Tuesday – October 17, 2006 - 3:00 p.m.

Worksession

Present: Mayor Terry M. Bellamy, Presiding; Vice-Mayor Diana Hollis Jones; Councilwoman Robin L. Cape; Councilman Jan B. Davis; Councilman Bryan E. Freeborn; Councilman R. Carl Mumpower; Councilman Brownie W. Newman; City Manager Gary W. Jackson; City Attorney Robert W. Oast Jr.; and City Clerk Keisha Lipe

Absent: None

ECONOMIC DEVELOPMENT STRATEGY AND TOOLS

Economic Development Director Sam Powers said that many existing economic development programs have traditionally sought to emphasize growth, that is, expanding the number of jobs and increasing capital investment for the community. Each component of the three-pronged strategic approach of most communities – business recruitment, existing business retention and new business creation is important to bring new growth into the community. This is considered a "supply-side" strategy that will impart cost advantages to outside businesses and increase the likelihood of successful recruitment to the community and retention of business in the community.

Sustainability, as proposed by many writers, is a way for communities to sort through their development options and arrive at a strategy that is more balanced with respect to the full range of economic, environmental, and social characteristics that together comprise the community. Many economic development programs and communities are now seeking to incorporate sustainability into the practice of economic development.

Sustainability calls for an emphasis on *development* strategies that lead to an economy that is built from within and is more diverse and self-reliant and more socially and environmentally responsible.

A sustainability strategy can be built within a mainstream perspective. One way to integrate sustainability into the community's economic development strategy is to revise and expand the ways that existing development tools are used in the community.

There is a wide range of economic development tools that communities utilize to influence economic development.

Supply-side - attempts to influence business decisions by affecting the costs of production. Included among the variety of supply-side tools are low-interest loans, tax exemptions and abatements, subsidized employee training, and subsidized land. These are typically used by communities to attract new companies or retain existing ones.

Demand-side - this approach involves the active intervention of an "entrepreneurial state" in the identification and exploitation of business development opportunities. Demand-side tools are essentially designed to encourage the start-up of new companies or enhance the ability of existing ones to compete, and include incubators, seed capital funds, technology development partnerships, and small business development centers.

Economic development tools - can be organized info five categories: marketing incentives, infrastructure investment, regulatory and governance, land-based incentives, and financial incentives. He reviewed a chart which listed the tools by the different categories and

provided a description of each under the supply/demand perspective and the sustainability perspectives.

Using a flow chart, Mr. Powers reviewed with Council the Economic Development strategies of his department. He said that a year ago Council formalized the Sustainable Economic Development Advisory Committee (SEDAC) and they have been interested in taking the strategies and making recommendations. He recommended that Council authorize SEDAC to look at the existing Council goals and priorities, prioritize them, and bring back their recommendations to the Planning & Economic Development Committee and then to City Council.

Mayor Bellamy asked that SEDAC provide benchmarks that are measurable for the next 18-24 months.

In response to Mayor Bellamy, City Manager Jackson explained how the HUB Committee and the Chamber of Commerce's Economic Development Coalition will play a part in the recommendations.

Mayor Bellamy expected the outcome to be a specific program of activities.

Councilman Mumpower felt these are mostly secondary tools using taxpayer money to provide land or money, noting that there may be some value to that. He didn't see many primary tools that bring business to the community including public safety, regulatory taxes and fees, infrastructure, and an overall policy whether it encourages or discourages development.

The majority of Council supported SEDAC looking at the existing Council goals and priorities and bringing back the City's economic development plan with action steps including benchmarks.

The majority of Council supported SEDAC reviewing the core issues and giving Council some direct guidance on the core and secondary issues.

Mayor Bellamy initiated discussion relative to the City's relationship with the Economic Development Coalition. She and Councilwoman Cape felt they do support many of our goals and noted that in the last two fiscal years, we have not provided them any monetary support. After discussion and the recognition that City residents already contribute to the Coalition through their County tax dollars, the majority of Council supported the Economic Development Coalition providing the City with a specific proposal that focuses on an economic development project within the City.

After discussion initiated by Councilwoman Cape, as a member of the Film Commission, about providing an economic development incentive to a film production company due to begin filming in downtown Asheville, the majority of Council supported adding an item to the October 24, 2006, agenda waiving parking meter fees in specific downtown locations for 10 days of filming, which would be an approximate $1,600 waiver. She noted that they project they will be spending $800,000 in our region.

