The Washington City Council met in a continued session on Monday, June 1, 2010 at 4:30pm in the City Council Chambers at the Municipal Building. Present were: Archie Jennings, Mayor; Bobby Roberson, Mayor Pro tem; Doug Mercer, Councilman; Ed Moultrie, Councilman; William Pitt, Councilman; Gil Davis, Councilman; Jim Smith, City Manager; and Cynthia Bennett, City Clerk.

Also present were: Matt Rauschenbach, Chief Financial Officer; Robbie Rose, Fire Chief; Allen Lewis, Public Works Director; Gloria Moore, Library Director; John Rodman, Planning Director; Keith Hardt, Electric Director; Philip Mobley, Parks & Recreation Director; Mick Reed, Police Chief; Ray Midgett, Information Technology Director; Susan Hodges, Human Resource Director; Lynn Lewis; Tourism Director, Mike Voss, of the Washington Daily News and Delma Blinson, of the Beaufort Observer.

Mayor Jennings called the meeting to order and Councilman Moultrie delivered the invocation.

**APPROVAL/AMENDMENTS TO AGENDA**

By motion of Councilman Pitt, seconded by Councilman Moultrie, Council approved the agenda as presented by a vote of 4-1. Councilman Mercer opposed.

**COUNCIL REQUEST ADDITIONAL $1.2 MILLION BUDGET REDUCTION**

City Manager, James C. Smith stated the presentation was being presented in two forms: (1) Council’s request to have the $500,000 reduction in the Electric Fund as part of the 2% reduction and (2) the 2% reduction in all funds. Councilman Mercer noted the overall budget would be reduced by 2% and this 2% would include the reduction in revenues in the Electric Fund by approximately $500,000 which left approximately $700,000 to come from the rest of the funds; therefore, he considers this presentation to be unacceptable. Councilman Mercer felt that staff had not accomplish what Council directed them to do. Mayor Jennings emphasized Councilman Mercer’s point, when Council has given a directive; it needs to be adhered to.

Councilman Mercer suggested the ultimate exercise was to reduce cost of electricity to our consumers. Mr. Smith noted the cost includes cost of NCEMPA plus cost to maintain lines, debt service, etc, the markup on our cost is very small. Councilman Mercer suggested we could reduce operating expenses to reduce cost to our customers and Mr. Smith suggested we have presented a 10% reduction of non-fixed cost.

Councilman Mercer stated he was opposed to staff cutting the $122,000 allocated to help facilitate the transfer of E911 from the proposed budget and Councilman Davis agreed. Mr. Rauschenbach advised Council that appropriations for E-911 could be cut because the transfer likely would not occur in the next fiscal year and would likely take place in the fiscal year 2011-12. Council rejected the $122,000 cut.

Money given to outside agencies has been reduced by 2% in the proposed budget. Mayor Pro tem Roberson expressed his concerns over funding any new request from outside agencies and stated Council should review all funding in the upcoming years from outside agencies. Mayor Jennings inquired if the Arts Council number was inclusive of the rent and Mr. Smith replied ‘no’. Mayor Jennings recommended this be reflective for in the budget. Councilman Mercer was concerned about the E-911 transfer of $122,000 when Council had approved the transfer to the County and asked to have it stricken from the budget. Mr. Smith stated that it was not logical to do that transfer at this time. Funding was reduced for street paving and a full-time Police Officer was removed from the budget.

Mayor Pro tem Roberson noted the staff’s proposed budget includes “the best numbers I’ve ever seen” in regard to revenue projections. Mayor Pro tem Roberson believes the proposed spending plan does not over-estimate projected revenues as previous budgets have done and was happy no positions had been cut.

Discussion followed concerning whether Council could proceed without Mr. Rauschenbach doing Revenue reductions according to Councilman Mercer’s statement “reduce revenue for sale of electricity”. Councilman Mercer suggested removing the $10,000 going to the Salvation Army and the Catholic Church and combine the contributions.

Following discussion, Mayor Jennings recapped the following items of discussion: Revenue as stated in the Electric Fund, $122,000 E-911, Outside Agencies, $10,000 allocation to the Salvation
Army and the two scenarios presented by the City Manager. Mayor Jennings called for a vote from Council members for the final directive to be given to staff. Mayor Pro tem Roberson stated he would like to go with the Manager’s recommendation of the 2% minus the items discussed. Councilman Davis agreed with Mayor Pro tem Roberson, Councilman Moultrie and Councilman Pitt agreed with the City Manager’s proposed budget recommendations. Councilman Mercer asked to have the grant positions included in the funding scenario (Project Next Step & Special Projects). Mayor Jennings suggested if we have a good program and funds are available why would we want stop the program in order to honor a policy. Mayor Jennings stated to place on record the partial year funding for current grant funded positions.

