

*February 6, 2025*  
**BUDGET WORKSHOP**

CITY OF SOUTHPORT  
BOARD OF ALDERMEN  
INDIAN TRAIL MEETING HALL  
113 W. MOORE STREET  
9:00 A.M.

**PRESENT:** Mayor Pro-Tem Rebecca Kelley  
Aldermen Marc Spencer, Robert Carroll, Frank Lai, Lowe Davis, Karen Mosteller

**STAFF:** Stuart Turille, City Manager  
Noah Saldo, City Clerk  
Charles Drew, Fire Chief  
Todd Coring, Police Chief  
ChyAnn Ketchum, Public Information Officer

**A. Call to Order**

Mayor Pro-Tem Kelley called the meeting to order at 9:00 a.m.

**B. Invocation**

Alderman, Reverend, Lowe Davis gave the invocation.

**C. Pledge of Allegiance**

Mayor Pro-Tem Kelley led the assemblage in the Pledge of Allegiance.

Mayor Pro-Tem Kelley stated the following;

*“If any members know of any conflict of interest of the appearance of a conflict of interest concerning matters on the agenda, please so state at this time.”*

**D. Approval of Agenda**

Alderman Davis moved to approve the agenda, second by Alderman Lai.

**Unanimous vote; motion carried.**

**E. Agenda**

## **1. Presentation of the Proposed FY 25-26 Budget by the City Manager and Board Discussion**

City Manager Turille presented the Proposed FY 25-26 Budget to the Board. He first thanked the City Finance Director, Lance Flint, and the city staff for their hard work, dedication and cooperation for keeping down expenses while maintaining excellent service levels; “I want to commend our staff; Public Works is right now fixing stormwater issues, sidewalks, buildings and streets; Fire/EMS are protecting lives and property with a an exceptional three (3) to four (4) minute response time; Police keeps crime low, citizens safe and engaged; Parks and Recreation offers healthy quality of life programs for all ages; Development Services keeps the city environment safe, orderly and clean; Community Relations plans and executes all our wonderful seasonal events such as Winterfest and Springfest. It all happens 24/7 around the clock, it never stops.

City Manager Turille explained the General Fund:

- The fund is the essence of city services
- The fund has an unreserved balance of \$3.6M
- There is a reserve of 55% of one years expenses
- Total fund balance is \$11M

City Manager Turille indicated he is in touch with the City Auditor who reports that the city’s financial status is above average with no liquidity issues in an area of high growth which will enable its financial situation to continue upward. The auditor expects a clean audit opinion on February 13, 2025.

City Manager Turille talked about anticipated development, higher property values, more people and sales tax, property value reassessments which will continue the upper trend in the city’s revenues. He reported there is an imbalance between the general fund revenue and expenses resulting in a revenue gap, caused in part by the loss of \$1.2M contribution from the water/sewer fund and high inflation:

- 5.5% average COLA over the last three (3) years
- Health costs projected to grow 8% annually
- Other costs inflating at 3%
- Totaling 16% cost increases the last three (3) years

City Manager Turille stated that city staff is the City’s major asset. He pointed out that to attract and maintain the very best staff, the city has offered a compensation and benefits package similar to surrounding municipalities, annual cost of living adjustments, a merit pay plan that has averaged 3.5% annually in recent years, competitive market rate wages and salaries which often need adjustment to maintain competitiveness with the region, the best fire/rescue, police and public safety equipment. He noted that increasing costs of equipment makes outright purchase difficult requiring the equipment to be financed with debt. For example, an ambulance costs \$125,000 five (5) years ago and it costs \$400,000 today.

