

MINUTES OF A BUDGET WORK SESSION OF THE MAYOR AND COUNCIL OF
THE TOWN OF CHAPEL HILL, NORTH CAROLINA,
WEDNESDAY, APRIL 17, 1996

Mayor Waldorf called the work session to order at 6:05 p.m. Council Members in attendance were Council Members Andresen, Brown, Capowski, Evans, Franck and Pavão. Council Members Chilton and Powell were absent excused. Also in attendance were Town Manager Cal Horton, Assistant Town Managers Sonna Loewenthal and Florentine Miller, Finance Director James Baker, Personnel Director Pat Thomas, Public Works Director Bruce Heflin, Parks and Recreation Director Michael Loveman and Police Chief Ralph Pendergraph.

Overview of Recommended Budget and Capital Improvements Program

Mr. Horton said his preliminary recommendation was no increase in the General Fund tax rate of 54.3 cents and a one-half cent rate increase in the Transportation Fund. He also stated that increases in bus fares and passes were proposed. Noting that Personnel Director Pat Thomas would provide specifics on compensation matters in a few minutes. Mr. Horton said an increase of 0.46 part-time positions was recommended, with no increase in the number of full-time positions. He presented an overview of proposed new expenditure items including: computer enhancements, converting a Geographic Information Systems (GIS) position from a contract to part-time position, implementing some recommendations of the Stormwater Management Committee and adding a GIS computer terminal in the Planning Department.

Mr. Horton also presented an overview of the Public Works Department budget, noting that continuation of present services was recommended. He also stated that the Landfill Owners Group had not yet made its recommendations concerning landfill tipping fees. Mr. Horton noted that \$50,000 was included in the Public Works Department budget to pay for corrugated cardboard related dumpster penalties/fines or the cost of an additional cardboard inspector position. He also said that although the proposed budget recommended continued Town funding of Project Turnaround, a letter had been forwarded to Orange County, requesting that the County undertake funding of this program. Mr. Horton noted that the proposed budget recommended elimination of a jail function at the Police Department, eliminating the need for having an around the clock certified jailer position at the Police Department.

He also presented an overview of proposed performance agreements with community agencies including the Orange Community Housing Corporation, Orange County/Chapel Hill Visitors Bureau and the Arts Center. Mr. Horton said that funding of \$520,000 was recommended for small capital improvement projects and \$678,000 for adjustments in the compensation of Town employees. He also stated that funding of \$5,000 was recommended in association with a proposed Town transportation management plan.

Mr. Horton stated that each penny on the Town's property tax rate raised about \$224,000 and about 46% of the Town's revenues were from local property taxes and 34% were from State-shared revenues. He also said that staff believed that federal funds for transportation would be reduced by at least thirty percent during the next year. Referencing the Parking Fund, Mr. Horton said staff was in the process of preparing a report on off-street parking lot enforcement in the future.

Mr. Horton said he had attempted to include as many options as possible relative to the proposed budget. He added that staff projected an imbalance (deficit) of up to four cents on the property tax rate between costs and revenues next year. Mr. Horton said this projection was also complicated by the fact that a general property revaluation was scheduled to occur during the next year. He also stated that staff welcomed the Council's guidance and instruction relative to the Town's budget. Briefly referencing capital matters, Mr. Horton said the staff was in the process of putting together a process-related memorandum on bonds for consideration at the Council's April 22nd meeting.

Council Member Andresen inquired what would account for the anticipated large discrepancy next fiscal year. Mr. Horton said items such as a \$75,000 increase in landfill tipping fees, \$135,000 in additional operating costs for new parks-related facilities, expected reductions in federal funding for transit operations and three to four percent annual increases in general operating costs.

Council Member Brown inquired whether or not it was correct that staff had also projected a budget shortfall last year. Mr. Horton said this was correct, noting that the budget was not at this juncture due to the Council's policy direction. He also said that some parks and recreation projects scheduled for completion this fiscal year had not yet come on-line. Noting that the University was reviewing its parking policies, Council Member Evans recommended that the Town monitor these activities.

