

The Smithfield Town Council reconvened its April 2, 2019 meeting on Thursday, April 11, 2019 at 7:00 p.m. in the Council Chambers of the Smithfield Town Hall, Mayor M. Andy Moore presided.

Councilmen Present:

Travis Scott, Mayor Pro-Tem
David Stevens, District 2
Dr. David Barbour, District 4
John A. Dunn, At-Large
Stephen Rabil, At-Large

Councilmen Absent

Emery Ashley, At-Large
Marlon Lee, District 1

Administrative Staff Present

Michael Scott, Town Manager
John Blanton, Fire Chief
Lenny Branch, Public Works Director
Ted Credle, Public Utilities Director
Gary Johnson, Parks & Rec Director
Shannan Parrish, Town Clerk
R. Keith Powell, Chief of Police
Greg Siler, Finance Director
Stephen Wensman, Planning Director

Reconvene: April 2, 2019 Meeting

Mayor Moore reconvened the meeting at 7:00 pm

1. FY 2018 – 2019 Manager’s Informal Budget Overview

Town Manager Michael Scott made a presentation to the Council concerning the FY 2019-2020 Budget.

Items that warranted discussion by the Council were as follows:

Water Plant Project, Bulk Water Contract, Increase Sewer Rates, Personnel Requests, Equity Drive Resurfacing, Sarah Yard Community Center Fees, Storm Water Utility, Motor Vehicle Tax, Electric Rate Changes, Salary Study Recommendation, Personnel Benefits / Salary Increases, Fund Balance and Debt.

- Equity Drive Repairs: The Town Manager explained this was an expensive project currently not included in the budget.
- Sarah Yard Community Center Fees: The Town Manager explained this item would be further discussed when reviewing the fee schedule, but currently those attending the Center were not being charged a fee. In the beginning, there were a lot of donations for attendees, but those donations have ceased. It was the recommendation of the Parks and Recreation Director Greg Johnson to continue with that practice of not charging admission to the Sarah Yard Community Center.
- Storm Water Utility: The Town Manager explained the stormwater plan was being created, but this would likely not be completed until after the budget was adopted.
- Motor Vehicle Tax: The Town Manager explained this was not included in the budget even though many communities are doing it and it was another General Fund revenue source.
- Capital Transfers from the Electric Fund: The Town Manager explained there were no capital transfer from Electric Fund. The electric fund is charged for property taxes which are paid to the General Fund.
- Electric Rate Changes: The Town Manager explained the Town received projections from ElectriCities for wholesale electric rates. Staff has budgeted \$12,750,000 for electricity purchased. Wholesale electric rates were increased by 1.2% percent effective April 1, 2019 and the Town did not increase its rates to our customers. UFS is currently completing a rate refresher that will include this adjustment. In 2021, a second increase in Wholesale Electric rates by three percent (3%) is projected.

