

**POLSON CITY COMMISSION PUBLIC HEARING MINUTES
CITY HALL – CITY COMMISSION CHAMBERS
MONDAY, AUGUST 27, 2012, 7:00 PM**

ATTENDANCE: City Commissioners: Todd Erickson, John Campbell, Mike Lies, Dan Morrison, Fred Funke and Mayor Pat DeVries presiding. City Manager Todd Crossett, City Treasurer Bonnie Manicke, City Clerk Cindy Dooley, Police Chief Wade Nash, Fire Chief John Fairchild, Water and Sewer Superintendent Tony Porrazzo, Parks Superintendent Karen Sargeant and Street Superintendent Terry Gembala present. Others present (that signed in): Rory Horning, Andrew Speer, Elsa Duford and Bill Smith. Commissioner Stephen Turner and City Attorney James Raymond absent.

Mayor Pat DeVries called the meeting to order. The pledge of allegiance was recited.

APPROVAL OF PROPOSED AGENDA: Commissioner Campbell moved to approve the proposed agenda, seconded by Commissioner Lies. Commission discussion: None. Public discussion: None. Commissioners Erickson, Campbell, Lies, Morrison and Funke voted aye. Commissioner Turner absent. Motion carried.

PUBLIC HEARING ON FISCAL YEAR 12-13 BUDGET: City Clerk Dooley began the presentation by going over the revenue side of the budget. She presented a taxable valuation/mill levy history and analysis that shows the taxable valuation and percentage increase or decrease from the prior year. This report shows the years of rapid growth and the subsequent slowdown in growth. The percentage increase for Fiscal Year 2013 is 2.78% which results in an increase in mills of .09. She explained how the taxes are calculated based on the State Law formula in MCA 15-10-420. The Department of Revenue (DOR) market value for the City of Polson for tax year 2012 is \$359,732,566. The taxable value is arrived at by applying various class code rates to the property. There are rates for residential, commercial and other types of property located in the City. The taxable value for tax year 2012 is \$9,476,186. The value of newly taxable property is added and the taxable value of the tax increment district is subtracted to arrive at the taxable value for mill calculation of \$9,247,833. By State Law, the tax revenue is capped at the amount of revenue that was authorized in the prior year plus an inflation factor which is 1.2% for 2012 plus newly taxable property. The authorized tax revenue limitation for tax year 2012 is \$1,155,660. The budget proposal is for the City to mill the maximum allowed mills of 124.97. Each mill generates \$9,247.83. Mayor DeVries asked if the City milled the maximum amount in the previous year and City Clerk Dooley replied that the maximum was milled for FY11-12. City Clerk Dooley then went over the calculation for the permissive medical levy. This levy is a non-voted levy to supplement the increase in health insurance premiums over a base year calculation, which is fiscal year 2006 for the City. The premiums that the City pays have increased \$145,689.75 for the governmental funds since FY06. Based on the value of a mill for FY13 the City could mill a maximum of 15.75 mills. In FY 12, the City milled 4.6 and has not raised permissive medicals mills for the past several years. (Note: permissive mills were last raised 4 years ago and were actually decreased two years ago). The budget proposal is for 5.5 mills which will generate approximately \$50,863. This will be an increase of \$1.91 per year for a property with a residential market value of \$100,000. The other large revenue source comes from the State of Montana in the form of the Entitlement Share. City Clerk Dooley explained that this money comes from a change in legislation back in 2001 called the "big bill" when the State took over collection of money from various sources that was previously going to the Counties to be distributed. The entitlement is frozen at \$562,123 but this year there will be an additional \$6,864 from Senate Bill 372 passed in the 2011 legislature that lowered the rates on personal property. The tax increment district will receive approximately \$13,000

from the SB372 money. The last report that City Clerk Dooley presented was the Revenues Compared with Expenditures for Year 2012 – 2013. This report shows the cash available plus the proposed revenues, less the proposed expenditures and then adjusts for any accounts receivable and/or accounts payable in the fund. The ending cash balance as explained by City Clerk Dooley becomes the cash reserve that is carried over to the next fiscal year to make expenditures until the tax revenues are received in December. Commissioner Campbell asked if there is a breakdown on the tax increment district growth as he thought \$228,353 was too high. City Clerk Dooley said this is the increase in value since the base year (Clerk Note: base year is 2002).

