls, the telecommunicators also provide a wide variety of other tasks. They are the primary contact for the public in the RPD building. If they are not there, will a new position be needed to greet the public? What hours of the day will those jobs be needed. The RPD is considered a safe haven. Will someone need to be there 24 hours a day to operate that service? Can the other administrative duties performed by the telecommunicators be absorbed by the administrative staff? Will officers be pulled off the street to complete minimal tasks? The communications area also houses the monitors for the City’s surveillance cameras. Will this service be maintained at the same level? Can the RPD rely on more part-time employees to cover these duties? The current camera system is becoming aged as well. The RPD should consider replacing the system or setting aside resources to repair the system piece meal as it dies out.

Obviously this issue currently has more questions than answers, but these questions and many more need to be answered in the next fiscal year. Whatever the outcome of these discussions, there is an opportunity for cost savings from the current process.

Automobiles

The RPD has the largest automobile rolling stock. Currently, every officer has their own assigned vehicle. Every vehicle is outfitted with electronics and equipment. The police department also has some “specialty” cars that see little use. While these vehicles may be important for specific uses, there should be other less expensive options for these needs. The RPD will need to consider cost savings measures related to these issues.

RPD Summary

This section of this Plan was not intended to be a commentary against the RPD. Obviously, the discussion of the topics related to the RPD is being presented at a summary level. Detailed analysis and recommendations about these issues should be expected from the RPD in the near future.

**Capital Needs and the Ability to Purchase Capital**

The City, like other entities and individuals, has four avenues to make capital purchases: use of current year revenues; use of savings (fund balance); gifts (grants); and debt financing. Every year some current revenues are used to buy smaller capital items, such as computers or a mower. This plan anticipates retaining some funds for those purchases. Grants are always explored when appropriate. The City has obtained federal, state and local grants in the past and will continue to apply for funds going forward. The other two sources - fund balance and debt - are the two primary resources for the City to consider in the next five years for capital purchases.

**Debt Capacity**

The City has not adopted a formal debt policy, but has been conservative in the issuance of debt, and as a result is currently in an excellent debt position. General obligation debt is issued with the full faith and credit of the City as collateral. This means the City is promising to levy whatever property tax is necessary to repay debt. This is the strongest form of security the City can pledge. The City does not have any general obligation debt. There are currently no plans or projects being considered that would need to be financed with general obligation debt. The enterprise funds are in the process of issuing revenue bonds and soliciting other financing for potential plant upgrades, but none of these financing sources will be general obligation. While it is true that the City has no general obligation debt, the capital assets being purchased do not generate revenues. Therefore, the ultimate mechanism available to cover the debt service requirements is still the ability to raise revenues through taxes.

The City has used debt financing in the past to acquire capital assets that, because of their long-term nature or because of budget restraints, could not be acquired from current resources. Debt has not and will not be used for operational needs. In the past, short-term lease purchase agreements have been entered into based on department requests and the budgetary capacity for that year. The length of the agreements has been less than the expected life of the asset, usually three to five years. A fire truck was financed over seven years and the public safety radio upgrade was financed over 15 years, the expected life of the equipment. This loan was obtained through the USDA and contained a 10% grant. The assets being financed have been the sole collateral for the agreements, with the exception of the USDA loan. Because some of the equipment was being installed in the Police Department, the building itself is also listed as collateral for that loan.

It is the desire to continue to use lease purchase agreements for the acquisition of capital assets of the City as long as the lending environment is favorable. The interest rate environment is expected to remain low for the next five years. In order to maximize the purchasing potential of the City’s debt capacity, longer lease periods are being considered. These periods still fall within the useful life of the related assets. The following table will be used as a guide for future debt issues:



The City has issued approximately $3,790,000 in lease purchases over the last 10 years. The annual issues have ranged from a high of $748,500 in 2003 to $0 in 2007; on average, the City has issued $379,000 a year.

The City has not issued any debt to finance the major capital projects over the last ten years. Beginning with the Industrial Park in 2002, $14,000,000 has been invested in the City through major capital projects. These projects have been paid for with government grants, inter-local agreements, General fund reserves, enterprise funds reserves, local grants and sponsors, and interest earnings on the financing provided during the projects.

The City currently has six open debt agreements with a combined principal balance of $1,079,264, as of June 30, 2012. These loans were used to purchase a fire truck, four sanitation vehicles, a couple of street vehicles and the RPD’s 800 mhz radio upgrade. The future minimum lease payments include interest of $171,508, for a total debt service amount of $1,250,772. The current payment schedule for this debt is as follows:



The City’s annual debt service over the last ten years has been as high as $412,003 in 2011. In order to provide the funding for capital asset needs over the next five years, it is the proposal of this plan to increase the annual debt service to $450,000 beginning with the 2013-2014 fiscal year. Making this allowance will open up the following borrowing potential for each year as shown in the chart below:



The borrowing potential was calculated using a conservative interest rate of 5% and an average life of seven years. The first block of borrowing, within the next five years, totals $2,432,000. There is a gap of three years due to the seven-year life of the debt. As debt rolls off it can be replaced with new debt. The actual needs discussed below will alter this schedule.

There are three measures that some government units use to monitor the use of debt: net debt per capita; debt as percentage of assessed valuation; and debt as a percentage of operating budget. Information maintained by the State Treasurer’s office can be used to compare the City to peers. The City is part of two peer groups used in presentations by the Treasurer’s office, population of 10,000 to 24,999 and population of 10,000 to 49,999 with no electric service.