- Water Rates: The Town Manager explained there were no increases in water rates requested in FY 2020.
- Sewer Rates: The Town Manager explained Johnston County has indicated they will increase sewer rates by 10%. This increase has been included in the budget and will be passed on to the customers. The I & I project on existing water lines has decreased costs, however a significant increase has been seen in FY 2018-2019 due to increased rain. This currently has the Water/ Sewer Fund over budget by less than \$200,000.
- Economic Development: The Town Manager explained the same amount as last year has been budgeted for economic development: \$50,000 in General Fund, \$100,000 in Water Sewer Fund and \$100,000 in Electric Fund. Part of those funds will be used for the infrastructure reimbursement contract with East River which won't be paid until they receive certificates of occupancy. The developer of East River has indicated that up to 42 new homes are projected to be completed in the East River subdivision in FY 2020.
- Personnel Benefits & Salary Increases: The Town Manager explained in each fund there was a 3% salary adjustment for all employees. Salary Study numbers will be presented to Council as soon as they come available. Employee benefits and retirement have remained status quo. The Town's portion of retirement has increased by 9%. Insurance Costs remain unknown but an 8% increase is included in the draft budget.
- The Water Plant: The Town Manager explained Johnston County has made formal request to fulfill the current contract. Town must invoice the County for the \$3.25 million capacity fee to complete contract. This would increase the allocation to the County by, up to 1.0 Million Gallons per Day (MGD). The Town could use capacity fee charges to pay the existing contract with Wooten Company for engineering services and add an additional clear well to the water plant. The Town Manager explained he hasn't acted on the contract or invoiced them for the \$3.25 million.
- Debt: The Town Manager explained that during this fiscal year, the Town retired annual debt payment of \$168,639 and will retire \$29,210 in debt payments in FY 2020. The Town will add debt payments of \$104,116 in FY 2020 for the ladder truck and rolling stock loan which included the hook leaf truck for Public Works, SUV for the Fire Department and a dump truck for Parks and Recreation. No new debt had been included in the FY 2019-2020 budget.
- Fund Balances: The Town Manager explained that at audit end, the General Fund balance was at 68.3% or \$8.1 million. The Water & Sewer fund balance was at 120% or \$5.4 million and the Electric Fund balance was 56.9% or \$10.7 million.
- Property Tax Rate: The Town Manager explained this was pending, but this budget included status quo for FY 19 without growth projections. The Town Manager further explained that with the tax reevaluation, final property tax revenues were still undetermined due to ongoing appeals. The budget revenue number was status quo from FY 2019 or \$5,600,000. The revenue neutral projection was \$6,289,370 with the new valuation. The Town Manager further explained that revenue neutral also allows you to use your growth projections which is 2.77%. The new revenue amount at the current tax of \$0.57 rate would be \$6,674,159. If the Town Council chose to go to the revenue neutral tax rate the property tax rate would be \$0.5371. The Town Manager also provided a property tax rate history from 1998 to the present to show the rate of \$0.57 has been in place since 2003. He reminded the Council that property taxes were the largest revenue source for the General Fund.
- Salary Study: The Town Manager informed the Council he did receive preliminary information on the salary study. He and the Human Resources Director Tim Kerigan had a conference call and the Town was looking at a considerable amount of money if the Council chose to incorporate the recommendations for all employees at the same time. The Town Manager was estimating \$200,000 to \$300,000 if implemented at the same time.

Councilman Barbour questioned if this was an annual cost. The Town Manager responded this was a reoccurring cost. Councilman Barbour further stated the Council should take that into consideration with the additional revenue from the revaluation. If the Council chose to let those funds go away then they wouldn't have the funds to pay Town staff. It was his opinion that the Council owed it to the staff to pay them what they deserved.

Property Tax Rate & Revenue

Mayor Pro-Tem Scott questioned if the \$5.6 million was projected for FY 2019-2020. The Town Manager explained it was projected for this fiscal year because you never collect 100% of property taxes. The Town Manager further explained that number was a conservative number because it helps maintain the General Fund balance going forward.

Mayor Moore questioned if the \$6,119,993 referenced in the additional information provided by the Town Manager was the revenue generated if the Council chose to keep the property tax rate at \$0.57. The Town Manager responded it was the revenue neutral rate without the growth projection of 2.77%. This would also reduce the property tax rate to \$0.5227

Mayor Pro-Tem Scott asked the Town Manager to define revenue neutral projection because based on the information provided, the Council could choose to reduce the property tax rate. The Town Manager explained the \$6,119,993 revenue amount was based on a property tax rate of \$0.57 and the tax from last year before revaluation. With the revaluation, if the Council did not want to add the growth rate, the property tax rate would be reduced to \$0.5227 to maintain the \$6,119,993 revenue. With the growth rate of 2.77%, the property tax would be reduced to \$0.5371 to realize a revenue of \$6,289,370. He explained the growth rate was not growth of people but growth of property tax revenue.

