

**Town Council Minutes
Morehead City, North Carolina**

**Tuesday, May 7, 2019, at 2:00 p.m.
Special Budget Meeting**

The Honorable Council of the Town of Morehead City met in a Special Meeting on Tuesday, May 7, 2019, in the Council Chambers, Morehead City Municipal Building, 202 South 8th Street, Morehead City, North Carolina. The purpose of the Special Meeting was to review the proposed FY 2019-2020 Budget. Those in attendance were:

COUNCIL PRESENT: Mayor Gerald A. Jones, Jr.; Councilmembers George W. Ballou, Keri V. McCann, William F. Taylor, Harvey N. Walker, Jr. and Diane C. Warrender.

STAFF PRESENT: City Manager Ryan Eggleston, Communications Director Alize Proisy; Deputy Police Chief Bryan Dixon; Fire Chief Jamie Fulk; Finance Director Jewel Lasater; HR Director Susan Nixon; Parks & Recreation Director Jerry Riggs, IT Manager Jon Snyder; Planning Director Sandi Watkins; Public Services Director Daniel Williams; Interim Library Director James Swann; Assistant Finance Director Leeann Vinson; and City Clerk Cathy Campbell.

OTHERS: Elise Clouser, Carteret News Times; Lee Hinton, Tony Holloway, Arrington Moore, Dean Vick, and Lisa Rueh, all representatives of Downtown Morehead City Inc.

CALL TO ORDER

Mayor Jones opened the Special Budget Meeting at 2:02 p.m. with a quorum present. He then called on City Manager Ryan Eggleston to lead the budget discussion.

HEALTH INSURANCE RENEWAL

Mr. Eggleston began by reviewing the health insurance renewal options presented at the April 9, 2019 council meeting and asked Council to consider approving the switch from the Preferred Provider Option Network (PPO) to a Health Savings Account (HSA) for FY 2019-2020. As part of the transition, he proposed that the City make a 25% deductible contribution to get each employee started. After the deductible contribution, the City will realize a \$20,000 savings over last year's insurance costs. Prior to the contribution, the savings is about \$200,000.

Deductibles under the HSA remain the same for an individual at, \$2,000, while the family deductible will be \$4,000. All coverages will see their max out of pocket costs reduced (single from \$5,000 down to \$2,000, and family from \$10,000 down to \$4,000). With the City contributing 25% to the annual deductible, employees can contribute the remaining amount of the deductible through payroll deduction or out-of-pocket expenditures. Once the deductible(s) is met, the employee will not experience any further out-of-pocket expense, reducing the potential personal annual liability to \$2,000. Under the current PPO plan, employees must cover 20% of their medical costs even after the deductible is met.

Currently, about 40% of the City staff participate in the Flexible Spending Account (FSA) contributing an average of approximately \$1,200 annually. The staff's familiarity with this type of program should make for an easier transition. Under the HSA program, employee contributions belong to the employee and can be carried over from year to year with no maximum limitation. HSA savings remain with the employee even if they change jobs or retire. Under the current FSA, the funds belong to the City and revert back to the city if unused at year end.

Council expressed concerns that the demand for more up front out-of-pocket expenses may cause a greater burden to the employees. Mr. Eggleston explained that the proposed City contribution should ease the initial impact by giving them some funds to work with while building funds in their account. He also pointed out that wellness visits are covered at 100% even before the deductible so it is likely that our young, healthier employees, those that tend to be making the lower salaries, may not use any of their HSA funds the first year and if they contribute to their HSA will begin the second year with \$2,000 in their account. He stated that the benefits far out-weighs the challenges, and that extensive training will be conducted in advance to prepare the staff for the change. The HSA will also give the City a stronger competitive edge when recruiting quality employees.

Employees will not be required to change health care providers as this is a Blue Cross/Blue Shield plan operating under the same network they are familiar with.

Councilmember Taylor made a motion to accept the proposal to transition to HSA coverage conditioned to an immediate implementation of an employee information program by late May and to continue until all employees have been notified. Councilmember McCann seconded and the motion carried unanimously.