By consensus, Council was in agreement to use the yellow scenario as a base and work out the contingencies. Contingencies consisted of $500,000 as stated in the Electric Fund, $10,000 Salvation Army for Project Help, $122,000 E-911 and Outside Agencies or accept the 1.88% reduced budget vs. 2% proposed reduction (approximately $76,000 for E-911 with Mr. Rauschenbach explaining that it won’t be a full year and it would be 1.88%). Councilman Mercer suggested the 1.9% budget with the $122,000 for E-911staying in the budget and not the $76,000.

By motion of Mayor Pro tem Roberson, seconded by Councilman Mercer, Council unanimously accepted the yellow scenario with an amendment of 1.9% challenge providing that the $122,000 remains in E-911 when the final budget is presented. If there is an amended amount then the dollar amount will come back before Council. Also, Council agreed to leave in the $10,000 for Project Help simply because it is in the yellow scenario. Comments received by Councilman Davis will happen after the budget is approved.
### 2010 City Council Minutes

**June 1, 2010**

#### 2010 Budget Reduction

**City of Washington, North Carolina**

<table>
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<th>Department</th>
<th>Budget</th>
<th>20% Reduction</th>
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**2010 City Council Minutes**

**June 1, 2010**

#### 2010 Budget Reduction

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**City of Washington, North Carolina**

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CITY COUNCIL MINUTES  JUNE 1, 2010
WASHINGTON, NORTH CAROLINA

Council recessed for a break and reconvened at 6:10 pm.

REVENUE NEUTRAL TAX RATE

Mr. Smith explained how they arrived at an equivalency of 48.56 cents. Mr. Smith and Chief Financial Officer, Matt Rauschenbach reviewed the proposed tax rate of 0.5002. Mr. Rauschenbach determined that the revenue-neutral tax rate for the City in the upcoming fiscal year would be 47.44 cents per $100 valuation.

Mr. Rauschenbach suggested they are targeting 50 cents per $100 valuation as the City’s property-tax rate for fiscal year 2010-2011. Mr. Rauschenbach’s calculations show that the revenue-neutral tax rate, adjusted for growth, comes to 48.56 cents per $100 valuation. The target property-tax rate of 50 cents per $100 valuation reflects concerns the City could see some of its revenue sources not generate as much revenue as expected. The new tax rate includes 2 cents per $100 valuation that’s earmarked to provide revenue for the City’s public-safety Capital Reserve Fund, used to help pay for items such as new public-safety buildings and equipment. Mr. Rauschenbach noted several scenarios as a result of revaluation.

Councilman Davis addressed concerns that not knowing what the County and the General Assembly might do leaves “a lot of question marks” surrounding some of the City’s revenue sources.

Councilman Mercer suggested that allocation, now at slightly more than $120,000 a year, should be derived from the 48.56 cents per $100 valuation tax rate instead of the 50 cents per $100 valuation tax rate.

Mayor Pro tem Roberson expressed concern that the Beaufort County Board of Commissioners may change the way it distributes sales-tax income to the municipalities in the County. That change could result in those municipalities receiving less in sales-tax revenues. Mayor Pro tem Roberson suggested the City might need that difference between the 50 cents per $100 valuation rate and the 48.56 cents per $100 valuation to offset possible loss of revenue from other sources.

By motion of Councilman Davis, seconded by Mayor Pro tem Roberson, Council set the tax rate for FY 10-11 at 0.5002. Councilman Mercer opposed the 0.5002 because it is inappropriate to set the tax rate before we have a budget and know the numbers we are shooting for.

Amended motion: By motion of Councilman Davis, seconded by Mayor Pro tem Roberson, amended the motion to set the 0.5002 as a target rate and set the tax rate when the budget has been officially adopted. Motion passed by 4-1 vote with Councilman Mercer voting against. Council Mercer did not have a problem with the target concept but his problem was with the 0.5002.
Revenue Neutral Tax Rate
GS 159-11(e):
In each year in which a general reappraisal of real property has been conducted, the budget officer shall include in the budget, for comparison purposes, a statement of the revenue-neutral tax rate for the budget. The revenue-neutral property tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. To calculate the revenue-neutral tax rate, the budget officer shall first determine a rate that would produce revenues equal to those produced for the current fiscal year and then increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal. This growth factor represents the expected percentage increase in the value of the tax base due to improvements during the next fiscal year. The budget officer shall further adjust the rate to account for any annexation, deannexation, merger, or similar event.