After discussion and request by Mr. Powers, it was the consensus of Council to support SEDAC looking at the issue of providing on-location assistance by City departments and film related incentives as part of the economic development plan. Councilwoman Cape clarified that the Film Commission will be moving forward at looking at what other cities are doing in terms of incentives to bring the film industry to their areas.

After a brief discussion initiated by Councilman Newman on a living wage policy, City Manager Jackson said that City staff is gathering some benchmark information on the legal

framework for a living wage policy. He said that we have gathered some information on initiatives that have been taken by other municipalities, along with input from the City's new Human Resources Director. We will have that completed by the end of the month and will seek Council's direction on when and how Council wants to schedule that policy discussion.

RETIREE HEALTH INSURANCE CONTRIBUTION RATES

Mr. John Ferguson, with Ferguson Benefits Agency, said that retirees with access to other health insurance coverage through their spouses (or through Medicare or their own post-retirement employment) are not subsidized by the City to the same extent as retirees who have no access to other coverage. This means that individuals with the same length of service to the City may pay different amounts for their health insurance. This is perceived as an inequity to retirees of the City. Council asked for options about how to approach this issue.

Resolutions passed by Council over the years have, since 1984, provided that retirees who have access to other coverage through their spouse could stay on the City health plan, but would not have their coverage subsidized by the City.

Recently, this provision was brought before Council as being unfair because two employees who worked for the City for the same amount of time paid different rates based on whether their spouses worked and had insurance coverage.

Following an initial meeting with Council, the Ferguson Benefits Agency undertook a review of the City's contribution strategy for retirees, especially those with access to other coverage.

He then reviewed the following consideration of changes in the contribution strategy for retirees with access to other health insurance.

The City of Asheville allows retires that do not have access to other health insurance to remain on the City's health insurance plan and subsidizes most of the monthly cost while the retiree cost is the same as an active employee. The current City of Asheville subsidy is nominally $346.01 for retiree only coverage. For the high option (selected by the vast majority of retirees) the actual cost to the City ranges from $419 (retiree only) to $1,398 for retirees electing family coverage. If a retiree has access to other health insurance through a spouse, his or her own employment, or Medicare or Medicaid, the full monthly cost is charged to the retiree.

The City of Asheville requested the estimated financial impact of subsidizing the cost of the retirees with access to spousal insurance at the same level as those without access to other health insurance. An initial calculation based on the nominal cost indicating a maximum annual cost of $266,452 was presented to Council on July 18, 2006. Council requested contribution alternatives that would be cost neutral to the City for current retirees and employees. Due to "condition of employment" legal concerns, some retiree policy changes may need to be applicable only for future employees hired after a specific date.

Based on the City of Asheville's actual claims experience, the claims for retirees under age 65 are 2.23 times more than those of active employee. Since the retiree past claims are not entirely predictive of future claims, the minimum recommended cost differential should be set at 1.5 retiree-to-active employee ratio. The estimated cost for retirees under 65 for 2007 is $444.03 per month, based on the high option.

The potential alternatives come down to five options outlined below. The below examples assume retiree only coverage for the sake of illustration:

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1. Make no changes to the current retiree policy. Retirees with access to other insurance through his or her spouse would continue to pay $370.92 per month while retirees without access to other coverage through their spouse would pay $35.52 under 2007 rates.

    - Pros: No financial impact to the City of Asheville or the current covered retirees without access to other health insurance, other than the 1-1-07 scheduled increases.
    - Cons: The perceived inequity (emphasized by years of service) remains in place.

2. City of Asheville could subsidize the monthly cost of retirees with access to other insurance through his or her spouse at the same level as retirees without access to other insurance beginning with retirements on or after 1-1-07.

    - Pros: Eliminates perceived inequity.
    - Cons: Significant financial impact to the City of Asheville. Based on the 2007 projected cost of $444.03 (high option), the revised estimated annual cost is $4,902 per retiree per year. The City on average has 7 retirees each year under the age of 65 who decline health coverage. Assuming that all 7 of them had access to coverage through their spouse and declined due to the elevated cost, and assuming the addition of all 7 retirees, and with each retiree staying on an average of 9 years, the first year additional cost would be $34,314, going up by that same amount each year with an estimated additional maximum annual cost of $308,834 assuming an additional 63 retirees eligible for the subsidy. With such a high level of City contribution, we must assume all 63 would enroll.

