

May 4, 2015

A Special Meeting of Town Council was held on the above date at 6:00 pm at Town Hall, all requirements of the Freedom of Information Act having been satisfied.

Present were: Pat O'Neil, Mayor
Jerry Kaynard, Mayor Pro-Tem
Chauncey Clark, Councilman
Hartley Cooper, Councilwoman
Susan Middaugh, Councilwoman
Mary Jane Watson, Councilwoman

Mayor O'Neil called the meeting to order at 6:03 pm and stated the press and public had been notified in accordance with State law. There were approximately fifteen residents and no members of the media in the audience. Mayor O'Neil stated the purpose of the meeting was to have First Reading of Ordinance No. 2015-03, An Ordinance to Adopt Budget for July 1, 2015 through June 30, 2016 and First Reading of Ordinance No. 2015-04, An Ordinance to Adopt the Water and Sewer Operating Budget for Fiscal Year 2015-16.

Mayor O'Neil noted that Council continues to work on the budget; therefore numbers presented tonight are draft numbers. Because normally the draft budget identifies expenditures higher than revenues, work will continue to develop a balanced budget. Mayor O'Neil asked Administrator Andy Benke to give an overview of the budget process.

Administrator Benke stated that Section 5 of the State Code requires the Town to present a balanced budget every year. The process is started by staff identifying sources of revenue such as ad valorem property tax, franchise fees, and business licenses to estimate revenue. Simultaneously the staff compiles departmental expenses such as payroll, health insurance, retirement, as well as electricity, and capital items or major projects. The State Code requires the Town to have a public hearing to present the budget which is scheduled for the regular Council meeting on May 19, 2015. This will be another opportunity for citizens to voice their opinion on the budget. Second Reading and Ratification could occur that evening or at another meeting no later than June 30, 2015 when the budget must be approved. While that gives the framework of the process, currently the expenses exceed revenue by approximately \$324,000.

Certain items in the budget are beyond the normal daily operating expenses. These include the debt service on the 2014 bond, a request for improvements in Stith Park, building improvements at the Island Club, traffic cameras on the causeway, and digitizing documents. Comptroller Jason Blanton noted that the bond payment for fiscal year 2016 will be \$428,000, which was already known from the proforma developed for the bond. Capital improvements include the new Town Hall, the Fire ladder truck, and sewer plant improvements. Councilmember Kaynard stated Council reviewed the possible flow of bond repayment when the Town went to the bond market about a year ago. Council realized there would be a deficit in the first three years of the bond payments, so the first two years were

scheduled for interest only, and by fiscal year 2019 it would be covered by either the reserve fund or by the sale of Town lots. The Town already has a bond that will be paid off in fiscal year 2019, so that annual payment of \$200,000 could be used toward the new Town Hall bond payment at fiscal year 2019.

Michael Bourland, 1607 Atlantic Avenue, inquired if the bond payment was based on an estimate of the Town Hall cost, and what the actual cost was. Councilmember Kaynard answered that the repayment of the bond is based upon the amount of the bond of \$4.1 million. So regardless of the Town Hall cost, the bond payments are fixed for the life of the bond of 12 years. It is totally amortized over the 12 years, including the first two years of interest only.

Barbara Spell, 1702 Atlantic, questioned whether the current water and sewer bond payment of \$200,000 that is paid by property owners through their monthly utility bill will be used for the new Town Hall or other capital improvements, instead of lowering the rates accordingly in fiscal year 2019. Councilmember Kaynard responded that the water and sewer rate structure could be changed in fiscal year 2019 and other sources could pay for the Town Hall bond payment such as property tax millage. Council tentatively has allocated the current bond portion of the rate to remain in FY2019 for the new Town Hall bond, but Council can change that allocation.

Mayor O'Neil asked Comptroller Blanton if some payments for the water and sewer bond debt service were made from the general budget. Comptroller Blanton responded that before he was employed with the Town, it was his understanding that Council was going to raise the millage to cover the debt service for the bond; however, that millage was never increased, so from 2004-2006 payments were made from the general fund. In 2008 or 2009, Council made the decision to raise water rates for the \$200,000 debt service payments because the funds were used for water line projects that should be paid through water rates. Mayor O'Neil commented that if the current bond portion is kept in the rate and the \$200,000 from that bond is used for the new bond, it is in a way paying back the Town's reserve fund for the years it covered the water and sewer bond debt service.

Mayor O'Neil asked Mr. Benke to continue with his presentation. Administrator Benke stated there are two ordinances for First Reading tonight, and the budgets will continue to be refined before Second Reading and Ratification. Mayor O'Neil questioned about the status of the water and sewer draft budget. Councilmember Middaugh stated that currently the budget shows a 2.2 percent increase in water and 13.2 percent in sewer. It is an estimate of about 7-8 percent across the board for the average 6,000 gallon user which would be about \$7 or \$8 a month. The low-end user would be about \$3-4 dollars a month. There is more work to be done to finalize the budget. Councilmember Kaynard noted that the sewer budget is currently a little over \$100,000 out of balance. He stated he would probably vote against First Reading of the ordinance tonight because the rate chart is not completed, and the effect on an individual bill is not known. Another point is there is \$100,000 being placed in reserve in the sewer budget for accumulated depreciation, and generally he would favor that; however, he believes the reserve could be reduced because of the size of the rate increase. That can be discussed later in the Water and Sewer Ordinance First Reading.