Summary:
1. Determine a rate that would produce revenues equal to those produced for the current year using the reappraisal valuation.
2. Increase that rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal
3. Adjust the rate to account for any annexation, deannexation, merger, or similar event.

Property Owner Impact:
While the revenue neutral rate will generate the same revenue as the previous year adjusted for average growth it will not result in the same real property tax bill as the previous year for each property owner for the following reasons:
1. Real property owner’s change in valuation is more or less that the City wide average change of 35.87%.
2. Average rate of growth of 2.37% is included in revenue-neutral tax rate
3. In a revaluation year, the assessed value of real property equals its market value as of January 1 of that year. In each subsequent year, the assessed value of real property (other than new construction) remains constant, though its market value typically increases. Personal property,
in contrast, is valued at its market value each year. In a revaluation year realignment occurs in
the tax burden between real and personal property when both are reset to current market
value. As a result, many individual real property owners receive increased tax bills in
revaluation years. (UNC School of Government Property Tax Bulletin #144)

By motion of Councilman Pitt, seconded by Councilman Moultrie, Council set the 50 cents per
$100 valuation as its preferred property tax rate.

The new property-tax rate is scheduled to be set later this month when the City Council adopts
the FY 2010-2011 budget.

GENERAL FUND REVENUE ESTIMATES
This item was addressed during the Revenue Neutral Tax Rate discussion.

ADOPT – BUDGET ORDINANCE AMENDMENT FOR LOAN APPLICATION FOR THE MAIN AND
RESPESS PUMP STATION IMPROVEMENTS ($10,000)

Public Works Director, Allen Lewis stated as discussed at the May 24 council meeting, we
have the opportunity to pursue State Revolving Loan funds, including principal forgiveness for up to
50% of the project, for the Main and Respess pump station improvements. Originally we were under
the impression that the other 50% of the project would be available for 0% interest loan.
Unfortunately, the only projects funded with the 0% interest are “green” projects. Still, with the
interest rate being half of the prime, this potentially will allow us to construct this project at a total cost
less than the current dollars with a 20-year pay back. At 3% interest (current rate is only 2.22%) and
half the estimated cost being financed ($300,000), the annual payments are approximately $20,165.

Unfortunately, the parallel water line project out of the water treatment plant that was also
discussed at the May 24 meeting is not eligible for the same type of funding. The only funding
available at this time for this project is the low interest loan for the entire amount. As a result, we
have decided not to pursue these funds at this time.

By motion of Mayor Pro tem Roberson, seconded by Councilman Moultrie, Council
unanimously adopted the Budget Ordinance Amendment for loan application for the Main and Respess pump station improvements in the amount of $10,000.
AN ORDINANCE TO AMEND THE BUDGET ORDINANCE
OF THE CITY OF WASHINGTON, N.C.
FOR THE FISCAL YEAR 2009-2010

BE IT ORDAINED by the City Council of the City of Washington, North Carolina:

Section 1. That the Estimated Revenues in the Sewer Fund be increased in the amount of $10,000 in the account Fund Balance Appropriated, account number 32-90-3991-9910.

Section 2. That account number 32-90-8230-0400, Professional Services, Lift Station Department portion of the Sewer Fund appropriations budget is increased in the amount of $10,000 to provide funds for Main and Respess pump station grant application.

Section 3. All ordinances or parts of ordinances in conflict herewith are hereby repealed.

Section 4. This ordinance shall become effective upon its adoption.

Adopted this the 1st day of June, 2010.

ATTEST:

s/Cynthia S. Bennett
City Clerk

s/N. Archie Jennings
Mayor

REPORT – REALLOCATION OF FUNDING – GENERAL FUND ($6,000)

Mr. Smith shared this was a standard form. The following reallocation of funding between divisions within the General Fund had been approved by the City Manager: This was FYI information presented to Council no action required.

- Decreased Senior Programs Department (10-40-6123-0200 by $6,000)
- Increased Parks & Grounds Maintenance Department (10-40-6130-1502 by $6,000)

Shelters at Havens Gardens were in need of emergency repairs.

Councilman Mercer noted the Department Head should sign off on the Transfer of Funds form.

INFORMATION RECEIVED FROM CITY COUNCIL AND THE CITY MANAGER

- Opportunity for question on the meeting of June 14 concerning the Aquatic Center fees.
- Councilman Mercer mentioned WITN web cam, can we do without this – if so we could be saving approximately $500-$600 per month.

ADJOURN

By motion of Councilman Pitt, seconded by Councilman Moultrie, Council adjourned the meeting @ 6:45 pm until June 14, 2010 at 5:30 pm in the Council Chambers at the Municipal Building for a Regular meeting and to Adopt the Budget.

Cynthia S. Bennett
City Clerk