

**MINUTES
KITTY HAWK TOWN COUNCIL
Recessed Meeting
Monday, February 23, 2011
Kitty Hawk Town Hall - 9:00 a.m.**

AGENDA

1. Call to Order / Reconvene from February 7, 2011 Meeting
2. Agreement for Professional Engineering & Construction Management Services with Quible & Associates for Sandy Run Park Phase II
3. Consideration of Personnel Policy Changes / Amendments
4. FY 2011-12 Budget
5. Adjourn

COUNCIL MEMBERS PRESENT:

Mayor Clifton Perry, Mayor Pro Tem Gary Perry, Councilman Ervin Bateman, Councilwoman Emilie Klutz and Councilman Richard Reid

STAFF MEMBERS PRESENT:

Town Manager John Stockton, Town Clerk Lynn Morris, Planning Director Joe Heard, Town Attorney Steve Michael, Finance Officer Mike Eubank, Management Assistant Melody Clopton, Fire Chief Lowell Spivey, Police Chief David Ward and Public Works Director Willie Midgett

1. CALL TO ORDER / RECONVENE FROM FEBRUARY 7, 2011 MEETING

Mayor Perry called the reconvened meeting to order at approximately 9:04 a.m., followed by a brief welcome.

2. AGREEMENT FOR PROFESSIONAL ENGINEERING & CONSTRUCTION MANAGEMENT SERVICES WITH QUIBLE & ASSOCIATES FOR SANDY RUN PARK PHASE II

Town Manager Stockton reported that on January 13, 2011, he and Planner Heard conducted interviews of consultants for the Sandy Run Park Phase II project. Quible & Associates was selected as the best suited consultant for the project, and as a result of the selection, an agreement for services has been submitted.

Regarding the agreement submitted by Quible & Associates (Q&A), the contents have been reviewed for clarity and conformity with the PARTF Grant. Town Attorney Michael's recommendations have also been incorporated into the agreement.

The total contract amount of the Q&A engineering services is \$36,055, which includes preliminary engineering phase, engineering design phase, bidding phase, construction administration, geotechnical services, state and federal permit amendments, as-built survey, and construction staking. The PARTF Grant provides for an amount equal to \$30,500 for engineering, geotechnical services, state and federal permit administration, as-built survey and construction staking. Out of discussions between the Town Manager and Town Planner, these options have been determined: the town can utilize construction funds from the grant if under the grant budget, or utilization may be made of the \$14,644 remaining in the CPO-Sandy Run Park account.

Mayor Perry commented it may be up to the engineer to get the bids to come in under budget, to which the Manager agreed how such would put the town project in good shape financially.

Present for this review was Eddie Valdivieso with Quible & Associates, offering to answer any questions by Council pertaining to the contract agreement.

Councilwoman Klutz inquired about being able to use all the engineering done under the Phase I contract, which included much of what is in Phase II (except for the new amenities). In building on the engineering already done, Valdivieso said, Q&A's approach is to not start from scratch, for instance - the remainder of the walkway. The town has already paid for a design on the entire park, for which half has been constructed. Only the recommended changes will require engineering and design.

Mayor Pro Tem Perry directed attention to page 2 of 7 of the agreement, where it states, "*It is important to note that the above drawing set did not include 'Boardwalk Plan & Profile Alignment' sheets 6 thru 9. It is our understanding that, excluding the additional features (fishing pier and tower, Attachment B), these drawings are in the TOWN's possession*" In response to a question by MPT Perry for clarity if those cited feature documents have not been reviewed by Q&A, Valdivieso verified he has not seen those documents. With further inquiry of what would occur if those plans are not what Q&A is expecting, it was explained the Rivers & Associates' drawings are in the possession of the town, that a professional courtesy of contact was made by Q&A with Rivers when moving forward with the project. Q&A is willing to build on the information already provided by Rivers, although the documents have not yet been reviewed and is satisfied to do so based upon information which has been available.

As to the \$7,500 fee for geotechnical services, MPT Perry inquired if said amount is a "fixed price," wanting to be sure the town would not face overruns (as has been experienced with geotechnical services for the fire department). Reference was then made to page 2 of Attachment C, under Purpose and Scope of Services, "*However, the kayak/canoe tie up facilities and the fishing pier will be located over open water and are not included in our revised scope of field exploration services.*" MPT Perry asked, "*is that out there to bite us?*" Valdivieso replied,

“no, sir,” explaining that regarding GET Solutions’ proposal, some of those items Q&A will cover, such as obtaining water depths. Bore sites on land will be done by GET for the observation towers and the fishing pier. Regarding the “over the water” for kayaks, Valdivieso added, *“ideally, we would, but we look at it this way ... we’re trying to give the best due diligence we can to get a snapshot of what’s there underground to design a foundation, and even if we went right to the site with the fishing pier,”* *“if we move over three feet, it could be different, but we’re not looking at it that way. With GET’s concurrence, we’re trying to get the best snapshot possible of the whole route with access being a question in cost of bringing in ... if you’ve got to bore over the water, it’s a different type of drill rig.”* To save expense, two bore sites in proximity to the pier will determine what kind of conditions exist. Valdivieso assured MPT Perry he does not see bore requirements for the foundation design of the kayak feature. The greatest concern will be with the tower, where more emphasis will be given.

With reference to the construction phase, MPT Perry noted *“visits to site and observation of construction”* and *“monitor and document construction activities to ensure compliance with contract documents,”* recalling how construction deadlines of the first phase of Sandy Run Park fell behind which affected the grant funding. As to how often the site will be visited to assure the project stays on schedule, Valdivieso said much will depend on the pace and the quality of construction, but with the Q&A office being close in vicinity to the project, daily visits could be possible if needed. Manager Stockton added how town staff would also be checking almost daily on the project’s progress to monitor scheduled deadlines.

Attorney Michael asked if Q&A would object to the town attaching to the contract agreement the Rivers and Associates letter as an exhibit (the letter which indicates Rivers’ position on the use of their drawings), and Valdivieso indicated there would be no problem with such.

Councilman Bateman inquired about a previous issue arising with the walkway’s railing height, and Councilwoman Klutz said the original construction height was too low – not built to the specifications the engineer had set. MPT Perry commented, *“the builder just missed it,”* explaining the builder later acknowledged the error and fixed it. It was felt by council daily visits by Q&A and town staff should catch any errors occurring.

MPT Perry moved for Council’s approval of the “Agreement for Professional Services & Construction Management Services, Sandy Run Park, Phase II” as presented by Quible & Associates, for the lump sum of \$36,055, with said funds to come from the PARTF Grant and CPO-Sandy Run Park, if necessary. Council further authorizes the Town Manager to sign said contract, with the reference letter [attached] from Rivers & Associates. Councilwoman Klutz seconded the motion, followed with a unanimous vote of 5-0.

3. CONSIDERATION OF PERSONNEL POLICY CHANGES / AMENDMENTS

From a review of the Town’s Personnel Policy, Manager Stockton said minor proposed changes have been identified:

- One issue deals with Article III, The Pay Plan, Section 3, Maintenance of the Pay Plan (page 7), with a suggested rewording of: *“Such adjustments will be made by increasing*

or decreasing the assigned salary grade for the positions and adjusting the rate of pay for affected employees when Town Council approves the action.” The reason for the change is to provide wording which is more understandable under the existing policy. Wording referencing “class” has been removed.

- Another small change relates to Section 7, Dismissal 9 (page 35), where an article citation is being corrected (Article VIII being the correct reference).
- Also, under Article XII, Drug and Alcohol Policy (page 54), amendments will be made to reflect changes of positions within the police department and to add positions within the public works department.

Councilwoman Klutz moved that council approve the changes to the Town of Kitty Hawk Personnel Policy as proposed by the Town Manager, [changes] under Article III, Article VII and Article XII. Councilman Reid seconded. A unanimous vote of 5-0 followed the motion.