Fund Balance

Mayor Pro-Tem Scott questioned if there was any General Statute that mandated the maximum amount of fund balance a Town should have. Finance Director Greg Siler responded that the General Statute only addressed the minimum amount a Municipality should have, but municipalities are grade by their peers. The Town Manager explained the smaller the community, the greater the fund balance should be. Councilman Barbour questioned at what percentage would the Council determine there was enough fund balance. The Town Manager responded when the Town Council approved the fund balance policy, it was set at 25%, but the goal was to keep a fund balance of at least 50%. By being above this, the Town could pay for projects like Venture Drive and Equity Drive. The Town Manager further explained the tax payers would rather receive some type of service for the taxes they pay, but there was nothing wrong with saving money to pay for project(s). Mayor Pro-Tem Scott reminded the Council that having a healthy fund balance also assists during major disaster like hurricanes.

Equity Drive

The Town Manager explained that Equity Drive was a \$1 million project. He stated he had been approached by the property owners and they would like to speak about the condition of the road. In his opinion, the Town Manager felt the Town should repair Equity Drive now believing there was no reason to wait. He explained there was \$176,000 left in the paving budget and the additional funds could be used from the General Fund Balance. Mayor Pro-Tem Scott expressed his concern about looking at the total project to include sidewalks. Mayor Pro-Tem Scott questioned if the business owners were willing to contribute funds to the Project. The Town Manager responded the business owners were not willing to contribute to the project because they felt their property tax dollars already contributed to the project. The Town Manager stated that based on a property tax rate of \$0.57 after revaluation, those business owners on Equity Drive pay \$313,000 a year. They felt that was enough to maintain the road. Also, the Town cannot assess them for the repairs without their approval. The Town Manager further explained the underlayment was good in some spots so the entire road would not have to have the Full

Depth Reclamation (FDR) like Venture Drive. Also included in the \$1 million estimate was sidewalks on one side of the road and curb and gutter. Councilman Barbour stated that services received by those property owners should be deducted from the property tax revenue. The Town Manager responded the property owner on Equity Drive do receive Fire, Police and road maintenance services, but they do have sales tax revenue and occupancy tax revenue that comes back to the Town. He further stated that those properties are a large revenue stream for the Town. The Town Manager reminded the Council that during the pavement condition study, Equity Drive was listed as the second worst road in the Town only behind White Oak Drive. White Oak Drive would not be completed until after the Booker Dairy Road project was completed. Mayor Pro-Tem Scott requested staff to take a serious look at where the sidewalk would be constructed and if the Town should finance the project through debt service. Councilman Barbour questioned if the Town should consider asking the property owners to financially assist with the sidewalks if the Town would pay for the road repairs.

Mayor Moore suggested that Towne Centre Drive have no parking signs installed because if semi trucks were what ruined Equity Drive then Towne Centre Drive would be in need of major repairs in the near future.

Water Plant Expansion & Contract with Johnston County

Town Manager Michael Scott informed the Council that he need direction on the contract with Johnston County. He explained the Town agreed to reserve 2.5 million gallons of water a day for the exclusive use of the county. The minimum purchase would be of 2 million gallons a day whether they use it or not. The agreement adds an extra 1 million gallons a day if we can provide it. For that capacity, they are paying the Town a one-time fee of \$3.25 million (or \$3.25 per gallon). The contract allows the Town to buy back the capacity at the same rate in the event the Town needs the capacity. In the contract, the Town will charge the County a bulk rate of \$2.00 per thousand gallons beginning July 1, 2017. The rate can be adjusted with 90 day written notice to the County.

Councilman Stevens questioned if the County had just entered into an agreement with Sampson County. The Town Manager responded if the news media was correct, the County was purchasing water from Sampson County at a rate of \$2.50 per thousand gallons. Councilman Stevens suggested increasing the rate to \$2.25. Public Utilities Director Ted Credle responded the Town keeps the costs low to stay competitive, but agreed that the Town should increase its rate by 10% to \$2.20 per thousand gallons. Mayor Pro-Tem Scott agreed that the rate should be increased by he questioned the cost of making potable water and further questioned when the UFS study would be completed. The Town Manager responded the UFS study would not be completed until the budget was adopted.