City Manager Turille emphasized what staff has done to close the gap:

- Carefully planned revenues (forecast to growth of real estate values, population, and new development)
- development projections for vacant lots, in-fill development and new development
- Every request reviewed by line item
- Non essential costs were all eliminated
- Two (2) administrative positions were unfunded, saving \$220,000 (including the Assistant City Manager position)
- No new positions added
- Non police vehicles on an expiring lease will be purchased and continue to be used for several more years (estimated savings over four (4) years, \$30,000 per vehicle)
- No new debt

City Manager Turille indicated the City has the following options available to continue to provide the same high levels of service to balance the budget and eliminate the gap:

- Lower department costs
- Reduce line item costs (only essential must have items)
- Slow the growth of wage increases (67% of expenses from personnel costs)
- COLA and merit pay will be part of the solution
- Use portion of fund balance this one time (\$3.6M available)
- Maintain fund balance for capital projects
- Increase revenues (increase the ad valorem tax rate)

City Manager Turille stated his recommendation: “Eliminate the fund gap with a shared sacrifice strategy with a slight tax increase and modest use of fund balance.”

1. Lower the COLA cost of living adjustment slightly and suspend merit increases for this year. Provide a 2% COLA which is slightly lower than the 2.9% CPI for the southeast region. Pause merit increases for one year beginning July 1, 2025. Staff will conduct a comprehensive review of compensation practices and recommend competitive and sustainable strategies by October 31, 2025 ahead of the next year budget cycle.
2. Reassign \$.01 from the capital fund to the general fund, this year assign the entire .31 cents to the General Fund. Adequate fund balance remains to continue capital projects.
3. A small increase to the ad valorem rate. A one cent rate increase equates to a \$38 tax increase for the medium home value. The long term forecast indicates that if development and population trends continue, additional tax increases to support the city’s operating expenses may be unnecessary in future years.

4. Use some fund balance, \$698,000, which is 19% of the \$3.6M.
5. If additional revenue materializes such as the \$1M requested by Fire Department from State Legislature, use that revenue first to pay down fire debt in order to eliminate the use of fund balance and perhaps do a mid year CPI adjustment up to the 2.9% CPI.

City Manager Turille provided specifics of “closing the \$1.4M gap.”

- With a one cent tax increase, gap can be reduced by \$82,731
- Lowering COLA to 2%
- Suspend the merit pay for this year **only**, \$330,772
- Use the existing 1 cent capital tax for the general fund, \$164,955.
- Use of fund balance, \$698,000

City Manager Turille emphasized that the one cent tax increase and shared cost reductions gets the City in the clear and will have a balanced budget. He noted that next year there is a slight deficit, \$281,000, but as development comes on line, the city will start seeing surpluses that begin to build over time as more development comes into the tax base. He said; “There is an upward trend. It’s tough this year but the future is looking good as more development comes in. City services are lean, efficient and effective.”

Stating he was not recommending the following, City Manager Turille outlined other possible actions:

- Freeze the COLA and merit pay
- Use additional fund balance
- Higher tax increase

Displaying a graph, City Manager Turille pointed out the upward trend showing that future tax increases may not be needed for operating expenses. He explained the long term forecasting model created by Director Flint and staff. The model estimates annual development and the tax revenues from developments. Factoring in the development that is coming in and, as the auditor said at the outset, there’s more population and more growth here so the revenue generation on sales tax and such will continue upward.

What the model does:

- Estimates annual development tax revenue from development projects
- The impact of property reevaluation in 2028 and 2032
- Assumes an ad valorem tax rate for each year, (recommended at 32 cents)
- Estimates all other annual revenue sources
- Uses actual employee salary and benefit costs (with right now no changes in the number of employees)
- Applies variable inflation factors to wages, benefits and other costs
- Development is based on scheduled and projected development

The model does not:

- Does not assume an increase in staff
- Does not assume new debt payments
- Does not assume future rates increases for state pension (can adjust model when rates are known)
- Does not reduce employee benefits (those are protected)

City Turille stressed the importance that the city's finances generate general fund surpluses for unanticipated future costs to be applied to the capital fund to maintain and improve the city infrastructure and assets. The long-term forecast indicates this will occur over time. Long-term modeling enables the City to understand how its choices made today impact future years.