Per capita measurements can be used both for debt balances and annual debt service payments. This information is a little difficult to use for comparison because the Treasurer’s office only reports debt that must be approved by the Local Government Commission (“LGC”). That debt is either bonds or leases in excess of five years or $500,000. The LGC also exempts leases for vehicles from the approval process. The current debt of the City is not included in the Treasurer’s information because of these parameters; likewise, some peer debt would be excluded as well. For this discussion, the City’s general debt is being compared to peer general obligation debt. About a quarter of the peer group has no general obligation debt. The average debt per capita is $274 while the highest in the group is $1,625. With an approximate population of 14,500, the average would equate to the City having about $4,000,000 in debt while the high would increase the debt to over $23,000,000. The City’s current debt totals $1,250,772, $86 per capita, and the proposed debt increased would reach a maximum of $2,300,000, $159 per capita. The City’s current annual debt service per capita is $21 and the proposed would increase that to $31. These figures are to be compared to a peer average of $111; showing that our current and proposed debt service is far below our peers.

The second measure is a percentage of assessed value. Again, this measure is used mostly with general obligation debt, of which the City has none. For comparison purposes, the City’s debt will be compared to the general obligation peer information. The average debt percentage of assessed value is .282% ($208,000,000 of debt on $74,000,000,0000 in assessed value). The City’s current debt balance of $1,250,772 is .116% of the 2012 assessed value of $1,076,000,000. The proposed increase to $2,300,000 would calculate to .214%. The highest percentage for the peer group is 1.531%, which would total over $16,000,000 for the City.

The third measure is annual debt service as a percentage of the operating budget. The City’s debt service is about 2% of the general operating budget. The last reported percentage for the peer group was 12%. With all other expenses staying equal, the proposed increase in debt service would increase the percentage to 3%.

This discussion and comparison to industry factors show that the City is in an excellent debt position. As stated at the beginning of the discussion, the City has no formal debt policy. This plan does not recommend adopting such a plan, because it is unnecessary. The City will use this plan as a guide and will continue to monitor debt against peer information.

**Fund Balance**

The City has not adopted a formal fund balance policy. Fund balance is the City’s reserves – its savings account. The funds have been accumulating since the City’s inception and may increase or decrease annually. The City’s total fund balance has to be discounted for items that are not available to be spent. These include inventory; prepaid expenses; grant funds for a specific purpose; receivables that may not be collected; encumbrances brought over from the prior fiscal year; and funds already allocated to the next year’s budget. The amount left after making these reservations, is known as undesignated fund balance, available fund balance or spendable fund balance.

The following is a chart showing the City’s fund balance since 1990:





According to the NC Local Government Commission, "The minimum level of fund balance available for appropriation that should be on hand to enable the unit to meet current obligations and to prevent the unit from experiencing cash flow difficulties is 8% of the prior year's expenditures." Some units of government misuse this guidance and strive to maintain 8%. That is not a wise practice. Governmental units should also consider the fund balance percentage of their peer group. The City’s peer group average for June 30, 2011 (the last year currently available) was 43.13% while the State average was 39.42%. The City’s percentage for 2011 was 29.27%; it increased to 32.27% as of June 30, 2012. Over the time period presented above the City’s percentage has ranged from a high of 63.70% in 1993 to a low of 19.33% in 2007. There are some issues with the calculation of the percentage. The percentage is based completely on the fiscal year just completed. The expenditure portion includes transfers out as well. Capital purchases or a large transfer to a capital project results in increased expenditures for the year which drives the percentage down.

The fund balance percentage is only one factor to consider. Economies of scale come into consideration. A $200,000 generator needing to be replaced costs the same for a town of 1,000 people as it does a county of 500,000 people. The county’s 8% would buy the generator time over time, while the town’s 8% may not be enough. The smaller unit would probably want more than 8% in reserve. The total funds available should be analyzed as well. Once a former City Council made an informal policy that the fund balance would not drop below $2,000,000. While at the time this was a sound balance, growth in expenditures has reduced the buying power of that sum. The City’s lowest total fund balance occurred in 2002. The lowest available fund balance was in 2007 after funding was approved for several capital projects. As shown, the fund balance recovered from the activity of 2008 and has remained stable since that downturn year in the economy. Over the 23 years shown, the average change in fund balance has been an increase of $76,000 which is basically break even for a fiscal year.

As with debt, there is no need to adopt a formal fund balance policy at this time. The management of the City has worked with the City Council to use fund balance as required to meet needs and goals. It is the recommendation of this plan to manage fund balance responsibly. A bottom parameter of 24% of expenditures, three times the 8% required, is suggested. Currently that amount is close to $3,400,000 and would allow the use of $1,100,000 in fund balance if needed. The use of fund balance is not proposed lightly because to some degree once it is spent it is no longer available as a resource. It may have to be built back slowly as demonstrated by the history. The use of this resource is competitive in that using it for one need means that it will not be there for another. If use of fund balance below the parameters presented is required, no other uses should be presented until the fund balance can be restored.

**Capital Needs**

A major portion of this initial presentation of the Plan is a five-year capital needs projection. Every department was asked to provide a schedule of needs based on the same assumptions listed in the introduction to this Plan. These needs were intended to maintain the services currently being provided. No expansion of services was included in the instructions and no new services were to be introduced.

After compiling the information, some of the requests were determined to be more aligned to an expansion than to maintaining services. Other needs were determined to be maintenance projects that could create savings through efficiencies. These items were deemed as “green” initiatives. While cost savings were projected, these projects would not be required to maintain the current services provided. The resources available for capital are too limited at this time for the majority of these projects; therefore, the projects have been removed from the capital plan being considered.

