

VERNON MYERS
MAYOR - COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

ALLEGRA KITCHENS
COMMISSIONER

PHIL LEARY
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER



ELWIN C. "WOODY" BOYNTON, JR.
CITY MANAGER

BETSY JORDAN DRIGGERS
CITY CLERK

MATTHEW D. REYNOLDS
FINANCE DIRECTOR

GARY S. GETCHELL
CHIEF OF POLICE

MICHAEL LAMBERT
CHIEF FIRE DEPT

DONALD E. HOLMES
CITY ATTORNEY

Regular meeting 2nd and 4th Thursdays each month at 6:00 p.m.

**CITY OF PALATKA PRE-BUDGET WORKSHOP
MINUTES
PALATKA CITY COMMISSION
Palatka City Hall
June 14, 2012; 2:00 p.m.**

Proceedings of a called workshop meeting of the City Commission of the City of Palatka, Florida, held on the 14th day of June, 2012.

PRESENT:

Mayor	Vernon Myers
Commissioner	Mary Lawson Brown
Commissioner	Allegra Kitchens
Commissioner	Phil Leary
Commissioner	James Norwood, Jr.

Also Present: City Attorney Donald E. Holmes; City Clerk Betsy Jordan Driggers; Finance Director Matt Reynolds; Planning Director Thad Crowe, Police Chief Gary Getchell; Fire Chief Mike Lambert; WTP Supt. Melvin Register, WWTP Supt. Platt Drew, Streets & Sanitation Supt. Ed Chandler, Water & Sewer Distribution Supt. Rhett McCamey, Golf Club Manager/Pro Andy Heartz, Airport Manager John Youell, and Main Street Manager Charles Rudd,

CALL TO ORDER: Mayor Myers called the meeting to order at 2:00 p.m. and read the following call, dated May 24, 2012:

TO MESSRS: MARY LAWSON BROWN, ALLEGRA KITCHENS, PHIL LEARY AND JAMES NORWOOD, Jr.:

You are hereby notified that a workshop meeting of the Palatka City Commission is called to be held on June 14, 2012, at the regular meeting place of the Palatka City Commission, Palatka City Hall, 201 N. 2nd Street, Palatka, Florida, to commence at 2:00 p.m.

The purpose of the meeting is to hold a pre-budget workshop for FY 2012-13.

/s/ Vernon Myers

Vernon Myers, MAYOR

The following Commissioners acknowledged receipt of a copy of the foregoing notice of a special meeting on the 24th day of May, 2012.

/s/ Mary Lawson Brown
COMMISSIONER

/s/ Phil Leary
COMMISSIONER

/s/ James Norwood, Jr.
COMMISSIONER

/s/ Allegra Kitchens
COMMISSIONER

Commissioner Kitchens offered an Invocation. Commissioner Norwood led the Pledge of Allegiance.

OPENING REMARKS - Mayor Myers said this is the first look at the fiscal year 2012-13 budget. He called on Finance Director Matt Reynolds to go over his memo.

FUNDS BY CATEGORY – Matt Reynolds, Finance Director, said in the past during this workshop there were no real numbers to look at, but he has provided those this year. He went over his memorandum, which was provided in the agenda package (filed).

1. Sanitation Fund – Mr. Reynolds said historically, this has always been a sound fund. There is a larger contingency than normal of around \$150,000 as the sanitation truck loan ends in October-November. The fleet is 7 years old; there is a preliminary plan to keep them right now, as maintenance costs are reasonable at this point. Commissioner Norwood asked if there is a replacement plan in place. Mr. Reynolds said they want to keep the fleet another 2 – 3 years, so they can put together a contingency of around \$500,000 to purchase another fleet. This fleet cost around \$750,000.00 and a new fleet will cost around \$1 million. That will pay for half the fleet. As to rotating replacement vehicles, Mr. Reynolds said they can work to that end. The \$150,000 contingency may purchase one truck. They will look at that as they move through the budget. Commissioner Kitchens asked if the vehicle maintenance is done in-house. Mr. Reynolds said they do some work in-house, but for larger issues they seek outside sources.

Mr. Reynolds said they transfer \$65,000 each year to the General Fund to cover administrative costs. Last year it was increased to \$95,000 to help balance the GF budget. He has backed it down to \$65,000. Ken Small with FLC recommends they get a cost study done so they can get a more accurate figure on what that transfer should be. They can't overcharge customers by transferring too much to the GF. They need to justify it for auditing and accounting purposes. Mr. Reynolds said they need to have a 3rd party do this in case it's questioned. Mr. Small has provided him with the names of two firms who do this. Commissioner Norwood concurred on the 3rd party.