City Manager Turille talked about long-term strategies; "The benefit of the long-term model is it allows us to look ahead at projected future costs. I think we can minimize tax increases without fluctuation, that should be the strategy year to year. The tax rate proposed achieves this and allows for Budget surpluses to being in two (2) years to build up funds for capital projects. Projected surpluses should be dedicated to Capital, to build a strongly funded CIP but as well as protecting the chief asset as I said, the city staff which do the work."

City Manager Turille stated; "Institute a debt policy that addresses the use of debt over the long term as part of capital budgeting."

City Manager Turille advised; "Access the optimal mix of wages, compensation adjustment, and benefits to be competitive to recruit and retain highly qualified and motivated staff that is financially sustainable. The model will help us do that. Use the long-term forecast model to understand these cost impacts. The new tool assists the immediate and long-term impacts well in advance of actual outlays and helps us manage these fluctuations and gaps and surpluses well in advance."

Emphasizing capital funding, City Manager Turille stated; "Capital funding needs to take priority with all the urgent stormwater needs, road needs, and building needs. As we saw with PTC 8, begin long term planning to rank and prioritize capital projects for outside funds request at the state and federal level. Immediately after we adopt this budget we will take the CIP, prioritize these projects, and begin outreach for grant matches aggressively. Existing staff can be redirected to pursue and win grants."

Alderman Davis pointed out "the way you are balancing the budget is limiting COLA to 2%, suspending merit increases, taking away from the employees." Alderman Carroll concurred and stated that reducing the COLA to 2% will actually have employees making less than last year. Alderman Davis stressed matching the COLA to the cost of living.

Thinking long-term, Alderman Carroll stated; "Go ahead and make a two (2) or three (3) cent increase now so that we don't have to steal from our Capital. That would be my recommendation. Let's find a way to show the employees that we actually care and support them. Merit we have to get under control because I think this Board recognizes that merit across the board is not merit, it's just bonus. We need a better handle of that and what that means moving forward." Alderman Davis explained that

the past across the board merits were intended to get employees who were below standard pay up to where they should be. Referencing a recent pay study, Alderman Carroll stated that city wages are now competitive.

Alderman Lai pointed out that the Consumer Price Index (CPI) for the Wilmington Standard Metropolitan Statistical Area (SMSA) is 2.9 and he stressed making sure the employees get that. He added that merit should be on a bell curve and not everyone gets a merit.

Alderman Mosteller emphasized the importance of continuing capital projects and not taking from the capital fund balance; "There are too many and we've worked too hard, there is too much momentum. I agree with Robert, we need to look at a tax increase that manages that." She spoke about staff levels being frozen and dependent on development. "There's no way our first responders can stay frozen throughout that process if we're depending on development."

Alderman Carroll questioned the long-term sustainability of the current development; "If you drive throughout the county there is development after development and so for us to think that here in Southport that's going to continue, I think that might be slightly aggressive in our thinking."

Mayor Pro-Tem Kelley stated; "As far as the COLA, I agree with Alderman Lai and I think we should look at doing what the CPI is for our staff. I think the 5% where we have been was exactly as Alderman Davis said it was intended to bring everybody up, we're now within those guidelines based on the study that we did so I think that puts us in a good position. I really, really, really don't want to raise taxes and I would love for that to be on the record. But I think I like the approach that the city manager has taken as far as asking the staff, asking the citizens, and fund balance to all come together to balance this budget."

Alderman Carroll said; "If we're going to go on the record, I don't want to raise taxes, I don't want to steal from capital, I don't want to take away from the employees, I don't want to rape the fund balance."