4. FY 2011-12 BUDGET

Town Manager Stockton presented to council a draft of the FY 2011-12 Town budget, on which discussion is to begin. A review of a few highlights was made in order to receive guidance to several departments for budget preparation. A PowerPoint presentation outlined the Manager’s budget review.

Regarding **Revenues** some source projections were noted as being up, and although many line items were down, an overall Total Revenue increase of 2.2% is projected – FY 2010-11 Approved \$6,404,043 / FY 2011-12 Requested \$6,550,613.

Under the category of **Town Council** a decrease in expense has been budgeted – FY 2010-11 Approved \$19,500 / FY 2011-12 Requested \$18,300.

For **Administrative Services** under Personnel, the increase represents the 2% pay plan step increase. [This pay plan step increase will be represented in each department.] Expenses for Contracted Services and Operations remain the same. An increase in Capital reflects an expense budgeted for computers. Overall, the budget is increased 2.2%: FY 2010-11 Approved \$392,945 / FY 2011-12 Requested \$402,073.

Finance shows a 5.3% increase in expenses, with the greatest increase of a line item attributed to Capital for computers - FY 2010-11 Approved \$173,806 / FY 2011-12 Requested \$183,614.

Under **Planning & Inspections** a 3.1% increase in expenses is reflected. The projection for Planning & Inspections is FY 2010-11 Approved \$288,487 / FY 2011-12 Requested \$297,801.

A clarifying question by Councilwoman Klutz addressed Contracted Services (5440), noting funds are not being requested for FY 2011-12, but, however, the same amount of \$3,980 budgeted for FY 2010-11 is listed under Operations/Services & Maintenance Contracts (5440) for FY 2011-12. Manager Stockton indicated the cited line item is being reclassified within that department in the upcoming budget, and therefore, a reduction under Contracted Services

is not actually occurring.

Public Works. The Public Works Department depicts a 1% increase - FY 2010-11 Approved \$1,458,965 / FY 2011-12 Requested \$1,473,819. A decrease is reflected under Personnel. A reduction in Environmental Services/Solid Waste Collection is based upon current Dare County charges. A small increase occurs under Operations, which is not significant. FY 2011-12 expenses which would have been reflected in Miscellaneous (5499) have been reclassified in other line items so that a better definition of an expense is identified. [It was noted by the Manager line items for Miscellaneous in other departments have also been reclassified and given a \$0.00 budget.]

MPT Perry inquired about the significant increase under Operations/Service & Maintenance Contracts. Public Works Director Midgett explained it represents an increase in the annual inspection costs of the septic system at the fire house and the Town Hall's sewage system. These two NC State inspections cost almost \$4,000 and cannot be done in-house, requiring water testing done by a lab. Fire Chief Spivey noted the fire department's system is monitored monthly, with PWD Midgett noting the Town Hall's system is monitored twice a year by a different inspector.

MPT Perry commented how "going green" is expensive.

Identification of Public Works expenses for FY 2011-12 is being more definitive, whereas in previous years, they have been bundled under categories. PWD Midgett offered to give MPT Perry a list of service contracts if he would like to review such.

For Transportation/Lillian Street Parking Expansion - \$41,000, Councilwoman Klutz recommended this line item be moved to Recreation Committee in that it is hoped to have grant funds to cover this project. If grant funding cannot be obtained during a projected budget year, then the project would be bumped to the next budget. Consensus was given by council for the reclassification. With further discussion recognizing how grant funding will probably not be available, the Lillian Street Parking Expansion line item was asked to be kept on the "back burner" for budget purposes, and council instructed the Manager to remove the line item.

Much discussion then addressed requested Public Works equipment purchases. Under Capital, a service truck is being requested to be replaced - \$30,000, and a request to purchase a tractor is presented - \$60,000. The tractor would help maintain keeping sand off NC 12. NCDOT has offered to Kitty Hawk the loan of the State's new tractor which has a broom function, although a schedule of when the tractor would be available is not known.

The Manager indicated Public Works' number one item requested in the upcoming budget is the new tractor purchase because of the condition of the current tractor. The town's current tractor is used for sand removal and for grading roads (i.e., Old School Lane and roads in Kitty Hawk Woods). The requested tractor would have the body enabling operation of attachments.

MPT Perry then asked to back up the conversation. Recalling when PWD Midgett first came on board, a back hoe was requested and the justification given to support the back hoe purchase was that the tractor was in horrible shape and too small to do certain jobs. It was indicated at that time the back hoe would replace jobs the tractor could not do. When the back hoe was purchased, the tractor was hauled to Norfolk for repairs. When comments indicated there were two tractors, it was noted by the Mayor there was another small piece of equipment which was deemed no longer useful and it was put out of service. Clarification comments regarding the back hoe indicated it cannot operate a broom attachment in its current state, with PWD Midgett adding

it would cost approximately \$15,000 to just modify the back hoe to be able to operate a broom attachment.

With MPT Perry pointing out that NCDOT is responsible for NC 12 sand removal and other council members recognizing the same, Councilwoman Klutz commented how quickly sand often accumulates as well at the town street intersections. PWD Midgett noted the tractor (which needs maintenance work) is often used for such sand removal. Mayor Perry recommended council pursue an agreement use of NCDOT's loan of the broom/tractor, to perhaps include storage of the State's tractor and doing the actual work of keeping NC 12 cleared.

Councilman Bateman suggested a scheduled maintenance with NCDOT for sand removal and for the town to put money into its tractor needing maintenance so it can handle the smaller projects. As to NCDOT's schedule, PWD Midgett explained, sand removal is usually done before holidays and after storm events, and other than those times, NCDOT does not have the ability to do more. Councilwoman Klutz would add that the other time sand removal is done is when someone complains, echoing the recommendation of a cooperative effort between the town and NCDOT to keep the sand off NC 12.

Further discussion described two different types of equipment used for sand removal. Overall, it was desired by council to be able to return the sand to oceanside areas while protecting existing vegetation. The referenced NCDOT tractor is housed in Manteo and used for both Dare and Currituck Counties. Mayor Perry summarized that council should first see what could be worked out with NCDOT before determining the Public Works proposed budget for purchasing equipment. PWD Midgett said he has no problems with waiting.

MPT Perry noted that the equipment had been moved up from FY 2013-14 to FY 2012-13, and now, to FY 2011-12. Midgett said that was his fault, he had made an error with the fiscal year dates.

In the matter of vehicles, MPT Perry noted the department has four employees and six vehicles, and another vehicle is being requested. Responding to a request of "*how does that work?*," PWD Midgett explained that if the department is able to get the new vehicle, two vehicles will be put out of service. One vehicle having 127,000 miles has mechanical issues and needs much work, and another vehicle has 87,000 miles. One vehicle is designated and used as a trash truck to keep trash off the beach. Currently, the department has one spare vehicle, which is planned to be put out of service, and another vehicle just sits.

Mindful of the wear and tear on the department's vehicles, Councilman Bateman asked if it is any way possible that the spare be put out of service and maintenance money put into the other vehicle so that it can make it through another budget year. PWD Midgett said maintenance could keep the vehicle operational, short of any major repair causing a vehicle to have to go down.

In summary, and in being conscious of trying to trim the budget, MPT Perry commented the department should end up with one vehicle per employee, offering the argument, "*you shouldn't have more vehicles than you've got people. That's just the bottom line.*" In reply, PWD Midgett indicated he understands and agrees.

Councilman Bateman acknowledged the town's service of rolling back trash cans for those properties along NC 12. This service starts before regular town working hours and does not use any of the vehicles assigned for day use by other employees.

Councilwoman Klutz recommended keeping the spare/older vehicles should a new purchase not be made, just to keep them on hand and available for operations in those times when a department vehicle needs maintenance.