Council asked Mr. Eggleston to remain open to the idea of migrating back to a PPO next year, if significant issues are experienced.

BUDGET DISCUSSION

City Manager Ryan Eggleston then reviewed the proposed FY 2019-2020 budget beginning with a review of this year's accomplishments and the goals set by the Council for FY 2019-2020.

The 2018-2019 Accomplishments were presented as:

- Completion of city garage
- Hired a new city manager
- Finalized decision on Charles Wallace Building
- Demo of Charles Wallace Building
- Award contract for design of New City Hall
- Paving throughout Town
- Survived and Recovering from Hurricane Florence
- Cleanup of Morehead City Waterfront
- Munis payroll implementation including ESS (Phase II of III)
- Selected consultant to help lead us through a Phase I Stormwater Plan

- Construction underway in Katherine Davis Park
- Complete remodel of Waterfront Docks
- Completion of 10th Street Docks

2019-2020 Goals as determined by the Town Council at the February 26, 2019 Special Town Council meeting:

- Katherine Davis Park (annual)
- New City Hall
- Stormwater Planning
- Paving
- Improve External Communications
- Shoreline Stabilization and Dredging for Sugarloaf Island (federal funding)
- Enhanced City-Wide Beautification
- Shevans Park
- Webb Library
- Improved Housing

Mr. Eggleston presented the proposed FY 2019-2020 budget at \$25,326,632 with a current ad valorem tax rate of \$.35 cent on \$100. This includes:

- Continued investment in personnel in accordance with compensation study to enhance recruitment and retention.
- Consolidate Fire & EMS Fund into General Fund.
- Reduction of Debt Service (Train Depot, 2005 Street Improvements, Shepard Street Boat Ramp).
- Includes three (3) School Resource Officers (Camp Glenn Elementary, Morehead Primary and Morehead Middle Schools).
- Includes one (1) Part-time Inspector.
- Implementation of more robust employee insurance benefits to stay competitive.
- Impact of Large Fund Balance Appropriations on the operating budget and reserves.
- Purchase four (4) heart monitors for ambulances.
- Vehicles and equipment upgrades to Water & Sewer Department.

He then presented and reviewed a chart of historical Fund Balance activity. Allocated funds have continued to rise over the last six years to where the City allocated \$2 million more than the Fund balance. In order to fund large capital projects on an ongoing basis, he proposed the following:

- Major reduction in capital expenditures for 2019/2020 budget year at the department level.
- Develop a 5-year capital improvement program with priorities beginning with the FY 2020/2021 budget.
- Create a dedicated annual revenue stream for capital improvements moving forward, funded by a proposed additional \$.05 cent per \$100 property tax increase.

Mr. Eggleston presented a 20-year tax chart which showed the tax rate today is lower than it was in 1999; meanwhile service demands are higher as are the costs to provide them. He stated that the proposed five (\$.05) cent tax equates to an increase of \$30 per year on a \$60,000 house, \$103 per year on a \$205,200 house, and \$500 per year on a \$1,000,000 house. The average house value in Morehead City is \$205,200. The proposed increase for the average house owner will be less than \$9,00 per month, but provides valuable revenue to support the broad range of services the City provides. One penny tax equates to about \$200,000 in revenue; therefore, the proposed increase would provide an additional \$1 million in revenue.

The increased revenue would provide the funds necessary to fund:

- Phase I Stormwater Plan \$116,310
- Town Portion of Shoreline Stabilization & Dredging of Sugarloaf Island \$170,000
(\$600,000 Total Project less \$300,000 NCDEQ Grant to be collected in New Governmental CPF)
- New Street Sweeper – to bring back in-house \$128,600
(\$158,600 Total Cost less \$30,000 of Reduction in contracted services)
- Town Allocation of Annual Paving & Resurfacing \$238,000
(\$500,000 Total Project less \$262,000 Powell Bill Funds to be collected in New Governmental CPF)
- Town Portion Shevans Park Renovation \$300,000
(\$600,000 Total Project less \$300,000 Part F Grant to be collected in New governmental CPF)

In addition, a 3% Water and Sewer increase and a \$5 per month garbage increase is proposed to become effective in January 2020. The garbage service fee has not been increased since 2012.