3. The City of Asheville could change their contribution policy such that there is no contribution differential based on access to other coverage through a spouse. In order for this to be a revenue neutral option this will necessitate a significant increase to the 141 retirees who currently do not have other coverage available via a spouse. Conversely the 5 retirees who are on the plan now and who have access to other coverage through a spouse would see a significant reduction in their cost. Since a significant cost would remain for the retiree, not all would enroll, and calculating a cost neutral alternative contribution varies greatly depending upon the number who actually do so. Assuming that all 7 would enroll with increased City contribution, the High plan retiree contribution (for all retirees) would increase from the 2006 rate of $24.92 to $42.00 per month instead of the $35.52 that is currently scheduled for 2007. The Standard plan retiree cost would increase from the 2006 rate of $0 to $20.00 per month instead of $10.66 that is currently scheduled for 2007. However, since the average retiree stays on the plan 9 years, we can assume there will eventually be 63 total retirees (9x7) who might now wish to access the plan due to the increased City contribution. If all 63 did so, the High plan retiree cost would more than triple to $148.00 and the Standard plan go up to $68.00 for 2007. For planning purposes we must assume "worst case scenario" and would recommend using the $148 (high option) and the $68 (standard option) figures.

    - Pros: Eliminates perceived inequity for those retirees with access to insurance through his/her spouse and does not create a financial impact to the City of Asheville.
    - Cons: An increase of $123 per month would have a significant impact on fixed incomes which are as low as $500 per month, or even lower. Changing the policy for those retirees who have no other coverage available would create a

new perceived inequity by retirees with no other options who then feel they are now paying the same amount as those who do have other options. This option could

also create “condition of employment” legal issues which would have to be addressed by legal counsel.

4. City of Asheville could create a separate partial subsidy schedule specific to retirees with access to other insurance through his or her spouse without changing the subsidy for current employees and retirees without access to other insurance. This new subsidy schedule would apply to all NEW employees hired on or after 1/1/07 so that access to other insurance through his or her spouse would not differentiate the City contribution. The City could offer this to employees who retire on or after 1/1/07 since it is an enhancement of their current position.

   - Pros: No financial impact to current retirees that do not have access to other insurance eliminating the possibility of a “condition of employment” issue.
   - Cons: The financial impact to the City of Asheville is significant. Unlike in option 3 above, the “revenue neutral” state would take a long time to develop, and in fact only be totally achieved once all current employees are both retired and off the plan. For example, the City could subsidize ½ of the monthly $444.03 (high option) for $222.02 per retiree. Assuming a minimum of 7 additional retirees, the annual cost would be $18,650. Assuming the development over 9 years of the maximum of 63 additional retirees, the annual cost would be $167,850. Compare this cost to option 2 at twice that cost.

5. The City of Asheville could implement a sliding contribution scale based on years of service to determine the amount the City will contribute towards current retirees (and current employees upon retirement) with access to other coverage through his or her spouse, and to all new employees hired after 1-1-07. Contribution would remain the same for current retirees (and current employees upon retirement) who do not have access to other coverage through a spouse. This alternative mirrors the strategy now being put in place by the State of NC. A percentage of the subsidy based on years of service would be applied to the 2007 City contribution of $408.51 for High and $344.57 for Standard as shown below:

25 or more years of service	100% of subsidy
20 but less than 25 years of service	80% of subsidy
15 but less than 20years of service	65% of subsidy
10 but less than 15 years of service	55% of subsidy
5 but less than 10years of service	50% of subsidy
Less than 5 years of service	0 (no contribution)

It should be emphasized that these are not percentages of the total cost of coverage, but of the “full” subsidy figures. An illustration is provided below.

