**MINUTES OF THE SPECIAL MEETING**

**OF THE REIDSVILLE CITY COUNCIL**

**HELD THURSDAY, APRIL 3, 2014 AT 9 A.M.**

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

**CITY COUNCIL MEMBERS PRESENT:** Mayor John M. “Jay” Donecker

 Mayor Pro Tem Harry L. Brown

 Councilman Tom Balsley

 Councilman Donald L. Gorham

 Councilman William Hairston

 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 of Administration

Mayor Donecker called the special meeting to order at approximately 9:05 a. m.

City Manager Michael J. Pearce noted that this is the second budget work session of Council, and they would be discussing the utility budgets. No action is expected today, but he said he would be looking for consensus. The only action that will need to be taken will be at the end of the budget process with the public hearing.

**UTILITY BUDGET REVIEW.**

Pearce said they would be looking at the nine divisions that make up the expenses for the Combined Enterprise Fund’s utility systems. He referenced the handout’s two top summary sheets. (A COPY OF THESE SHEETS TITLED “CITY OF REIDSVILLE COMBINED ENTERPRISE FUND 2014-2015 BUDGET” ARE HEREIN INCORPORATED AND MADE A PART OF THESE MINUTES.)

The City Manager said that this year’s budget is a little different for us because staff will be doing some educated guessing with our first full year as primary operator of the Wastewater and Water Treatment Plants. In the past, the City contracted out to United Water the operations in one big lump sum. Now, we are doing it ourselves and did some educated guesses on what it really costs. However, he said we feel pretty comfortable with those numbers.

Pearce told Council we are not suggesting any rate increases for the utility system this budget year. He said the challenge is putting this together while providing as good a service as we can for a good price for our customers. He said we also need to do this while having bonds issued for improvements on Freeway Drive, the finished spillway project and the WWTP and WTP improvements. With the $15 million loan from the State, the total cost is about $24 million, Assistant City Manager Chris Phillips confirmed for the City Manager. Pearce noted that we have been saying all along that the rate increase four years ago would pay that debt. We have an obligation to our customers to live up to that, he said. We must live up to the Performa for the bonds as well, which shows how we’re going to operate and how we’re going to meet those debt payments per the Performa model, he continued. We must be fair to our customers as well as those who bought bonds based upon the Pro forma, the City Manager stressed.

“What I’m bringing you today does that,” Pearce said. He said the painful increase four years ago meets the debt we have taken out. Our operating expenses are at the level we said they would be in our Pro forma, he noted.

Pearce referenced the first summary sheet. He pointed out that the City expects to bring in revenues of about $8,225,700 from water sales, Greensboro water sales, sewer charges, transfers, other revenues and reserve funds. Our expenditures will need to meet that, which includes $3,845,700 from the Water Fund and $4,380,000 from the Sewer Fund.

The City Manager pointed out that, in this budget, Public Works Director Kevin Eason had requested a lot more capital than they have included. Pearce said we still have $1 million included for water and sewer line replacements. He noted that a pump hydraulic accumulator is included as a capital expense at $137,700 but had not been included in the original figures because United Water didn’t tell us we needed to replace it until we were switching over the plants. If this equipment breaks down, oil can get into our water lines, he noted.

Pearce added that the $400,000 listed for Greensboro water sales is conservative and will probably be around $700,000. However, the contract only calls for Greensboro to buy $350,000 worth of water so we can’t go too far out on our estimates, he said.

In discussing the Water Treatment Plant rehab project, Pearce noted that the pump that pumps water to Greensboro is very expensive and breaks down a lot. Only a few companies can even work on this pump, he said. Greensboro wants more consistent water flow, and we can use a less expensive pump that can be worked on by local companies. Councilman Balsley asked if Greensboro can help pay for it? Pearce said no, it would be part of the maintenance, but he said it is included as part of the rehab package. It will only be seen in the budget as part of the debt service, he said.

There was a brief discussion about the collection rate. Phillips said we don’t have any trouble collecting from Greensboro. He added that we have an expense account set up for write-offs, up to $10,000 a year. He said those are more for people who skip town. Pearce said it is offset with the expense line item.