Discussion returned to whether or not the purchase of a new truck would be proposed in the

upcoming budget. With a question posed by Councilwoman Klutz of a choice of need between the service truck or the tractor, PWD Midgett indicated he would choose to request a tractor.

A consensus initiated by Klutz and later echoed by Mayor Perry reiterated seeking an agreement concerning the use of NCDOT's tractor, and if nothing can be worked out, then re-examining the Public Works' equipment needs will be addressed in later budget discussions.

As an alternative, PWD Midgett requested increasing funds for vehicle maintenance, which was given a nod by council as part of being conservative and, basically, avoiding a vehicle purchase.

In conclusion, Manager Stockton thanked council for its input and said the recommendations will be very helpful in preparing the Public Works budget.

As general comments interjected concerning the budget, Mayor Perry remarked how upcoming budgets in the near future may not see the town in any better of a financial position, with Bateman recognizing increasing costs out of the town's control (such as insurances). Klutz offered how the overall world economy has made any local recovery very fragile.

For **Planning Board** a 2.5% increase has been projected - FY 2010-11 Approved \$16,057 / FY 2011-12 Requested \$16,464. Additional meetings have been requested for the Planning Board to update the Town's CAMA Land Use Plan.

Mayor Perry noted CAMA has indicated lack of funding for local updates and is currently in the process of updating its regulations and addressing federal mandates.

As to the Board's thought on the need for an update, Planner Heard explained members are conscious of the timeframe that has passed since the last LUP update – basically, six years ago. When looking at changes which have occurred since the adoption of the current LUP, one thought is that there is a new sitting council, and there may be different philosophies as to town issues and future land use. An update process would provide an opportunity to identify any changes which may be necessary to bring the plan up-to-date. A recent rezoning application [property owner, Robert James] before the Planning Board also brought forward an update discussion and the need to maybe re-examine the town's zoning. When trying to deal with the application, much Planning Board deliberation focused upon whether or not the recommendation on that application should follow what the town's adopted LUP states. Weighing recommendations considering current economical conditions was much deliberated as well. As a whole, the Planning Board felt it may be an appropriate time to look at an LUP update, or at least certain sections.

Upon inquiry by the Mayor, Planner Heard indicated there have been several zoning amendments since the current LUP was adopted. One project concerned the Dare County Park. Councilman Reid recalled discussions of potential zoning modifications surrounding the Kitty Hawk Woods project, but those modifications did not occur. Reid then recalled rezoning approved nearby the Regional Medical Center [property which James also owned] which was done under the previous council. Mayor Perry remarked rezoning amendments should be reflected in the adopted LUP without changing the whole plan.

MPT Perry interjected he was approached after an Off-Shore Advisory meeting by a representative from Carteret County (a consultant for environmental issues) who inquired if Dare County has been approached yet by CAMA. A draft has been formed for the next set of rules which will show a sea level rise of 39" in the next 90 years. [This change is being addressed first to planning departments and not the local governing bodies.] The immediate

impact of such a change would come with insurance rates and whether or not building would be permitted, and although land use plans are to be used as a guide, LUPs are used by insurance and building agencies.

Echoing how CAMA even says it is not a good time for local LUP updates, MPT Perry advised that now is not the time to update the Town's LUP as there are many changes underway which need to be reviewed, and updating at this time would only have to be redone after final changes are developed and incorporated. Also, with no grant money available, the town has no funds to spare for additional meetings to update the LUP.

Consensus by council discouraged any update of the LUP during the upcoming budget year.

For **Board of Adjustment** a reduction of expenses occurs - FY 2010-11 Approved \$2,880 / FY 2011-12 Requested \$2,540.

Under **Recreation Committee** projected expenses remain the same - FY 2010-11 Approved \$700 / FY 2011-12 Requested \$700.

Under **Non-Departmental**, a reduction of expenses has been projected - FY 2010-11 Approved \$335,600 / FY 2011-12 Requested \$279,200. A history of spending was reviewed and reductions were made accordingly, notably with the line item for Insurance (5450).

Comments offered by Finance Officer Eubank indicated the town is probably at the bottom of the curve for rates going down, with increases most likely occurring in the future. Some rates are hard to predict, such as with Worker's Comp.

Police Department. For Police Department a decrease in expenditures has been projected - FY 2010-11 Approved \$1,695,871 / FY 2011-12 Requested \$1,627,504. A slight reduction overall is seen under Personnel, and Operations reflects some increases (such as for fuel). As with all town departments, Travel and Training expenses will be only for what is deemed necessary.

Upon question by Councilman Reid as to in-house training, Chief Ward indicated most training is done at no cost by instructors from local departments, with Kitty Hawk offering the use of its State-approved facility for such training events.

Under Police/Capital, budgeted is the continued replacement of in-car cameras and vehicle rotation, with three new vehicles requested in the upcoming fiscal year. Mileage use on the department's vehicles had attempted to be stretched; however, a goal of replacing at 85,000 miles averages an actual replacement at approximately 69,000 miles.

MPT Perry said he has the same inventory question for Chief Ward as was addressed with Public Works – the police department has 15 police officers and 19 vehicles. As an explanation, Chief Ward stated the department has one truck which is used for the trailers, and one spare vehicle is assigned to the “frozen” position (an unfulfilled position) and often used when patrolling for break-ins between the highways. Another vehicle is scheduled to be put out of service as soon as staff positions are finalized.

As to replacement of vehicles under the upcoming budget year, Chief Ward offered experience has been that once a vehicle has reached 70,000-75,000 miles, vehicles tend to have major maintenance problems. First-response vehicles need to remain in proper working order. When the department sells a vehicle, approximately 25% return is seen because of lower mileage

and maintenance upkeep.

The average mileage annually is 12,000 miles, depending on the officer. Similar to what was recommended for Public Works, Councilman Bateman asked if the department could consider requesting only one new vehicle and increasing the budget for maintenance of vehicles already in use. Though a Public Works truck needs to be in good working order, Chief Ward compared, the police department needs to keep response vehicles ready for use, particularly for emergency situations. As each question posed is a learning query, Bateman explained, the situation to weigh is if maintenance can extend the use of a vehicle or if mandatory replacement has to be done.

With MPT Perry suggesting council leave the line item for Police/Vehicle Rotation as projected and weigh other budget issues, Mayor Perry stated the town should budget some vehicles for replacement so that a later budget year does not cause a greater burden when vehicle rotation falls behind. Councilwoman Klutz and Mayor Perry recommended leaving the request in the budget, and if revenues are deemed to be available, a decision could be made later to replace the vehicles in increments.

Final Approval - Capital Projects. As a general budget observation, MPT Perry stated he assumes that all capital projects will be dependent upon having council's final approval. Mayor Perry noted a motion would be in order to make such a procedure when adopting the town's budget.

Fire Department. For Fire Department a 10% increase is reflected - FY 2010-11 Approved \$2,019,232 / FY 2011-12 Requested \$2,248,598. Under Personnel, three additional firefighter positions have been requested.

With other town positions having been eliminated or frozen, Mayor Perry stated he cannot agree to add more personnel to the fire department. The town needs to move towards working harder to encourage a volunteer program.

Fire Chief Spivey said the request for personnel is based upon comments by A.C. Daniels, which is, obviously, open for discussion.

Addressing the FY 2011-12 Fire Department's budget requests, MPT Perry presented written comments for council's review, which were then read into the record - *Budget Comments for Fire Department Manning and Equipment Issues:*

"How did the Town of Kitty Hawk get into the position of a need to possibly consider hiring a full complement of paid staff for the fire department? For several years now, the Fire Chief has been warning of the potential for loss or lowering of the fire insurance classification in the town. The following comments are my attempt at articulating history, to the public, based on research over the past couple of years. Research included a special council workshop held with Mr. A.C. Daniels of the NC Fire Insurance Rating Agency. This is the agency that determines the classification for municipal and volunteer fire departments. Those classification ratings are used by all sellers of property insurance to determine fire insurance premiums.