Discussing the vehicle leasing concept, Alderman Mosteller asked Director Flint about the change proposed in the budget to retain vehicles at lease expiration. "The whole concept of the leasing was because we were getting them at wholesale and then at the end of the lease selling them at retail." Finance Director Flint responded; "We only have lease vehicles in a couple places, police are on their own plan. There is no proposal to take the police vehicles and buy them and continue to use them just because of the nature of how police vehicles are used. The way the program works is we usually lease it for five (5) years, we are developing equity in the vehicle over that five years. At the end of the five years, we trade that vehicle in, whatever our equity is goes as a down payment toward the value. The problem is that the prices have gone up within the last five years since the program started. Public Works has done a really good job and stepped up and volunteered to start buying out pick up trucks which don't get the same sort of hours idling, they're not at an office like the police cars are in the office, they stepped up and said, yeah we've got trucks out here with 25,000 miles on them, 30,000 miles, they are in good shape, our garage maintains them well. Rather than us going out and signing up for another \$800 a month lease payment, let's just spend the \$3,000 or whatever it takes to buy the thing out at the end of the lease and we'll use them for a few more years and save the taxpayers some money. The other place is in the administration, there are three vehicles, two of which are Development Services and one the City Manager's. All of those are off lease now, we can buy them out for about \$3,100 each. Development Services has agreed that their vehicles are fine to continue to use for a while so rather than go out and buy another Explorer and pay another \$700 a month for it, we're just going to buy out the ones

we have, we'll keep them for a number of years. It's going to save a couple hundred thousand dollars over the course of the life of these vehicles. So we bought them, we might as well use them rather than just trade them in for just that purpose. But police, different matter. Police will continue to get new vehicles as they come off the lease, will continue to outfit and upfit them with all the necessary police equipment because those do serve a completely different purpose." Noting the proposed change was a shift in policy, Alderman Mosteller asked for a specific breakdown in a narrative or spreadsheet.

Alderman Mosteller asked if the reason for the change in policy from leasing vehicles is because of the cost. Mr. Flint responded; "It's a conscious decision as to whether administration vehicles which are five years old, have been maintained by the city garage and with just 25,000 miles on it, does it make sense to trade it in for \$10,000 and go out and lease something for \$800/month. It doesn't make any business sense. It makes perfect business sense for Police. Public Works really stepped up to the plate and said it doesn't make sense, a pickup now is \$60,000."

Alderman Davis asked if there were any thoughts to reducing the number of vehicles. City Manager Turille responded; "We have gone through the list and have not found any surplus. We can review that list again."

Responding to a query by Alderman Carroll, Mr. Flint indicated there are six (6) vehicles proposed to be bought out, three (3) administration and three (3) Public Works. He added that Public Works would still have a few vehicles on lease and there are 16-18 leased Police vehicles.

Alderman Carroll recalled a previous city manager suggesting selling on of the administration vehicles. Mr. Flint stated the vehicle was not sold and is generally used by city hall employees for attending Board meetings, going to out of town meetings, and not using their personal cars. That vehicle is one that is at the end of its lease term (\$550/mo.) The buyout is \$3,075 which will happen on July 1. That vehicles will be good for years. Alderman Carroll pointed out that the vehicles is also used for trips by Aldermen.

Complimenting staff on the projected long-term model, Mayor Pro-Tem Kelley spoke about the projected general fund surplus; "I remember a similar graph with diminishing returns at about the 10 year mark from one of the large developers when they made a presentation to us 2-3 years ago, they couldn't answer, perhaps you can't answer either, after this 10 year mark when it kind of drops off, sort of diminishing returns start in FY 2034 then starts to drop 2035. Did those diminishing returns continue because we are no longer building out so we have to prepare for that also?" Director Flint responded; "We haven't run the model past 10 years but what you're suggesting is absolutely true, it will, after 10 years. I'm certainly not any sort of authority on development but I do think our future development begins to become diminished, less and less of it is going to be happening. As you go out beyond the 10 year mark, your tax base is not growing as quickly perhaps as your expenses which are growing just through inflation. You're going to see diminishing returns."

Director Flint stated; "If any of the assumptions that are in there, in the out years don't materialize, in the same way they are in the model, it changes your future view. It does what it does based on the knowledge that we have and the assumptions that we have today. We worked through it with our development team. If you were to run this thing out 20 years it would show that we would not be putting out surpluses."