Looking on the first page at the bottom under 2014-2015, Pearce noted that compared to expenses of 2013-2014, there is an increase of 7.94%, all of which is in the debt service line item. Looking at the operating column to the right, $6,471,600 for the coming budget year is shown compared to $6,699,700 in the current year. These numbers match up well with the model for the Performa, the City Manager said, adding that he was very pleased we are able to show a decrease of 3.40%. Having said that, he stressed that this is a different year, and they are still doing “educated” guessing.

Pearce told Council the City was not totally pleased with the level of service we were getting from United Water. He said we knew we needed to do a better job than United Water and feel we can still do it for 3.40% less in operating costs. However, we haven’t done this in 20 years so he asked Council members to keep this in mind. We think it’s good, but we may need to come back to you with all the chemicals, maintenance, equipment that can go wrong, etc. He said we may need to come get monies out of reserves if something goes wrong. He said there are no cheap things that go wrong down there because all of the pieces of equipment are expensive. He added that these expenses include salaries, from those working at the plants to meter readers to the park ranger. While these figures include group health figures, they don’t reflect any proposed increase in salaries, which would be about $28,000, Pearce noted.

This led to a discussion of salary increases in general for City of Reidsville employees. Employees have not received a merit increase since 2009, only two cost-of-living increases and a $1,000 cash bonus in 2011, Pearce said. He added that we need to get back to a combination of merit and cost-of-living increases. He explained the salary ranges and how cost of living works and how they can lead to compression issues within departments. He said it really shows up at the Police Department. At the lower levels, there is more room for progression by accumulating training, etc. Some take advantage while others don’t. If we only do cost of living and no merit, those people start creeping up on the people in supervisory positions, he noted. Merit increases are a tool we need to get back to, the City Manager said, in order to keep up with the market and with inflation. All employees deserve that, he said, adding that merit increases also allows them to move up their career ladders. He said merit allows people to walk up the ladder, helps with the compression issue and helps with the value concept.

The City Manager said that he was thinking this year about doing a combination merit and cost of living by doing a 1% COLA for everybody making Satisfactory or above; Satisfactory-plus would get 2%; and AS (Above Satisfactory) would get 3%. He said he would put a cap on the levels, which would allow us to budget for the increases. For the utility budget, for example, it would be an additional $28,000. Pearce said we need to take baby steps to get back to that. Mayor Donecker asked how many employees the $28,000 involved. Phillips said it would be about 35 employees out of the 200.

The process was discussed. Pearce explained that an employee’s appraisal is done on his or her hire date, which is when the increase is given. This spreads the cost out throughout the year. COLAs are done on a date specific across the board, he noted. He said he doesn’t have any “firm” thinking of this so he will need to think about how we’re going to roll this out. He also noted that, with the absence of pay increases, there wasn’t a lot of priority to do evaluations. We need to ramp that back up, and we have some supervisors who have never gone through the training for the appraisal process, it was noted.

Phillips said we will be providing training for supervisors and employees and be looking at the appraisal forms. Pearce noted that we recently did supervisory training. Plans are to do a training session for the appraisal system as well. Councilman Hairston said he thought it was a great idea so the City can keep up with the market and for employee satisfaction, and he liked that there will be training as well. Mayor Pro Tem Brown said there is no motivation for the COLA alone. Councilman Balsley said people like to have that attention or conversation with their supervisors every year. Councilman Turner agreed. Pearce said an employee should be surprised with what they get if the supervisor is keeping up. Councilman Gorham said he can agree with it if there is closeness with the supervisor and those who work with you. He said if there is not that closeness, he can’t agree with merit pay. Pearce said merit pay can be abused and that supervisors can show favoritism or want to give it to all because they don’t want to make anyone mad. He said he has found that people are too willing to give everyone an above standard. Councilman Gorham again touched on the closeness so that employees know why they’re not getting a raise.

Phillips said that Carolyn Nimmons and Terri Stamey are already planning to do some quality control to see if people are being treated the same and fairly. They want to make sure everyone is one the same page, he said. Councilman Gorham said supervisors need to know the eyeball is on them too. Pearce explained that he assesses the department heads and it goes all the way down. The Mayor said he likes the 2% cap on the various departments.