Personnel and Compensation Matters

Personnel Director Pat Thomas said that the Town had a number of objectives relative to pay and benefits. She stated that the first objective was to improve the take-home pay of the Town's lowest paid employees. Ms. Thomas noted that the Manager was recommending: an additional one percent compensation increase for employees making \$30,240 or less per year and setting minimum compensation for the Town's lowest paid full-time position at a minimum of \$16,130 per year, more than \$1,000 per year above the federal poverty wage for a family of four. She also noted that in response to market salaries, staff was recommending changing hiring rates for most positions by 2.5% as of October 1, 1996.

Ms. Thomas said the Town's second objective was to implement the results of the recent pay and classification study, performed by an outside consulting firm. She stated that the Town compared its salary ranges with nine local government organizations, including local Counties, Towns and OWASA and collected data on seventy-five benchmark positions.

Ms. Thomas stated that the compensation did not address salary compression concerns. Council Member Andresen requested a clarification on this point. Ms. Thomas said a general emphasis was placed on bringing new employees up to speed in terms of compensation. She also said that the Manager was recommending an average compensation increase of 3.75%. She said such increases would be helpful in attracting and retaining good employees. Ms. Thomas stated that the average compensation increase would be 3.75% and the lowest percentage increase, for minimally acceptable performance, would be 1.5%.

Council Member Brown asked how this year's recommendation concerning compensation differed from last year's. Mr. Horton said he was recommending a greater percentage increase for lower-paid employees. Council Member Brown inquired who determined salary adjustment levels for individual employees. Ms. Thomas said that supervisors and department heads made these determinations.

Noting that he liked the chart on page thirteen of the staff's report, Council Member Capowski asked that next year's chart specify the percentage of employees receiving each type of raise. He inquired whether department heads set percentages. Mr. Horton said he made the ultimate determinations in these matters, with no more than ten percent of employees rated outstanding or needs improvement.

Stating that it appeared that the majority of the Council wanted to look at the merit pay system, Council Member Brown suggested that the Council discuss this matter next year or during the present year. Council Member Andresen said it was important that the Town's salary system be easy for employees to understand, with clear standards. Mayor Waldorf said Council Members could make suggestions to the Manager regarding the merit pay system.

Noting that Council Member Pavão and former Council Member Protzman had suggested alternate ways for allocating pay increases last year, Council Member Evans said there might be other ways to adjust salaries. Mr. Horton stated that the simplest method was a straight cost of living and merit system.

Council Member Andresen noted that the OWASA Board felt that too much emphasis was being placed on merit pay and consequently chose to greatly reduce the pot of money for merit pay.

Mayor Waldorf asked whether or not it was correct that every other year all Town positions were evaluated in terms of market competitiveness. Ms. Thomas stated that benchmark jobs were evaluated annually, rather than evaluating all job titles. Mayor Waldorf requested a clarification regarding pay range adjustments. Ms. Thomas said the greatest emphasis was placed on maintaining competitive hiring ranges. As an example, she noted that up until recently, the Town's hiring ranges for law enforcement positions were generally ten percent behind the local labor market.

Council Member Brown said employees were either doing or not doing the jobs they were hired to do and this should be the basis of a compensation policy. Mr. Horton said he attempted to set a pay policy which reinforced good performance and collaboration. He noted that employees performing below expected level were put on notice and warned and subsequently dismissed if they did not attain and maintain acceptable performance. Mr. Horton stated that the majority of Town employees did a good job of getting their work done with reasonable levels of performance, while a small percentage of employees had outstanding performance levels. He stated that a small additional reward was awarded to these employees.

Council Member Pavão inquired whether percentage levels for performance categories were spread out by department. Mr. Horton said this was correct. Ms. Thomas noted that some employees were terminated before they reached the end of their probationary period. Mr. Horton said it was desirable for most employees to be categorized as doing a good job.

Council Member Franck said he was not opposed to merit pay as narrowly defined. Council Member Franck stated that his primary concern about merit pay was that employees received the same percentage increase, regardless of individual economic circumstances. He also said that although the Manager's proposal was a good first step, it did not go far enough. Council Member Franck said he favored doing more to correct pay inequities, giving smaller percentage raises to employees making more money.