Alderman Carroll suggested the Board reaching a consensus on the items discussed, i.e. COLA. He asked Director Flint to put the 2.9% COLA in the model in lieu of the 2% proposed COLA. Director Flint indicated the 2.5% COLA increases the use of fund balance by \$72,000 or a half penny tax increase.

At the request of Alderman Carroll, Director Flint talked about the long-term effect of fund balance if money is taken from it to help balance the FY 25-26 budget. Mr. Flint said; "All the money comes from the same place, from all revenue sources, taxes, etc. It goes to the same place. We have in our general fund balance a little over \$11M right now. We have a policy that says we need to maintain not less than 55% of one year's expenses in that fund balance. The budget you have in front of you is in the \$14M range so we have to reserve 55% of that \$14M per policy and not touch it. In the event that something happens that we really need that money and if we go below the 55%, there are Local Government Commission (LGC) implications for the liquidity of the city. That leaves \$3.6M available today. I will caution you that we are standing here on February 6 with a lot of the fiscal year left to go and that number could change. The fund balance is a living breathing thing and it moves with revenues and with costs. Putting a pen in the \$3.6M today, that \$3.6M has to pay for any operating deficiencies that we might have with our tax revenues that don't cover our costs. It has to pay for any Capital, anything new we add to our capital bucket. Our capital fund balance, which is separate from the general fund balance. The capital fund is created when the Board appropriates general fund money to the capital fund. That capital fund balance as of today has approximately \$618,000 of unobligated dollars left in that we can spend. What you are going to see the next time we get together is that there are millions and millions of capital needs that need to be paid for one way or another. Every time we use and consume this fragile fund balance to use it for today's needs, we are putting off tomorrow's needs. And, as I said before, with this development in the model it doesn't take much to turn next year's consumption of fund balance from \$200,000-\$300,000 to \$600,000. It doesn't take much variation in revenues and development assumptions. 10 houses doesn't come on line that we have planned next year at \$400,000 of house times the tax rate that's going to have an impact on how much fund balance you need to consume. So, what we can do to reduce the consumption of fund balance today is going to pay off in to the future. Personally, it is probably necessary, but consuming \$700,000 in fund balance, I mean take 20% of your bank account and spending it right now when you need a new roof or you need a new driveway and all of those sort of things, it might not make sense. I think it is incumbent on all of us to dig as deep as we can in this budget and take out anything that could be taken out so we don't put ourselves, in two (2), three (3) years from now and need a 10 cent tax increase."

Mayor Pro-Tem Kelley pointed out that a couple big commitments are coming up, i.e. matching funds for the Waterfront Stabilization project and she asked if those funds were accounted for. Director Flint indicated there is a separate fund completely unrelated to the general fund or the capital fund that has the State contribution in it (\$5M). Matching funds would have to come out of capital fund.

Alderman Davis asked if delaying the Yacht Basin Dredging Project would imperil the grant the City has received. Stating he would check on the time table for the grant, City Manager Turille also stated that he is in discussions with the Army Corps of Engineers, pursuing with them on how to get that city contribution down, and looking at alternative spoils sites to get that cost down (currently projected at \$700,000 - \$900,00).

Alderman Mosteller pointed out that the Yacht Basin Dredging project has been on going since Hurricane Matthew in 2016. She stated; "We've done all the background for the last two years and we had the survey done in 2023 for the silt. There's going to be a relevance of time line for what we

are dredging because it's just continuing to silt in." City Manager Turille indicated; "These projects can't just linger on year after year. The Yacht Basin dredging is important. I'm trying to drive that as fast as I can as I develop relationships with the Army Corps. City Engineer Jarvis and I are working with our Coastal Consultants. So anyone thinking that the Yacht Basin dredging is being delayed, that's not true. We are pursuing that as hard as we can."

All expressing support for funding a capital budget, Aldermen Carroll, Mosteller and Davis talked about the one cent capital tax. Alderman Carroll suggested; "My proposal would be to keeping the 1% in capital and in addition increase taxes 2 - 3 cent." Alderman Mosteller pointed out that the city used to fund a third of Administration costs, staff costs, and other things through the water/sewer fund, and that fund is no longer paying for those things."