Discussion turned to how supervisors can keep their employees updated on their progress over the year. Mayor Pro Tem Brown talked of how he would dispense memos when employees did good and not so good things on the job. He then told them to bring those memos with them at appraisal time. From those memos, they should know how they were going to do, he noted. Councilman Gorham said that approach shows evidence that supervision is taking place.

Another issue, Pearce said, is that some jobs in themselves don’t give employees the opportunity to do “AS” work. If you do your job well, that is what is expected, he said. Having a job and doing well is a standard or standard plus. Covering someone else’s position while they are out of work for six months might allow them to get an AS, he noted. The City Manager noted that these are philosophical questions.

Pearce said he doesn’t want to do a COLA without a merit increase because of the compression issue. Phillips said they would probably use the same appraisal form after Councilman Hairston said the notations on the forms worked pretty good. The Finance Director said we don’t have time to revamp an entire new appraisal system. Councilman Turner said at one time, we did appraisals rather than COLAs, which were more effective because you really work for them. Councilwoman Walker asked about the appraisal forms, to which the City Manager said they are essentially the same but can be tailored to the individual departments.

That’s the “nuts and bolts” of the presentation today, MJP said. We can get into all of these individual sheets if you think we need to, he told Council.

Councilman Balsley asked if the City sells more water to Greensboro, will that cover the $137,700? Pearce said it would be “a wash.” This led to a brief discussion of the reserve funds. Phillips noted that at the end of last year’s audit, there was a combined $7.8 million in reserves, but that will be drawn down as we get into these projects. He said we would probably be at about $4.5 million at the end of 2017, which would still be about 50% of operating expenses. Mayor Donecker asked if there is a consensus among managers of where we should be? Phillips said that on the utility side, you probably want to have more than in the General Fund because the equipment is so expensive. He said we need to have some good numbers because do have some major customers. If we were to lose one, we would need to cover the loss since a major customer is 15% of our usage. Mayor Donecker asked if the general feeling is to keep reserves at 50%? Pearce said yes, adding that he tends to look at the dollar figures themselves rather than percentages because the percentages can fluctuate.

Staff noted that the second summary page shows the $9.361 million that was Public Works Director Kevin Eason’s original request. A lot was cut after comparing to last year’s figures, but Pearce said it was harder because we didn’t have the same expenditures. He explained that as part of the process, an engineer will say he needs to have the best piece of equipment, but a manager may give him this much money and let the department head find a way to get there. Pearce praised Eason’s budget book preparation. While $847,000 was requested by Eason for capital, the City Manager said he is only recommending the $137,000.

Staff talked about building capital reserves. There are some funds that we can roll into it, Phillips said. We want to stay within what we told the debtors we will do with any saving along the way being put into capital, he continued. We closed the year out without using that money, such as the $320,000 from Golden Leaf. The spillway project was very successful because it had great weather and hit its budget so we can roll over about 220,000, he said. When we see how this year finishes, we can roll over some monies and have a comfortable capital reserve of about $400,000 to $500,000. Mayor Donecker praised Eason’s crews for filling in the cracks in the roadways as soon as it was warm enough to do it, which speaks to good management. Pearce said he is talking to Public Works about upgrading its kitchen due to the long hours during snow days, etc. With supervisory meetings, etc., Public Works seems to be pretty highly motivated. Pearce stressed that they did cut the capital requests but are trying to work on getting some of the capital Eason has requested without a rate increase. Phillips said it also gives Eason a motivation to save so that monies can go into the capital reserve. Councilman Gorham said that Eason seems to be liked and thought of as a good boss by his employees. Councilwoman Walker noted that he has saved the City a lot with the United Water situation. Pearce agreed, noting that Eason has brought us in 3% lower with more people and more chemicals and doing things better than United Water did.

Pearce explained that the other sheets are the projections for revenues in the other divisions. It was the consensus of Council that staff has done a good job on the budget.