Applying these percentages to 1-1-07 subsidy results in the following contributions:

	High-Option Plan		**Standard Plan**	
	COA	**Retiree**	**COA**	**Retiree**
25 or more years of service	$408.51	$ 35.52	$344.57	$ 10.66
20-24.99 years of service	$326.81	$117.22	$275.66	$ 68.91
15-19.99 years of service	$265.53	$178.50	$223.97	$120.60
10-14.99 years of service	$224.68	$219.35	$189.51	$155.06
5-9.99 years of service	$204.26	$239.77	$172.29	$172.28
Less than 5 years of service	$ 0.00	$444.03	$ 0.00	$355.23

- Pros: This option should eliminate any “condition of employment” issues. The sliding scale would help moderate the short term additional City cost. Assuming an additional 7 retirees, the annual City cost would increase approximately $24,000. Assuming the development over 9 years of the maximum 63 additional retirees, the estimated cost would be an additional $242,200 as compared to the cost without the sliding scale of $311,381; a savings of approximately 20%. Though the short term cost may increase, in the long term this will significantly reduce retiree costs and is consistent with recent changes in the State of NC plan.

  Cons: Short term costs will increase dependent upon enrollment because approximately 75% of all recent retirees had more than 15 years of service with The City of Asheville and retirees (including future retirees employed prior to 1-1-07) with no access to other coverage through their spouse retain the current subsidy. Who might feel another inequity has been created by this change? First, at retirement, employees hired prior to 1-1-07 with fewer years of service and with access through a spouse will still be receiving a smaller subsidy than similar situated employees without access through a spouse. While the perceived inequity that began this discussion will have been lessened, and in fact eliminated for retirees with 25 or more years of service, retirees with fewer years of service may still perceive an inequity. Second, because these options assume maintaining the current City policy of not allowing retirees to access the plan once off the plan, such retirees may complain that had this option been available at retirement they would have stayed on the plan, and they may feel that they should have been given a second opportunity at this time to enroll under the new subsidy.

NOTES:

1. For all other cases, i.e. Medicare or retiree's own employment, the current provision would not change.

He then summarized the five options reported:

Option	Pros	Cons
1. Maintain current practice	No financial impact to City	Perceived inequity
2. Subsidize same regardless of spouse coverage	Eliminates perceived inequity	Could cost City more than $300,000 per year over time.
3. Level payments for all retirees unless coverage through Medicare or own subsequent employment (revenue neutral)	a. No financial impact to City b. Eliminates perceived inequity	a. Substantial increase in cost to employees with **no access** to other coverage ($148 vs. $35) b. "Condition of employment" concerns
4. Partially subsidize coverage if spouse coverage is available	a. Reduces perceived inequity b. No impact on unaffected retirees c. No "condition of employment" issues	a. Could cost City more than $150,000 (for 50% subsidy) per year over time
5. Implement a new subsidy scale based on years of service – apply to a. current employees who retire on or after Jan. 1, 2007 who have access to coverage through spouse --- and --- b. all employees hired on or after Jan. 1, 2007 Continue no subsidy if coverage available through Medicare or own subsequent employment.	a. Reduces cost to the City for future employee's retiree health coverage by about 20% b. Fair approach to retiree health coverage for future employees c. No "condition of employment" issues d. Eliminates perceived inequity for current employees who retire with 25 or more years of service e. Reduces inequity for current employees who retire with 5 to 25 years of service	a. Could cost City as much as $24,000 for the first year and up to $240,000 per year after nine years, but that would end as employees leave or retire, and cost savings of approximately 20% of current rates would follow

City staff recommends adoption of a sliding scale for retiree health contribution that would apply to all employees hired on or after January 1, 2007, and that would apply to all individuals who retire on or after January 1, 2007, who have access to other coverage through their spouse. This sliding scale would be as follows:

YEARS OF SERVICE	PERCENT OF SUBSIDY (Not of Premium)
25 or more	100% of subsidy
20 but less than 25	80% of subsidy
15 but less than 20	65% of subsidy
10 but less than 15	55% of subsidy
5 but less than 10	50% of subsidy
Less than 5	No subsidy

Mr. Ferguson, Human Resources Director Lisa Roth, and Underwriter Cheryl Walker responded to various questions and/or comments from the concerned Council regarding the different options, the current policy, and COBRA.

Councilman Freeborn felt this would be good to survey our employees since this is a change on their employment package. City Manager Jackson said that he could solicit input from various levels of employees about what is proposed by City staff and report back to Council within 30 days so we can still fold this into the enrollment period.

