

**ROLLA CITY COUNCIL WORKSHOP
MEETING MINUTES
MONDAY, AUGUST 25, 2014; 5:30 P.M.
ROLLA CITY HALL COUNCIL CHAMBERS
901 NORTH ELM STREET**

Presiding: Mayor Louis J. Magdits, IV

Council Members in Attendance: Monty Jordan, Greg Sawyer, Matthew Miller (arrived at 6:03 p.m.), Kelly Long, Susan J. Eudaly, Stephen Bowles, Jim Williams (arrived at 5:40 p.m.), Brian Woolley, Tony Bahr, and Walt Bowe

Council Members Absent: Jonathan Hines and Don Morris

Department Directors in Attendance: Fire Chief Robert Williams, Community Development Director John Petersen, Environmental Services Director Brady Wilson, Parks and Recreation Director Scott Caron, Interim Police Chief Rick Williams, Public Works Director Steve Hargis, and Finance Director Steffanie Rogers

Other City Officials in Attendance: City Administrator John Butz and City Clerk Carol Daniels

Mayor Louis J. Magdits IV called the Fiscal Year 2015 budget workshop to order at approximately 5:30 p.m. He then turned the floor over to City Administrator John Butz.

Before reviewing the proposed FY 2015 budget, Mr. Butz turned the floor over to Public Works Director Steve Hargis.

(A) An Ordinance Authorizing the Mayor to Execute an Agreement with Ferguson Waterworks for Project 316-7B, at the Rolla National Airport: Mr. Hargis recalled the Council, at a recent meeting, awarded the bid for Project 316-7B to Ferguson Waterworks, for the Rolla National Airport irrigation system materials (wastewater treatment plant). The subject ordinance would authorize the Mayor to enter into an agreement with Ferguson Waterworks for this project. Since this is the final contract for this project, Mr. Hargis said the City could then begin to request reimbursements.

Mayor Magdits read the following proposed ordinance for its first reading, by title. ORDINANCE NO. 4162: AN ORDINANCE AUTHORIZING THE MAYOR OF THE CITY OF ROLLA, MISSOURI TO EXECUTE ON BEHALF OF THE CITY OF ROLLA, MISSOURI, A CERTAIN AGREEMENT BETWEEN THE CITY OF ROLLA, MISSOURI, AND FERGUSON WATERWORKS FOR PROJECT 316-7B, AT ROLLA NATIONAL AIRPORT. A motion was made by Eudaly and seconded by

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(A) An Ordinance Authorizing the Mayor to Execute an Agreement with Ferguson Waterworks for Project 316-7B, at the Rolla National Airport (continued): Sawyer to suspend the rules and the ordinance be read for its final reading, by title. A voice vote on the motion showed eight ayes, zero nays, and four absent. Motion carried. Mayor Magdits then read the proposed ordinance for its final reading, by title. A motion was made by Long and seconded by Eudaly to approve the proposed ordinance. A roll call vote on the motion showed the following: Ayes; Bowe, Bahr, Woolley, Bowles, Eudaly, Long, Sawyer, and Jordan. Nays; None. Absent; Williams, Morris, Miller, and Hines. Motion carried. The ordinance passed.

(B) Complete Review of Proposed FY 2014/2015 Budget: City Administrator John Butz reported Councilman Matt Miller would be arriving late and Councilman Don Morris had travel plans and would be unable to attend. However, Mr. Morris attended the briefing with the Finance/Audit Committee last week. Additionally, Mr. Butz asked the Council to keep Councilman Jim Williams in their prayers, due to some health concerns.

City Administrator John Butz stated the budget is always a challenge and, in particular, it has been more challenging during the past six or seven years as the economy has stagnated.

Mr. Butz said staff is projecting a 1% growth in sales tax revenues for FY 2015, which is the single largest revenue source to the City's budget. Currently, the sales tax revenues are up a little over 2% for this year, but have averaged at about a ½% to 1% growth over the last five or six years. He reported the budget has a slight surplus in the General Fund of \$67,000, but it is less than 1% of any kind of a margin in case anything happens throughout the course of the year.

Mr. Butz stated the budget includes a number of unfilled positions and, at the end of the meeting, staff would spend some time talking about compensation and personnel-related issues.

