

**City Council Work Session
November 24, 2014**

The City Council of the City of Elizabeth City met in work session on Monday, November 24, 2014 in Council Chambers, located on the 2nd floor of the Municipal Administration Building, 306 E. Colonial Avenue, Elizabeth City, NC.

MEMBERS PRESENT: Mayor Joe Peel
Councilwoman Jean Baker
Councilman Ray Donnelly
Mayor Pro Tem Anita Hummer
Councilman Tony Stimatz
Councilman Kem Spence (*arrived at 6:00 p.m.*)
Councilman Darius Horton (*arrived at 5:46 p.m.*)
Councilman Montravias King (*arrived at 6:45 p.m.*)

MEMBER ABSENT: Councilman Michael Brooks

OTHERS PRESENT: City Manager Rich Olson
City Attorney Bill Morgan
Finance Director Sarah Blanchard
Planning Director June Brooks
Chief of Police Eddie Buffaloe
Assistant to the City Manager Angela Cole
ECDI Director Rebecca Cross
Human Resources Director Katherine Felton
Fire Chief Larry Mackey
IT Director Matthew Simpson
Parks and Recreation Director Bobbi White
City Clerk Vivian White

The City Council work session was called to order by Mayor Joe Peel at 5:45 p.m. Mayor Peel welcomed everyone to the meeting and offered an invocation, after which he led the Pledge of Allegiance.

(City Clerk notation: The delay in the meeting start time was caused by a lack of quorum until 5:45 p.m.)

1. Agenda Adjustments and Approval:

Mayor Peel called for any adjustments to and approval of the agenda.

Motion was made by Mayor Pro Tem Anita Hummer, seconded by Councilwoman Jean Baker, to approve the agenda with any necessary adjustments. Those voting in favor were: Baker, Donnelly, Hummer and Stimatz. Against: None. The motion carried unanimously. (*Spence, Horton and King had not yet arrived.*)

(City Clerk notation: No agenda adjustments were requested.)

2. Statement of Disclosure:

The City Clerk read the Statement of Disclosure. No conflict of interest disclosures regarding items listed on the agenda were made.

3. Presentation – Comprehensive Annual Financial Report (CAFR) for Fiscal year 2013-2014 presented by Jeff Best, Carr Riggs & Ingram, LLC:

Mayor Peel recognized Finance Director Sarah Blanchard, who introduced the City's auditor, Mr. Jeff Best of Carr, Riggs & Ingram, LLC.

Mr. Best thanked the City Council for allowing Carr, Riggs and Ingram the opportunity to perform the City's audit. He referred the Councilors to follow along in their copy of the CAFR as he explained highlights of the document.

Mr. Best first reviewed the Independent Auditors' Report and pointed out that the audit report received an unmodified opinion. He explained that this opinion means that the financial statements are presented fairly in all material respects. Mr. Best pointed the Councilors to the Management's Discussion and Analysis section and defined the section as a narrative overview and analysis of the financial activities of the City, which is prepared by City staff.

Mr. Best referred the Council to the Basic Financial Statements section of the document and briefly reviewed the City's Statement of Net Position. He pointed the Council to the footnotes section of the document and reviewed the City of Elizabeth City Restricted Cash section. He advised the Councilors that the Notes to Financial Statements section of the document provided excellent information to be used during their review of the financial statements.

Mr. Best explained a Prior Period Adjustment in the amount of \$4,928,928, which involved certain capital improvements for North Road Street, South Road Street, Elizabeth Street, Water Street, Roanoke Avenue and the Oak Grove subdivision that were not capitalized. Ms. Blanchard explained that staff did not record these improvements because the projects were not yet complete.

Mr. Best reviewed the Balance Sheet for Governmental Funds and noted that the General Fund accounts for all financial resources of the City unless they are specified to be accounted for in another fund. He reviewed the category of non-major funds and directed the Council to the footnote describing those accounts. He reported that the unassigned fund balance in the General Fund at year end was \$1,323,000 and pointed out that as a percentage of expenditures, this amount would be 6.7% of total expenditures.

Mr. Best briefly reviewed the Statement of Revenue, Expenditure and Changes in Fund Balance and pointed out that the City's largest revenue source is ad valorem taxes, which was \$7,113,358. He pointed out that the City's net change in fund balance was \$1,387,988. He stated that the change in fund balance for non-major funds was

\$95,000. He pointed out that the non-major funds that the City is operating are either capital project funds or special revenue funds.