The remaining capital requests were then separated into four categories: maintenance or small capital items; information technology; vehicles; and capital to be financed.

Maintenance and Small Capital Items

Several of the items requested were small dollar items, as little as $5,000 which is the City’s capitalization threshold. The larger departments should be able to find annual savings to purchase these small items. Some of the larger items in this category are maintenance issues that would not tend to be financed, like parking lot improvements. While these items are more expensive than the small items requested, annual revenues should still be considered to fund these projects. The City Manager may need to pull together some resources to pay for these projects or he could rely on fund balance if needed. The City should be able to fund most of these requests.

Information Technology

The City has used a technology team in the past to examine IT needs. The City also has used retention schedules in the past to plan replacements. At one time, software was being developed so quickly that hardware had to be replaced to keep up. That trend slowed over the last few years. Products have had longer lives and service has been extended for older products. The City moved into a process of replacing items as they broke. At this time, the operating system on some of the City’s computers is approaching its end-of-life. The computers purchased for the RPD are about six or seven years old and are in need of replacements. The server room also needs some updating and new equipment. The maintenance budget for IT has been small over the last few years. It is the recommendation of this plan that the IT maintenance budget be increased over the next few years. The IT Director would manage these funds and would make replacements as deemed appropriate. Every computer should be thoroughly assessed before being replaced and if possible the number of computers used by the City should be reduced. The replacement should still be based on need and not on any set retention schedule.

Vehicles

The City has used leased purchases of three years to purchase some passenger vehicles in the past. Spreading the purchase of needed vehicles over three or four years would be similar to short term financing, without paying interest. With other financing needs being requested, it is the recommendation of this Plan that vehicles be purchased outright for the next five years. Like mentioned with computers, any vehicle being replaced should be assessed for need. A vehicle doesn’t need to be replaced just for the sake of it.

Capital to be Financed

After adjusting the requests as detailed above and pulling out the other categories, the remainder is for capital that is recommended to be financed. These items will be purchased over the useful lives as described in the debt section above.

Garage and Fleet Services

In response to self-identified needs and service complaints, the City Garage operation was studied in the last year. The primary results of the study were that the garage needed major updates and that the City’s fleet was old and too varied. In addition, the City has had trouble attracting an experienced and qualified work force. With limited resources, the needs of the internal service of the garage would be difficult to justify in comparison to other needs for services provided directly to citizens. An option to seriously consider is to move the fleet services provided by the Garage to outside service providers.

A fleet maintenance supervisor would prepare and manage a schedule of preventative maintenance that will be provided by local service providers. This position will report to the Assistant City Manager of Administration, bringing the final internal service under the same line of command. The supervisor should also have some mechanic experience, so that larger repair jobs can be sent to appropriate providers.

In order to move to an outsourced service system, each department will have to do a thorough assessment of their current rolling stock. Non-essential items will be set aside for a City auction. If it makes sense, some vehicles with little use may be eliminated and employees will be asked to use personal vehicles with mileage reimbursement.

It is the desire of the City to go to a younger fleet as well. These vehicles will be held while under warranty so that the related dealership will provide the majority of services needed. Vehicles will be replaced while they still have some value, creating resources to be used for other capital needs. The largest piece of the fleet is housed in the police department. For several reasons, the Police Department moved from using pooled vehicles to having a vehicle for every officer. In addition, the Department has had some recent success in confiscating vehicles from criminals. These additions have expanded not only the number of vehicles in the fleet, but the variety as well. The numerous types of vehicles have added to the need for more, specific equipment.

A deliberate transition plan for this major change in internal service will be necessary. The current garage superintendent could be transitioned to the fleet maintenance supervisor. The other current employees of the Garage could be absorbed into other Public Works jobs as they arise. A limited over-hire situation may need to be approved until these employees can be placed permanently. In addition to the supervisor, there may be other employment needs for the program, including help to transport vehicles for larger service needs. An administrative position could be used at fleet and also as a backup at public works.

It is believed that this move will be cost effective. Having preventive maintenance performed by chain operations will open the City to national pricing and guarantees. Keeping the fleet younger and under warranty will prevent the cost of major repairs. The profit margins built into the outside service providers should be comparable to the overhead built into the rates currently being charged by the Garage. There is no anticipated lag in service time from using outside sources. The expectation is for employees to get the primary maintenance done during their work hours. Avoiding the expense of the large improvements needed at the Garage will be a long-term savings and the space may be available for other needs. The budget for the new service division will be derived from the current maintenance and repair accounts used for Garage charges in each department. To control costs, a fleet contingency account may also be used, similar to the fuel contingency account used in the last couple of fiscal year budgets.

Senior Center

A “wild-card” in the City’s capital and financing puzzle is the Senior Center currently being planned. At this time, the City is exploring partnerships to determine what services the community needs. The City is also exploring grant and financing opportunities. Traditional bank leases for government real estate will only go out 20 years. The USDA has shown some interest in financing the project, and may go out further, maybe as long as 40 years. Some portion of the Center may be leased for services by other entities. This income stream would be used to offset the debt payments. At this point, it is too early to know what the annual debt payments will be.

**2012-2013 Capital**

No major capital items are being presented for purchase in the 2012-2013 fiscal year. Eleven items requested have an average cost of $8,000. The requesting departments will be encouraged to find these items within their budget. Another option will be for the City Manager to pool surplus funds from each department near year end to purchase some of these items if possible. The one large item requested is a new telephone and voicemail system. The IT Director has been asked to research this project further to be presented to the City Manager.