When Ms. Roth said that this will only affect current employees if they retire January 1, 2007, going forward and all new hires effective January 1, 2007, Mayor Bellamy cautioned any current City employee thinking of retiring before January 1, 2007, to at least wait until January 1, 2007, to make the retirement effective, if Council makes this retirement policy change.

It was the consensus of Council to place this item on the next formal meeting agenda.

Upon inquiry of Councilman Newman regarding Option 3, City Attorney Oast said that there are legal implications to all of these options and depending on the direction from Council, he will look into those and report back to Council. The condition of employment issue raised is a matter of concern and he will look into that as well.

WATER CAPITAL IMPROVEMENT PLAN RATE UPDATE

Water Resources Director David Hanks said that per Council's direction, staff has 1) further examined the water system capital improvement (CIP) fee structure for condo associations, multi-family apartment complexes, mobile home parks and customer charges available to owners of sub-metered or master metered properties; and 2) developed an option for financing the water system capital improvement program that uses debt issuance to help lower the CIP fee.

Staff has been working with condo associations to change out their larger meters to a combination fire/domestic service with Water Resources providing installation and procurement of the new meters at cost. In consultation with the City Attorney's Office, staff has provided reduced fees to smaller associations, including condos and home owners, served through master meters via change in the fee structure through a contract basis, changing the status to single family residential. He reviewed examples of condo associations changing their meters and enhancing their backflow requirements while reducing their CIP fee charges. He also reviewed examples of mobile home parks and apartment complexes with same size meters serving a variety of living units.

Staff has also reviewed master metered customers that have sub-metered their tenants or charge for utility services through a pass on charge or built the charges into the rent. When a customer sub-meters and has more than 15 connections, it becomes a private utility that is governed by the State Utility Commission, which sets rates and charges. The private utility must submit their rate structure to the Commission for approval and any increase must be approved by the Commission before it can be charged. If a customer does not sub-meter, but wants to charge for utilities provided, then it becomes a private business transaction between the owner and the renter. There is no legal authority for a water system or municipal government to set utility rates that private owners of rental property that are not governed by the State Utility Commission can set.

The Finance Department has examined options for financing the water system capital improvement program, which includes the issuance of debt to help lower the CIP fee while allowing for the leveraging additional capital project funds. Staff has determined that that securing a $35 million revenue bond issue to supplement our on-going pay-as-go support of the water system capital improvements program will allow us to invest approximately $66 million into the Water System CIP over a 6 year period while lowering the current CIP fee by 20%.

Mr. Hanks responded to various questions/comments from Council.

Councilwoman Cape expressed equity concerns in that a few weeks ago Council discussed residences all paying the same rate of $3.50 and now we're charging some condo associations and mobile home parks lower rates. Councilman Freeborn felt this is a small incentive to encourage people to live in higher density.

Councilwoman Cape suggested Council explore how we as a City can approach the idea of mobile home parks as viable aspects to our community for consideration of inclusion in our overall infrastructure expansion and how the City can participate in the stabilization of those viable neighborhoods. At the suggestion of Mayor Bellamy, Vice-Mayor Jones, Chair of the Housing & Community Development Committee, said that her Committee would be happy to look into that.

Councilman Newman was concerned that the base rate for large water users are getting water at a tiny fraction of the cost that other families in Asheville pay. Another concern is that some of the bigger multi-family residential developments are being successful in looking at ways

to bring their costs down, but one of the reasons why we did the meter based fee was to provide some certainty about water revenues. He felt the revenue projections that we had will be dramatically reduced. Mr. Hanks responded that if all the condo associations the City is working with change their meters out, this will have about a $200,000 negative impact on the water fund.

Mayor Bellamy noted that there was no Council support for sub-metering, however, there was support for City staff moving forward with the reduced fees to smaller associations, including condos and home owners, served through master meters via change in the fee structure through a contract basis, changing the status to single family residential.

At 5:18 p.m., Mayor Bellamy announced a 20-minute recess.

Chief Financial Officer Ben Durant reviewed with Council the Water Capital Financial Plan.

Using charts, he reviewed the current CIP fee/pay-as-you-go plan; current CIP fee/$35 Million revenue bond; and the 20% CIP fee reduction/$35 Million revenue bond.

City staff's general recommendations are (1) Approve across-the-board 20% reduction in CIP fee and give direction on $35 million revenue bond issue; and (2) Build reserves for future projects and operating flexibility.