Mr. Best stated that the appropriated fund balance budgeted at the beginning of the year was \$65,295; while the appropriated fund balance at the end of the fiscal year was \$1,520,850. He pointed out that this means that the City Council decided to spend fund balance in the amount of \$1.5 million during the year. He stated that the total revenues were \$868,000 less than budgeted, but total expenditures were \$2.3 million less than budget. He reported that the reduction in the General Fund for the year was \$1,387,988.

Mr. Best reviewed the Statement of Net Fund Position for the City's proprietary funds, which are the Electric Fund, the Water and Sewer Fund and the Storm Water Utility Fund. He pointed out that in the Electric Fund there was a reduction in change in net position of \$284,768, in the Water and Sewer Fund there was a reduction of \$323,883, in the Storm Water Utility Fund there was an increase of \$277,530.

Mr. Best reviewed the Stewardship, Compliance and Accountability Notes Section and noted the following violations:

1. Noncompliance with NC General Statutes for the City's land purchase using five promissory note agreements in the total amount of \$624,000 which is a requirement of the Local Government Commission;
2. A deficit in fund balance associated with the Middle School project.
3. An excess of expenditure over appropriation for tax collections in the amount of \$17,272.

Mr. Best completed his review of the Notes to Financial Statements section by pointing out the location of the various notes in the document and the significance of each section. He also briefly referred the Councilors to the remaining tabs in the document and pointed out the information contained in each section.

Councilman Stimatz suggested that the General Fund expenditures number be included in the Management's Discussion and Analysis section to provide for easier calculation.

Councilman Stimatz clarified that the Sanitation/Solid Waste Fund would be shown as an enterprise fund in the next fiscal year budget.

Councilman Stimatz requested an explanation of how the "excess of expenditures over appropriations" violation occurred. Ms. Blanchard explained that after the City closed out for the fiscal year, it was discovered that the amount should have been included in that account, but was not. She advised that the amount represented the new motor vehicle charge and was found to be in the wrong account. She stated that at that point it was too late to request a budget amendment by the Council. Mr. Olson stated that the appropriation is based on the inter-local agreement with Pasquotank County, which is a percentage of the total amount. Mr. Best stated that the adjustment should be done before year end, but since it was not, the appropriate course was to write it up as an exception as was done.

Councilman Stimatz suggested that the acronym, OPEB, as used in the notes section, should be defined in the document. Mr. Best explained that the acronym meant “Other Post-Employment Benefits” and pointed out that this is a big liability for the City.

Councilman Stimatz stated that he attended the NCLM school on “financial things you should know”. He stated that the statistical section of the document prepared by City staff was very hard to read and did not make a lot of sense. He suggested that he would like to see graphs and charts included in the document to make it more understandable. Ms. Blanchard responded that information would be outside a CAFR presentation. Councilman Stimatz stated that he was not suggesting the information needed to be included in the CAFR, but should be provided as a supplement. He also stated that there should be benchmark information provided to help users understand if the statistics provided were good or mediocre. Ms. Blanchard stated that report already exists and is performed by the state. She advised that she would provide a copy to the Council.

Councilman Stimatz suggested that the City should also overhaul its method of reporting operating information to let the Council know if the statistics were good. He cited parking violations as an example and asked if there was a better way of doing it or if fees should be charged to recoup the City’s administrative costs for enforcement.

Mr. Best completed his presentation by reviewing the Compliance Section of the CAFR with particular reference made to major federal and state programs. He pointed out the material weaknesses noted in the document and explained that a material weakness is defined as more severe than a significant deficiency. He reiterated that the violations noted in the Stewardship section of the document would be considered material weaknesses.

Councilman Stimatz stated that one of the issues the City has been dealing with is police staffing hours and the accounting for the funds for that. He stated that it had been a long-standing problem that the City has been paying officers for hours worked but undercounting the hours in the budget appropriation. He asked what had been done to make sure that the City is not spending funds that have not been appropriated.

Mr. Olson stated that as a part of the budget process, a detailed analysis of each employee’s salary and benefit package is performed. He stated that the issue with the police department is that the incorrect multiplier had been used as it related to the number of hours. He pointed out that staff had been using 80 hours for the multiplier when it should have been 84 hours.

Councilman Stimatz pointed out that this has been going on for a number of years and funds have been obligated that were never appropriated. He asked how the department directors would know if the budget had been exceeded unless some type of monthly report is provided. Mr. Olson responded that each department receives a monthly accounting that provides a percentage of the budget expended. Ms. Blanchard pointed out that the problem was absorbed in the Police Department because of lower expenditures. Mr. Olson advised that at any given time, there are three to four officer positions vacant, which equates to \$150,000 - \$200,000 of unrealized expenditures.