"1. Prior to 1997, the fire department was an all volunteer unit governed by a board of directors chosen by volunteers. Operational and capital funding was provided from the town budget through contract negotiation. It is important to understand that the town did not own any equipment, structures or man power assets under the volunteer association concept. All such ownership is held separately by a volunteer association under the NC legal system. Prior to 1997, misuse of funds was discovered which resulted in state investigation and subsequent court

action against some members of the volunteer association.

"2. In April of 1997, the Town of Kitty Hawk obtained 100% ownership of the department, apparatus, equipment and station. Two full-time employees were authorized. The fire department continued to rely on volunteers while maintaining a fire insurance rating of 5/9s. A rating of 10 is considered non responsive or as if no fire department exists for a given community. According to the Fire Chief, the town manager directed him to slowly build and staff the fire department to nationally recognized standards. When National Fire Protection Association (NFPA) 1710 Guidelines were published in 2001, the Fire Chief started using that as a guide to meet manning and equipment standards. Additional full-time fire fighters have been added until the current level of 10, augmented by six part-time paid and the remainder being volunteers.

"3. The number of volunteer fire fighters has steadily declined to the point of jeopardizing the ability of the fire department to meet NC Department of Insurance requirements for maintaining the current Class 5 fire rating received after the 2003 classification survey conducted by the State. The Kitty Hawk Fire Department is due another classification survey in 2011 or 2012.

"4. In an effort to determine what a reduction in the fire rating would mean to the average residential homeowner in Kitty Hawk, I spoke with two different insurance agencies. Both agents live in the town. One agent worked up an insurance policy on a \$250K wood-frame structure at Class 5 and then Class 9. The increase in premium was in excess of \$500 per year. The other agent made the same comparison but from Class 5 to Class 10. The increase in premium was in excess of \$2,000 per year. These are worse-case scenarios. An actual lowering of classification could be less, but when dealing with a government agency, you can never be certain of the outcome. Commercial insurance is much more complex, and the increases per customer would be even larger.

"5. Fire insurance affects every property owner in town. The question, then, is whether staffing the fire department to ensure maintaining Class 5 versus reverting to a principally all-volunteer status with possible reduction to Class 9 or 10 status is better and cheaper for property owners in Kitty Hawk. The answer is more complex than just dollars saved or expended. Research suggests that ramping up staffing to properly man a one-engine company 24/7 and better ensure at least Class 5 status would add approximately 4 cents per \$100 to the tax rate. This would add approximately \$160 per year to a property assessed at \$400K. That is much cheaper than the \$500 to \$1,700 per year rise in fire insurance cost per property owner at Class 9 or 10. A volunteer fire department would also eliminate many of the life-saving, first response and other services that citizens have come to rely upon and expect from the department.

"6. The alternative is to recruit, train and motivate additional volunteers in order to maintain the status quo. The town did have a Class 5 rating with only two employees, and the rest, volunteer.

"7. Why has volunteerism declined? These are some, certainly not all, of the reasons known to council:

"A. Economics. Volunteers cannot afford to quit work for the time it takes to answer a call and clean up after. No one wants to risk losing hard found jobs in the current economy.

"B. Pay differential. Unpaid volunteers work side-by-side with a staff that receives full pay and benefits. They often work beside off-duty, paid staff that receives extra pay at the rate of time-and-a-half with a minimum of two-hour call out. No other town

department receives similar overtime compensation.

“C. Council became aware that some paid staff did not want to be bothered with training a constant turnover of different part-time or volunteer personnel. I understand steps have been taken to correct that issue. Volunteers and part-time staff deserve respect and attention. Any paid employee that feels otherwise should be discharged to seek employment elsewhere.

“D. Even with enough paid staff to man one truck 24/7, the need for volunteers remains to man two additional trucks under certain circumstances.

“If ramping up staffing is considered by this council, I offer the following ideas to offset the impact of cost to the tax payer. Whatever we decide in the next budget it has a potential for negative consequence to our constituents.

“1. Eliminate the department administrative assistant position. Subject duties would be an assigned collateral function of on-duty person or personnel.

“2. Increase computer rotation to six years.

“3. Increase four-wheel vehicle rotation to seven years or 150,000 miles.

“4. Increase fire engine / apparatus rotation to 25+ years.

“5. Increase copier replacement to ten years.

“6. The fire department should follow the same overtime rules as all other town departments. Call back rules should be a condition of employment.

“7. Use mutual aid / auto aid to fill maintenance down time for equipment. No back-up trucks beyond those already purchased and still functional.

“8. Purchase a third (and final for 20+ years) truck in 2013. Retain the existing capital funding currently set aside. Possibly increase that funding to ensure that the next and final truck is completely equipped to meet the demand for 20+ years.

“9. There will be no planning for or funding of a second fire station anywhere in Kitty Hawk. Come back in fifteen years after the present station is paid for, but not before.

“10. Consider elimination of the town’s 2% contribution to the 401(k) plan. This would be for all employees. The program can be continued but with employee contribution only.

“11. Consider elimination of one of the two clerical positions at the police department.

“After figuring all savings from the above suggestions, the Manager should come back to council with whatever increase in tax rate would be necessary to provide the staff previously asked for by the Fire Chief. Council will, at that point, be required to make some very difficult decisions in what will be perhaps the worst economic climate a Kitty Hawk governing body has faced since incorporation.”

Councilwoman Klutz asked about what the expectation would be for the town’s rating and inspection if the three additional full-time fire fighters could not be added, inquiring if the town would go from a Class 5 to 9. Fire Chief Spivey offered that such would be a worse-case scenario, and the department is doing all possible to maintain the rating it has. Volunteerism has increased in the last six months even though there has been some turnover in those who have come forward, and others desiring to contribute to their community are expected, unfortunately, to leave when the economy and jobs improve. Incentive pay does offer an attractive accommodation to volunteers. A class change from Class 5 to 6 would cause a slight change in insurance premiums, but no fire chief wants to go in that direction. One of the requirements to maintain the certification rating is to have four personnel show up on all structure-type calls. The department is currently struggling to have three fire fighters to be present for such calls, and if

the department is cited for not having sufficient staff on a call, a class change could occur to probably that of Class 10. Volunteers under the new program are required to give a minimum of 24 hours of service per month in the station, with a minimal six-hour block. Full-time staff is giving all possible to encourage and train the volunteers in order to meet State requirements. Chief Spivey offered words of thanks for MPT Perry's research and recommendations. [Change of recording tape occurred at this point in the discussion.]

Recalling how volunteers used to hang out at the fire station, Mayor Perry asked what has happened to the enthusiasm volunteers once held. Chief Spivey explained the atmosphere of enforcement of rules and regulations concerning liabilities and requirements that volunteers meet a minimum of 240 training hours. If a volunteer's required training is not met and he is hurt on a call, the Department of Labor and OSHA becomes involved. It takes a minimum of 40 hours of in-house training to become "red tagged" for fire service. The local community college does not provide timely classes for fire fighting and training, and Kitty Hawk is only able to train and certify its own staffing for red tag.

Councilman Bateman inquired if other local chiefs are having the same type of dilemma as Kitty Hawk is facing with the need to increase personnel, and Chief Spivey noted the Town of Kill Devil Hills has approximately 18 to 19 fire fighters and works with a daily minimum staffing of four to five personnel for engine duty. The Town of Nags Head has approximately 19 to 20 fire fighters working out of two stations, running two- to three-staff engine companies for each fire company. The Town of Southern Shores has a paid fire chief and the rest of the staff is volunteer. The Town of Duck has a paid chief, an assistant chief, with one or two captains that are paid.