2. Utility Fund – Mr. Reynolds said this consists of the Water Plant, WWTP and Water & Sewer Distribution. This year for the water fund, after entering revenues and expenses, they had a substantial contingency of over \$300,000. He incorporated the capital improvements requests for those departments and he has outlined those in his memorandum. The WTP has pushed off well cleaning for several years and he has incorporated the expense for that. The WWTP has requested \$30,000 for the purchase of the new truck. They rotate them every 9 – 10 years.

Water Plant - Melvin Register, WTP, said they have 8 wells altogether. They try to do one well each year to keep them up to date. They plan to clean one every two years and refurbish one every year. Cleaning is more expensive than refurbishment. They have not done any cleaning in about 5 years and had an emergency repair last year. He'd like to do two cleanings and one refurbishment. This will improve efficiency.

Wastewater Treatment Plant/Water & Sewer Distribution - Mr. McCamey has requested \$100,000 for additional 1" and 2" meters and 300 new meters that were not changed out when the contractor changed meters out last year. It was decided that the Department would change those out. They may not purchase all those meters next year and could install 5 – 10 a month until they are caught up. They have also requested \$20,000 for repair kits and fire hydrants. The automatic meter read is already in place; these are old meters that don't have that new technology. Commissioner Leary said he's for expediting that process as he thinks they are losing money. On fire hydrants it's important to push to get the ISO rating down. He supports the purchase of a new vacuum truck to address drainage issues. Mr. Reynolds said they've included \$78,000 for that, with a total cost of around \$350,000 including financing, but the cost may be lower depending upon financing options.

If some of these requests can be pushed to future years, they can put more money into contingency to transfer to the General Fund. Last year the transfer was bumped up to \$250,000, but he's backed it back down to \$110,000. An indirect cost study would give us a more accurate figure on that.

3. Airport Fund – Mr. Reynolds said after revenues and expenditures, they will have a deficit of almost \$150,000.00, which was transferred from the General Fund. It is in deficit due to the additional cost associated with the two loans taken out for the terminal and T-hangars, and this causes the deficit every year until 2023. This transfer will be required each year unless other revenue streams are found. They were able to get some alternative revenue, and it is possible they won't need the entire budget transfer of \$113,000. They may be able to generate excess revenue with the renovation of Taxiway C and repeat that next year. Commissioner Leary asked if they are pursuing selling some of the outer parcels. Mayor Myers said that's an ongoing process.

Commissioner Brown said they have not pursued international trade. They have a lot of people from other areas that have connections. They can ask residents that have people in other countries to meet with them and form a connection to bring trade to the Airport. This will generate more hangar rentals. Commissioner Kitchens asked Mr. Youell if he is pursuing every avenue to get hangars rented. Mr. Youell said they are and are getting more into social media to help in those strategies. Commissioner Leary said the State Dept. of Opportunity can help with bringing in new business.

Per the question, Mr. Youell said T-hangars are 100% rented, but that is not taking care of the needed revenue. Mr. Reynolds said they can market long-term land leases for new businesses. Mr. Youell said the T-hangars pretty much stay full. Three of the four commercial hangars are rented. A large deficit was created by loans for various improvement projects.

4. Golf Course – Mr. Reynolds said he looked at revenue trends for the last few years. They are around \$600,000 for this year, but were projected at \$750,000. He's backed that down to \$650,000 for this year. As to expenditures, the Bobby Weed requested budget is around \$900,000. The Bobby Weed fee is not included in the budget as the City Manager was still trying to decide whether or not to keep Bobby Weed. Their fee has been added to the budget for next year, which leaves a deficit of around \$322,000., which requires a budget transfer from the General Fund to balance that budget. One option is to eliminate the Bobby Weed contract, which will get expenses down to around \$900,000.00, which still necessitates a transfer of around \$250,000. The net assets listed a negative \$631,000.00, which reflects the asset plus liabilities. There is about \$1.45 million remaining on the loan and the General Fund has been advancing money

up to \$867,000. Assets are about \$1.8 million, which are grounds plus property improvements. Commissioner Leary said he'd like to discuss this asset at a later date. Mayor Myers said the golf course is a drain on resources and they need to discuss this asset at a workshop. Regarding County Commission participation, Commissioner Kitchens said she was told by the County that the County Commission was willing to sit down and talk to them, but the City never contacted them.