Councilman Stimatz asked if the problem had been fixed to which Mr. Olson responded that the correction cannot be made until the next fiscal year. Ms. Blanchard stated that another budget amendment would be required at year end to correct the current fiscal year budget.

Mayor Peel asked if there would be any effect on the fund balance when the solid waste account is made an enterprise fund. Mr. Olson stated that the General Fund has been subsidizing solid waste expenses for about \$200,000 - \$300,000 per year and pointed out that was the reason for the rate increase this year. Ms. Blanchard stated that this matter has already been reflected in this year's budget, but admitted that there will be a little difference to the good in the General Fund.

Councilman Spence stated that he understood the department heads receive a monthly report; but asked if the department heads actually calculate the salary line items for the budget. Mr. Olson responded that the monthly reports that are distributed provide a lump sum dollar amount of what their expenditures are for that period. Ms. Blanchard stated that the line items are detailed in the reports and provide actual versus budget.

Councilman Spence asked if it would help eliminate the issue if the department directors prepared the salary figures for the budget. Mr. Olson stated that department directors have to sign payroll sheets for all employees. Councilman Spence stated that he understood that, but reiterated that the directors still did not have all the information in his opinion.

Mayor Peel pointed out that as he understood the issue, the department heads thought the salaries were being based on "x" number of hours, but in reality, the City did not have the money to pay those hours.

Councilman Spence stated that he wanted to know who to hold accountable, because the problem had been going on for fifteen years and no one had yet been held accountable for the error. Mr. Olson responded that he had taken responsibility for the error. Councilman Spence stated that he understood that the City Manager is ultimately responsible, but did not want to hear, if it happened again, that the City Manager is taking responsibility. He said he wanted to find out where the problem is, so it could be taken care of. He said mistakes need to be addressed, especially when it comes to dealing with the citizens' money. Mr. Olson stated that his thought process was such that in knowing three to four positions were vacant in the police department would equate to about \$200,000, he thought the budget was okay. He stated that unfortunately because of the 6,100 additional hours worked by the officers, the budget was not okay.

Councilman Donnelly pointed out that the police department was using the funds that were really there for vacant positions. Mr. Olson responded that would be a proper statement.

Mayor Peel pointed out that basically the general fund balance was paying for the miscalculation because there was never enough money in the salary line item to pay for the hours the officers were actually working.

Councilman Spence stated that what he wanted to know is “has it been fixed”. Mr. Olson stated that it has not been fixed, but is being monitored. He said it will be fixed when the proper budget amendment is adopted. He said staff is waiting until February or March to present the budget amendment to determine exactly how much is needed. He stated that going forward the formula for allocating the police salary line item has been changed, so it would not happen again. Ms. Blanchard stated that it was her opinion that the Council should have taken action to increase the hours from 80 to 84, but that did not occur. Mr. Olson said that in his mind it was a fairly simple mistake in that when the Fair Labor Standards Act was reinterpreted under *Garcia v. San Antonio Transit*, the City had to start paying overtime to employees. He stated that the decision was made to increase the police hours from 80 to 84 because it could be done. He pointed out that the budget calculation spreadsheet was never changed to reflect the increased hours.

Mr. Best thanked the Council for their questions, and stated that he appreciated the Council’s insight and participation.

Motion was made by Mayor Pro Tem Anita Hummer, seconded by Councilman Tony Stimatz, to call for a public hearing to be held on December 8, 2014 at 7:30 p.m. in City Council Chambers, to adopt a resolution authorizing the filing of an application for approval of a financing agreement authorized by North Carolina General Statute 160-20. Those voting favor of the motion were: Baker, Donnelly, Hummer, Stimatz, Spence and Horton. Against: None. The motion carried unanimously. (Councilman King had not yet arrived.)

4. Discussion – Weatherization Program Update:

Mayor Peel recognized City Manager Olson for the staff report on this item.

Mr. Olson reported that for Fiscal Year 2014-2015, the City Council authorized \$160,000 for weatherization. He stated that to date, \$38,392 had been spent to rehab 15 homes at an average cost per unit of \$2,559. He said that another twenty-five units are under contract and reported that hopefully those units will be complete in the next ninety days.

Mr. Olson stated that another part of the weatherization program is the heat pump rebate program for which the Council allocated \$10,000. He advised that there have been two permits issued for this type of work and a total of \$800 has been spent for rebates.