Commissioner Campbell asked in regards to the permissive medical levy how much the employee was paying towards the coverage. City Clerk Dooley said the employee does not pay towards the insurance on the high deductible plan but the employee does pay a portion of the 80/20 plan. City Manager Crossett further explained the two types of coverage that employees can have. The high deductible plan has an individual deductible of \$3,000 and a family deductible of \$6,000 so the employee is paying most of their medical expenses out-of-pocket. On the 80/20 the deductible is much smaller and the employee pays about \$50 per month towards that coverage. Commissioner Campbell asked what the effect would be of not doing an increase in the permissive medical mills and having the employees pay a portion towards the health premiums. City Manager Crossett said that he would need to do a breakdown on the premiums to figure out an amount for each employee to pay. The increase in premiums from last year to this year in the General Fund is about \$16,000. There was an increase in the base premium cost of only 1%, which is very low, but also a change in demographics that caused premium increases based on age. City Manager Crossett said that there has not been an increase in the medical mills for several years, so the budget proposal includes an increase in the permissive medical mills to partially offset the increase in health insurance premiums. Commissioner Campbell said he would like to know what the amount would be that the employees would pay – he does not want to put a lot on them, but he does not want to put that burden on the taxpayers either. Commissioner Campbell said that most people that have health insurance are paying a share of their premiums. City Manager Crossett said that is why the City opted into the high deductible plan. Commissioner Campbell said he also has a high deductible plan but is paying a share of the premiums. Mayor DeVries said that an increase in mills of 1.91 would net about \$18,000 dollars, so half of that would net about \$9,000. Mayor DeVries asked about the number of employees on the plan and City Clerk Dooley responded that there are 36 altogether. Mayor DeVries calculated that a \$10,000 increase divided by 36 employees would be about \$30 per month per employee. City Manager Crossett said the employee contribution could either be a flat amount for each employee or weighted based on the premium for each employee's coverage. Commissioner Campbell said that the City would be putting the bill on taxpayers that may not even have a job and he was not in favor of that. Street Superintendent Gembala said that he is on the 80/20 plan only for himself and pays about \$40 per month. Parks Superintendent Sargeant said that she is on the high deductible plan but pays about \$80 per month for added coverage for dental, vision and AFLAC. City Manager Crossett said the plan is fairly basic and the employee must pay for added coverage for increased dental and vision services. City Manager Crossett said that he budgets approximately \$400 per month into his health savings account to cover medical expenses that don't come up to the deductible. Mayor DeVries said the employee cost is in the actual medical expenses that are being paid because the deductible is high. Commissioner Campbell asked if the health care provider has any incentives for preventative health care such as quit smoking programs, or lowering cholesterol that then lowers premiums. City Manager Crossett said that the change in the healthcare law has changed the focus to preventative healthcare but there are no specific programs that he is aware of which provide premium discounts. Commissioner Campbell said his plan provides discounts if they complete certain programs. Commissioner Campbell asked if the employees are re-evaluated yearly by the insurance company to see if there has been an increase or decrease in

overall healthiness. City Manager Crossett said that the insurance company does not do that but it would be worth looking into. Mayor DeVries corrected her earlier calculation regarding the mills for the permissive medical levy – the increase is only a little over 1 mill which would generate about \$9,248 so all of the previous calculations would be half of what was stated. City Clerk Dooley said that last year the permissive mill levy was 4.77 mills so actually the increase is less than 1 mill. Commissioner Erickson asked if the health insurance covers medications. City Manager Crossett said prescriptions are subject to the deductible, so most are paid out-of-pocket. The advantage is that employees are able to pay the insurance company rate which is less than the off-the-shelf rate they would pay if they did not have insurance. Parks Superintendent Sargeant said that on the high deductible plan there are some preventative procedures that are paid 100% including physical exams and colonoscopies. City Manager Crossett said that these items are part of the federal health insurance mandate. Parks Superintendent Sargeant said there is a program available to help employees quit smoking. Mayor DeVries thanked City Clerk Dooley for her presentation.

