

SALISBURY CITY COUNCIL
BUDGET WORK SESSION
MAY 31, 2013

Public Officials Present

Council President Jacob R. Day
Councilwoman Terry E. Cohen (arrived 10:26 p.m.)
Council Vice President Laura Mitchell
Councilman Timothy K. Spies
Councilwoman Eugenie P. Shields (arrived 10:12 a.m.)

Public Officials Not Present

Mayor James Ireton, Jr.

In Attendance

City Clerk Kim Nichols, City Administrator John Pick, Assistant City Administrator Loré Chambers, Ph.D., Internal Services Director Keith Cordrey, and Neighborhood Services & Code Compliance Director Tom Stevenson

The City Council convened in a budget work session at 10:08 a.m. in Conference Room 306 of the Government Office Building.

Internal Services Director Keith Cordrey briefed Council on the necessity of a transfer of funds to replenish expenditures made earlier in FY 2013 to other members of the Wicomico County Public Entities Consortium(WCPE) and Care First for health care settlements accounting for the excess of medical claims and administrative cost over premiums paid.

Mr. Cordrey explained that the beginning checking account balance was \$131,000, and investments account balance was \$658,000, and during the course of the year the General Fund remitted \$618,000. Assuming no transfer of funds will be done at the end of the year, \$486,907 would be the amount recorded. The MOU with the WCPE specifies the minimum balance in the Health Care Reserve Fund should be approximately 14% of the August 31, 2012 premium, which was \$3.7 million, and the minimum balance the City should carry in order to be in compliance with the MOU is \$520,000.

Mr. Cordrey further explained that the City already complies with regards to holding a balance of \$658,000 in the City's investment account, which exceeds the required amount of \$520,000. However, a disciplined approach would be to acknowledge the fund balance and replenish the funds with a budget transfer.

Mr. Pick asked for clarification as to whether the \$658,000 figure was the balance in the investment. Mr. Cordrey confirmed it was, adding that \$486,000 was the amount the General Fund expended instead of the Health Care Reserve during the course of the year. That amount should be deducted from the investment account, and the true balance would be \$171,000. Mr. Pick suggested one third of the amount transferred could come out of the Water and Sewer Fund because it was partly attributable to the fund and \$200,000 from the General Fund.

Council unanimously agreed to the budget transfer from General Fund Surplus, Water and Sewer Fund Surplus, and Parking Fund Surplus to replenish the Health Care Reserve Fund.

Water and Sewer Rate Update

Mr. Pick provided an update on the Water and Sewer Ordinance in which one item deals with a fire service charge. After the ordinance was drafted it was noted that the fire service charge is not the same as the water and sewer rates, as it's a charge for availability rather than usage. Mr. Pick suggested not decreasing the rates on that charge, and if acceptable to Council, the Water and Sewer Ordinance should be amended on second reading to make that change.

Council unanimously agreed to the suggested amendment to the Water and Sewer Ordinance.

Water and Sewer Fund

Council discussed adjustments in revenue to the Water and Sewer Fund. Mr. Cordrey provided a recap of the adjustments already identified:

- Removed lease proceeds for backhoe due to Council deciding not to lease the backhoe
- Adjusted the reduction in sales
- Adjusted liability insurance
- Adjusted the retirement administrative fee
- Health care reduction with the cost going from 22% to 20.4%
- Added Mill Street Pump Station as a capital expenditure

Additionally, Council discussed the following in the Water and Sewer Fund:

- Other miscellaneous account
- Water treatment
- Land/grounds
- Gasoline

Councilwoman Cohen asked Mr. Cordrey, for future reference in the budgets, to provide comments and explanation of accounts that show large percentages of differences from prior years.

Parking Fund

There were no questions or comments received from Council concerning the Parking Fund.

Marina Fund

The following was discussed pertaining to the Marina Fund:

- \$363 reduced to expense due to Health Care

Council recessed at 11:05 a.m. and reconvened at 11:15 a.m.

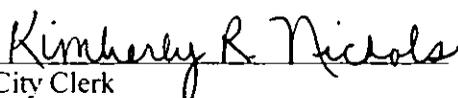
Debt Service

Mr. Pick provided information on the bonds which were proposed for issuance in FY 2014. The City's financial advisor provided up to date numbers, and currently there is \$270,000 budgeted for first year principal interest payment. The financial advisor indicated in order for the City to get a fixed interest payment, a fifteen year term would be expected, rather than a 20 year term. Interest rates are down right now and in order for the City to issue the bonds next year, the financial advisor suggested doing it early to take advantage of the low interest rates. The full year principal and interest payment on the bonds will be \$247,000, and the fixed interest rate is presently 2.5%. The issuance cost is \$65,000 which brings the total up to \$312,000, which is \$36,078 more than what is currently in the budget. He suggested it was the prudent thing to do, adding the Mayor was very interested in the projects for funding in the bond issue.

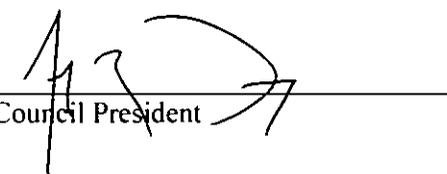
Mr. Cordrey explained another option provided by bond council. The interest rate and terms would remain the same and a \$40,815 interest payment would be paid out in the first year, thus saving \$206,000 in cash flow FY 2014.

After considerable discussion, and Mr. Cordrey fielding questions from Council on the bond issue, Council reached unanimous consensus to select Option 2, which was the interest-only plan that will have the effect of reducing the amount that comes out of surplus.

Thereafter, Council President Day adjourned the budget work session at 11:35 a.m.



City Clerk



Council President