He requested that staff develop some proposals relative to flattening out the amount of dollar raises, tied to median income levels. Council Member Franck also said he could at least entertain the idea of a tax increase to fund compensation increases for lower-paid Town employees.

Council Member Andresen said her objective was a no property tax increase budget, tied to a compensation system having a fixed percentage increase, with the bulk of funding devoted to cost of living increases.

Mayor Waldorf said it would be a little more equitable for one-time annual cash bonuses to be awarded for truly outstanding performance, without effecting the annual salaries of employees.

Council Member Capowski said he favored salary increases going into the base pay of Town employees. He noted that the currently proposed salary adjustment plan would entail a 3.1% tax increase. He added that the 10/80/10 demarcation level for performance was a fairly reasonable way to divide up salary adjustments.

Council Member Brown said she thought that Council Member Franck's idea was appealing and had merit. She suggested moving ahead with a system which would not necessitate a property tax increase and which would focus on greater increases for lower-paid employees and a bonus system. Council Member Brown requested that staff provide information on these possibilities.

Council Member Evans said she was concerned that the matter of salary compression was not addressed in the proposed budget. She inquired whether or not there was any way to track the percentage of overall budget outlays for salaries. Mr. Horton said that salaries and benefits accounted for about 66% of the Town's budget. Council Member Evans said she liked the idea of lump sum rewards for exceptional performance. Mr. Horton said the incentives which the Town could offer for outstanding performance were relatively small and consequently did not create any unhealthy competition among employees.

Council Member Evans suggested the possibility of tying pay increases to increased skill levels. Mr. Horton said the Town supported employees attending training programs whenever feasible.

Council Member Andresen said that the Environmental Protection Agency (EPA) had twice per year evaluations of employees wherein employees were evaluated as exceeding, meeting or being below expectations. She said that the EPA used a fair amount of "on the spot" rewards to recognize significant accomplishments of individual employees. Noting that the State of North Carolina was looking into this option, Council Member Andresen said the Town should do likewise. Mr. Horton noted that the Town periodically reviewed the pay rates of other Research Triangle employers in an effort to remain competitive.

Council Member Franck said he believed it was important to keep the scope of evaluation grades as broad as possible, to avoid infighting of employees within Town divisions and departments.

Stating that the cost of living appeared to be a factor in the exceedingly small number of Town employees living within Town limits, Council Member Franck requested that staff draft a report

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detailing the cost of living in the Town. Council Member Andresen requested additional specifics on Council Member Franck's request. Council Member Franck said he was asking the staff to prepare a report outlining the percentage multipliers for living in the Town, as opposed to other communities.

Mayor Waldorf expressed appreciation for the staff's thoughts and careful approach in addressing concerns of the Town's lowest-paid employees. She suggested that Council Members talk among themselves about compensation-related matters. Council Member Andresen suggested that Council Members could write memorandums to stimulate ideas and discussions.

Council Member Brown requested that staff prepare follow-up reports on this evening discussions, for follow-up at the Council's April 29th work session. Mr. Horton inquired which items the Council wished to receive reports on. Council Member Franck said areas he wished to receive information on included: (1) having smaller differences between "outstanding" and other ratings, (2) basing increases more on cost of living, (3) provision of cash bonuses for outstanding performance and (4) developing of additional tiers, with the amount of salary increases being similar for higher and lower paid employees.

Council Member Brown requested development of a report of a non-merit based system, with a simple base pay increase and bonuses, and no need for a property tax increase. Council Member Brown said her suggestion focused on providing higher cost of living adjustments for lower grades and lower adjustments for positions in higher grades. Mr. Horton said he hoped that cost of living adjustment could be tied to labor and wage market conditions, so that the buying power of individual employees would not be reduced.

Council Member Capowski said if the Council wished to make changes in the Manager's proposal whereby no employee's buying power was reduced, it would be necessary for the Council to provide instructions about a property tax increase. Council Member Andresen said she heard this evening that there were different ways of disbursing money other than a property tax increase. Mr. Horton said staff could cost out a plan to rearrange dollars, including a fixed amount for bonuses. Council Member Evans said the Council needed to address pay plan matters in the long term as well. Council Member Capowski noted that for the second year in a row it was likely that Orange County would have a significant property tax increase. Mayor Waldorf said she hoped that staff could do a quick analysis on these matters. Mr. Horton said although it would be a challenging task, this work needed to be done.