Mr. Butz mentioned Proposition P, approved by the Council, would go before the voters in November. If approved, it would provide a funding mechanism for the parks system. Without approval of Proposition P, the Park Fund proposed budget shows a \$300,000 deficit. Mr. Butz informed the Council the City must adopt a budget that is balanced. Therefore, the Council will be adopting a budget that is going to show drastic cuts in the park system. If Proposition P passes, staff will then need to make a budget amendment and hopefully staff can reinstate many of those cuts to the park system.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued): Mr. Butz informed the Council the City currently has only about \$700,000 to \$800,000 of unrestricted funds in the General Fund, but it really needs about \$1.5 million in the General Fund just for cash flow purposes. He said it is a budget of about \$10 million and over the course of the year, those dollars come in and out at different times. He told the Council staff must often borrow some of the operating capital from the other funds to make cash flow. Ultimately, staff needs to work on rebuilding the General Fund.

Mr. Butz said the budget includes a small increase in employee salaries, based on a merit system. A one-step increase would be given to employees who qualify based on their performance reviews, which is a 1.5% increase. Mr. Butz indicated the reviews would be conducted in November and December and would take effect January 1, 2015.

Mr. Butz called the Council's attention to the City's mission statement, which was adopted in 2000. He stated the Council wants to consider updating the mission statement within the next couple of years, because the City is dealing with a very different economy.

Councilman Jim Williams entered the meeting at approximately 5:40 p.m.

Mr. Butz pointed out Rolla is a city organization with about a \$28 million budget. Personnel makes up about 42% of the City's costs, which is flat, despite eliminating a number of positions. He explained the reason is the cost of benefits, i.e., health insurance, retirement. Mr. Butz indicated staff estimates revenues in the FY 2015 budget to be \$28,713,355.

Mr. Butz said he would first focus on the General Fund, which is the City's largest single fund and affects perhaps 110 of the City's 190 employees. The projected, unrestricted cash is about \$810,000, which needs to be closer to \$1.5 million for cash flow purposes.

Mr. Butz referred the Council to the General Sales Tax Revenue chart. He pointed out from 1992 to 2007 the City was growing at a rate of 4.2%. He noted this all turned in 2008 and the sales tax rate has just increased to the 2007 level.

Mr. Butz then provided an overview of the General Fund Revenue Projections. He noted the Real Estate taxes revenues are projected to be about \$960,000, which includes a 1.5% inflationary growth. He pointed out the Kohl's TIF (Tax Increment Financing) payment of \$42,500 has been netted out.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued): Mr. Butz stated the sales tax is the single largest revenue source and staff is projecting \$3,860,000, which is a 1% growth over FY 2014. He said it is not much larger than it was three years ago. Mr. Butz pointed out the \$3,860,000 is less the \$40,000 the City pays to Kohl's for the TIF reimbursement.

Mr. Butz said the sales tax is not the City's only difficult revenue source. He noted the telephone franchise fee was as much as \$403,000 three years ago. However, more people are eliminating their landlines, which included a surcharge. This year, Mr. Butz told the Council staff is projecting \$360,000 in telephone franchise fees.

Similarly, Mr. Butz pointed out the cable television franchise fee is down slightly, there has been a declining trend over the past six to seven years, and the same applies to the cigarette tax. He noted this is following the national trend and this is nothing unique in Rolla with its smoke-free workplace ordinance. Mr. Butz mentioned Missouri's cigarette tax rate remains at \$0.17, which is the lowest in the country.

Mr. Butz told the Council grants are declining. Homeland Security was a funding source that funded many things in the Police and Fire Departments and those dollars are no longer available.

Mr. Butz noted Police Chief Mark Kearshe has worked very hard with the Phelps County Sheriff's Department in the drug seizure program. When the City is called to assist or back up the Sheriff's Department, a portion of the funds is given to the City. Prior to five or six years ago, the City was not receiving anything in the way of drug seizure funds. The City is now getting about \$100,000. Mr. Butz explained the funds show up in the budget for accounting purposes, but by law, they cannot replace funded expenses and the Police Chief has full discretion over how those dollars are used. He said the City Council does not have the authority to control how drug seizure funds are spent.

Mr. Butz then provided an overview of the proposed budgets for the fifteen divisions of the General Fund.