In response to a question, Mr. Eggleston confirmed that the increase is essentially to generate a dedicated funding stream for annual capital needs. He further explained that historically, the City has reassigned carry over funding to capital projects rather than adding to the General Fund balance. This has led to a diminishing balance over time. The increase tax will allow a shift whereby the City will fund capital project from revenue generated that same year.

The proposed budget does not include the new city hall building project, as this is a stand alone project from the budget and will be reviewed in detail by the Board and discussed at a public meeting in later summer/early fall before any construction moves forward.

Mr. Eggleston asked Council to consider authorizing, at the May 21, 2019 Town Council meeting, the use of Unassigned Fund Balance to retire debt related to the following projects: Train Depot (\$377,000 due to expire 7/15/2035), Street Improvement Loan (\$1.2 million due to expire 4/12/2021), and Boat Ramp (\$1,050,000 due to expire 5/12/2025) debt to save interest costs, increase financial health, and prepare for new city hall expense.

The budget also includes funds to provide eight (8) \$5,000 façade grants in support of the Downtown Morehead City Inc. efforts to improve the appearance of the downtown area and reinvest in our community's tax base.

Next, Mr. Eggleston distributed and reviewed a chart of High Level Fund Balance accounts. He stated that \$2,592,791 is a good representation of where the Unassigned Fund Balance will be after the May 21, 2019 council meeting, when it is expected that the proposed debt reduction and several budget amendments will be approved. This does not reflect the tax increase or the capital projects discussed earlier in this meeting. It was noted that Board Policy requires that a Unassigned Fund Balance Reserve of \$2,500,000 to \$2,750,000 be maintained at all times, and the City is now approaching the lower end of those limits. Mayor Jones asked what the projected fund balance contribution is expected to be at FYE 6/30/2019. Finance Director Jewel Lasater stated that she did not expect there to be any contribution to the fund; however, the balance also does not include the expected FEMA reimbursements (\$864,319.92).

In response to questions as to when the city can expect to receive FEMA reimbursements, Ms. Lasater reported that Witt O'Brien is wrapping up the claim for debris removal and emergency protective measures, and preparing to submit those claims to FEMA. Although the claims have not yet been submitted, FEMA has been involved in the process from the beginning and is aware of the claim details. This process is expected to expedite reimbursement. If Council desires to increase the Fund Balance in addition to the FEMA reimbursement, some of the planned capital project could be placed on hold for FY 2019-2020.

As taken into account, Ms. Lasater explained in situations where a municipality raises their tax rate and all other factors (sales tax, county tax rate, etc.) remain the same, the city's sales tax allocation will diminish.

Councilmember Taylor questioned whether the diminished property values as a result of Hurricane Florence had been taken into consideration in the estimate of ad valorem tax revenue. Ms. Lasater answered affirmatively stating that she adjusted the projected revenue based on data received from the County. Mr. Eggleston was confident that the revenue projections are conservative and achievable.

Council asked Mr. Eggleston to prepare the following information in preparation for the next budget session:

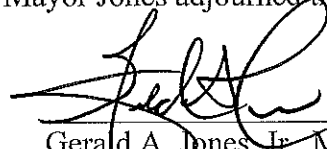
- Project total interest savings from proposed debt reduction.
- Assign dollar amounts to capital project delays.
- Provide reasonable projection for annual street maintenance.
- Project revenue for ½ cent tax increase
- Project revenue from car registration tax (restricted to street maintenance).
- Consider stormwater tax (identify separately and restricted).

NEXT BUDGET MEETINGS

The next budget work session will be held from 2:30 – 5:00 p.m., just prior to the regular May meeting to be held at 5:30 p.m. on May 21, 2019. The public hearing for the FY 2019-2020 Budget will take place at the regular June meeting to be held at 5:30 p.m. on Tuesday, June 11, 2019.

ADJOURNMENT

There being no other business to discuss, Mayor Jones adjourned the meeting 4:20 p.m.



Gerald A. Jones, Jr., Mayor

Attest:



Cathy Campbell, City Clerk