Benefits

Personnel Director Pat Thomas said the Town had been notified that none of the Town's three insurance carriers were increasing their premiums for Town employees this year. Ms. Thomas also said that staff was recommending that Town employees be eligible for membership in the Town's 401(k) program as well as in the local government retirement system upon completion of probation.

Council Member Capowski inquired whether or not the Town had seen a decline in the amount of insurance benefits paid by insurers. Ms. Thomas stated that since all three service providers were health maintenance organizations (HMO's), there were no deductibles or coinsurance. She said the tradeoff was that participants were limited to physicians within the individual HMO. Council Member Capowski requested that staff keep the Council informed of any changes relative to health insurance benefits for Town employees. Mr. Horton said he would do so.

Council Member Evans inquired how many of the Town's employees made use of the fact that the Town paid fifty percent of a dependent's health insurance. Ms. Thomas said about fifty percent of employees took advantage of this benefit. Mayor Waldorf asked whether or not some employees did not take advantage of this benefit because they could not afford to do so. Ms. Thomas said an estimated ten to fifteen percent did not take advantage of this benefit due to financial considerations. Mr. Horton stated that lower-paid employees had the most difficulty paying for dependent insurance coverage.

Public Works: Scheduled Yard Waste Collection

Council Member Brown said that since most people only put out yard waste occasionally, they wanted to know when trucks would come by to pick up the waste. Mr. Heflin said given current staff resources, it was only possible to provide a broad sense of when pick-ups would take place. He added that creation of a scheduled pick-up system would require additional resources.

Council Member Andresen said a regular pick-up schedule of once per month would be desirable. She inquired how much such an arrangement would cost. Noting that once per week pick-up would cost an estimated \$306,000 per year, Council Member Evans asked staff to provide an overview of why it was so difficult to have scheduled yard waste pick-ups. Mr. Heflin presented a review of available staff for sanitation pick-ups, noting that planned and unplanned absences and special events such as pick-up of bulky items and clean-up from street celebrations, made it difficult to schedule yard waste pick-ups. He noted that this fiscal year, the Public Works Department had been able to consistently provide yard waste pick-up in two weeks or less.

Council Member Evans inquired about the feasibility of outsourcing yard waste pick-up, with pick-ups in neighborhoods such as Westside occurring on Saturdays or Sundays. Mr. Horton said although bids could be sought to contract out the service, it would still cost more money than the Town was now spending to provide this service. Council Member Franck said he did not favor contracting out this service. Stating that the Council needed to consider the social policy that none of the workers involved in such a contract would make a decent salary, Mr. Horton said he would discourage outsourcing of this service.

Council Member Capowski inquired whether or not it was correct that the recommended budget did not include funding for scheduled yard waste pick-ups. Mr. Horton said this was correct. Stating that refuse collection was a high profile Town service, Council Member Capowski said there had been a lot of confusion about how to dispose of bulky items. He inquired about the possibility of increasing the priority or rate of collection of bulky items. Stating that staff was trying to identify easier ways for people to pay for bulky item pick-up, Mr. Heflin said staff would present a report on options to the Council on April 29th.

Noting that the Town could run maps in local newspapers showing where leaves and yard waste would be picked up in the near future, Mr. Horton said certainty could be increased with lower costs by providing these services at greater intervals than present, with pick ups occurring every three or four weeks.

Mayor Waldorf requested that staff provide information about the cost of pick up every third or fourth week. Council Member Brown said it was difficult to discern whether yard waste would be picked up within two days or two weeks. Mr. Heflin noted that although there had been a high degree of employee turnover and absenteeism last week, the sanitation crews were able to catch up a lot on yard waste this week due lot to lower absenteeism rates and overtime work.