City Manager Crossett presented the expenditure side of the budget including the payroll budget which had not been discussed at the budget workshop. The budget proposes a cost of living adjustment (COLA) of 3.2%. Many cities went with a COLA of 3.6%. The consumer price index (CPI) used by the State for the minimum wage increase was 3.8% and the Federal rate was 3.6%, but the rate of 3.2% was chosen to stick within the increase in tax revenue that is going to be received from the inflation factor and new property growth. There was significant additional income received in FY12 from delinquent taxes that provides budget authority for FY13 expenditures. City Manager Crossett said that increased revenue will also be used to build our cash reserves back up, as three years ago the general fund reserve was under \$200,000. The capital improvement expenditures for the capital improvement plan (CIP) are also reserves that will be built up. City Manager Crossett said that the CIP for the Planning Department has been reduced \$5,000. It was decided that the Planning department can increase the CIP as it starts to generate more revenue. The budget also includes a payroll reserve of \$18,574 for compensated absences when employees retire which includes unused vacation, sick and comp time benefits. This payroll reserve has been reduced in recent years due to employees retiring and needs to be rebuilt.

City Manager Crossett said last year there was a small COLA that was less than the CPI index. The 3.2% COLA that he is proposing is not actually a raise to the employees as it is less than the 3.6% federal COLA that is used to keep up with inflation. Mayor DeVries asked what COLA the County used. City Manager Crossett said it was his understanding that they took a flat 50 cent COLA for each employee which creates a different rate for groups of employees depending on their current wage. City Manager Crossett referred the Commissioners to page 9 of the preliminary budget for additional budget highlights. There are several budgeted pay increases including the pre-negotiated pay increase for the City Clerk as part of her hiring package. In the General Fund there are pay increases for Street department employees, all of whom started in new positions within the past two years at much lower rates than those they replaced. They do an excellent job and the increase moves them toward a more competitive wage. There are also pay increases in the Water/Sewer funds for certification and to keep them competitive with surrounding communities. The 1.0 full-time equivalent (FTE) employee that was going to be shared between the Street and Park departments has not been included in this budget. City Manager Crossett said if we can figure out a way to keep it in the budget he would like to do so since it is a good idea. The General Fund COLA amounts to \$38,234 with the increase in associated benefits and the enterprise funds COLA is \$17,784 with benefits. City Manager Crossett also pointed out that if Congress does not act by the end of the year, there will be a 2% increase in payroll withholding for employees.

City Manager Crossett said that last year the general fund departments spent about \$100,000 less than was budgeted, which is consistent with the past three years. However, the effects of the deferred spending will start to catch up with the City and the spending will need to increase. Commissioner Campbell asked if the CIP money is capped or if it can increase each year. City Clerk Dooley replied that there is no cap on the amount of money that can be accumulated in a CIP. City Manager Crossett said the CIP provides the advantage for the departments to accumulate reserves and not have leftover budget just go into the general fund balance. City Manager Crossett said it is important to also continue to build the general fund reserve so that there is enough cash to make expenditures until the tax revenue is received in December and to provide for unexpected expenditures that might occur due to an extremely hard winter, etc. At one point before the recession and the Westana case the general fund reserve was about \$750,000. City Manager Crossett said the reserve was down to about \$180,000 in 2009. His goal is to get the reserves back up to about \$750,000 and have reserves in the CIP funds as well. He pointed out that CIP contributions are actually targeted reserves. Mayor DeVries asked if the cash numbers on the Revenues compared with Expenditures report were accurate since the Commission did not have a recent cash report. City Clerk Dooley said the numbers are reliable, and that she and City Treasurer Manicke were working on internal and external reconciliations which should be completed soon. City Manager Crossett also mentioned that the budget includes external audits for two years. The City was behind on the audits and now both the FY11 and FY12 audits will be completed in the same fiscal year which will bring us up-to-date. Commissioner Campbell said he would like to have a monthly cash report to make sure that as expenditures are authorized he knows the money is available. City Clerk Dooley agreed that monthly cash reports need to be presented and that she and City Treasurer Manicke would also present a more detailed quarterly report. Mayor DeVries said she was happy to see some cash numbers included in the budget. City Clerk Dooley said that it was important to show the available cash because some of the smaller funds are being closed out and without knowing the available cash it would appear that the expenditures exceeded the available revenue. Citizen Rory Horning asked why was it necessary to have a double audit if the figures are still the same. Mayor DeVries clarified that the audits are for two different fiscal years. The auditor is currently working on fiscal year 2011 and then will start on fiscal year 2012 right after that one is finished. City Clerk Dooley said that we are required to be audited every year and Mayor DeVries commented that we cannot just skip a year because we got behind. Mayor DeVries said that City Clerk Dooley has been extremely helpful in getting data prepared and ready for the auditor which minimizes the amount of work that is necessary for the auditor.

