

Wilmington City Council met in special session on Tuesday, December 10, 2013, with President Scott Kirchner presiding.

Call to Order

Roll Call: Jaehnig, present; Stuckert, absent; Wallace, present; Mead, present; Siebenaller, present; McKay, present.

A motion was made by Mead and seconded by Wallace to excuse the absent member, Councilman Stuckert.

Motion passed.

Absent member excused.

Councilman Wallace asked about the status of newly appointed Councilman Joe Spicer. President Kirchner explained that Councilman Spicer was not available for meetings this week but would be sworn in as soon as he is available to attend.

President Kirchner explained the only item on the agenda was the budget and turned the meeting over to Chairman of Finance, Councilman Mead.

Finance Committee - Chairperson Mead said council would be reviewing the departmental budgets and turned the discussion back over to President Kirchner.

President Kirchner asked the Auditor for an overview of the budget.

Auditor David Hollingsworth – As of today, the cash balance is approximately \$2.9 million dollars. At the end of November, we were at \$3.2 million. December is a traditionally a month in which there are a lot of expenditures and not much income. We still are expecting revenue in the form of the fire payment from Union Township, which is about \$300,000. In December 2012, we spent about \$200,000 more than we brought in. If this year is about the same, we could have a carryover balance higher than \$2.6 million. The current year expenditures exceed the revenue stream; however, we are still within the 25% for a carryover balance. There should be no new hires included in the budget, which allows council to review hiring employees in the upcoming year. The Auditor's office will need to bring in another person at least part-time. There are only two people in the office and we need to look forward to upcoming retirements. Someone should be in place in order to make it a smooth transition when that happens.

Mary Kay Vance/Mayor – Two new hires for the Police Department were left in the budget. Those replace police officers that have left this year.

Auditor David Hollingsworth – The Auditor's Office is looking at automated payroll in the future. Mary Kay Vance said some of the upfront costs of transitioning into automated payroll are already in the 2014 budget.

Auditor David Hollingsworth - Liz Fortney was not able to attend. The expected cost for our self-insured plan has been placed in the budget based on past 12 month claims. We have half a million dollars in the insurance fund. Last year we used the excess in the insurance fund to balance the budget. This year we are only going down to the bare minimum balance we are expected to have in that fund. We did not use the excess in the insurance fund to reduce our insurance costs. Councilman Mead noted that it looked like a 10-15% increase. Auditor David Hollingsworth explained that this was a bad claim year as the city had several individuals who met the maximum in their claims.

Mary Kay Vance - Part of it was because we reduced each department's expense by the amount we were using of the insurance fund. We did not do that this year.

[Discussion of insurance]

President Kirchner – the new budget was \$8.1 million, which is an increase of \$800,000 over the last year. Mary Kay Vance said that there was only a slight increase rate from last year to projected next year.

President Kirchner – The budget approved for 2013 was \$7.28 million. The estimated actual performance of 2013 was \$8.3, which is approximately a million dollars of increased costs.

Councilman Wallace – Although we spent more than anticipated, we also had unexpected revenue sources. Auditor David Hollingsworth said that there were multiple things happening that changed the amount spent.

[Discussion of budget performance]

Mary Kay Vance – We had supplementals beyond the additional revenue stream in the amount of \$60,000 through October. Since that time, additional expenditures have been approved for purchasing trucks. She also noted that there were more safety personnel in the budget than last year. President Kirchner noted that there was a half million dollar deficit in the budget. The projected cash balance at the end of 2014 was right at 25%.

President Kirchner – Income tax collections appear to be \$87,000 less than last year's collections. Auditor David Hollingsworth explained changes in the federal tax code regarding bonus depreciation and Section 179 depreciation. These changes allow companies to show a loss, resulting in large income tax refunds. This is something that cannot be easily predicted by the city.

[Discussion difficulties of projecting income tax revenues]

Phil Floyd presented information on the Transit Budget for 2014 and answered council's questions. This year's budget is similar to last year. They continue to try to make reductions and run efficiently. He pointed out that there was a change in administration for the grant program and the Transit program's funding was initially cut by quite a bit. After meetings and negotiations, they have restored the grant funding for 2014. He pointed out several areas of cost reductions. They will need three standard van replacements and one larger van. They also have budgeted for dispatch computers and software in order to modernize the operations. The total budget is about \$40,000 less than last year. They city's matching funds are up \$6000 because of a change in the method of calculation by the state. He reminded council that what is set aside for matching funds may not actually be spent.