Mr. Butz explained LAGERS (Local Government Employees Retirement System) is the City's retirement plan and it averages about 13% of salary, a little less for Police officers and a little more for Fire Fighters. All told, the City will spend about \$800,000 in retirement. He explained the City's health insurance is assigned by the number of lives and not by the number of employees. The total health care expense the City pays is \$1.7 million. Just between retirement and health insurance, 10% of the total budget is going toward those benefits.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued): Councilman Matthew Miller entered the meeting at approximately 6:03 p.m.

Mr. Butz noted the Police Department is one of the largest divisions of the General Fund. He reported staff is proposing to not fund three firefighter positions and two police positions in the FY 2015 budget. He said two firefighters and one police officer were not hired in the FY 2014 budget. Mr. Butz told the Council this is the first time this has had to be done in the seven/eight year recession. He explained these positions are anticipated through turnover.

Mr. Butz informed the Council the permitting software used in the Community Development Department called Black Bear is between fifteen and eighteen years old and the company no longer supports it. He told the Council the software measures inspections, building permit costs, and how it is transferred to the County for assessments, etc. Mr. Butz said staff has been delaying the purchase of a new program for the past five to six years. If the program fails to perform this year, the new software, estimated at \$16,000, would need to be purchased.

Mayor Magdits recalled he and Mr. Butz talked about what it would take to increase the General Fund unrestricted reserve of \$1.5 million for which there is currently \$810,000. He asked Mr. Butz what the City needed to do in order to close the gap. Mr. Butz responded a 1% increase in sales tax would net about \$38,000. Mayor Magdits said if the City is fortunate to get a 2% growth in sales tax in five or six years and expenses did not increase, it would still take the City quite a number of years to build up the reserves. Mayor Magdits said he just wanted to put it into perspective so six months from now, for example, if the sales tax growth is 1.5% or 2%, the Council needs to think how quickly we want to spend the growth in other areas. Mr. Butz said Mayor Magdits challenged staff to commit any sales tax growth over 1% in 2015 to the unrestricted reserves. Mayor Magdits said he was hoping to get the Council to buy off on this.

Mr. Butz said the City would need a \$300,000 surplus for the next three years to build up the reserves, which he said would take a 10% growth in sales tax to achieve it. He emphasized the City has averaged less than 1% growth in the past eight years. Mr. Butz stated this is how long it is going to take the City to recover from the \$3.5 million loss since 2008 and this is what it would take to just build up reserves and does include filling positions.

Mr. Butz informed the Council the Parks Fund is the City's one serious problem spot. As indicated earlier, the City has a balanced budget for all operations, which is required

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued): by law. The Parks Fund, as outlined in the proposed budget, has a \$328,081 deficit, which is illegal. Mr. Butz emphasized a budget with a deficit cannot be adopted. If Proposition P passes in November, the deficit can be solved. However, the City will not begin to see any of that sales tax revenue until June, July, or August 2015. Mr. Butz informed the Council staff is removing the Parks Fund from the Recreation Center Fund and the Parks Fund will stand-alone and will not involve any of the dollars associated with The Centre, except for rent the Park Fund is paying to The Centre. Since there cannot be a \$328,081 deficit, Mr. Butz stated it means huge cuts to the Parks operation, which means significant cuts in manpower. When manpower is cut, mowing crews are cut. Mr. Butz stated the idea of closing or decommissioning parks is an absolute risk if Proposition P does not pass. From the exercise of the budget, the Council has to make some of those decisions now.

Mr. Butz referred the Council to the budget agenda materials, which depicts two proposals for the Park Fund. He said if \$328,081 is cut from the Park budget of \$900,000, it would include eliminating two of four full-time positions and eight of ten seasonal employees.

Mr. Butz highlighted the various amenities under the control and responsibility of the Park Department. He said these are areas, which need to be addressed when looking at cuts.

Mr. Butz then showed the Council a chart, which encompasses the entire park system. He pointed out to the Council areas the City would either have to find someone to adopt or these areas would be closed effective October 1. However, if Proposition P is successful, Mr. Butz explained the budget could be amended and many of these areas could be addressed.

Mr. Butz then provided an overview of the proposed consolidated Park Fund budget. He said as the City closes parks and discourages people from using pavilions, etc., there might be a loss of revenue. For the most part, staff believes these revenues would hold true although many of the neighborhood parks would be closed.