He stated that \$2,750 was also provided for the City’s Attic Insulation Rebate Program; and to date, \$250 has been utilized by one applicant.

Mr. Olson reported that since March 2007, Energy Officer Dennis Gordon has processed a total of 1400 energy audit requests. He advised that since the inception of the City’s Weatherization Program, the City Council has allocated over \$600,000 for the program and 135 homes have been weatherized. Mr. Olson stated that Mr. Gordon has

had to reject 60 requests for home weatherization because the structures were too far gone and could not be rehabbed.

Mr. Olson reported that City staff has been tracking the anticipated savings to customers since 2007 and advised that 25% and 30% savings should be received by an average person on their utility bill, which equates to \$1,441 per household annually. He pointed out that since the program's inception; staff estimates that the City has saved its utility customers \$658,240 annually. He reported that the program had been expanded to include owner-occupied dwellings as well as rental units.

Mayor Peel thanked Mr. Olson for staff's report.

5. Closed Session as allowed by:

- a. NCGS 143-318.11(a)(1) *(to prevent the disclosure of information that is privileged and confidential)* and further referenced as pursuant to NCGS 132-1.7 *(sensitive public security information)*; and
- b. 143-318.10(e) – Approval of Closed Session Minutes.

Mayor Peel announced that there was not enough time to hold the Closed Session.

Motion was made by Councilman Tony Stimatz, seconded by Councilman Darius Horton, to move the Closed Session item on the agenda to the regular meeting. Those voting in favor of the motion were: Baker, Donnelly, Hummer, Stimatz, Spence, Horton and King. Against: None. The motion carried.

6. Committee Reports:

- a) EC-PC Economic Development Commission: Mayor Pro Tem Hummer, Councilwoman Baker, Councilman Donnelly and Mayor Peel

Mayor Pro Tem Hummer stated that no meeting was held this month.

- b) Central Communications Advisory Board: Councilman Spence

Councilman Spence had no report.

- c) Fireman's Relief Fund Board: Councilman Brooks

Councilman Brooks was not present to give a report.

- d) NC Eastern Municipal Power Agency: City Manager Olson and Mayor Peel

Mr. Olson stated that a meeting was held during the week prior and reported that the 2015 operating budget had been adopted, a new president was elected for the NCEMPA and two new directors for the ElectriCities board were also elected.

- e) Elizabeth City Downtown, Inc.: Councilman Donnelly

Councilman Donnelly reminded everyone about the Downtown Holiday Celebration and Grand Illumination is scheduled for Friday, November 28. He also reminded everyone to come downtown on Small Business Saturday, scheduled for November 29.

- f) Elizabeth City Area Chamber of Commerce Board: Mayor Peel

Mayor Peel announced that Ed Powell of A. R. Chesson will become the new chair of the Chamber board. He stated that a Reindeer Bowling event would be held in December. He said the Chamber is “alive and well and is growing”. He reported that the Chamber is looking to begin fundraising to build an extension on their building to accommodate meetings being held in their facility.

- g) Finance Committee: Mayor Pro Tem Hummer, Councilman Donnelly, Councilman Horton and Mayor Peel

Mayor Pro Tem Hummer stated that the Finance Committee meeting was very short with only one item discussed. She stated that the item has been included on the regular meeting agenda with a recommendation from the Committee.

- h) Parks and Recreation Advisory Board: Councilman Horton

Councilman Horton announced that the Parks and Recreation and Fire Departments are sponsoring the Christmas parade on Saturday, December 6.

- i) Elizabeth City/Pasquotank County Airport Authority: Councilman Stimatz

Councilman Stimatz reported that things are going well for the Airport Authority. He stated that contract fuel sales continue to be very good and they are moving ahead with strategy sessions to talk about the future of the airport, Coast Guard needs and City and County needs and how everyone can work together. He stated that the First in Flight event was a good event and it was well attended. He thanked local businesses for their support of the event.

- j) Storm Water Advisory Board: Councilman Stimatz, Councilman Donnelly and Councilman Brooks

Councilman Stimatz stated that the board is working with a public relations firm to develop a campaign to encourage citizens to keep things out of gutters so the drains are not clogged.

- k) Tourism Development Authority: Councilwoman Baker

Councilwoman Baker stated that the joint November/December meeting is scheduled for December 11.

7. Adjournment:

There being no further business to be discussed, Mayor Peel adjourned the meeting at 6:53 p.m.

Joseph W. Peel
Mayor

Vivian D. White, CMC/NCCMC
City Clerk