The City Manager said this is the fourth budget he has put together. He explained the process, noting that he goes through line item by line item to make the first cut. Chris tells him the projected revenues, and then they go through the second cut and get really serious. He said he has gotten into the second cut with the General Fund, which is pretty well balanced but there are some areas that he is not satisfied with. He said he’d like to see if there is room for the merit/COLA increases. He talked about the health insurance program, adding that even if the Council is willing to go up 10% across the board, there is still a big deficit. This will mean changes to the insurance plan, he said. Pearce also noted that there are some capital items that we’ve been ignoring for too long, such as the roof on City Hall which needs to be replaced, a $60,000 line item. He said we have patched little leaks, but we’re getting to the point where we’re getting enough water that it is rusting out the duct work on the second floor. We will get to the point of air quality problems on the second floor, he noted. The back wall of the Police Department is also experiencing moisture issues, the City Manager added.

Pearce told Council next time he will bring a balanced budget for the General Fund, but he wants Council to have a good understanding of what we’re looking at. The League is telling us about a projected increase of $200,000 in State-shared revenues. Phillips said some revenues will be up, some will be down. He said we will probably be a little worse off in terms of the sales tax due to the area we are in. Staff discussed the excise tax, which will go to a sales tax so they are projecting an increase, but sales depend more on usage so those numbers can jump around. Property tax is our largest source of revenue, but there is still some work to be done to find out how much we’ll get from that. We will be getting some preliminary numbers for that soon, he said.

Pearce asked Council members to bring their calendars to the next regular Council meeting to schedule the next budget work session. Staff wants to be able to have the budget hearing in May or early June.

Discussion centered on merit pay and the opportunities of some employees more than others to have opportunities for increases. Some positions have “steps” to help them gain more money but other positions have no natural steps in those jobs, Phillips said. Several Council members said those who are on the front lines, that are the “face” of the City, need to be accommodated as well.

This led to a discussion about doing those things that are a part of your job and finding ways to tap into other responsibilities for some employees to help them do additional things in their jobs, thereby, creating additional steps for their jobs. Phillips talked about attrition and trying to give people extra responsibilities. Mayor Donecker agreed with Councilman Gorham that these front line employees are the “face of Reidsville.” Phillips said they have received balloons, homemade brownies and letters complimenting finance staff and agreed these are the “face” of the City.

Pearce said we can’t always afford throwing money at people. We need them to be happy they are here and enjoy giving good service, he said, adding that we need to tap into what can be done to motivate people without money. The City Manager said we have 121 employees that have been with us since 2009 and since that time, they have received two COLAs with an average of 5.5% of those receiving more than COLAs because of progressions, etc. He said 62 of them averaged a 12.4% increase, he said. For those paid less than $50,000, it was 9.3% over that time period while the average person was getting 5.5%. Upper management made way less than that, he said, but 50% of our employees have done pretty well because they have other opportunities but others don’t.

Councilman Gorham, citing his experience in the school system, said if you supervise properly, your employees know you care. He said he thinks that is what they have been doing at Annie Penn. Councilwoman Walker said you need to build that bond. Mayor Donecker said we also have to sustain it and follow your word with your actions through appropriate appraisals, etc.

**Other Business.**

In other business, Councilwoman Walker asked about mass mailings for an upcoming event sponsored by the Appearance Commission or information about stormwater and leaf clippings. Phillips said he would check to see if they can put something on the back of the schedule mailer from Public Works. The Councilwoman also said she has received a lot of compliments about Mayor/Council hours and commended Mayor Donecker for doing that. People feel more at ease, she said. The Mayor said it is working out well with another scheduled for tonight.

Mayor Donecker noted the need to get things to people. He said people can go to the City website to the link to the left and find not only jobs to the City but a link to ESC. He said 311 jobs are available in this area. We really need to emphasize them going to the website. He stressed that we are not going to land another American Tobacco. He said Dr. Helmick (Rockingham Community College President) had brought out that there is a “disconnect”. He talked of the need to make the City website more user friendly and the need to give people a reason to go there.

**Councilman Gorham then made the motion, seconded by Councilman Turner and unanimously approved by Council in a 7-0 vote, to adjourn at approximately 10:40 a.m.**

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 John M. “Jay” Donecker, Mayor

ATTEST:

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Angela G. Stadler, CMC/NCCMC, City Clerk