Mr. Butz mentioned the Council has been talking for years about user fees for youth in the parks. Currently, a fee is only charged if the lights are being used. Along with the cuts, staff is proposing imposing fees, which would be approved by the Council through an ordinance. Mr. Butz said this is the only real revenue source we could see to generate additional revenue to the Park Fund. He pointed out the Parks Revenue Projections of \$761,360 includes a \$250,000 General Fund transfer.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued): Regarding the Park Fund Expenditures, Mr. Butz said we could not adopt the budget with a \$900,000 operating expense. He said the Council could adopt Proposal 1 with \$645,065, which would allow a \$250,000 General Fund transfer and nothing more or, include another \$43,000 from the General Fund, and maybe maintain two more parks. Mr. Butz said it is the Council's call, but to take \$43,000 from the General Fund surplus, leaves no room in the budget and would most likely be the elimination of one person in public safety. He told the Council if the \$67,000 surplus in the General Fund is reduced to \$25,000 and there is the slightest, unexpected expense or a continued drop in some revenue source that was not budgeted, there is the good possibility of eliminating another General Fund position.

Following discussion, Mr. Butz said the only other sales tax option is a fire department sales tax, which is allowed by State Statutes. He noted State Statutes do not allow municipalities to have a law enforcement sales tax and only counties are authorized to have a law enforcement sales tax.

Based on Council comments, Mr. Butz said the Park budget he would be bringing to the Council at its next meeting would include Proposal 1.

Mr. Butz noted staff is proposing SplashZone be included in the Park Fund, so Proposition P is supporting the outdoor pool when the weather is inclement, which affects memberships.

Mr. Butz told the Council the Recreation Center Fund is not in the same condition as the Park Fund because when the park sales tax was approved fifteen years ago the Council authorized any excess sales tax beyond the debt service to go into a reserve fund. He reported that at the end of this year, the reserve fund would contain a balance of about \$4 million. Mr. Butz noted next year the City is looking at a \$300,000 deficit to the Centre's operation, which includes the \$61,000 General Fund transfer for administration and any capital expenses incurred. This would reduce the Centre's reserve balance from \$4 million to \$3,770,975. Mr. Butz indicated the proposed budget includes a 5% increase in membership fees. He said staff is looking at the way the corporate discounts are being structured, expenses, marketing, and how membership can be increased. Mr. Butz stated more of a sales mentality is going to be required to have the Recreation Center operate more like a private facility would. Since the City has been so focused on parks, we have not been able to tackle the deficits incurred at the Recreation Center, but those deficits are currently being covered by the reserve fund.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued) (continued):

Mr. Butz then commented on the Airport Fund where the City has spent \$2.5 million over the last two years doing all of the infrastructure improvements at the Airport. The budget is a much more operating budget with revenues of about \$400,000 and expenses of about \$500,000 and it needs about \$75,000 a year of General Fund support. Mr. Butz informed the Council the City is floating the EDA's (Economic Development Administration) \$1 million grant. He said EDA would not reimburse the City until every contract was executed.

Mr. Butz stated the primary revenue sources for the Street Capital Improvement Fund is the one-half cent capital improvement sales and the one-half cent transportation sales tax. He explained this fund has been affected by the same \$3.5 million loss of revenue the City experienced in the preceding 15 years before 2008 and, as a result, the budget has been scaled back. Much of the work the City wanted to do in the south side area has slid back year after year. Mr. Butz said a mile of total street reconstruction costs approximately \$1 million. He indicated staff is proposing a creative idea in this budget because we know how important it is to finish the streets in the south side. Mr. Butz said staff is proposing lease/purchase financing. He explained in 2004, the City did a fifteen-year bond issue for \$7 million to build/improve Lions Club Drive, Rolla Street, Walnut Drive, and all of the City's major storm water detention projects. He told the Council this would be paid off in five years, which is a payment of about \$670,000 a year. Mr. Butz explained it was refinanced two years ago and the City saved about \$50,000 a year in interest expense. In speaking with some of our financial advisors, the City was told it can borrow on the future sales tax of the debt service payment beyond five years and it would fund the City \$3 million to do the last two and one-half miles of the streets in the south side area. It will also allow the City to rebuild Sixth Street and a few other streets in similar condition.