**2013-2014 Annual Budget**

Several pieces of this Plan will have a direct effect on the 2013-2014 budget. Once the capital requests are substantiated, they will be incorporated into the fiscal year budget presented and projected future capital needs will be presented as well.

**Department Contingency Planning (Resiliency)**

It is the desire of the City to honor the recommendations of this Plan. Unfortunately, no five-year plan can anticipate all possibilities. Each service department should begin now to prepare for alternatives if the capital needs requested cannot be met. These projects should conclude with action plans that could be put into service. Or the project may result in an exit strategy from offering some services. Future revisions of the Sustainability and Resiliency Plan should include these departmental solutions.

* **End of Plan -**

Phillips reiterated that they wanted to find out what’s out there for the next five years. He cited the basic assumptions of the S&R Plan as follows:

* The City provides a set of core services to our Citizens that are desired to maintained;
* Revenues show no sign of significant recovery in the next five years;
* To maintain the services currently provided, operating costs should remain fairly constant over the next five years;
* Capital expenditures and debt service are the most variable parts of the annual budget;
* Capital equipment will need to be assessed and replaced as needed to maintain core services (replacement should not be based on a pre-set retention schedule).

The Finance Director noted that the City’s dollars are competitive with the different departments vying for them. He then went through the table listed on page 2. He noted that the City must be able not only to sustain but to adapt its services based on the dollars available. With growth, he noted, cities are able to get into “green” projects, but he also pointed out that vision-based goals are determined by the values of the community.

On page 3, Phillips noted that some things fly in the face of the assumptions we have made. He cited as an example the loss of Hold Harmless funds from the State, which will mean a loss of $194,000 for Reidsville. The NCLM has stated that it feels the Legislature turned “anti-City” last year and that it may be harder to get monies from the State. He noted that 60% of the Hold Harmless funds go to our Council of Governments area. City Manager Pearce said it is harder to get support because it is our area and not statewide. Phillips noted that Eden will only lose $7,000 in Hold Harmless funding.

Staff explained that departments are looking at the charges and fees of the City. Phillips noted that our fees are not designed to cover the costs. Rental licenses went to cover the inspection costs of rental properties until that was revoked by the State Legislature last year. Councilman Turner asked if there was any way that those rental fees might come back? It was noted that the City of Greensboro currently is having issues with rental properties so it may be reassessed. Councilman Turner said it was a good thing for renters because property owners don’t always maintain a certain level of service.

Discussion then moved to a fee example of the pickup of animals by the Police Department. Phillips said every time we pick up a dog, we are losing money because the City only charges $40 and it costs $65 to drop the dog at the shelter. He again reiterated that departments will be looking at all fees. Councilman Gorham said we could take care of that one right away. The Mayor did note that not every dog picked up has an owner. Phillips also said there is a cost of keeping the City free of wild animals.

Phillips briefly touched on grant revenues, noting that less of those were being offered and that priorities change.

Turning to Expenditures, the Finance Director reminded Council members that they were able to do a COLA last year for employees, which was well received. He also stated that a pay study was done as well. Councilwoman Walker asked how much it cost to do last year’s pay study? She was told $12,000, which covered all 173 City employees. The study was done by Matt Reece of our Council of Government, which is cheaper than some consulting firms. It usually costs about $4,000-$5,000 to study one-third of the workforce as has been done in the past, they explained. This allows every job to be looked at every three years. With the bad economy and less employee movement, it had been decided there was no need for comparison for several years. In FY14, they will be recommending we pick up again with studying one third of the workforce; thereby, ensuring we don’t lose employees for a little more money and keeping up with the marketplace. Again, staff noted there has not been as much turnover since the recession.

Councilman Turner noted that we used to lose a lot of police officers to the Sheriff’s Department and firefighters to Guilford County. City Manager Pearce stated that we don’t compete directly with Greensboro and Winston-Salem like the Town of Kernersville has to but we have to be aware of what other towns are paying.

Pearce added that there has been no freeze on positions, but departments have been asked to look at what staff they have when an opening comes up. He cited as an example the Parks & Recreation Director, which was consolidated with that of Community Development Director. He said the City doesn’t want to fill a job just because it’s open.

Phillips then touched on grant positions within the Police Department. He said since 2005, the department has been able to pick up eight grant positions as outlined in the table on page 6. The City is currently funding six of the eight. Some of the grants involve the federal government paying for three years while the City promises to fund the position for one year or 75%. Mayor Festerman noted that the federal government also pays on the front end, the costs for the vehicle, uniform, weapon, etc. At the end of the grant, the City has to decide whether to pick it up or not. The City Council must decide if it wants to continue to fund them, Phillips said. After the grant period is over, the specific duties of the position can be changed, he added. Mayor Festerman pointed out that failure to keep the position doesn’t impact the Governor’s Crime Commission grants like it did in the past, which he said was due to recognition of the economy. Pearce noted that while the City doesn’t guarantee it will keep a position, it doesn’t usually have to let the officer go due to turnover.

The Finance Director briefly discussed the Separation Allowance for eligible retired police officers. He noted that this is mandated by the State. Mayor Festerman said this has been a good thing since officers shouldn’t be out there at age 60-65 chasing kids. At one time, there was talk of lowering the eligibility requirement from 30 years to 25 years, the Mayor said. Phillips explained that monies were put into a reserve, but we now follow “pay as you go” budgeting. He added that the City is going through a cycle of upcoming retirements in the Police Department. Phillips said they are recommending that $145,000 be paid annually into the reserves to cover upcoming retirements, but that fund will be drawn down. He added that 2024 will see the next “wave” of retirements from the department, and the reserve fund will need to be replenished before then. Mayor Festerman questioned the need to have $400,000 in reserves. It was noted that there will be some cost savings with the larger salaries gone.