Councilman Barbour stated it was his understanding the Town could provide the County with the water they needed. Councilman Barbour suggested the Town execute the contract and put the \$3.25 million in the bank to draw interest and if the Town needs the capacity, they can simply purchase it back from the County. The Town Manager stated it costs \$1.41 to make the water. He conceded there was a margin of error of 1 or 2 cents; therefore, the Town was making money on the sale of water to the County.

Mayor Pro-Tem Scott questioned the need for the water plant expansion if the Town could provide water immediately to the County. The Town Manager responded if the Town provided the County with the extra water, it would raise the capacity to 90%. At that time, the Town would have a reasonable amount of time to complete some form of expansion. The Town is currently creating plans for the expansion because that was required when capacity reached 80%. The Town Manager suggested an alternative to the full water plant expansion stating that the Town could use the capacity fee funds of \$3.35 million to be paid by the County to install a clear well. This would lower the capacity back to 80%.

Mayor Pro-Tem Scott questioned if the Town could negotiate the water draw agreement with the County. The Town Manager responded that the Town has been permitted for the

water draw from the Neuse River, but if that draw was given to the County then the Town may never be able to get that water back and a few dry months could make all the difference for water production. The Town Manager explained he was concerned about expanding the water plant with its current plans and being able to afford the debt.

Mayor Moore informed the Council that they already voted to approve the Bulk Water Agreement with the County. The contract has been fully executed by the Town and the County. At this point, all the County has to do is say they want the water. The Town Manager responded that the County has already requested the additional capacity. Mayor Moore reminded the Council that the Town could be faced with legal action should the Town be in breach of contract. Mayor Moore suggested the Town could try to renegotiate the contract with the County, but this contract was fully executed. The Town Manager stated the County must make its request by the end of the fiscal year and they have made that request. The Town Manager further explained that he has not sent the County the invoice for the \$3.25 million. He stated he was getting uncomfortable and he needed a decision from the Council

Mayor Pro-Tem Scott suggested the Town Manager meet with the County Manager to determine if the contract could be enacted on after the UFS study was completed.

The Town Manager explained that he and Pam Lampe have had considerable conversations about the expansion of the water plant and while they differ on some things, they agreed it was a good idea to move forward with the Bulk Water Agreement with the County, use the capacity fee funds of \$3.25 million to build the clear well and not jump into the full expansion. Mrs. Lampe agreed with the Town Manager stating in the future if the Town needed the capacity, they could simply buy it back from the County. She also stated that she felt strongly that the Town should increase the bulk rate water for the County.

Mayor Pro-Tem Scott asked Public Utilities Director Ted Credle for a recommendation on this matter. Mr. Credle responded his recommendation would be to send a letter to the County tomorrow explaining the bulk water rate would increase 10% to \$2.20. He further recommended that the invoice be sent to the County for the \$3.25 million and use those funds to build a clear well.

Councilman Barbour made a motion, seconded by Councilman Stevens, to write a letter to Johnston County informing them of the bulk water rate increase of 10% or \$2.20, invoice Johnston County for the \$3.25 million, use the \$3.25 million to build the clear well and to pay for the Wooten Company's engineering fees which have been incurred. Unanimously approved

Personnel Requests and Council Salaries

Town Manager Michael Scott informed the Council that included in the budget were two additional staff: an administrative assistant for the Fire Department and an assistant Finance Director. The salary of the assistant finance director would be equally shared between all three funds. These two positions would not be hired until January 1, 2020

Mayor Moore questioned if there was office space to allow for the hiring of an assistant finance director. The Town Manager responded there was \$12,000 placed in the budget for the Planning Department's remodeling. There was also areas in the Finance Department that could accommodate an office.

Also included in the budget was a salary increase of \$1000 for the Mayor and each member of the Town Council.

2. Utilities

a. Water Plant:

Public Utilities Director informed the Council that most of the department's budget remained status quo. Mr. Credle highlighted some line items in the proposed FY 19-20 Water Plant budget.