Responding to a question from Alderman Carroll, City Manager Turille indicated that he and department heads went line item by line item through the proposed budget, looked at 2024 actuals, and cut to only things that was absolutely necessary to provide services.

Mayor Pro-Tem Kelley asked about the funding for vacant city positions. Director Flint responded the funding would remain in the general fund and effectively part of the balance being talked about.

Director Flint asked to speak to the following; "Alderman Mosteller referred to the water/sewer fund from last year and the amount of general fund that was supported by the water/sewer fund. We have traditionally done the same thing with the electric fund. The budget you're looking at does not, it assumes \$0 being paid from the electric fund because frankly, any support that we give to the electric fund is incidental and if the electric enterprise were to not exist, we wouldn't save any. I wouldn't save anything in the finance department so why charge a third of me to the electric fund. They have needs of their own. But a difference between this year's budget and last year's budget is a few \$100,000 that we were assuming the electric fund was going to pay for. As we've gone through thinking this year, it doesn't seem like it's fair to burden the electric fund with those costs, they're not there. That is part of the difference we're looking at."

Alderman Carroll asked Director Flint what his thoughts were on increasing the COLA to 2.9%, keeping 1 cent in capital and increasing tax 2-3 cent. Referring back to Alderman Mosteller's remarks, Director Flint stated; "Everybody was paying those costs, paying it in water and sewer rates that were unusually high. Now they may have to pay it in taxes, that's how you have that conversation, so some people in some parties don't like the T word and some people do but that's what it comes down to. It's the same money, it's just how it's being paid. I'm looking at the model; if the portion of the tax rate that's applied to the general fund was 34 cents, so let's call that a 3 cent tax increase over last year, with another penny back to the general fund, then your reliance on fund balance as it stands right now would be \$260,000, so a significant amount less. I will also point out, we did go back and went through the tax scrolls. Tax scrolls are hard things to work with but we attempted to identify built out home values and based on the median home value, a penny is worth about \$38 on a tax bill. So 3 cents is worth \$115 - \$120 on a tax bill."

Alderman Spencer asked what the median house value was used in the model. Director Flint responded, \$383,970. He added that revenue will have to grow because costs are going to grow. He pointed out that the city has few levers to pull when increasing revenue, money flow in North Carolina depends on population, and while the County "pie" might be getting bigger, Southport's part of the pie keeps getting smaller and smaller because the population can not

grow to the extent that the rest of the county population can grow. “The sales tax pie will be bigger but Southport already has less than 2% of that pie and it’s going to continue to shrink. How that plays out if we have a crystal ball, when everybody else is building all those houses and Southport is going to run out of the ability to build all these houses at some point. Growing the pie is going to be challenging long term, the revenue is going to have to grow, so the only true lever that we have available to us as it stands today is the ad valorem tax rate.”

Alderman Davis questioned the \$389,000 median house value. Director Flint indicated the value was based on the July 2024 tax bills. Alderman Davis asked the Realtors on the Board to comment. Alderman Carroll stated that tax assessment has nothing to do with what a house is worth. Alderman Spencer noted the condo units at the River Hotel, value \$250,000 for 400 sq. ft. could pull the median value down and he stated there is currently a listing on 11<sup>th</sup> Street for \$375,000. Mayor Pro-Tem Kelley added that some of the new developments are in the \$200,000 range.

Alderman Spencer commented; “Lance has presented a very good explanation of what we’re facing and all my dear firefighters out there, I want you to understand, you’re the last of the city’s fire departments and you see how we’re struggling for money, but you hear who’s getting all the money. Ultimately who is going to be able to afford to pay your bills. That’s what we’re trying to balance out, to keep what we’ve got. So that’s why we’re trying to cut those merit raises and keep them balanced so we can keep our fire department. We really can’t afford to take care of the district that they’ve got. This is the future. I told our State Senator that I didn’t think we would be a city in 20 years. He shrugged me off but I think it was the most prolific thing I’ve said to them, we might not be a city in 20 years if we don’t control these costs.”