Throughout the presentation, Mr. Durant and Mr. Hanks responded to various questions and/or comments from Council.

Upon inquiry of Vice-Mayor Jones, Mr. Hanks said that we would spread the $35 Million over several years. If we were to do too many projects in one year, it would disrupt people's lives. We would develop a schedule of what the projects would be and the cost for each project. Then we would come back to Council for approval. We would then set up the debt financing to meet the schedules. It will take about 2-3 years to start the projects and if Council gives staff direction, they will start the bid process.

Councilman Mumpower explained that to make substantial changes on how we finance the water infrastructure before the legal issues are resolved is premature and felt that the City should wait until the initial ruling on the Sullivan Act lawsuits.

Councilwoman Cape said that we are running the water system under the same limitations if we lose the lawsuit. She felt we are trying to make decisions in the most fiscally sound way and with the extra piece of the revenue bond, we can repair the system quicker.

Councilman Davis felt there should be a list of what repairs will be made with on-going updates on the progress.

Vice-Mayor Jones wondered if Council should look at the $1.2 Million savings being allocated among the one-inch meters and higher, opposed to spreading the savings across the board. Councilman Davis agreed in that those businesses are employing people.

Councilman Newman felt that the current rate structure is pinching the small to medium size commercial customers; and if any adjustments are made, Council should look at the most fair way to do it.

Upon inquiry of Councilman Mumpower, Mr. Durant said that our consultant, Brown and Caldwell, recommended that the City borrow the funds to aggressively address the CIP. They

recommended we begin in 2-3 years from now; however, we are being more aggressive and are asking for Council to begin the process now.

Mayor Bellamy asked who would be responsible for the debt if our water system is taken out of our hands or a merger. Mr. Durant said that the bonds are guaranteed by the system's revenues which are the ratepayers, so whoever has the system has the liability. City Attorney Oast said that would be a point of negotiation. He felt that any arrangement would have to be subject to approval of the bond holders.

The majority of Council supported Mr. Durant talking with the bond counsel specifically about if there was a merger or the system is taken away how will that affect our obligation and also information about structuring the debt so we draw down the funds at the right time. He would be able to provide that information to Council in approximately 1-2 weeks.

Upon inquiry of Mayor Bellamy, Mr. Durant said that if Council votes on this matter at the first formal meeting in November, it would take approximately 5-6 months before we would get the money.

QUARTERLY FINANCIAL REPORT & CAPITAL IMPROVEMENT PROGRAM

Chief Financial Officer Ben Durant updated City Council on the Fiscal Year 2006-07 General Capital Improvement Program (CIP) and provided a preview of the City's long-range capital improvement needs.

Staff has identified $2.5 million in one-time funding that is available to augment the capital improvement budget that was approved for FY 2006-07. This $2.5 million in funding will come from two sources. At the time of budget adoption, there was approximately $1.5 million in property and sales tax revenue that was not included in the budget. Council directed staff to report back after the first quarter on the possibility of appropriating this funding for capital needs. Based on the City's financial performance through the first quarter, staff is recommending that the additional $1.5 million that was not budgeted in June now be appropriated for high priority capital needs.

In addition, the preliminary year-end audit figures for Fiscal Year 2005-06 show that the City's fund balance will be approximately $23.8 million or 31% of total expenditures. Based on these numbers and staff's projections that fund balance will grow to 34.1% in Fiscal Year 2006-07, we recommend that Council appropriate an additional $1.0 million from fund balance to help address capital needs; bringing the total available funding to $2.5 million.

He then briefly reviewed the highlights of the quarterly financial report. Objectives: (1) review first quarterly operating results; (2) receive Council direction on enhancing development review services; (3) present immediate high priority capital improvement needs and receive Council direction on funding; and (4) preview long-range capital needs. He said the amended budget is $78,377,543.

General Fund revenue highlights: (1) additional property tax revenue will total $1.27 Million; (2) strong economic growth is boosting revenues: (a) current sales tax base higher than anticipated; (b) sales taxes projected to exceed budget by $530,000; and (c) state utility taxes projected to exceed budget by $346,000; (3) higher investment earnings; and (4) overall, general fund revenues are projected to exceed budget by $2.76 Million.