The topic then moved to the 911 Communications Center. Pearce said he doesn’t anticipate any personnel changes in the center for 2013-14. However, discussion has been centering on non-emergency calls and whether telecommunicators should be handling such calls 24/7. What kind of expenses does the City want to pay? Does it want to provide cameras or a safe haven at the Police Department after hours? All of these must be conscious decisions, it was noted. Phillips said there are a lot of questions that will need to be answered.

Looking at capital needs, Phillips said the City has four ways to make capital purchases: use of current year revenues; use of fund balance/savings; grants; and debt financing. He said we usually consider using savings and debt. Currently the City has no general obligation debt and there are no projects currently being considered that would need to utilize such debt. Councilman Turner said that in the past during Manager Gentner’s time, the City had gotten in trouble with lease purchase, and he’d like to save lease purchasing for the big items. Phillips said the City is in good shape in terms of debt. Again, he noted that compared to other cities, we have no debt. Phillips said debt is more attractive now because of low interest rates. He said as such decisions are made, we will look at what do we need to buy? Then, we will look at the useful life of the item, he said.

Phillips said that going back to 2002 beginning with the Industrial Park project, the City has invested $14 million in projects. The City didn’t have to borrow anything for those projects, there was no debt associated with them, he said. Phillips did note that allotted resources did come down due to these projects. He said the City currently has six open debt agreements.

On page 11, he noted that they calculated the borrowing potential of the City and propose to increase the annual debt service to $450,000. He said they used conservative numbers based on an average life of seven years of debt.

Following this discussion, a short break was taken, after which, Council members met with representatives of the Reidsville Downtown Corporation.

**REIDSVILLE DOWNTOWN CORPORATION.**

Following the break, City Manager Pearce introduced Terresia Scoble, Main Street Manager, and Susan Turner, President of the RDC. Handouts on RDC information, expenditures and timeline were distributed. (A COPY OF THESE DOCUMENTS ARE HEREIN INCORPORATED AND MADE A PART OF THESE MINUTES.)

Pearce said he had put the RDC on today’s agenda because he wanted to make sure we were all on the same page. The RDC Board, he pointed out, is the only board not appointed by the City Council or Mayor. A nonprofit organization, RDC appoints members to the board through a nomination process. The City Manager stressed that he is not suggesting any changes in terms of the RDC and its board.

Before turning the discussion over to Scoble, Pearce briefly reviewed the RDC’s expenditure statement for the period ending 12/31/2012. He focused on revenues for the festival, noting that since the festival had become a multi-day event, revenues had doubled. He complimented Scoble on her ability to collect contributions (about $72,000 for the General Fund). Scoble added that they have had about $12,282 in deferred deposits that haven’t been put on this statement yet.

Scoble then reviewed the packet of information including the RDC vision and mission statements, Board of Directors listing, committees, training, grant applications, last year’s events schedule and available downtown properties listing.

Scoble noted that grants totaling $76,703.38 were submitted and renovations done with the RDC providing $18,105.87 in matching monies. Eight application requests have been received and delivered to potential applicants, but they have not been turned back in, she said. Scoble reviewed the criteria for receiving a façade grant, including that the grantee stay as close as possible to the historical aspects of the building. The renovations must be to the façade and doesn’t include costs of general maintenance, outside landscaping, etc., she said. Applications are for a 50/50 matching grant. A renter can make an application with approval of the property owner. A lot of information has to be provided, Scoble said. Councilman Hairston asked who is responsible, the property owner or the renter? Scoble said it is whoever pays for the renovations.

Reimbursement grants were discussed. Pearce said one applicant wasn’t reimbursed because they didn’t follow their plan. Scoble noted that shelving is not included for reimbursement because that could go with the business elsewhere.

Mayor Pro Tem Balsley asked if there were issues with the downtown buildings? Scoble said some have issues, several have large price tags but are in bad shape. The Mayor Pro Tem did say he has heard so many people say good things about the downtown, including that it hasn’t improved so much since the 1970s. Scoble said the problem now is the buildings that are vacant are also huge. Some are becoming eyesores, she added. Councilman Turner said it is easier to renovate than build a new building. RDC President Susan Turner said there are less requirements to renovate these buildings as well. Councilman Gorham asked the average age of these buildings? Scoble said about 1925.

Discussion turned to the City-owned former Food Deals building and about possibly dividing it to make it smaller. Pearce said he prefers not to do that because they don’t know what the end use will be. Someone had been interested in purchasing the building but was unable to get a bank loan, he noted, adding that banks just aren’t loaning money. There has also been talk of getting Rockingham Community College interested in another downtown building for classes. Susan Turner said a goal of this year’s retreat is to focus on vacant buildings and strategies to market them. Salisbury has put cute, creative signs in the storefront of vacant buildings near restaurants that note different possibilities for rental such as “Wish I Was a Dress Shop.”

Scoble said that, unfortunately, many of our unoccupied buildings are being used for storage. Pearce noted that warehousing is not a permitted use downtown yet going after these property owners can be a “slippery slope.” Councilman Turner said the City allowed storage in the Camera Shop building and ended up paying for it. He said the City needs to be cognizant of this and need to stop warehousing downtown. Pearce said he can have staff look at these buildings and bring them to Council for fines.