Speaking about merits and while acknowledging the need to be fiscally responsible, Alderman Carroll stated his opinion that employees doing an exceptional job deserve merit pay and he did not like taking it out of the budget. He added that the merit program needs to be reworked in order to make it everything it should be. Pointing out that he would not be on the Board a year from now, he stressed the importance of preparing this year so it would not be necessary to strip the COLA and Merit away next year. He stated appreciation for the multi-year approach to making a better budget that the city can afford and he suggested building in a policy where the city does regular, smaller tax increases, i.e. ½ cent, after a tax increase of two (2) to three (3) cents this year. He said; “I think that’s how you create a long-term fiscally responsible budget for our employees and or constituents.”

Pointing out that there had been discussion of \$1.2M to be used in thirds over three (3) years so as not to raise taxes, Mayor Pro-Tem Kelley asked if the \$1.2M set aside in the FY 24-25 Budget was allocated in the FY 25-26 Budget. Director Flint recalled the discussions and responded that the \$1.2M was included in the \$3.6M general fund. Mayor Pro-Tem Kelley stated; “I think its important for the citizens to see that we were forward thinking and trying to diminish the need for tax increases going forward.” Alderman Carroll questioned the logic of taking from fund balance in lieu of raising taxes; “We can’t keep postponing the tax, taking from fund balance, and run out. It’s not sustainable and we can’t even keep the current services to our employees this year because we didn’t do the right thing last year.”

Responding to a query by Alderman Mosteller, City Manager Turille indicated the current discussion focused on the General Fund with the Capital Improvement Fund and Electric

Fund scheduled for the next budget workshop.

Alderman Lai stated; “Our revenue streams are very, very limited, non-existent, we have certain things we have to take care of. Whether we like it or not, somewhere down the road, we’re going to have to have some sort of tax increase. I don’t want it, nobody else does but where are we going to get the money. We have to take care of our people, we have to take care of our city and last time I checked, nothing’s getting cheaper.”

Alderman Carroll asked Director Lance; “What do we (Aldermen) cost the City?” Director Flint indicated each Alderman receives a \$1,000/month stipend plus 7.65% for FICA tax and less than \$5/month each for life insurance, totaling approximately \$1,080 month per Alderman.

Alderman Spencer said; “I was trying to find a way to again to go back to what Lance was saying that hit me, hit a nerve I can’t let go of. In 10 to 20 years when we’re built out, the revenue stream that Mr. Lai spoke about will go away and the only thing we can feed off of is taxes, property taxes. We have no way to make revenue. The only Enterprise Fund we have is the electricity and somewhere along the line we’re not even using that money anymore. 10 to 20 years, all the fund will go away once everything is developed, there will be no looking forward, it will be just what we have and the taxpayers will pay the bill if we don’t change the way we live and act and we have to do it now so we can handle it in 10 to 20 years from now. The crazy reality is that it’s because we are landlocked.”

Alderman Mosteller agreed with Alderman Spencer’s comments and added; “We cannot pump the brakes on capital projects because that just feeds into exactly what you just talked about down the road. Regarding reoccurring costs, I’m going to use a quote from one of Director Flint’s last emails, *“It is a slippery slope when we use general fund balance for reoccurring costs.”* She continued; “We know that is an axiom that we are supposed to follow because that \$3M that we have in our general fund is for capital projects that we are desperate for and have been planning for. We have to figure out a solution that we’re not falling down that slippery slope.”