General Fund expenditure highlights: (1) departments projected to save $877,000 through targeted savings plans and normal attrition; (2) these savings combined with $2.76

Million in excess revenue will more than offset the $1,039,269 in fund balance used to balance the budget; and (3) fund balance will increase by $2.6 Million.

He reviewed the chart for Fund Balance revised budget was 29.86%, and now based on year end is 34.13%.

Proposed operating amendment: development review services: (1) additional staff in Planning & Building Safety to enhance development review services: (a) better manager and track zoning violations, fines, etc.; (b) perform zoning field inspections throughout the construction process; (c) devote more resources to long-range planning; and (d) meet demand for plan review services; (2) implementation Date: January 1, 2007; (3) cost of enhancement package: $132,996; (4) funding proposal is to budget a portion of extra state utility tax revenue; (5) effect on Fund Balance is that it will be educed to 33.9%; and (6) staff recommendation is to put a budget Amendment on the October 24, 2006, agenda.

Budget Manager Tony McDowell reviewed with Council the capital improvement planning going over the current high priority projects and preview of long-term needs: The current year Capital Improvement Plan totals $13,360,401.

Highest priority capital needs include: (1) funding proposal: additional $2.5 Million ($1.5 Million in property and sales tax revenue that was not included in the adopted budget; and $1.0 Million in available fund balance); and (2) effect on fund balance - reduces fund balance to 29.9%.

He reviewed the capital project prioritization process, which is staff-identified the highest priority capital projects based on the following set of criteria: Council goal, deferred maintenance, risk management, maintain service, economic impact, energy efficiency, and quality of life.

Manager-Recommended highest priority capital projects: (1) land purchase for Fire Station 12 - $250,000; (2) Civic Center Arena Roof (the total cost of $1.5 Million. There is $600,000 in unused funding already in the Civic Center CIP) - $900,000; (3) Haw Creek Sidewalks (the amount represents the City match. Total cost is $700,000) - $370,000; (4) Patton Avenue Sidewalks (the amount represents the City match. Total cost is $450,000) - $300,000; (5) Fleet Replacement - $255,000; (6) street and sidewalk maintenance - $200,000; (7) Public Safety radio replacement - $100,000; and (8) Richmond Hill Entrance/Parking - $125,000. Totaling $2,500,000.

He reviewed the five-year capital improvement needs.

Long-term capital planning funding strategies include: (1) continue pay-as-you-go funding (5-Year financial forecast assumes a 3.0% annual increase; or (2) issue additional debt (current debt capacity/debt ratios).

He used charts to show the existing debt schedules.

Long-term capital planning next steps include (1) budget amendment to enhance development services on the October 24, 2006, agenda; (2) $2.5 Million budget amendment on the October 24, 2006, for a one-time capital funding; and (3) begin community process to establish a 5-year capital improvement program; including consideration of debt issuance.

Mr. Durant responded to various questions/comments from Council.

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When Councilman Freeborn asked to see the analysis of what the cost savings would be for taking out debt for capital improvement projects, Mr. Durant said that he would perform that analysis and report back to Council at a later date.

City Manager Jackson responded to Councilwoman Cape regarding why the Richmond Hill Entrance/Parking is included on this list.

In response to Councilwoman Cape, City Manager Jackson said that specifically when it has come to capital improvements, the past practice has been to do more with less. We have concluded is that we can facilitate a better policy decision-making with Council by laying out a five-year plan. Historically it has been, tell us what you can accomplish at a modest investment. We will now show Council realistically what it takes to build the project (including costs at each phase) at the standard Council and the community want the project to be built. Council at that time can then scale back the project. We need to look at the five-year plan to see what we can do with the revenue stream and make that five-year listing of projects more of a plan, than just an allocation or lining up based up on priority. And then indicate what resources we see coming from the capital improvement program and what resources don't currently exist. We don't want to create any false expectations of when it's going to happen, and what we need in terms of grants, or donations, or other different revenue sources. In the past there hasn't been that level of detail.

There was discussion of the recommended highest priority capital improvement items, with the City Manager noting that we have a lot of other projects below $100,000 that don't rise to this level of decision-making, but are moving forward.

Councilwoman Cape felt it was important to have a discussion about bond issuance and what that would bring to the table for us in addressing the many needs of our community.