Again, discussion turned to the former Food Deals building the City now owns. Pearce said he would bring to Council at their April meeting some ideas on how to make that building more attractive.

Scoble talked of the former Piedmont Gas Company building which had been listed for $240,000. Since the company had received a $190,000 tax credit from the State of North Carolina, it has dropped its price to $140,000. She said she has been looking into whether it could be the location of a magnet school. She was told to go to Senator Phil Berger about the possibility. It was decided Pearce and Scoble would have more discussions about the possibility as well.

Susan Turner stressed that we need to give people a reason to come downtown. A large percentage of profits come after 5 p.m., it was noted. Businesses have to have consistent hours as well. Restaurants bring people downtown and encourage people to window shop even if the stores aren’t open at the time. Councilman Turner said we need to market the former Vault building for another restaurant. Scoble noted that downtowns need eating establishments, outside dining and nightlife. Councilman Gorham said San Antonio, Texas has a busy downtown with outside dining. Susan Turner said The Celtic Fringe on Market Street does a better business when the outside patio can open.

Councilwoman Walker asked about whether there are any rules for food truck vendors. Scoble said such vendors are discouraged downtown in order to support local businesses, such as Coleman’s, Celtic Fringe, Carolina Café and Café 99. Café 99 is good at opening for nighttime events if it doesn’t have catered events to attend. Mayor Festerman said the downtown events also impacts Sanitary Café. Pearce said food trucks are unfair competition for our local restaurants but they are used at special events.

Councilwoman Walker said she hears a lot of complaints regarding police protection in the downtown area. The business owners want to see a cop walking the beat. Pearce stated that the downtown officer had gotten hurt, and others have been filling in, including retirees. He said the City does plan to hire a full-time officer who would be in the downtown for a certain number of hours a month.

Scoble said some businesses have left the downtown area while others, like Cakes & More, need to hire an additional person.

Turning to the 2012 listing of downtown events. Pearce said he has been working with boards for 37 years, and he has never seen a board as active as this downtown board. Susan Turner commented that for such events, they often need to get non-merchant volunteers because those businesses need to be open during these special events. Scoble also noted the need to build rapport with businesses outside the downtown area. Susan Turner said Diane Sawyer of the Chamber also does a good job.

Councilman Gorham said he hears the most complaints about the music at Market Square. Scoble noted that Judy Yarbrough is in charge of that music but that they work well together. She said she thought this year’s lineup includes jazz, brass, bluegrass, soul groups, etc. The bands have already been confirmed for this year, and they are trying to be versatile in their offerings. Pearce read from a listing of bands/groups that have been booked for Market Square. He said they are a lot more diverse than people would think. Council members asked him for a copy of the email listing the groups. Scoble said attendance has been bigger for the beach music and bluegrass bands. She noted that we can’t afford the “big name” bands that cost $15,000-$20,000. Councilman Gorham said we also need entertainment for the younger crowds rather than the 45-50 age group and up, what he described as the “up to date stuff”.

Scoble said the focus of the RDC will be to bring people downtown with events such as shopping nights, etc. She said they want to focus on different age groups, including young professionals. Councilwoman Walker said another main complaint is that the RDC sponsors events at Market Square and that people park in front of their businesses but don’t come in to see them. Scoble said the only event RDC sponsored at Market Square this past year was the shagging event. She said people were walking up and down in front of the stores. Councilman Turner said the tree lighting event was the best with them selling downtown to people who already live here. Scoble also talked of the need to get people to visit those businesses on Market Street. Pearce noted that the car club refuses to park cars on Market Street as part of the cruise-ins. Councilman Hairston noted that more restaurants and more nightlife will mean the Police Department will have to provide more manpower, which will impact the department’s budget. Councilman Gorham said when he is at his brother’s shop, he sees police coming through the downtown every day.

Scoble mentioned this weekend’s event, the Downtown Reidsville “Sweetheart Stroll” from 5-8 p.m. She then reported that Reidsville will host Rockingham County’s first wine festival on April 20th. Eight wineries have been confirmed, along with $8,000 in sponsorships.

Scoble said the RDC Board will also be discussing the cruise-ins and whether they need to be held every month in the spring/summer. Susan Turner said they may look at only having 2-3 cruise-ins during April to September. Councilman Turner said it has become a repetitive event with the same cars and same people showing up. The restaurants and toy shop do well during the cruise-ins, Scoble noted.

The fall festival will move back to the second weekend in October, Scoble said, adding that she is already working on sponsorships and entertainment. It will be Friday night and Saturday, October 11-12, 2013.

Pearce thanked Scoble and Turner for coming. Susan Turner thanked the City for its support. Scoble said we want to make sure we are doing what the City wants us to do. Mayor Festerman asked them to share with their board Pearce’s comments on their enthusiasm. Mayor Pro Tem Balsley said he likes the idea of showing off our downtown buildings. The Mayor said he likes the car shows as we’ve had them but if they are a negative on our downtown, we need to think about that. Councilman Gorham encouraged the RDC representatives to periodically let the City Council know what’s going on. Scoble said she could come up and give a three-minute presentation at Council meetings when something is coming up.

Councilman Hairston, noting that a nearby City now has a bus transportation network, suggested that when events are being held in the downtown, buses could run through some neighborhoods and take people to the events. Susan Turner noted that Pelham Transportation has always worked with them on events. Pearce said it was an interesting idea.

Council members then broke for lunch before returning to a discussion on annual debt service as part of the S&R Plan.