Mayor Pro-Tem Kelley stated her opinion that she would like the Board to consider getting a prepared food tax on the ballot to see if the citizens would be interested in doing that. Alderman Davis pointed out that the Legislature would have to approve that and they had said “No.” Mayor Pro-Tem Kelley noted that if the citizens supported the tax, Southport would be in a stronger position to go to the Legislature with the request. Alderman Davis stated her opinion that the Legislature would also have to approve placing a Referendum on the ballot. Alderman Carroll stated that State Representative Miller had indicated he would pursue it if the City had the referendum. Acknowledging the comments by Alderman Davis, Clerk Saldo stated; “We have no authority to hold any elections other than municipal elections through the Board of Elections. In order for us to present that to the voters, the legislature has to pass a local bill authorizing us to do that and depending on the outcome of that election, if it passes or not, is then the vehicle to enact that new tax.” He suggested the Board adopt a resolution asking the Legislature to permit a Referendum. He indicated he would prepare a resolution and have it on the next Board agenda.

Aldermen Lai and Carroll supported the pursuit of a referendum. Alderman Lai stated; “We have to do something. This would be a good way for us to get all the tourists that come here and wear out our roads and whatnot, to pay for some of the things that we need done. A town of 4,000 people cannot afford all the things we have here. We have a lot of people coming, a lot of tourists, let’s get some money out of them.” Alderman Carroll agreed. He stated appreciation for Alderman Kelley’s

forward thinking approach to that concept; “It doesn’t fix this year so we’re going to have to make some hard decisions. It makes me feel good that our elected officials are thinking into the future.”

Alderman Spencer, reluctantly concurred; “I will go along with you. I lived in Williamsburg, I paid \$10 for a Happy Meal. The people who live here will pay that cost. The people who visit will pay a little bit, but the people who live here will pay it every time they go out.” Alderman Mosteller calculated the cost would be a penny on the dollar, an extra 20 cents on \$20 spent. Alderman Carroll stated his hope the prepared food tax would go directly into city coffers.

City Manager Turille said; “As I listen to the conversation, I hear about the long term limited supply and development will diminish. Please keep in mind that limited supply tends to drive up the value of property. The last reassessments have gone up significantly. There is going to be a huge internal market and incentive for these values to continue increasing, particularly as the demographic trend of the Baby Boomers plays out. So there is going to be a natural market tendency for the market values to go up in properties. There was one that was a 41% increase.” Alderman Carroll countered; “The County is cautious of what took place in 2004, 2005, 2006, 2007, 2008 and 2009. In 2005 and 2006 there were situations where homes went from \$150,000 assessed value to \$600,000 of assessed value. I don’t think the County wants that to happen again because what it did for them later is when the market tanked, they did the exact opposite. A \$250,000 lot on Oak Island that had a \$300,000 assessment was only worth \$24,000 at the time and they had to readjust downward. I think the County is looking to try to make smaller, reasonable, incremental changes to that, so I don’t think every four (4) years we are going to see these 40% to 60% tax increases. I don’t think that. Yes, I went back to the idea that tax assessment has nothing to do with the value of your home. So while most of us don’t see a \$380,000 house out there, it’s tax assessed value, that same house is probably actually selling in the retail market for somewhere between \$500,000 - \$600,000. But it only has an assessment of \$380,000. So, that’s something we really have to be cautious of.”

## **2. Budget Process Next Steps**

City Manager Turille indicated the next Budget Workshop would be discussion of Capital Improvement Projects and the Electric Fund.

RECESS: 10:20 AM

RETURN TO SESSION: 10:32 AM

- F. Closed Session NCGS 143-318.11(6)**  
**(6) to consider the qualifications, competence, performance, character, fitness, conditions of appointment, or conditions of initial employment of an individual public officer or employee or prospective public officer or employee; or to hear or investigate a complaint, charge or grievance by or against an individual public officer or employee.**

**10:32 a.m.**

Alderman Spencer moved, second by Alderman Lai to go into Closed Session Per NCGS 143-318.11(6). **Unanimous vote; motion carried.**

**11:59 a.m.**

Alderman Spencer moved, second by Alderman Lai to return to Open Session. **Unanimous vote; motion carried.**

**G. Adjourn**

Alderman Spencer moved, second by Alderman Mosteller to adjourn the meeting at 11:59.57 a.m.



Richard Alt, Mayor

ATTEST:



Tori Deviney, Deputy City Clerk