[Q&A Session for Transit Budget]

Jerry Rowlands presented information on the Water Department Budget for 2014 and answered council's questions. He went through the budget line-by-line describing each entry. He explained how weather affects sludge. He explained how recent changes in sampling regulations resulted in an EPA violation by the city, so there will be increased costs for additional testing and postage. The water quality has not changed but the EPA requirements have. Rowlands explained that carbon filters would remedy the EPA issues. They would cost \$3-4 million to install and would have an annual maintenance fee for carbon regeneration of \$300,000 – \$400,000. He discussed water tower inspection processes and maintenance needs. He explained that they also will not be able to use any of their existing fittings or meters after the first of the year because they do not meet new lead level standards.

[Q&A session for Water Department]

He added that he had capital equipment needs but they were cut from his budget. The mayor explained that capital equipment needs would be looked at separate from operating budget.

President Kirchner had questions regarding why the utility line appeared lower. Jerry Rowlands said he would verify the numbers and get back to council. President Kirchner

asked if they could lower the budget for utilities based on potential aggregation savings. Mary Kay explained that the proposed budget numbers were based upon this past year's performance.

Jerry Rowlands – It would be nice if council looked at the revenue side of the budget. They say they want to run it like a business, but they don't run it like a business because they don't address ongoing revenue issues. I have cut the budget as much as I can. My men our working on their 6<sup>th</sup> year without any raises. Soon qualified workers will leave.

Mike Wallace said that he had meetings with the Water Committee about jobs and about people quitting and about raising rates. He said that in every rate hike discussion they have had, everyone wanted to hold fast on the rates. He said that Jerry is putting Band-Aids on pipes now.

They mayor said that Jerry Rowlands has done a very good job of keeping the maintenance costs down. Those are expenses that are being deferred, but we will have to take cares of things eventually.

Jerry Rowlands said that the upcoming year will mark the 10<sup>th</sup> year without a rate increase. He pointed out that all of their suppliers have increased their prices to the city during that time. President Kirchner said that by allowing the budget to tie up money that you're not going to spend on utilities and not allowing you to do maintenance on the system or maintenance on the facilities doesn't make sense.

Jerry Rowlands – The issue is not that I have a little bit more money in utilities and I don't have it in facilities maintenance – The issue is we don't have revenue overall that covers our operating costs. I can transfer that money if I need to. Overall, I try to keep our expenses down but there is not enough revenue. In a couple of years they will have to sell or contract out the Water Department because without raising rates, there will not be enough money to run it.

[Discussion of water rates]

President Kirchner pointed out that Chairman of the Water Committee, Mike Wallace never asked for an increase in rates to be brought forward to council.

Jerry Rowlands said that he had put raises into the payroll line and was told to take them out. He said that the employees have not had raises in five and a half years – they want raises now. President Kirchner says that council is pleased that they have been able to allow the people to keep their jobs. Many citizens do not have a job. We're happy that we've been able to keep those jobs.

[Discussion of reduction of water usage]

President Kirchner pointed out that the previous administration lost Western Water business.

[Discussion of city's relationship with Western Water]

Councilman Wallace said they discussed taking rates to the public for discussion but they didn't feel that 2013 was the time to discuss it. He won't be here in 2014, but his plan was to take it to open meetings for public discussion.

Paul Fear said when they paid off the sewer, they talked about adjusting the water rates up, but Jerry was not asked to come up with a proposal to raise rates. Councilman Wallace explained that it didn't seem to be the right time to raise rates because everything had been on a freeze – wages, hiring, etc. Paul Fear said that the city's water is not that expensive compared to other places. President Kirchner said the next council needs to look to lowering sewer rates and raise water rates by making it revenue-neutral to households.

Service Director Reinsmith said that Jerry would like a minimum monthly rate. Jerry said that if you take the operational costs and divide it by subscribers, you get a minimum monthly rate. President Kirchner said that creating a monthly rate would make it so there was no incentive for the department to control operational costs.

[Further discussion of water and sewer operations]

President Kirchner maintained that the city departments needed to ask for what they need if they need rate increases.

Auditor David Hollingsworth left the meeting at 8:00 p.m.