They are as follows:

- Overtime: There was a 50% increase in this line due to the need for coverage during holidays, vacations, emergencies and sick time.
- Utilities: There was a 3% decrease in this line
- Vehicle Supplies and Maintenance: There was a 25% decrease in this line due to the purchase of new vehicles which require little maintenance.
- Supplies and Operations: There was a 4% increase in this line due to the increased cost of Aluminum Sulfate which can only be purchased from China
- Service Contracts: There was an 11% increase in this line due to increased river dredging.
- Capital Outlay: There were two projects in the capital outlay line. 1) Replacement of Filter Media in three existing filters because they were refurbished about 7 years ago 2) SCADA upgrades.

Mayor Pro-Tem Scott questioned the sludge removal in the service contract line. Mr. Credle responded that is for removal of the sludge by Waste Management after it has been processed. The Town Manager explained the Town also processed some sludge for the Town of Selma which netted the Town about \$20,000 a year. After speaking with Selma's Interim Town Manager, they are requesting to continue with the contract.

b. Water/ Sewer

Public Utilities Director Ted Credle informed the Council that most of the department's budget remained status quo. Mr. Credle highlighted some line items in the proposed FY 19-20 Water/Sewer budget. They are as follows:

- Overtime: There was a 41% increase in this line due to the need for coverage during emergencies or after hour repairs.
- Equipment Maintenance and Repair: There was a 14% decrease in this line.
- Vehicle Supplies and Maintenance: There was a 6% decrease in this line due newer vehicles requiring less maintenance.
- Supplies and Operations: There was a 14% increase in this line due to tariffs in China and the increased cost of steel and copper
- Service Contracts: There was a 41% increase in this line due to utilizing a contractor for street repairs for utility street cuts.
- Capital Projects: Included in the Capital Projects are the I & I project, lift station repairs, manhole rehab, waterline upgrades and digitized mapping.
- Capital Outlay: Included in the Capital Outlay is an outfall machine and Phase 2 of the Durwood Stephenson 16" water line extension. Mr. Credle explained this was a rather expensive project because the land is mostly swamp and a lot of boring will have to be done.

c. Electric

Public Utilities Director Ted Credle informed the Council that most of the department's budget remained status quo. Mr. Credle highlighted some line items in the Electric Department proposed FY 19-20 budget. They are as follows:

- Overtime: There was a 10% increase in this line for emergency response and repairs.

- Equipment Maintenance and Repairs: There was a 32% decrease in this line because building repairs and security updates have been completed
- Supplies and Operations: There was a 4% increase in this line because of steel and copper cost increases.
- Capital Outlay: included in the Capital Outlay was design and construction of the North Circuit and raising the transformer at the Hospital. The design and construction of the North Circuit was sent out for bids, but the bids were over the budgeted amount so it will have to be rebid. Mr. Credle explained that during Hurricane Matthew, the transformer at the hospital was flooded and they were on generator power for 4 days which caused major concern for the hospital. The Town approached the hospital about raising the transformer at a cost to the hospital of \$120,000. At that time, the hospital felt it was not their financial responsibility. Mayor Moore questioned if raising the transformer was the responsibility of the hospital or the Town. The Town Manager responded that he added this to the budget so the Council could discuss it and make a decision. Councilman Stevens questioned if the design and construction of the north circuit was something that needed to be done this year. Mr. Credle responded if the land is developed around the new Booker Dairy Road, he wants to be able to provide electricity to those developers. The project is very important to the north side and it provides the infrastructure from the Brogden Road substation to the north side of Town.
- Debt service: The only item included in the Electric Fund's Debt service is the substation loan. Mayor Pro-Tem Scott questioned when the Electricities debt would be fall off. Mr. Credle responded he believed it was 2022.

Recess

Mayor Pro-Tem Scott made a motion, seconded by Councilman Barbour to recess the meeting until Monday, April 15, 2019 at 7:00 pm. The meeting recessed at approximately 9:17 pm.

ATTEST:

M. Andy Moore, Mayor

Shannan L. Parrish, Town Clerk