Mr. Reynolds said the Golf Course will need another transfer of \$300 – 400 thousand, which brings the negative asset to close to \$1 million. The CAFR lags almost 2 years behind the budget workshops. He only has a transfer of \$150,000 and the additional funds will need to come from reserves. The reserves are already below the GFOA minimum for reserves at \$600,000.

5. General Fund – In the past the City Manager and he have attempted to present a balanced budget to the Commission. They generally didn't present numbers until the first budget workshop in July. Not all revenue estimates are in yet; some are estimated by the State and they don't come in until July, and don't have final taxable values by Property Appraiser. Right now the General Fund is around \$1.4 million short of being balanced. Revenues have decreased from \$9.792 million in 2008 to \$7.492 million in 2012, which is a \$2.3 million decrease over that time. Significant losses are \$230,000.00 in ad valorem taxes based upon an estimate of values due to decreasing property values. Franchise fees are \$300,000 lower due to the Clay Electric having stopped paying that franchise fee. This is a non-competing clause saying the City won't compete against them to sell electricity and grants them easements to run their lines. This year they decided to quit paying the franchise, a 30-year agreement which expired in October. They have scheduled a meeting with Clay Electric to discuss this matter. That decrease could change. If they renew the franchise agreement, they can budget that back in. Also federal COPS and SAFR grant funds of \$230,000 have expired. Those financed police and firefighter personnel. The Police Dept. may file for more COPS grants and the SAFR grant is dropping off to \$19,000 for next year. Also the net decrease in transfers of around \$110,000 and other miscellaneous revenues was because he backed down the water fund and sanitation fund transfers. Sales tax revenues are up, and gas & electric tax revenues are down. Discretionary sales tax may come in above this year's receipts. All of that combined makes up a \$60,000 decrease. One of the major causes in expense increase is another increase in the pension fund amounts. Two years ago the general employees was 14%, this year it's 21.6% and next year it will be 26.6%. This is due to investment performance. They use a four-year smoothing, and a really good year dropped off, and the bad years stayed. Next year they will lose the 2008 returns next year, but that doesn't help in this budget year. They need to make transfers to the Airport and Golf course, and those have increased over last year. No departments had any major increases or decreases.

City hall personnel expenses increased \$91,000 and around \$65,000 of that increase is offset by transfer from the CRA for the Main Street Manager. The rest are pension contributions for these employees. He reduced operating expenditures around \$18,000, as they did not renew the contract with the IT person they had; the PD has taken over all that. This consequently increased the PD's budget around \$60,000.

The salary increases for next year at B&Z are to fund a full-time building official to replace two part-time officials. Commissioner Leary said they need to look at entering into an agreement with the County for those services, as their inspectors are not busy and they can absorb this. They don't have enough activity to warrant a full time CBO. Commissioner Kitchens concurred. Commissioner Norwood said they can contract this

out as well. Mr. Reynolds said he's increased building maintenance by around \$15,000 as they have termite and repair issues. Some of those could come from Better Place Plan funds. They do budget in building maintenance.

The Police Dept budget increased by \$70,000; personnel services are going down by eliminating a Commander position. He's requested more in gas and professional services line for IT spending. He's requested splitting IT cost into a separate department to make the cost more transparent. They could also place those under general government services.

The Fire Dept overall budget decreased around \$10,000, but there is an increase in their pension cost of \$17,000. Operating expenses decreased due to cutbacks on uniforms and education. It does not include an allowance for the purchase of the fire truck; they received USDA funds for ½ the purchase and the City has five years to spend that money.

The Streets Dept. budget increased by \$28,000. This is due to filling a street sweeper position that was not filled this year, and pension contributions went up. The public works director position remains unfilled for next year. Commissioner Norwood asked how critical that position is. Mr. Reynolds said it's an important role; Mr. Griffith has been monitoring the grants. Mayor Myers said they have very capable department heads and aren't in any expansion role now. They can defer this for another year. Per discussion Commissioner Leary said they need to retain a contracted engineer that can handle part of those duties.

As to Better Place Funds, over ½ of those revenues are budgeted on Frank George loan. He hopes to get around \$630,000 in revenues and they pay for two inmate crews out of that. Those are around \$56,500 for each crew. They leave money in there for sidewalk projects. Commissioner Kitchens said the Code says homeowners are responsible for the sidewalk in front of their home, even if they didn't break it. They need to monitor that.