Council Member Brown said it would be very helpful to provide citizens with a time range within which they could expect yard waste to be picked up. Mr. Horton said that whereas volumes for refuse collection were predictable and certain, this was less so the case with yard waste. Council Member Capowski inquired about the feasibility of a dispatch only yard waste pick-up system. Noting that this was the essence of how the bulky items system worked, Mr. Horton said there was too much yard waste for a dispatch system to be effective.

Council Members Franck, Pavão and Mayor Waldorf expressed their support for leaving the current yard waste collection system in place. Council Member Andresen said she would vote for a yard waste process which would provide greater certainty. Council

Member Evans said the matter involved a balancing act between what was most and less important. Council Member Brown said although she favored certainty, the entire solid waste process was under review and might be changed in the future.

Public Works: Sidewalk Installation

Council Member Franck said although sidewalk construction was a good way to invest the Town's resources, he would prefer to use funds for salaries instead of this item. Council Member Capowski asked whether or not it was correct that about three-quarters of the cost of sidewalk were labor costs. Mr. Heflin said this was correct. Mr. Horton said a portion of sidewalk projects were done in-house and the balance were handled by private contractors. He added that the Town did not do many sidewalk jobs due to limited staff resources.

Mayor Waldorf said it would be a good idea for the Council to think about long-term small capital improvement projects. Council Member Capowski inquired what was not getting done when sidewalks were being built. Mr. Heflin said that sidewalk construction crews worked on street reconstruction and other street projects when they were not on sidewalk projects. Council Member Evans inquired about the possibility of using Community Development funds for sidewalk construction in areas such as West Rosemary Street. Mr. Horton said staff could report back on this matter. Mayor Waldorf noted that there was no final decision on this matter.

Public Works: Snow Removal

Council Member Capowski said the main message appeared to be "don't overreact to one bad winter". Mr. Horton concurred, noting that bad winters were fairly infrequent in the Chapel Hill area. He also commended the Town staff for getting a lot done with very little snow removal equipment.

Parks and Recreation: A.D. Clark Pool Enclosure

Council Member Capowski inquired about the Parks and Recreation Commission recommendation on this matter. Mr. Loveman said the Commission had only had a preliminary discussion about several options. Council Member Capowski asked whether it was wise to spend \$1 million to build a structure around a pool which needed to be refurbished. Mr. Horton said this would not be a good investment. Council Member Capowski inquired about the estimated cost of the permanent structure. Mr. Loveman said approximately \$2 million. Council Member Brown inquired why the item was on this evening's agenda. Mr. Horton said a Council Member had inquired about the matter. Mayor Waldorf said it appeared that the Council favored indefinite deferral of this item.

Parks and Recreation: Hotel/Motel Tax Funds

Mr. Horton presented an overview of the item, noting that his recommendation was in accord with the Council's policy on hotel-motel tax funds.

Council Member Pavão noted that he had distributed a memorandum concerning the return on investment for funding of the Chapel Hill/Orange County Visitors Bureau. Council Member Pavão said that recent figures were better than the national average. Council Member Andresen stated that fifteen percent of hotel-motel tax funds were earmarked for the Visitors Bureau. She also stated that the program was doing a good job under the outstanding leadership of director Shelly Green. Noting that overall local hotel occupancy was about 66%, Council Member Andresen said she would not support giving more money for this program. Council Member Andresen also said she was not sure that the potential extra services of the Visitors Bureau were as important as other community needs. Council Member Brown said it was important for the Council to think about this matter and to receive public comments.

Council Member Capowski said that about sixty percent of hotel-motel tax fund proceeds went into the General Fund, while only fifteen percent of funds were earmarked for the Visitors Bureau.

Noting that local hotel rooms were being filled on a consistent basis, Council Member Capowski said he thought the current scenario was a win/win situation. Council Member Andresen said although the Visitors Bureau was doing a good job in filling hotel rooms, it was likely that many people would choose to visit the Town no matter what. Council Member Capowski said a key focus of the Visitors Bureau was to attract visitors during non-peak periods, when there were no or few sporting or University campus events.