Recognizing the station's marquee indicates volunteers are being sought, Bateman asked what type of recruitment efforts are being done by local townships which are different than what Kitty Hawk has tried in the past. Further inquiry asked about how local townships man their fire departments without increasing budgets.

Chief Spivey said the Town of Duck is struggling even with a complement of volunteers, and though the Town of Southern Shores provides automatic aid to Kitty Hawk, future automatic aid with the Town of Kill Devil Hills will also be sought once the new dispatch system goes into effect.

With the town fire department's first responsibility being to protect its own citizens and mindful of having limited persons available for response turnout, the last two paid personnel hired have been required to live within ten miles of Kitty Hawk's town limits. Volunteers are required to have at least a 10% response turnout, and off-duty paid personnel are also expected to respond to a certain percentage of fire calls. The department is attempting to keep overtime costs down. If more part-time personnel could be available to work, overtime costs could be reduced except for training requirements and responding to calls. In-house training is ongoing, particularly in the driver/operator area, and the Chief expressed he does not understand why the town does not receive a percentage of decrease in its insurance costs for such training because the department's capabilities are increased with such training. In-house training also saves the department from incurring out-of-town expenses for training, but with certain instructors brought to the department, there are costs involved.

As a point of clarification for understanding, MPT Perry indicated that discussion relating to fire classifications is addressing making or missing fire calls to structures, not including responding to EMS calls or the various sundries of other services the department provides. When a volunteer is required to respond to at least 10% of calls, it applies to structure fire calls.

With explaining how expenses relating to EMS calls have already been reduced to as little as possible, Chief Spivey noted the department's EMS responses are done by using the four-wheel Ford F350 vehicle to save wear and tear on the fire apparatus. The two best medically-trained personnel are sent on such calls when possible, but more often, responses to EMS calls are restricted in order to maintain that the town's fire station is covered with a driver/operator.

MPT Perry offered he does not see the overtime issue going down even if more part-time personnel were available. Revamping the schedule, Chief Spivey responded, was what helped to reduce the overtime costs, and incentive pay is strictly for the bank of volunteers. Volunteers have to have three hours of training a month and respond to one out of every ten fire calls to be eligible for incentive pay.

In summary, MPT Perry said this past budget did not save any money overall with overtime and incentive pay expenses, and the projected budget requests to add three people – which is still less than what was originally asked for by the Chief during previous discussions addressing the needs of the department.

Under Fire Department/Capital, MPT Perry noted the line item for Replacement of Engine going from FY 2010-11 \$470,000 to FY 2011-12 \$725,000 (for a combination apparatus, similar to a ladder truck). Spivey added the design features of the engine would be able to carry a required amount of hose and a minimum staffing of four. An aerial would have to have six seats, also carrying a ladder. The combination apparatus (Quint) would be required to carry the same amount of hose and pump as an engine and with six seats and additional equipment.

Further explanation by the Chief indicated, *“With an engine, we want to carry as much water as possible and have a pump on it that’s capable of charging four or five different hose lines and putting people inside a burning building while we’re establishing a water supply. An aerial device alone, generally, only carries about 300 gallons of water because of all of the space taken up by the ladder, and when we’re carrying more people, their function and tasks on the scene are completely different. When we combine them, we need that water, I need that hose ... because it’s still required to lay in as an engine so it’s going to have to be redesigned to carry that hose. It can be separated in different compartments, but it still has the same amount of space, hose bit space, as the engine. Am I making any sense?”*

In response, MPT Perry described he is trying to determine the cost difference, and then he asked, *“Do you carry four people on the Quint or six people?”*

Spivey, *“Well, that will go into discussion. If we wanted 100% credit for people [but ... inaudible ... two], then we would need to put six people on it. The question arises then, that if we put this three on, do we wait for two people?”*

MPT Perry: *“Wait a minute. All right, stop. Here’s what we want. We want to keep Class 5 or better. We want the minimum number of people to do that. We don’t want to be buying trucks that require six people to meet that requirement. If an engine at \$470,000 is going to do that and we have an aerial truck, we don’t need to be going into a Quint that might require six people. We’re not going there. This council is not going there.*

“So, what advantage does the Quint give us with not carrying extra people and the

extra increase in cost?"

Spivey: *"The advantage of putting the four people in the Quint versus the engine right now, if we put four on the engine, we get 100% credit for an engine, for a structure-type response. If I don't get the aerial out, I don't get any credit for the aerial, zero. If I took those four people and put them in a Quint, then I'm going to get ... I've got four of the six people on there, I'm going to get full credit for the engine, and I'm going to get half credit for the ladder."*

MPT Perry: *"Okay, that's ... there you go, that's all I needed to know. Now, let's back up just a minute. I'll have one more question about four-wheel vehicles, and that one's kind of a 'mess up' when I ask that question, but ..."*

"... The bottom line for council here today is this, does council want to allow to continue have him [Spivey] budget three extra people? The fire truck's not going to happen this year"

Spivey: *"... I didn't expect it to"*

MPT Perry: *"... it's not going to happen this year and probably not going to happen next, and if you want a Quint, it's probably going to take several years to put money into it."*

Spivey: *"Well, I think we need further discussion there, too, on that if that's the way the town wants to try to go."*

MPT Perry: *"So, bottom line, the fire truck's out today, all right? No fire truck. The question for the rest of your council is, do the three people get left in? End of story."*

Mayor Perry: *"I'm not leaving them in at this point."*

Bateman: *"I want to see ... and I still haven't got it, maybe I'm as dumb as a clam, but can't we do a major recruiting to get volunteers in to bring us up to a level like Southern Shores is doing and the other municipalities that haven't got these paid individuals there?"*

Spivey: *"Like I've said, I've had that marquee on both sides now for three months, four months. We have had a spike of six people. Everywhere we go, every time I meet somebody, [it's] 'if you've got time, I've got a pager for you, and we'll train you. Please, come on out. We need fire fighters.'*

"Every department down here says they need fire fighters. Everybody's struggling with it. Southern Shores has the luxury of a retired community and a lot of those people are looking for something to do. I don't know why we don't have that in Kitty Hawk."

"We went through a program one time where we tried to solicit people to do hydrant maintenance. I had one person show up that showed any interest in it until we carried him out to show him what we wanted him to do, and he said 'you've got to do this how often?' Well, we said, 'we have to do every hydrant twice a year,' and we're doing it with the staff we've got today."

"I don't know anything else to do other than go door-to-door and ask for volunteers."

Bateman: *"Is there a program where you can do shared volunteers?"*

Spivey: *"Shared volunteers? Other than the automatic aid agreements that we've got?"*

Bateman: *"Would that count at any time with our rating, then?"*

Spivey: *"It could if they would come out."*

Bateman: *"If we could have an agreement ... if Southern Shores is having a problem and Duck is having a problem, if we could have an agreement to say, 'listen, we've got six volunteers, and we volunteer our six volunteers to you, and you volunteer yours,' and so, when the guy comes by and ... [some light-hearted laughter is interjected] ... I'm just asking these questions, y'all!"*

Spivey: *"What we run into then is we're already running automatic aid, and when Duck or Southern Shores or Kitty Hawk or Kill Devil Hills or Nags Head has a fire, those*

six people are already there with one of those departments, so which department are they going to help? Are they going to run to the one that has a fire so I can't get out? See what I'm saying?"

Bateman: "I'm like Cliff, and, I mean, I understand where you're coming from. I sat and listened to Mr. Daniels for a long time and I heard some overlapping of 'this truck would do for this' and 'this truck would do for that' and 'we really don't need a truck today but we need a truck.' So, I'm getting a better handle on what we do need and what we don't need, but it's still ... I can't get my thing on three employees. When you add employees, everything increases. Your insurance jumps. The whole ball of wax goes up. Everything does."