There are two major unknown factors; Clay Electric's franchise and what's going to happen with health insurance cost. Balancing the budget is no longer as simple as not filling vacant positions. Balancing is controversial. He listed options. He is not recommending any one of those. One is going with the rolled-back rate, which increases the millage but not taxes. Another is a transfer from CRA to help pay part of the Frank George loan, which would allow Better Place to be used for debt service at the air port and on the golf course. They can eliminate the Bobby Weed contract. With those options, the transfer from GF operating would be around \$68,000. The other option is to forego capital improvements in water and sanitation funds to offset deficits in the General Fund. If they forego all capital improvements with exception of well refurbishments, they can use around \$375,000 to offset the GF, but this shouldn't be used to offset recurring expenses. Most of the expenses are operating costs; there may be small one-time expenses they could justify. Another option is a fire assessment fee that would be calculated for every parcel that's located in the City. That would allow a lowering of the millage to 5.5 mills if the City gets that \$1.8 mills from an assessment fee. Commissioner Leary said this will provide substantial benefit. Mr. Reynolds said they can also look at furloughs and restructuring departments, which will decrease personnel. Most of the General Fund expense is in personnel. Mayor Myers noted personnel has decreased 25% over the past few years and congratulated staff for continuing to provide services.

Commissioner Brown said if they get an experience works worker, the State pays them for six months to come in and help look for grants. The administrative fee that comes from the grant could then pay for a permanent position. The City needs a grants person.

Mr. Reynolds said they only have \$600,000 in reserves, which may be cut in half this year, so he would not recommend that. The figures he's cited may change once firm figures start coming in. They need some direction from the Commission as to what steps to take to make up the budget deficit.

DISCUSSION -- HEALTH INSURANCE RFP VERSUS RFQ FOR HEALTH INSURANCE AGENT - Mayor Myers said this is just for information gathering purposes and noted three agents are here to speak.

FLORIDA LEAGUE OF CITIES - Aaron Carper, FLC, marketing representative for the FMIT health care program, said many cities are struggling with budgets and millage rates. With regards to health insurance, there is the option to go directly with Florida League of Cities. They offer a direct program where they work directly with the City. They don't pay commissions to brokers or shareholders, and the program is under the pooling function. They have many members throughout the State and can look at costs on a larger scale and be more competitive than they would be standing alone. They do use a 3rd party administrator and the FLC is the insurance company. United Health Care handles their claims and their network. This is a strong network in the State. Their rates are also very competitive. Rates come down to losses; if claims go up, rates go up. If claims go down, rates go down. With regards to trends, 10 – 13% is an average increase for municipal governments. Their average renewal increase is 8.4%. He'd be happy to address any questions.

Commissioner Kitchens said none of the local doctors or hospital deal with United Health Care and asked if employees would be able to find doctors. Commissioner Norwood and others stated G-P has United Health Care and there are doctors here. Mr. Reynolds said the strong networks are United Health Care, Blue Cross/Blue Shield, and Aetna has about 50% network physicians here. Mr. Carper said he doesn't have information on who uses what here but can present findings on programs and rates they offer. He can provide them with a disruption report to try to match those currently insured up with their present physicians.

BLUE CROSS/BLUE SHIELD - Benjie Bates, III, 3400 Crill Ave., current Agent of Record for the City of Palatka, Bates & Hewitt Insurance, distributed literature, saying his Agency has been the City's agent for the past 24 years. The City has averaged around a 7% renewal increase over the last 3 years. If they look on page 2 at the color graph, the City does not stand on its own merits. They look at many factors on claims and rating. In the Plan Advisory report, they talk about how the City is doing compared to competitors. The City's Plan is also compared to other plans. The cost is running around \$1 million, city/employee contribution. Industry average is close to \$1.6 million. As to Medical claims cost, over the last 12 months the claims are up. They look at employee dependent analysis. 70% of claims are spent on employees; the average is 66%. Employees are driving the rates. As to in-patient admitting, the average paid admission is up 24% so they are starting to see an uptick in admissions. Average paid per day is up, but average length of stay is low. As to emergency room visits, there were 64 actual visits last year, up from 57 the prior year. Actual paid per visit is \$1100, and last year it was around \$650. As to primary providers, they see this as higher than normal. They are very proactive about having employees get annual checkups. Last year the plan was changed to cover all wellness at 100%. The total paid, and average

paid per visit is down. Prescription drugs are around 10% of total cost, and that is tracking with the norm.