Commissioner Campbell asked how the recycling program has affected our bill that we receive from the County for the landfill. It is his understanding that we receive a substantial bill several times a year for the landfill as a payment in lieu of tax. Commissioner Campbell said the City should negotiate with the County on this bill because of the recycling efforts put forth by the Parks department and that the County gets a payment for the sale of the aluminum cans. Police Chief Nash commented that he also questioned the high dollar amount of this bill and discussed it with City Clerk Dooley. City Clerk Dooley said that this fiscal year was the year that we renegotiated the fee and that she and Parks Superintendent Sargeant spent a lot of time going over the figures and since the County has raised the fee, the bill will actually be more than last year. City Clerk Dooley said the calculation is based on the number of garbage cans that we have and how full they are on average over the course of twelve months. This is then put into a formula to calculate the fee. Commissioner Campbell said there should be a place to put in a reduction in use for the recycling. Mayor DeVries asked if the recycling bins at the Skate Park are part of the calculation. City Clerk Dooley clarified after a misunderstanding that the recycling bins are not part of the calculation, but that they should be used as a negotiation tool with the County. Commissioner Campbell said the County should know the volume they are picking up at the recycling bins and should give the City a reduction based on this. City Manager Crossett said he would look into this and see if we

can get a reduction for this. Mayor DeVries suggested that the City should send the County a bill for lease of the land where the recycling bins are located. Street Superintendent Gembala and Water & Sewer Superintendent Porrazzo said that their departments get charged extra for items such as construction waste that is hauled to the dump on top of the yearly fee. Commissioner Campbell said that the recycling bins have been well received and are reducing the load and the County should help us out because of this.

Commissioner Lies asked if the Commission could receive a list of the individual pay increases being requested similar to the report that was given out last year. City Manager Crossett said he would provide the Commission with the list. Commissioner Lies asked what the Executive Services budget item was on page 45 of the preliminary budget. City Clerk Dooley said those are the Mayor's and Commissioner's wages and expenditures. Starting with the FY13 budget, the wages for the executive, administrative and finance services are being separated out to provide better accountability.

Mayor DeVries asked if the services for the City Judge and City Attorney would also go up 3.2%. City Manager Crossett said that they would not receive the COLA, these individuals are independent contractors and not employees. Commissioner Lies said that his calculations showed that some of the payroll increases are greater than the 3.2%. City Manager Crossett said that some of the increases also include the wage increase in addition to the COLA. City Clerk Dooley clarified that the COLA is calculated on the base pay so departments such as the police department will show a larger increase because they pay overtime. City Clerk Dooley said that on page 47, the overtime amount of \$3,140 for the police department will be removed – that is an error. The overtime is included in the personal services line. Mayor DeVries asked how the parity works for the police officers and how that is factored into the payroll budget. City Manager Crossett said when the Police Municipal Services levy was passed that it provided for parity with the Sheriff's department to make sure that the police officers were being paid on the same scale as the Sheriff's department officers. To calculate the parity, the COLA would be applied first and then if there is still a difference that needs to be made up, that would be paid from the Municipal Services levy. Assistant Police Chief Cottle said that he has run some figures and the 3.2% COLA would bring them to the level that is needed without any additional parity for FY13.

Fire Chief Fairchild said that each year when his capital outlay budget is not spent, the money goes into the "black hole" and he wants to be able to keep that money each year. City Manager Crossett said that is why the City is establishing the CIP – so that a department's budget does not get reallocated when it is not spent. Mayor DeVries said the money would be moved in June of each year into the CIP funds. This encourages departments to save money so that they will have funds to transfer for the big ticket items.