Klutz: "The other thing that really confuses me is, I just feel like something has happened in terms of standards that everybody's being tested against to come up with these numbers because I've been paying for insurance here since 1978 and it goes up a little bit but nothing really radical. So, how did we manage to keep these ratings over the years with volunteers, you know, and since I've been on the council, we've added one firefighter. We did that one year since I've been here."

Spivey: "There's a lot of answers to your question. One item is our building, our increase in buildings. In 1980, our needed fire flow done by the Department of Insurance was 1,500 gallons a minute, so we needed one engine."

Klutz: "Okay, so just growth, then? I can buy that."

Spivey: "When you start building, the insurance company comes along and says, 'you've got a larger needed fire flow out here, so now you need two engines, now you need three engines.' Right now, Kitty Hawk is at three engines and a ladder, and that's exactly what we've got on duty today as we stand here: three engines and a ladder."

Klutz: "Now, the other thing that you've talked about is one and a half credits if you put four people on this other kind of thing. If you put six people on, is that all the points for both?"

Spivey: "We'll get 100% for staff, but we'll still only get 50% credit for the aerial. And, there's pluses and negatives for running combination apparatus, and that figure ... I knew it probably wasn't going to stay in the budget, but when I talked to Councilman Perry, and some of y'all have listened to Mr. Daniels, I went out and I got a middle-of-the-road ballpark figure for that because I wanted to put it in there to initiate the discussion. I honestly do not have an opinion standing here today which way the town ought to go."

Klutz: "You know, the other thing that you were talking about, about retirees, I think that mainly retirees don't think they can do that. You think of it in terms of younger people, but if word got out that 'it's all right if you're old' [light-hearted laughter]..., but, what are the physical requirements for doing this kind of thing?"

Spivey: "Physical requirements? We're doing it right now, today. If you'd like to come down, you can ... [light-hearted laughter by council members] ... is a candidate, physical agility test, and it does not require a person to have any knowledge of firefighting. All it does is it goes through some of the tasks that are involved in being a firefighter. I would love for you to participate in it, but I would also just love for you to come down and observe it."

Klutz: "I would volunteer if I thought it would get our number up."

Spivey: "We need a minimum of 22 members on the roster and the State requires us to have traffic control people, okay? We're required to do the hydrant maintenance. We're required to do hose testing which they hate, every year. We've been doing it since I've been here. Every year we've met those requirements at 100%. That helps with our rating."

In response, council members encouraged the Manager to place an invitation in the town's

newsletter for volunteers in light of the discussion and comments just made.

With encouragement to move the discussion forward, redirecting to the matter of the requested three employees, it was commented by MPT Perry, *"giving him his people or not giving him his people, I will tell you that a lot of what's driving so many things that is costing all of us tax payers so much money is government regulations – the requirement to do 'this' and the requirement to do 'that' that we did not have when we had the earlier firemen and that sort of thing.*

"What you need to consider, very carefully, is whether or not the people are going to understand ... if we lose our rating... that you're not there when they expect you to be there, and they have to pay the increased cost if that happens, and, you're dealing with a government inspection agency ... having been one of them, I can tell you, you can't predict what the heck I'm going to do when I get there, because I don't know."

Mayor: *"You mentioned OSHA. Have they showed up here? They went to Kill Devil Hills and Nags Head."*

Spivey: *"They didn't show up for us. They knew we were ready!"*

Brief side conversations talked of OSHA's presence on the Outer Banks.

Councilman Reid inquired about the total number of town employees, and the number of 46 employees was given. With regard to the town having more than 50 employees and other paperwork having to be done, FO Eubank clarified that the town meets the over 50 because council, board members, and part-time employees are counted for payroll purposes.

Spivey: *"...increasing part-time staff to put those four on duty... just moved one of our part-timers into full time and I have not filled that position so I am at five. In looking at the schedule I am working on right now I don't think I am going to be able to continue to fill all the slots without filling that sixth position part-time. It has taken six to try to get that schedule filled in with that third person. I don't know if it will take six part-timers to get another person around the clock or not, I just have to look. And that's holding them down with no overtime also as much as possible...."*

MPT Perry: *"These are the ones that are running over a 1000 hours though.*

Spivey: *"Yes sir. They are all going to be running over a 1000 hours."*

MPT Perry: *"We are pushing the envelope on that little issue too."*

Klutz: *"But that only requires a contribution to the retirement system correct? We don't have to pay health insurance for that. (Mayor Perry said "That's right.) So is there a part-time option? Instead of these three full time fire fighters?"*

Mayor Perry: *"It's a big difference I'll tell you that."*

Chief Spivey said there are persons who have expressed interest in working part-time, but the problem is trying to get them qualified equal to that of a full-time employee. Whether part-time or full-time, they would be assigned similar duties. Presently, current part-time employees are utilized to help reduce having overtime expenses with full-time employees.

At this point, Mayor Perry moved the budget discussion forward with indicating council would revisit this issue at a later time.

MPT Perry asked if Chief Spivey would be directed to look into his suggestions entered into the record [the written comments read into the record]. Mayor Perry indicated the Chief could examine the suggestions. Mayor Perry and Councilman Bateman both expressed they were not going to support requesting three additional fire fighters in the upcoming budget.

Councilwoman Klutz recognized how the suggestions by MPT Perry do bring home what the impact would be on the other town departments as well. Adding three full-time fire fighters

would be expensive to the town's payroll and benefit package. Klutz then stated she would like to see council be given an option to consider which gives the perspective of part-time employees.

Further general comments by a few council members reiterated how the fire department previously has held a Class 5 rating with fewer employees and a less-costly fire station.

MPT Perry asked if there is a sense of direction thus far. Manager Stockton asked if they should take out the three positions and Mayor Perry said they are just not touching that right now. Look at other options, think about it more and if there are other options to make it easier not to do it that is the way to go.

Directing his comments to the Manager, MPT Perry stated he has posed an option to explore, as indicated in the comments entered into the record, and Councilwoman Klutz has brought forward the option of considering part-time employees in lieu of the three full-time employees being requested.

Down the road, Mayor Perry remarked, the economy will help the town know what it can do. For now, alternatives need to be presented, and the request for three employees is something the town is unable to consider.

MPT Perry noted the request for a new fire truck can be removed from the upcoming budget preparation, with the Mayor suggesting some money could be "squirreled away" for it. Chief Spivey reiterated that the request was made for the sake of beginning discussions.

MPT Perry directed attention to the same issue as addressed with other departments, the matter concerning number of vehicles. The department has seven fire fighters and six non-fire engine trucks.

Chief Spivey explained that two of the Silverados are Ocean Rescue vehicles, which seem to only last for approximately five years of service due to rust, beach front use and salt water wear. With rotation, one older vehicle would be kept for backup, and the Chief stressed how the department has to maintain operating vehicles for rescue and beach emergency response. Jet skis for ocean rescue operations are carried to the beachfront by truck/trailer.

The F-350 is an apparatus the rescuers bought in 2005 and gave to the town. Said vehicle is the one used for medical response in order to save mileage/use on the fire engine. The volunteers purchased the four-wheel drive vehicle to replace an old police department vehicle which was being used.

There are two Crown Victoria vehicles which are old police department vehicles as well – one is used as a utility-type vehicle for local errands or for when an employee goes out-of-town for school, which is also sometimes used for medical response if two calls come in back to back; and the other vehicle is used for fire inspections and code enforcement. The only spare-type vehicle is the Crown Victoria which is used for out-of-town trips and local errands, which is to save wear and tear on other department vehicles. When the police department is unable to put a vehicle out of service through a sale, such vehicles are passed on to the fire department for use.