Mr. Bates said they've handled this account for a number of years. They formulated a renewal process back in March. At that time they contacted United, Blue Cross and Aetna for renewals. That was already done. As to market updates, Blue Cross had the lowest increases. They've done the research and due diligence on this. United Health Care declined to quote due to increases in claims. They expect a quote from Aetna. Blue Cross values their relationship with the City. They are now Blue Value. They will work to keep this relationship going. Last year they put a discount program in place. There was over a 60% discount in what was billed versus what was paid. Blue Cross has already committed to a \$60,000 rate reduction and the increase is coming in around 2%. This is very much under that trend and almost unheard of in the industry. They have employees who work full time with the City and its employees. They have also begun a new wellness initiative and this past year they paid for the Rotary blood screening. 70 employees took advantage of that. They've also worked to implement a risk questionnaire, which is a simple, easy to use questionnaire for employees. This does not identify employees, but indicates trends regarding employee issues so they can put programs in place to improve employees' health. The Putnam County School Board's health fair is being used as a model for other groups. If you disrupt a plan that is already in place, Blue Cross may pull out of the process altogether if this goes out to bid.

Commissioner Leary said people should pay premiums based upon lifestyle. People who smoke should pay more than people who don't. Mr. Bates said they can have their Legal Dept. take a look at that. Commissioner Leary said people need to make lifestyle changes or pay a higher premium.

UNITED HEALTH CARE - Danny Page, 93A Orange Street, Frank Bush Insurance, said he grew up in Palatka. He would like to make every attempt to level the playing field. Blue Cross was the only option in Putnam County for many years. He used to write for them. United Health Care came into Putnam County and has established exactly the same network here that Blue Cross/Blue Shield has. This has leveled the playing field. He speaks to the United Health Care and Aetna reps. They get tired of trying to play the insurance game when they don't feel as though they are getting a fair shake. At this time they have some competition, but if the larger employer groups don't start looking at the competition, they will lose it. Large carriers can put pressure on Blue Cross. United Health Care wants to get into Putnam County. United Health Care last year came in significantly lower than Blue Cross without a significant change to benefits. It was a much better health care plan than the Blue Cross plan, but it would have been a monumental task to change over all 140 employees. There are ways to get control of claims. BC/BS has an opportunity to bring in a wellness program for years. He has a city group that is exactly the same size as this and they've been doing a wellness program for years. Four major issues cause "out of control" claims. Cancer is one, blood pressure is another. This is nothing new. It is not difficult to put a wellness program in place for a group this size. He noted the City of Atlantic Beach, who forced employees to stop smoking or asked employees to look for another job. They were successful. Wellness programs work and are a thing of the future. If not, every year they will reduce the program and raise deductibles. He'd like to be able to bring a closed quote to the City at the same time BC/BS brings theirs in and open them at the same time. He's asking for a fair shot. FLC is also part of United Health Care. He's local and grew up here. He does get a commission. The City has an interesting financial arrangement with BC/BS. It's called a contingent premium plan. It will work out for a few years, but may backfire and cost more another year. That needs to go away; it's a

gamble. A few major claims could cause the City to have to write a check to BC/BS for a significant amount of money.

Commissioner Kitchens asked if United Health Care has a plan where the premiums would be low, but the City wouldn't have to pay a large amount if claims are high. Mr. Page said for a group this size, the cost comes from claims. The renewal is based upon claims. They look at this quarterly and they can prepare for a renewal. It could go down or up. Usually they go up. Commissioner Kitchens asked what's to stop United Health Care from increasing policy costs at the end of the year if Blue Cross decides they don't want to give us a quote. Mr. Page said carriers don't like to "hopscotch." If claims are high, carriers write a 'decline to quote.' If employers participate in a wellness program, they smile on that. The difference doesn't happen overnight, but in the long term.

Ben Bates, Bates & Hewitt, 3400 Crill Avenue, said he has a letter from United Health Care where they declined to quote. They went out for quotes. The thing you are talking about doing has already been done. United Health Care is not a player this year, based upon claims. Blue Cross came in with a 2% renewal and a 96% loss ratio. This is a good quote.

Mr. Page said with the claims United Health Care was given, yes, they declined to quote, but he spoke to them yesterday and they stated they will be glad to quote.

COMMISSION DISCUSSION – There was none.

ADJOURN – There being no further business to discuss, the meeting was adjourned at 3:50 p.m. upon a motion by Commissioner Brown.

ANY PERSON WISHING TO APPEAL ANY DECISION MADE BY THE CITY COMMISSION WITH RESPECT TO ANY MATTER CONSIDERED AT SUCH MEETING WILL NEED A RECORD OF THE PROCEEDINGS, AND FOR SUCH PURPOSE MAY NEED TO INSURE THAT A VERBATIM RECORD OF THE PROCEEDINGS IS MADE, WHICH RECORD INCLUDES THE TESTIMONY AND EVIDENCE UPON WHICH THE APPEAL IS TO BE BASED. FS 286.105