Mayor DeVries remarked that she was amazed at the work that was put into the preliminary budget and liked the payroll budget summary. She asked City Manager Crossett what the timeline is for passing the budget. City Manager Crossett said there are several options: 1) the budget can be approved or tabled at the meeting on September 5th; 2) this hearing can be continued and another meeting scheduled during the week; or 3) if more time is needed it can be placed on the September 17th agenda. Commissioner Campbell asked if City Manager Crossett and City Clerk Dooley would be available for questions during this week and both responded yes.

Mayor DeVries asked Commissioner Campbell if he wanted to look further into the health insurance issue as that would take additional time to research. Commissioner Campbell said he would like more information on the health insurance. City Manager Crossett said there may be some legal issues on how the employee payment would be allocated and that will have to be looked into. Mayor DeVries said that

initially it didn't appear that there would be much increase in the health insurance but when factoring in the age changes it did increase more than they thought. City Manager Crossett said that it is important to have a range of demographics in your employee base, but having more employees at the higher end will increase costs. Commissioner Campbell said the argument that he receives is that taxpayers don't have a job or health insurance and the City is asking them to pay for the City's health insurance - and why should they? City Manager Crossett said that is a valid concern but it is similar to any service that you want to buy - the service provider wants to charge a fair price but if you reduce the amount that you are willing to pay for a service, pretty soon the providers won't show up to provide the service. Commissioner Campbell commented that this is his third budget cycle as a Commissioner and the permissive medical levy has not been increased. In past years the library money was used to eliminate the need for an increase in the levy. Commissioner Funke said he can understand Commissioner Campbell's concern as he is one of the taxpayers with no health insurance coverage. He said many people just can't afford insurance, so the Commissioners need to look at this from both points of view. Mayor DeVries said the actual cost of the insurance, because of the high deductible plan, is actually pretty reasonable so the City is getting a lot of "bang for the buck" for people that consider health insurance important. Water & Sewer Superintendent Porrazzo said that most employees will not get to the \$3,000 deductible unlike him so the employees are not getting a benefit except for the reduced rate available through the plan. City Manager Crossett said the reason to have the insurance is for a major crisis such as being hit by a car, getting cancer, or having a heart attack that would otherwise financially destroy a person or family if the medical bills had to be paid out-of-pocket. One of the problems that the City was having on the other insurance plan was that it was unaffordable for many employees and their dependents so they didn't participate. Usage was actually under 20%. City Manager Crossett asked how much work he would get from an employee whose husband was dying from cancer and there was no health insurance to help out. City Manager Crossett said he also has gone without health insurance in the past but feels it is a risky proposition. Commissioner Campbell said he would like to see a report with no names or other personal information that would show what the worst case scenario would be for an employee if they needed to pay all of the increase in the health insurance. The Commissioners could then see how much this would affect the worst case employee and make a decision based on that knowing that the other employees would be less affected. Mayor DeVries pointed out that the City actually saves about 20% overall by paying the health insurance because it is not subject to payroll taxes (social security, medicare, work comp and unemployment) as opposed to wages which are subject to payroll taxes.

Elsa Duford questioned the difference on page 19 between the proposed revenues and the proposed expenditures which amounts to \$1,402,673 in additional expenditures over the revenues and if that figure is correct. Mayor DeVries said that the general fund has a difference of approximately \$110,000 which shows up as a reduction of the ending cash balance. In the enterprise funds there are a number of different things that happen, including spending on large projects in different years and sometimes the money is budgeted but the project doesn't go forward. City Manager Crossett said that this can be seen particularly in the Water and Sewer Funds where we had money coming in from TSEP grants and other sources that was leveraged against the TIGER grant. This allowed the City to do projects that it otherwise might not have been able to undertake if the money had not been there in prior years. City Manager Crossett said the City is in a cycle of spending water and sewer money as this is the time to replace infrastructure during the Skyline project and we are aggressively replacing water and sewer mains that are decades old. City Clerk Dooley pointed out that the budget anticipates spending money from the water and sewer impact fee funds for upgrades in the amount of \$375,000 and that additional spending in the water and sewer funds of approximately \$400,000 each makes up the difference between the proposed revenues and proposed expenditures.