**RETURN TO SUSTAINABILITY & RESILIENCY PLAN.**

**Annual Debt Service.**

Referencing pages 11-12 of the report, Phillips stated that staff feels we can afford $450,000 a year beginning with the 2013-14 fiscal year to fund the City’s capital asset needs for the next five years. The three measures to monitor the use of debt are first) per capita currently at $86.00 per person, which would go up to $159.00 (with our peer group being $274.00 per person) and our annual payment going from $21.00 to $31.00 per person (with the peer group at $111.00); secondly, assessed value which is currently at .116% which would go up to .214%; and thirdly, debt service, which is about 2% of the general operating budget currently and would go up to 3% (with the peer group being 12%).

Phillips said staff is not recommending any formal debt policy because debt has been managed well. Pearce reiterated that we are far below the peer group, but he said he wants Council to feel comfortable when we come back with this.

Mayor Pro Tem Balsley asked about the City’s undesignated fund balance. Staff gave Council a historical perspective, noting the fund balance was at $0 when the City started in 1873 but has built up over the years. Page 13 shows a chart of the City’s fund balance since 1990, Phillips said. He explained the difference between total fund balance, which includes monies already designated for various projects, and available fund balance. Pearce explained the column in the table on page 13 labeled “Dollar Change in Available FB.” He noted that at the end of every fiscal year, monies are rolled over, sometimes at a deficit and sometimes extra. Cited as an example of a deficit was 1997 when the fund balance was about $800,000 in the hole, which is the same year the City finished the Police Department renovation. In 2007, the deficit was due to Vance Street and the Teen Center projects. Phillips said that the City has averaged over 23 years sending about $76,000 annually to the fund balance. He said that the “Available FB” is a percentage of expenditures and a “snapshot of time.” He stressed that one can’t go completely by the percentage.

Mayor Pro Tem Balsley asked about this year with the dam project, etc. Phillips explained that this is the General Fund and the dam project doesn’t affect the General Fund’s fund balance since those monies are taken out of the Water Fund. Pearce said part of the reason for this table was to explain that Council shouldn’t get too hung up on the percentage. The amount of money in our fund balance has been pretty steady, he asserted. Phillips said we are above our average of $4 million and right now, are at $4.5 million. It was noted that the Local Government Commission’s minimum recommendation is 8%.

Staff gave as an example the decision to purchase a $200,000 generator. Phillips said you have to think about the percentage of the dollar amount. A Council before you didn’t want to go below $2 million but for these days, Phillips said he thinks that number is too low. He said he is recommending we work towards 24% of expenditures or three times the LGC’s minimum 8%. The Finance Director said that equates to close to $3.4 million and would allow use of $1.1 million in fund balance. He said staff is not needing a formal agreement regarding this. He did note that it takes 8-10 years to build back up $1.1 million. He said this would be there to be used but not without serious consideration by both staff and City Council.

Phillips noted that he had asked departments about their five-year needs. He said they were not presenting those items to Council today because full due diligence had not been done. He said they had taken in all the numbers but some departments included expansion items as well. He said there are some really good “green” projects included, but we may not have the money to do them.

The Finance Director said capital requests were put into four categories: 1) smaller items which might be found in current budgets; 2) vehicles; 3) information technology; and 4) what’s left over, larger items that will need to be financed.

Phillips said it is time now to give the IT Director a larger maintenance budget. She would then analyze the use of computers and other items. He noted that we have been financing police cars for over three years in the past. Should we be financing vehicles, Phillips asked. He said he had pulled those items out and is recommending the cars be bought outright. Regarding the financed items, Phillips said we think we can afford what everybody needs over the next four years. He said that’s how we’re going to approach this information and then bring it to Council in detail.

Phillips then discussed the City Garage, which has issues with both the building and the equipment used there. Upgrades could approach $1 million, he said. These dollars are competitive, he asserted, reminding Council that the garage is an internal service. He said they are considering the possibility of outsourcing some of this work and entering into contracts with area vendors. The garage does a lot of preventative maintenance, the Finance Director said, and outsourcing the work could be cheaper than what we’re doing now. Departments have been asked to look at the fleet of vehicles so that we can look to keeping a younger fleet, staff said, thereby ensuring that not as many repairs will be needed. If outsourcing is done, those working at the garage can be absorbed into other jobs within the City and give them the opportunity to continue to work for us. Councilman Gorham asked if this would mean a decrease in pay for these people? Staff said probably not, although the starting pay may be lower. Pearce said a garage study shows we need other types of equipment and more highly skilled mechanics if we are to keep the current garage. Councilman Turner asked how many people work in the garage? Staff said there are four positions but the study also says we need more mechanics. Even if work is outsourced, a Fleet Maintenance Supervisor would be needed to keep control of what’s going on, Phillips said, and this would need to be someone with a mechanic’s background or car knowledge.

Councilman Hairston asked if we have garages around here that do what’s needed? Phillips noted that some vehicles are already sent to Greensboro for work. He said probably at least two people with CDL licenses, etc., would be needed for transport of the vehicles. The supervisor would probably report to the Assistant City Manager of Administration to move all internal services together.

Phillips said the options are to either put more money into the garage and expand services or do something different. Again, staff noted the need to make the fleet younger. We have 100 different types of vehicles right now, staff said. City Manager Pearce has challenged department heads with fleet vehicles to look at their inventories and determine how they are going to get all new vehicles within the next five years. The City has over 400 pieces of equipment and only 173 employees, it was pointed out. Phillips noted that by keeping the fleet younger, they could also auction off vehicles with more value.