Manager Stockton noted the **General Fund Expenditure Summary** shows a 2.2% overall increase. Preliminary Figures are: **Revenues - \$6,550,613 and Expenditures - \$6,550,613.**

The Proposed Budget:

The preliminary budget includes the 2% step increase for employees, though it does not include the pay plan adjustment.

Included is the health insurance, which is being looked at to see if there is any option on saving money but nothing has been determined (a co-pay does not seem to save money).

Continued is the 2% match for the 401(k), and also, group dental insurance and group life insurance.

Other items included: the N.C. Retirement System contributions, and the longevity awards.

Employees at Top of Grade - Pay Plan. Without the pay plan adjustment, the town has a few employees who are at the top of their grade, which has been discussed previously. Other townships have been consulted with, as to what they do in such situations. There are towns which give employees at the top of their grades additional monies during a year, either a lump sum amount or a percentage lump sum amount, and the Manager asked for Council's input on this matter for how to address this issue in the upcoming fiscal year.

Councilwoman Klutz offered that her opinion on such is that the town has a step plan which has positions –there is a lowest pay in a position (the entry level) and there is the highest pay. What is being discussed should be mindful of people, not just position. Yet, if the positions are graded in accordance with what the duties of the position are, then why would it be fair for someone to receive more than top pay in that position? If the position needs to be re-graded and needs to have a higher top-end pay, then there is a way to go about doing that.

Klutz continued with saying that as long as the duties of the position are the same, *“a position is worth what a position is worth, and I just don't feel like that ... I don't feel like this is appropriate. We're not talking about the people in the positions. I'm sure they are, you know, in fact, I know the two positions – I know they are doing a terrific job, but that's the position. I'm just not in favor of going above the high-end of the position for that reason.”*

Manager Stockton: *“If we had like a regular type of economy, and if we were getting enough revenues where we could adjust the pay plan, then the people at the top of the grades, you know, would get somewhat of an increase if we adjusted the pay plan, because that adjusts the top salary upwards, okay, and the bottom salary.”*

“Since we're not considering adjusting the pay plan, then all the other employees, we're suggesting get a step increase. People at the top of their grade would not receive an increase.”

“That's kind of where I'm coming from as far as this type of situation, and I can appreciate what you're saying, too.”

Mayor Perry: *“If we were doing cost of living, they would get that one time.”*

Stockton: *“Right, if we were doing a cost of living, they would get some kind of increase. That's basically what I'm saying.”*

MPT Perry: *“When I saw this, actually, I agree totally with what Em said, as far as the scale, the top of the scale – it has a purpose, and that purpose is basically met by not giving a lump sum or anything on top of it.”*

“I Googled to see how many homes are in foreclosure just in Kitty Hawk, and there are eleven homes that are showing – that's not all. There are some that have closed out. So, it's kind of untimely in that sense, too. And the other thing that kind of caught my eye was, if we are at the top of scale this early in a person's career, have we made a mistake in the amount of step increase we do incrementally each year, have we got it too high? Are we maxing out too quick for a given position given your description?”

Klutz: *“Well, I think the reason that we're at where we are in terms of people in the step plan was when we changed the pay plan and did away with these yearly longevity bonuses, when we made that transition, we put people into a step commensurate with not only their years of service but what they would be paid had they been getting this extra 6% a year or a 4%, so they wound up kind of far up there on the scale. Now, we came up with a 2% per year step increase,*

I don't think, it's over twenty years, so, in a twenty year period, if somebody's coming in as a new employee under this system, they'd be fine, but I think the mistakes were actually made in the past where so much additional pay was being added."

MPT Perry: *"I'm not in favor of this."*

Bateman: *"I'm not in favor of it either, but it did bring up a question, and I'm just going to throw this out, for just people to think about at a later date, an idea that I had."*

"In conversation with one of the other municipalities, I was told that they just lost an employee to a fellow municipality for \$4,000 more for the same existing position, and they were very upset over the issue and they feel that maybe one or two other employees might be getting ready to go to Southern Shores also."

"We put our hard earned time and our monies into training individuals for positions. Is there something in the future that maybe ... and there used to be a code of ethics among towns, that either you would call, and say, 'hey, John, listen, Billy Bob just applied for a job here, you know, whatever,' and you talk about it ... that doesn't happen anymore. These people are just, I call it, 'doctor shopping' or 'town shopping' when they want to skip to a better job, to another municipality, so it's a free enterprise system we live in."

"My question for the Attorney, I guess, would it be possible that we can make an individual when they work here, saying that we have a policy where we do not hire one person from one town to the next without a year separation or a six-month separation? That way, we would not be ... having them dictate what they're paying, because, what I can see happening, this town will lose three or four more employees, they get 'em, and all of a sudden, the budget person would come in, like the fire chief, and say, 'listen, I need another \$4,000 for my top employees. I'm losing everybody.'"

"Once again, you're in a situation where they're dictating what we're paying them. They deserve all the money, but they don't deserve to put us under that stress."

Attorney Michael: *"My initial reaction to that is that you can't do that, but I've never had it come up in the context that you're talking about either."*

Mayor: *"We kind of had an agreement one time, some years ago, that we wouldn't hire somebody from another ... but that's all fell by the wayside."*

MPT Perry: *"Well, I mean, in today's world, head-hunting is a fact of life, and people have the right, as far as I know, to move from place to place. We're not, it's not like they're in the military or something under contract. Now, if you're under contract, that's different, but, my goodness, I don't see how in the world you could"*

Klutz: *"... there is one condition, I think, where you can ... if you put some person through some sort of a training program at the town's expense, you can ask, not ask, but make it part of the deal, that they will work for the town for a certain period of time, and if they do not, they pay the town back. Now, we do that with the police, I think, don't we?"*

MPT Perry: *"We do it with training, it's in our ..."*

Klutz: *"... yeah, we changed that"*

MPT Perry: *"... we're covered in that, and other than that, and all we're doing is pro-rating back, financial, whatever."*

Klutz: *"I would not agree with that."*

Attorney: *"Your folks are all employees at will."*

Klutz: *"You know, people should have the right to go wherever they can do best for themselves, and it's nice"*

Further discussion made comments about how one has the right to choose where they live

and where they work, as well as where they serve.

Capital Reserve – Computers. Manager Stockton reported the present IT person has suggested the town may want to set up a capital reserve account for the future purchase of computers. If there are any monies leftover within a budget year, it has been recommended that those monies be placed in a capital reserve account, and as that account is built up, computers could be replaced within a department all at one time rather than having a rotation system within a department which the town has been practicing. Replacement within a department as a whole would improve maintenance and software upgrades compatibility.

Councilwoman Klutz suggested this should be the way the town undertakes computer system replacement, recognizing the need for all department computers, especially the fire and police, to function on the same operating systems and software versions. Money set aside for computer upgrades should be done annually in order to replace systems by departments, not individual equipment.

With a question posed by MPT Perry how department heads feel about the suggestion, it was recognized those present nodded in agreement.

Regarding **Major Expenditures** these summary comments were made by council:

Public Works:

Item (c) Lillian St. Parking Lot Expansion – removed from budget.

Item (a) Service Truck – budget additional maintenance funds on current vehicle.

Item (b) Tractor – left in budget to be considered; contact to be made with NCDOT.

Police Department:

Item (a) Replace Three Vehicles – (no further comments)

Fire Department:

Item (a) Three Additional Fire fighters – consider other options.

Item (b) Replacement of Engine – keep in discussion for future budgets, possible annual contribution to capital reserve.

Capital Reserves. Finance Office Eubank asked to speak regarding capital reserve funds.

Mayor Perry said we presently have \$504,896 available for appropriation and FO Eubank said that is correct.

Mayor Perry said that leaves 70% and then asked how much is in this present budget that is supposed to be coming out. Not last year, the one we are in now.

Eubank said we are looking at the one we are in now. That is what we have available. Council can appropriate half a million dollars and still have 70%.