Rory Horning asked what the City's portion of the cost is for the infrastructure on the Skyline project. City Manager Crossett said that we have done stormwater upgrades and replaced water and sewer lines ahead of the road construction this summer but he does not have the total cost at the moment. The City will not be reimbursed for work that we elected to do. Rory Horning asked why infrastructure was not part of the \$12 million dollar budget for the TIGER grant. City Manager Crossett said the project budget is broken down into design engineering, construction engineering and construction services. Utilities that are required to be moved as part of the project will be paid for with grant money. If we are electing to do construction like replace an old line because the street will already be dug up, then that is our cost, but the cost will be less because we do not have to pay to repair the street – that will be paid from the TIGER grant. We also avoid the need to tear up a new street at a later date. Commissioner Campbell said that some of the infrastructure projects were going to be done anyway and Mayor DeVries said the grant money changed the timing of the projects somewhat. City Manager Crossett said the ARRA and TIGER grant monies have given the City the opportunity to get a lot done during a pretty flat economy.

Mayor DeVries asked the Commission if they want the budget on the September 5th agenda. Commissioner Lies said he would like the wage reports that he asked for. Mayor DeVries clarified that the report should be only for the pay increases and not the COLA increases. City Manager Crossett encouraged the Commissioners to call him with questions about the wage increases. He said the numbers are based on his day-to-day knowledge of human resources and it is his job to manage that. He said he is there each day to see it and work with the departments, and to make decisions without that knowledge would be difficult. Some employees are publicly visible and other employees are not, so raises can't be based on impressions. Mayor DeVries also reminded the City Manager about the worst case employee scenario for the health insurance.

Elsa Duford asked about including a COLA while the economy of the community is not good with people losing their homes and their jobs. There are also numerous businesses that have already closed or are getting ready to close down. Ms. Duford asked if it would be a terrible disaster for the employees who are making good wages with benefits to not take a wage increase. City Manager Crossett replied that it would actually be a pay cut if the COLA is not granted as the cost of living is currently at 3.6% which is below the COLA of 3.2%. Ms. Duford said it sounded to her like a pay increase. Mayor DeVries said that in order for the employees to retain their current cost of living they would need the COLA similar to how social security benefits are increased when the cost of living increases. Elsa Duford said she is thinking of the cost of living for taxpayers that would be paying for the increase. She said that expenses go up for everyone not just City employees and that the Commission should consider that. Elsa Duford also commented that she felt the budget hearing should be continued because the budget documents were not available to be picked up as had been stated in the notices in the paper and the public has not had enough time to review it. Mayor DeVries stated that no decision would be made tonight as this is only a public hearing. Police Chief Nash said that the City employees agreed to forgo a pay increase for two of the last three years and that last year's increase was only 25 cents per hour. He agreed with Ms. Duford that there are many citizens that have suffered during the economic downturn. Fire Chief Fairchild asked why there are not more people attending the budget hearing if they are concerned. Personally he has not had a pay increase in five years if wages are not keeping up with the cost of living and he does not feel that is right.

Rory Horning commented on why citizens don't attend the City meetings – when times are good they don't attend because they are out enjoying life and when times are bad they don't attend because they are just trying to make a living.

Mayor DeVries, based on the general consensus of the Commission, decided that the budget would be placed on the September 5th agenda as a voting item and that it would be tabled at that time if it was decided that more time was needed. She encouraged anyone that has questions to talk with City Manager Crossett or City Clerk Dooley and that payroll questions regarding specific employees should be directed to City Manager Crossett.

PUBLIC COMMENT ON SIGNIFICANT MATTERS TO THE PUBLIC *NOT* ON THE AGENDA:

Elsa Duford commented that the agenda packet was not on the website as of Friday afternoon. Mayor DeVries replied that the budget hearing itself was well advertised in the newspaper and was set well in advance by the Commission. The budget documents have only been available for a short time. Mayor DeVries said she has been attending budget hearings for over 20 years and this is a good turn-out and this meeting provided some of the best information to date. She also reminded the audience that this is the second meeting on the budget as there was a budget workshop in June. Elsa Duford asked if the workshop was only for the employees. Mayor DeVries said that it was open to the public.

The public hearing adjourned at 8:25 p.m.

Mayor Pat DeVries

Attest: Cindy Dooley, City Clerk