Councilman Newman presented Council with a proposal to maintain the momentum gained through the 90 day ride-for-free promotional campaign by offering a convenient fare-structure for transit ridership. He said the campaign concludes on November 11 and we need to maintain the increased ridership. He said that lower fares result in higher ridership and we need to make it simple for people - buy a pass one time and have unlimited access to service. He explained the comparable situation of parking in Asheville, when it was changed to the first hour fee and monthly and annual parking passes in the parking garages. He felt there are many benefits to his proposal and if we create these attractive new monthly and annual transit pass options, we can market the programs directly to existing customers. If we wait several months and the ridership falls, we will have missed the change to market this option directly to people who we know will use transit if it is convenient and financially attractive. He did say there will be some loss of fare-box revenue, but felt it would be offset by higher state funding levels if ridership remains higher and there will be more revenue generated if ridership increases.

Regarding the transit proposal, Councilman Mumpower didn't think we should evaluate a program in mid-stream and he didn't believe that our parking needs have decreased during this trial period. He didn't mind subsidizing people going to work, to the hospital, or getting groceries, but does have a problem in subsidizing people who are joy-riding on the buses.

Upon inquiry of Mayor Bellamy, City Engineer Cathy Ball said that we have seen an increase in parking since July 1, 2006, and feel we are at a point where we need to start planning for downtown parking in order to meet the needs of the people downtown. We have identified some locations and will be prepared to do a detailed presentation on parking at the October 24, 2006, meeting.

The majority of Council supported placing on Council's October 24, 2006, agenda the (1) budget amendment to enhance development services; and (2) the $2.5 Million budget amendment for a one-time capital funding.

The majority of Council supported moving forward on discussions on how long term capital needs will be presented as outlined by City Manager Jackson, which will be through a series of worksessions.

Councilwoman Cape asked when would be the appropriate time for Council to discuss instructing City staff to seek an alternative bid for a green-roof at the Civic Center. City Engineer Ball said that when we do the Request for Proposals (RFP) for a new roof and if we get direction from Council, we could add an alternative for a green-roof and they will provide us with the cost and time involved with a green roof. Staff will then come back to Council to award the contract and if Council decides to do a green-roof and the amount exceeds the budget, then City staff will come back again with a subsequent budget amendment. She would need authority from Council to add a green-roof as an alternative, noting that including it in the RFP won't cost the City any extra money.

After a brief discussion about the transit fare structure issue and the request that it be considered before the promotional campaign runs out on November 11, the majority of Council directed staff to look further into Councilman Newman's proposal, e.g., how it would affect the budget, what type of budget amendment would be needed, and the amount the City is subsidizing and place the item on the October 24, 2006, agenda. Councilman Newman, liaison to the Transit Commission, also noted that he would solicit the input from the Transit Commission, noting that the Commission meets on October 23, 2006, and staff will compliment the report at the October 24 meeting.

BOARDS AND COMMISSIONS:

Regarding the Sustainable Energy & Economic Advisory Committee's membership, (1) the City Clerk was instructed to prepare a document that Council could give to each interviewee at the time of the interview for each candidate to self-identify which specific category they would fill; (2) the City Clerk was instructed to arrange the following interviews over three different formal meeting days: Robert Sweetser, David Spector, Leah Karpen, Keith Bamberger, Cathy Holt, Marjorie Vestal, Peter Waskiewicz, Christopher Gilbert, Tabetha Reyes, Sasha Vrtunski, John Wilson, Kathryn Gubista, Victor Fahrer, Yuri Koslen, Chad Leatherwood, Mark Mathews, Catherine Shane, Michael Murphy and Bruce Mulkey (noting that Maggie Leslie and Margie Mears are candidates, but no interview is necessary); (3) the City Clerk was instructed to re-open the application process with a December, 2006, deadline in order for Council to actively recruit diversity on this Committee; and (4) the City Attorney was instructed to modify the resolution (a) establishing one of the members being a person representing Progress Energy (to be appointed by Progress Energy); and (b) research the membership resolution to see if the membership is restricted to City residents and report back to Council for possible resolution amendment.

Regarding the Film Commission vacancies, City Council said that attendance and reappointment information was not available and asked that these appointments be delayed until that vital information is received.

ADJOURNMENT:

Mayor Bellamy adjourned the meeting at 8:08 p.m.

CITY CLERK MAYOR