Barbara Spell, 1702 Atlantic, commented that a couple of years ago at a meeting it was said water rates had increased about 40% in the past five years, and now the draft budget is 7% additional; however, there is discretionary spending on things not needed. The water increase slated to stay in the rates after the bond is paid off in FY2019 shows how costs to Islanders increases and it is never presented to Islanders as a choice. Mayor O'Neil responded this First Reading, and the subsequent meetings and Second Reading, allow opportunity to hear from the public before the final budget is approved.

Karen Coste, 322 Station 19, inquired why copies of the budget were not available, and requested that copies of the budget be available to the public at the beginning of the meetings. Mayor O'Neil responded he will take that into consideration; that he wanted everyone to listen to Mr. Benke's information instead of flipping ahead in the budget packet. Copies of the budget will be available after the meeting.

Wayne Guckenberger, 2105 Pettigrew, inquired if the Town funds depreciation for all the capital equipment. Comptroller Blanton stated currently on the budgeted basis there is no depreciation. However, when construction is complete on the new Town Hall, it will be discussed to determine the life cycle of certain items for depreciation purposes.

Dave Spurgin, 2057 Middle Street, suggested Council research raising millage rates rather than water rates. Moving the water rate increase to property taxes would enable a property owner to write off the expense, which may be better for the community as a whole.

Diana Browder, 2672 Goldbug Avenue, spoke in behalf of the Island Club. She presented information regarding expenses related to the Island Club's maintenance and improvements. It is currently leased from the Town and is used almost every day for various activities such as yoga, parties, summer camps, and after-school activities. The building is subject to the 50% rule; therefore, there is a financial limit to the work that can be done. An appraisal is being conducted to determine that amount. Maintenance and improvements include a completely functional plumbing system, electrical repair, floor repair due to buckling, safer entry doors, ceiling fans, and windows for natural light.

Hannah Heyward, 1701 Middle Street, also spoke in behalf of the Island Club. She stated because there is no insulation, it is difficult to keep the building at an adequate and comfortable temperature.

Councilmember Kaynard stated he wanted to make a separate motion about this project for the Island Club because projects like this are usually funded out of reserves at the last minute due to an emergency. In the pending budget \$100,000 is tentatively earmarked for the Island Club. **Motion was made by Councilmember Kaynard that the Town retain \$100,000 budget for the Island Club in the capital project budget with individual items coming back to Council for approval within the next fiscal year budget.**

Before Mayor O'Neil asked for a second to the motion, it was determined that because this item was not specifically on the agenda for a vote, Councilmember Kaynard stated he would make it a separate amendment to the budget ordinance.

Motion was made by Councilmember Kaynard, seconded by Councilmember Clark to have First Reading of Ordinance No. 2015-03, An Ordinance to Adopt Budget for July 1, 2015 through June 30, 2016.

Motion was made by Councilman Kaynard, seconded by Councilwoman Cooper, to amend the motion for Council to approve a capital repair budget for the Island Club of \$100,000 in this fiscal year budget (the amount is currently in the budget) with individual projects to come back to Council for approval.

Councilmember Clark stated while the Island Club is a great use of the property, there is a budget squeeze, and more information is needed to make a decision. Mayor O'Neil agreed that it is a wonderful facility but he is not comfortable with improvements with the exception of safety items. Councilmember Kaynard stated that the budget as presented has a cash deficit of \$324,000 but he believed they found the possibility of reducing that to less than \$50,000. He did not think this particular Island Club proposal would make the budget hard to balance.

Motion failed with a tie vote – in favor: Councilmembers Cooper, Kaynard, and Watson; opposed: Councilmembers Clark, Middaugh, and Mayor O'Neil.

Mayor O'Neil asked for the vote for the original motion on First Reading. Motion carried by a vote of 5-1, with Councilmember Cooper casting the opposing vote.

Motion was made by Councilmember Middaugh, seconded by Councilmember Clark, to have First Reading of Ordinance No. 2015-04, An Ordinance to Adopt the Water and Sewer Operating Budget for Fiscal Year 2015-16.

Councilmember Middaugh stated the Committee reviewed budget items in great detail. Increases in the sewer budget are driven by expenses for needed safety equipment such as a trench box, chemicals, sludge disposal, JetVac refurbishment, and increased electrical rates. Councilmember Kaynard stated he planned to vote against First Reading because the 13% sewer increase is excessive, and he has not seen the actual rates and categories of users. Secondly, it seemed inconsistent to him to put \$100,000 in reserve for no particular immediate need in the water and sewer budget, but not put \$100,000 into the Island Club. Councilmember Watson agreed that she could not vote in favor for First Reading until the rate structure is determined. Mayor O'Neil noted that this budget, just like the general budget that passed First Reading, has uncertainties and changes can be made between now and Second Reading.

Motion failed with a tie vote – in favor Councilmembers Clark, Middaugh and Mayor O'Neil; opposed-Councilmembers Cooper, Kaynard and Watson.

The Water and Sewer Committee will meet and present the rate structure to Council. Comptroller Blanton noted that the water and sewer rates are based on a rate table from the rate study completed five years ago. The expenses are set, and the expenses adjust the rates. If the expenses are changed, it will affect the rates differently. There are expenses built into the base rate, and other expenses built into the usage, which is the variable rate. Mayor O'Neil summarized there are formulas in place that set rates, and the types of expenses that increase/decrease drive the rates. After the expenses are set, the rate will be set also.

Motion was made by Councilman Clark, seconded by Councilwoman Watson, to adjourn at 7:15 pm., carried unanimously.

The regularly scheduled Council Workshop followed this Special Meeting.

Respectfully submitted,



Ellen Miller