Service Director Reinsmith presented information regarding the Sanitation Department budget. He explained the losses in revenue experienced when the rates changed and how we lost customers during that time. \$200,000 was lost. Those carriers are back on board now. The biggest increase in the budget is the \$700,000 increase for the vertical of the landfill. That must be done or the city will have to haul their trash down to Georgetown. The expansion is slated for the first of next year. The landfill could possibly run out of space by February. President Kirchner asked why this had not been planned for before. Service Director Reinsmith explained that there was a disagreement with the EPA and so all of the permits were stopped until that was resolved.

President Kirchner said that there was a 22 % increase just four years ago so that they could have an expanded landfill, but now they were not going to have a landfill. Service Director Reinsmith answered that they have a landfill and a portion of the 22% increase went toward fees for the State EPA, local solid waste group or health department.

President Kirchner said that the Service Director and the Landfill Superintendent were adamant about getting outside haulers to bring their trash back and now are telling council that the hole is filled.

Service Director Reinsmith said the real issue is that the landfill needs revenues and the scales that were brought in are costing the landfill money.

[Heated argument between President Kirchner and Service Director Reinsmith regarding the landfill scales]

Councilman McKay asked for the President Kirchner and Service Director Reinsmith to stop arguing.

Service Director Reinsmith explained that the EPA held the expansion permits for several months while the lawyers fought out another matter. The delay means that we have to get the cell done at the first of the year.

President Kirchner asked for explanation of the changes in landfill salaries.

Mary Kay Vance said they would need to talk to Don Maher directly for specifics in the employee changes.

Service Director Reinsmith – The EPA mandated that he have an extra person in the back of the landfill. He had two people; they said he has to have three.

President Kirchner asked why the facilities maintenance line was reduced. Service Director Reinsmith said that the scales were now in. Also, they had been rehabbing the building across the street to move the welding shop into it. Service Director Reinsmith said that Don Maher could give them more specific information about the renovation of that building.

Councilman Mead asked if there is going to be any problem with having a place to put the trash. Service Director Reinsmith answered no.

Councilman Jaehnig asked what the cost of the scale was. Service Director Reinsmith said approximately \$100,000 after all was said and done.

[Continued Landfill Budget Q&A]

President Kirchner asked for a breakdown of the state and local fees. He wondered if there were differences in those fees since we had the scales.

[Discussion of landfill debt]

Mary Kay Vance said that they could break down the fees if needed. She further explained that the fee structure was put in place for the vertical expansion, but the expansion has come more quickly and the revenue is less than anticipated. Therefore, cash flow has taken a hit.

Councilman Jaehnig said that this is a good example of why no other city in the state operates a landfill.

Councilman Mead explained that the capital budgets would be separated from the operating budget and would be presented later.

Mayor Riley added that we are going to try to delay capital expenditures as much as we can. Clerk Brenda Woods handed out a list of capital items.

Councilman Siebenaller asked how many of the items were included in the budget. Clerk Woods answered only the capital construction for sanitation was included. The Wastewater Treatment capital construction may never have to be done; it depends on what the EPA mandates.

[Discussion of capital items in budget]

Mayor Riley - Some of the items will have to be purchased but some will not. There are two cruisers on there. Whether or not he purchases them will be a council decision in the next year. A week or so ago, we were told by the State Auditors that we have two cruisers too many. Does that mean we trade in two to buy two or do we trade in four to buy two? Those are discussions that we need to have next year. The roof on Station I also needs to be replaced.

Mayor Riley presented the administration budget.

[Administration budget Q&A]

President Kirchner asked what the increase in administrative salaries is. Mary Kay Vance suggested it may have to do with overtime required for extra meetings but they would have to review the line. It was asked why there was an increase in engineering contracts. Service Director Reinsmith explained that we are getting ready to hire CDS to do the city maps.

Mayor Riley said he would like to find raises for all of the employees by the end of the first quarter. The budget is fluid. He said he feels they've done a good job for the last couple of years and will continue to do a good job.

[Further discussion of differences between the 2013 projection, the 2013 performance and the 2014 projections]

Mary Kay Vance offered to provide another report that shows 2013 year's original budget compared with 2013's actual expenditures and 2014 proposed budget.

A motion was made by Jaehnig to adjourn.

President Kirchner declared the meeting adjourned.

Council adjourned.

ATTEST:

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President of Council

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Clerk