Mayor Perry said regarding the budget for FY10-11, how much is appropriated out of that.

Eubank said there is \$477,000 appropriated for the current FY10-11 budget that ends in June. The figure that is shown, the \$500,000 is net of that, meaning the town still has \$500,000 beyond that. Technically, under the capital reserves program, \$270,000 should have gone into capital reserves this year or could be appropriated at any time because the money is available.

Mayor Perry said we have the \$270,000....

Eubank said council could appropriate the money and it would be reduced to around \$270,000.

Mayor Perry said it would leave around \$230,000.

Eubank continued with saying this year GASB 54 is going into effect and though it will not

affect the town's bottom line, it will technically confuse everyone concerning the designation of how we talk about funds. Terms such as "committed funds" and "assigned funds" will be used and the financials will look different. Some of council's intention is to try and reserve some money for future projects and we typically call it capital reserves. It can still be called capital reserves but it is going to get changed from assigned fund to a committed fund if we continue with capital reserves.

There is the Kitty Hawk Woods Road money of around \$177,000 and suggests closing that fund out and move it into reserves for something called parks and recreation development or maintenance. Second is the existing fire apparatus and third would be IT. Funding resources would be monies that would be swept from the departments.

Mayor Perry stressed that funds set aside for certain purposes should be clearly identified.

Eubank pointed out that future councils may change the designation of certain reserved funds and transfer them towards a different purpose but that it would require formal action and public record.

MPT Perry commented briefly about how the general public does not always understand what is meant when the town uses its fund balance, which was echoed by FO Eubank about the terms of "assigned" and "unassigned" balances and the required 70%, which is a floating amount. Further terminology was noted, which are upcoming changes with the new accounting.

On the subject of future retirement responsibility, Mayor Perry indicated this is a concern when the town finds itself in discussions about increasing the number of full-time employees. The status, Eubank explained, is the current council is operating on a personnel policy which existed before the seated council. The current council has made amendments concerning longevity and current pay. May is when a projection will be possible, according to when the State will be able to provide the figures.

When the projection is made, the town will be ordering a study to determine liability based upon June 30, 2010 and the existing employee roster. This liability determination, if accomplished timely, could be included in the FY 2010-11 audit report. Currently, the existing policy shows that over \$300,000 should be reserved for future benefits. As other local townships have come to understand as well, long-term liabilities have a great impact on a town's budget regardless of how much elimination and freezing is done. Mayor Perry indicated he would be meeting with FO Eubank to examine this obligation closer.

Manager Stockton said there have been cuts made in the budget, and revised figures will be forthcoming as to what will be used from the Fund Balance to offset lack of revenues. To follow up on FO Eubank's comments, if the town were to drop back the 70% reserved fund balance to 65%, it would mean an additional \$268,628 that could be used to balance the budget. Or, the town could eliminate the percentage requirement and agree to maintain a fund balance of \$3,000,000 – a fixed amount representing six months' operating expenses. If the latter option is chosen, it would free up \$1,265,681 to be available for balancing the budget.

Mayor Perry indicated the proposal makes sense but it does not address the problem with future liability with retirement.

Councilman Bateman stated he disagrees to do so.

MPT Perry said the question before council this date, after flushing through all the recommendations being made and taking out line items and considering future options, *"are we looking somewhere down the line to give a fixed decimal point to the target fund balance and separate it out? Regardless, we're talking operating funds, place that into its own fund, and if so,*

at what figure do we want to suggest they do that? He's suggested a \$3 million figure, but what ... that's at 65%?"

Stockton: "No, that would be six months' operating ..."

Mayor: "... but that would change, too, because whatever you're operating at, what the budget is, that would still change every year."

Eubank: "It's based on a \$6 million budget, and it's also six months of operation without 'absolutely not a penny of' revenue coming in."

MPT Perry: "So, if we were to do that, that figure needs to be a \$1 million higher, in reality. \$3 million should be \$4 million?"

Eubank: "What would be the reason for that?"

Mayor: "What's 70% of ...?"

Klutz: "\$4,200,000 is 70%."

Eubank then indicated he understood the point being made.

Klutz: "I can understand this because, you know, if revenues go down, and then you're 70% may wind up going lower than your actual operating expenses, so I can understand doing that. What I think is that if we did something like that, should we, or, would it even be possible in your new accounting stuff, to have like a rainy day fund ... it's the operating expenses, that's kind of what that is, and you're saying, \$3 million, but I feel like if we've got a little extra going in there right now, that we should keep that there for a cushion because it's not over yet, and I'd rather go into these next couple of years maybe being a little more flush than not – not taking money out of what we've always been putting aside, so that it will be there if we need it to balance the budget."

MPT Perry: "In other words, not lowering it."

Klutz: "Not lowering it to 65% or not even lowering it to \$3 million, which is more like"

Mayor: ".... less than 50%."

Eubank: "What your fund balance policy currently is based on is not the budgeted expenditures. It's one of actual expenditures of the prior year. We budgeted \$6.5 million, but we spent \$5.4 million, so 70% of that figure is what we use, and not the other, and actually, that's why we're sitting on a 3.7million dollar fund balance right now, which is \$120,000 more than the previous year. Again, it's based on prior year's expenditures, not prior year's budget."

Mayor Perry summarized that council will have to come back at some point down the road and flush out some of these issues. Consensus by council members directed the Manager to leave the percentage alone at this time.

Mayor Perry offered that overall fuel expenses may need to be increased, in light of what is happening in the economy with gas prices and world events.

Councilman Bateman said the matter is simple: increase revenues, decrease expenditures, or go up on the tax rate. It is difficult, but there are only so many things a council can do when the income of revenues is tax based, to which FO Eubank echoed the town operates differently than a business's income and expenditures.

Mayor Perry noted the town is in the position of having to wait and see what happens at the state and federal levels with funding that would be granted.

FO Eubank reported the Town of Nags Head is proposing at least a two cents tax increase. That increase will short the Town of Kitty Hawk \$65,000 in county appropriations.

Mayor Perry stated he cannot agree to raise property taxes when citizens are out of work and losing homes.

FO Eubank pointed out a one-cent tax increase for Kitty Hawk would bring in \$240,000

in shared revenues. As something he offered to share, FO Eubank said persons have expressed to his department they would rather have a penny tax increase than have to go four or five years and then get hit with a five-cents increase.

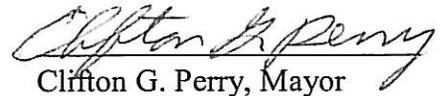
MPT Perry said the insurance agents he spoke with about the possibility of fire insurance rates increasing indicated to him assertively, *"that's a no brainer, raise my taxes."* He also reiterated the commercial impact was not analyzed, which will be very difficult. Comments continued, *"I'm telling you right now, people come to expect certain things, and if you start dropping it off and you don't articulate 'how' and 'why,' and if the only reason you drop it off or you lose it is because you didn't want to raise taxes one penny or something, then that's bad. They're not going to take kindly to that either."*

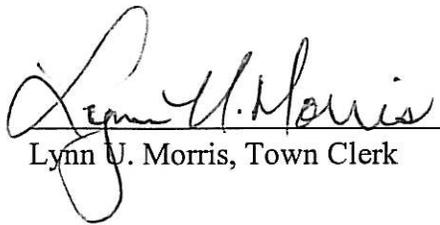
Discussion turned to the subject of driving on the beach, how such has been suggested.

Discussion quickly ended when the time was noted.

5. ADJOURN

Upon call for a motion to adjourn, **MPT Perry indicated, "so move." Councilman Bateman seconded. The motion carried unanimously, 5-0.** Time was 12:00 p.m.


Clifton G. Perry, Mayor


Lynn U. Morris, Town Clerk

These minutes were approved at the *April 11, 2011* Town Council meeting.