Council Member Pavão said he believed it was sound business practice for the Town to make funding of the Visitor Bureau a priority item. Council Member Andresen asked Council Member Pavão to demonstrate the extra return produced by the Visitors Bureau's efforts. Council Member Pavão said it was not possible to quantify the number of extra visitors visiting the Town as a result of the Visitors Bureau's efforts. Council Member Pavão said the local hotel operators he had spoken to favored a 1% increase in the tax rate. Council Member Capowski inquired whether the proposal was to provide the Visitors Bureau with fifteen percent of hotel-motel tax proceeds. Council Member Pavão noted that last year the Council had decided to dedicate fifteen percent of hotel-motel tax funds to the Chapel Hill/Orange County Visitors Bureau.

Stating that it was difficult to attribute visitor activity to any one factor, Council Member Brown suggested that the Council review in detail the possible uses of hotel-motel tax funds.

Council Member Evans noted that there had been a tendency to put a large portion of hotel-motel tax funds in the Town's General Fund. Council Member Evans said that some merchants in the downtown area had indicated that up to eighty percent of their business was from out-of-town visitors. Stating that tourism was perhaps the Town's best business, Council Member Evans suggested the possibility of encouraging visitors to pay and stay one more day. Council Member Andresen inquired how the Visitors Bureau was encouraging people to stay longer. Council Member Evans said the Bureau made visitors aware of attractions in the Town such as the Ackland Art Gallery, the North Carolina Botanical Garden and other activities.

Noting that visitors required Town services and that tourism was a clean industry, Council Member Capowski said that last year the Town paid \$70,000 for advertising (funding to the Visitors Bureau) which resulted in an additional \$351,000 in the Town's General Fund. Council Member Pavão expressed his concurrence, noting that this investment helped to keep property taxes lower. Mayor Waldorf inquired whether the Council wished to make a decision on this matter tonight. Council Member Franck said he was willing to reach an agreement this evening. Mayor Waldorf noted that the majority of the Council favored discussing this matter again in the future.

Parks and Recreation: Summer Basketball Leagues

Mayor Waldorf said the program was very successful.

Police/Human Services: After Schools Program

Council Member Capowski asked whether all students participating in the program lived within Town limits. Human Services Coordinator Karen Rose said yes, noting that the Town provided \$37,000 in funding for the Culbreth and Phillips Middle School programs. Council Member Capowski inquired about the Town's share of costs compared to Orange County's portion of costs. Ms. Rose said the Human Services Advisory Board could further examine this matter. Council Member Capowski inquired about Orange County's funding of the after schools program. Ms. Rose said Orange County contributed about \$57,000 per year, while the Town of Carrboro provided funding of \$4,000. Mayor Waldorf noted that the program was an optional one, not mandated by anyone. Council Member Capowski suggested that the Council prod Orange County to increase funding of this program. Ms. Rose clarified her revised figures, noting that Orange County Schools contributed \$58,000 to the program while Orange County contributed another \$57,000.

Council Member Capowski suggested that the Human Services Advisory Board spend a few minutes on equity matters at its next board meeting. Ms. Rose said she anticipated that the matter would come up at the next meeting. Council Member Brown said the track record of receiving additional funds from Orange County was not very good. Mayor Waldorf suggested continuation of these efforts. Stating that the program was meeting needs which were formerly met by families in the past, Mr. Horton said the program was being done at a reasonable cost which should be paid by Orange County.

Mayor Waldorf inquired whether the program had a self evaluation regarding effectiveness. Ms. Rose said although written questionnaires were available for evaluation purposes, the Board had not done any site visits to this point. Noting that the program grew out of one of the key recommendations of the Violent Crime and Drug Abuse Task Force, Mayor Waldorf urged continuation of the program. Council Member Pavão suggested that the Council continue vigorous efforts to get additional contributions from Orange County.

COUNCIL MEMBER FRANCK MOVED, SECONDED BY COUNCIL MEMBER CAPOWSKI, TO ADJOURN THE MEETING. THE MOTION WAS ADOPTED UNANIMOUSLY (7-0).

Council Member Brown noted that the Assembly of Governments would be holding a meeting on solid waste matters in the Council Chamber on Thursday, April 18th.

The meeting concluded at 8:40 p.m.