Staff noted that this would be a big change. Mayor Festerman asked if employees know their jobs might be in jeopardy. Pearce said they know a study has been done. The big change is how we run our fleet and going to a younger fleet. Councilman Turner stated that younger cars would be needed in the Police Department but he didn’t see a problem for a 20-year-old car for Parks & Recreation. Pearce agreed but added that is true until you have to maintain those older vehicles. He said there are all kinds of makes and models that the garage would have to be familiar with, and inventory of parts could be an issue. Not everything has to be new, the City Manager said, but sometimes it is hard to maintain the vehicles. He reiterated that there is a type of inventory and knowledge that we must have to run the garage effectively. Phillips stressed that if we go to outsourcing, costwise this is probably just a “break even” situation. He said we are probably not going to save a lot of money by going that route.

It was agreed there would be a need to prioritize repairs and have a contract in place with area repair shops. Phillips added that the County outsources its vehicles while the City of Eden has its own garage. Mayor Festerman said he was told it cost $75 for the garage to put on windshield wipers for a City vehicle. Councilwoman Walker asked about the term “younger fleet” and how long that would be. Pearce said it would be a much shorter time period, and that five years has been mentioned. There has been discussion about going back to shared vehicles but those vehicles might not necessarily last 4-5 years. He said it is dependent on the type of usage.

Councilwoman Walker expressed surprise that each officer has his or her own car. Pearce noted that it is not only the replacement of the vehicle involved, but also of the in-car computer, etc. Mayor Festerman asserted that operating costs will be greater if vehicles are shared. Councilman Turner stated that a person will take better care of a vehicle if it is assigned to him/her. Councilman Hairston said that sharing cars will probably mean the City will lose officers. The Mayor said we will also lose accountability in terms of vehicles as well. Pearce said he is working with Chief Dennis on this, and it will be the Police Chief’s recommendation Councilman Gorham noted it depends on how it is presented to the officers.

It was noted that about 15,000 miles a year is put on a police car and that they would wear out real fast if used 24 hours a day. Phillips said there are four shifts but only two people would share a car. He stressed that they were not going to tell them what to do. He again noted that they would prioritize in terms of “younging” up the fleet depending on the level of need. Pearce said there were several components involved, including the impact on employees to be considered. Councilman Gorham said that neighborhoods where police vehicles are taken home do feel safer. Pearce also noted that other jurisdictions allow their employees to take their vehicles home even if they live out of town. He said he was not in favor of that.

Phillips concluded with what he had described as a “wild card” in his report – the proposed Senior Center. He said it really wasn’t a wild card but it will affect everything else that has been talked about. He said a lot of factors will need to be nailed down.

Phillips said there will be a lot more numbers in the report as we go forward. He said they will have departments look at the resiliency element or the contingency plan.

Councilman Turner said we can’t possibly build a building that would be as large as the present day senior center facility. He said that multi-purpose rooms would be needed. Pearce said staff was planning to make a presentation soon on a multi-functional building, but he didn’t want to get ahead of that.

Council gave Phillips and Pearce a round of applause for the work they had done.

Pearce noted that in March, they would present Council with information on water and sewer as well as the insurance policies and rates for the coming year.

Councilman Gorham said the 3% given last year to employees only helped the ones up top. Pearce said he would never recommend giving to a certain class of employees because it creates a “crunch up” within the different levels. He said a flat amount increase would be better, and they might be able to find that in this year’s budget. He said he knew everyone appreciated the last one employees received. He said he was hearing from Council that they want to do something for employees.

Councilwoman Walker asked about IT. Pearce said the City is constantly re-investing in information technology. Phillips explained that the City used to follow a three-year retention schedule because with software changing so rapidly, they also had to update the hardware. Phillips said the City now doesn’t just replace technology because it’s sitting there. The IT Director has been waiting patiently and we’re at the point where we need to give her funds as the changes in technology have caught up with us. He stressed that we are not behind in technology, but we are extremely dependent on computers. There is some hardware we can no longer get service for, he said. Phillips also noted that some technology has gotten cheaper.

Mayor Festerman brought up the Reidsville Community Pool Association. It was stated that the City has already exceeded what we originally agreed to do. The City continues to put half of the operating costs into the pool but there is no incentive for the YMCA to tighten expenses, Pearce said.

Councilman Johnson asked about the summer camp program. Pearce said a recommendation would be coming to Council at its next meeting, along with a recommendation on the Moonlight Madness basketball program.

Councilman Hairston said the new roundabout at the intersection of Scales and Wentworth streets is “kind of bland.” Pearce agreed but noted this is a State right-of-way. He reminded Council members they had given him the goal of preparing a landscaping plan for the area; however, there are sections of Scales Street that he is leery of taking over from the State until he talks with Lindsey (Tuttle, Public Services Superintendent). He said there are areas of the roadway that “dip”, and he was unsure that he wanted to accept the road until he found out more.

There was a brief discussion about the need to have something tall in the intersection of Scales and Morehead streets until something permanent is erected. It was agreed that the Christmas tree could go back up in the meantime.

Councilwoman Walker asked when is the projected rate of completion for Freeway Drive? Pearce said the year 2015.

**Councilman Gorham then made the motion, seconded by Councilwoman Walker and unanimously approved by Council in a 7-0 vote, to go into closed session to discuss personnel under G.S. 143.318.11(a)(6).**

**Upon return to open session, Councilman Johnson made the motion, seconded by Mayor Pro Tem Balsley and unanimously approved by Council in a 7-0 vote, to adjourn at approximately 1:41 p.m.**

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 James K. Festerman, Mayor

ATTEST:

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 Angela G. Stadler, CMC/NCCMC, City Clerk