Mr. Butz reported the City is working on a program with Rolla Municipal Utilities (RMU) where the City is replacing its streetlights with LED. Phase I will be replacing much of the City's major system under a program between the City and RMU. RMU will do the work in partnership with a grant the City can get (STP Entitlement Funds). Mr. Butz said the City sees this as a great program for energy savings.

Regarding the Sewer Fund, Mr. Butz recalled the City did a bond issue three or four years ago. Another rate increase of \$0.25 per 1,000 gallons is being proposed in this year's budget, due to new regulations and costs. Mr. Butz added part of this increase is due to the decline in water consumption.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued) (continued):

Because of the Public Services Yard project, where the City had been accumulating some of its reserves in order to pay cash for the sanitation portion of the project, Mr. Butz reported staff is proposing a rate increase in sanitation collection fees. This would be the first increase since 2001 for commercial customers and 2003 for residential customers.

Mr. Butz noted the City's Vehicle Maintenance Division's hourly rate charged to each department is \$80. Of that amount, \$40 is for the labor and 40% goes toward the debt service for the public services building project.

Mr. Butz informed the Council the one large purchase in the Recycling Center Division is a bailer.

Mr. Butz mentioned the Cemetery Fund and the Parkland Reserve Fund are considered trust funds. The Cemetery Trust Fund was started in the late 1970s and has a balance of a little over \$300,000. Part of every cemetery lot sale goes into this fund. Mr. Butz said the Parks Department has always maintained this cemetery and it is a huge workload. Proposition P would support the Cemetery as well.

Mr. Butz explained the Parkland Reserve Fund was established a few years ago. Anytime a subdivision is formed and a payment-in-lieu-of-parkland is chosen, it is placed into this fund. The fund currently has a balance of \$72,000 and those dollars can only be spent by a two-thirds majority vote of the City Council on specific park enhancements.

Mr. Butz informed the Council 42% of the City's budget is personnel-related expenses, both full and part-time, including benefits. In 2013 and 2014, better pay has been the reason employees are leaving City employment. He said this is not a real surprise with what we have been able to do with compensation over the last few years.

Mr. Butz said he wants to make sure everyone understands what has had to be done to keep afloat over these last six to eight years. He then outlined the positions that have been eliminated and/or unfunded and stated they are significant positions throughout, which mean everyone is doing more work. Mr. Butz said this has worked for two or three years, but the employees are becoming tired of doing more work without additional compensation. Depending on the success of Proposition P and what relief it might provide in the General Fund, or other positions that might be eliminated, there might be an opportunity to pay employees more.

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(B) Complete Review of Proposed FY 2014/2015 Budget (continued): Mr. Butz pointed out although many of the positions eliminated were in the General Fund, the only positions added, outside Vehicle Maintenance, has been in the public safety area. Despite a tough economy, this community has made a commitment to public safety.

Mr. Butz provided an overview of the pay adjustment history from 2010 to the proposed 2015 fiscal year budget. He informed the Council a 1.5% merit increase would be given to qualified employees this year. Mr. Butz noted the total number of full-time employees proposed for the FY 2015 budget year is 190. He explained the only change to this listing is the city engineer position, which has not been filled for eight years. Mr. Butz said the current assistant public works director has announced his retirement effective October 1. He indicated plans are to take the city engineer position and the assistant public works director position and roll it into one position and the salary would be increased from a Grade 15 to 16.

Mr. Butz mentioned staff is anticipating a health insurance premium increase for employees. An increase in premiums has not been done in the past few years. Mr. Butz added some of the elements of the wellness program would be rolled back because of their costs.

Mr. Butz then commented on the City's long-term financial obligations. He reported the City received word that its Moody's, and Standards and Poor ratings have increased. Mr. Butz said Rolla does not have much debt because we have not had to borrow because we have been doing it through attrition and cuts.

Mr. Butz informed the Council a public hearing pertaining to the proposed budget would held during the Council's next meeting. The first reading of the ordinance adopting the budget would also be considered at this meeting. Mr. Butz said the final reading of the ordinance, which adopts the proposed budget, would be considered at the second meeting in September and would go into effect October 1, 2015.

(C) Adjournment: Having no further business, the meeting adjourned at 7:52 p.m.

Minutes respectfully submitted by City Clerk Carol Daniels.

CITY CLERK

MAYOR

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