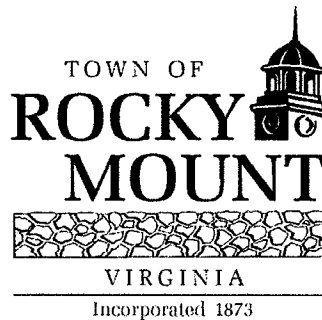


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TOWN COUNCIL
Steven C. Angle, *Mayor*

Posey W. Dillon
Jerry W. Greer, Sr.
John H. Lester

Roger M. Seale
Robert W. Strickler
Gregory B. Walker

C. James Ervin
Town Manager

March 29, 2010

Honorable Mayor Steven Angle
& Members of Town Council
Town of Rocky Mount, Virginia

Dear Mayor and Council Members:

We present the Fiscal Year 2011 proposed budget for the Town of Rocky Mount for your review and consideration, along with the five-year Capital Improvement Plan, a long-term look at capital needs and sources required to pay for them.

The national economy continues to show signs of slow improvement, but the local economic forecast still predicts declining revenues for the Town. In addition to declining revenues, we have had substantial cuts to local funding by the State. The State has confiscated local taxes and fees to fund programs at the State level (911, telecommunications, cable franchise fees, ABC profits) and reduced funding its share of programs it requires localities to deliver. State legislators have also reduced funding for police and fire programs, asking the localities to step in and keep these programs whole, much as it asks counties to pick up the slack for education. In the utility fund, the revenue shortfall is complicated by the closure of Erath Veneer, one of our top three water customers. Our projections for the Town are a revenue decline of \$352,000 in the general fund versus the 2010 budget and a decline of \$438,000 in the utility fund versus the 2010 budget for a net decline of \$790,000. Even with the declines in revenue, our expenses continue to rise. The Town has had to pay a 50 percent increase in electrical costs since 2008.

The State predicts 2.2% growth next year and has budgeted accordingly. Unfortunately, just because you predict it doesn't mean it will happen. Forecasting higher growth than the current trend solely to avoid a budget dilemma only results in deficit spending and painful budget revisions later in the fiscal cycle. Rocky Mount shouldn't follow that route. The State principally balanced their budget by passing costs to the localities, borrowing from the state employees' retirement fund and by over-predicting revenue. This over-prediction will allow them to declare a revenue gap later that in turn will authorize the use of rainy day funds.

The Town's budget gap may seem small after the press coverage of the shortfall of millions in the County school system, or the additional million the County is struggling to find, but it is a much larger percentage of our operating budget than those other local governments. This shortfall comes on the heels of two prior budgets that required the Town to eliminate most optional expenses. With two previous tight years, we have been unable to perform preemptive water and sewer line replacement, limited purchases of vehicles and equipment, cut out most advertising and tourism development, stalled significant community development initiatives, and froze positions, some of which have now been vacant for over a year.

The services provided by the Town are largely people or staff driven in that the largest component in the service delivery equation is staff time. Most departments in the Town have already absorbed double-digit funding reductions over the past two years. Our work in these departments is vital to the diversification of our community's industry, the ability of our businesses and citizens to work, grow and thrive, and our ability to safely travel through, live in and support the Town of Rocky Mount.

The primary challenge in developing a balanced budget for fiscal year 2011 is the persistent operational deficit of our Water Plant, Waste Water Plant and refuse collection operations. For every dollar we spent collecting trash in FY 2009, we billed sixty cents. For every dollar we spent running our utility operations in FY 2009, we billed in-town residents about seventy cents. The Town has historically made up for operating these functions at a loss through tax subsidies and by not funding capital costs. We typically transfer over half a million dollars a year from the tax-supported general fund to the fee-supported utility fund in order to keep the fund in balance. Ideally, our rates should pay for the services provided and generate enough revenue for capital maintenance.

The costs for providing water, waste water treatment and refuse pickup have also skyrocketed. Fuel has increased by 38% since 2005, electricity has increased 74% since 2005, and healthcare costs have increased 64% since 2005. Rather than passing these cost increases to our customers, the Town has absorbed them and either subsidized the utility fund with tax revenues or reduced our level of capital investment in the Town's infrastructure. The Town is now to the point where it has near zero capital reinvestment in its utility operations and an ever-growing tax subsidy to the utility fund. Eventually, this will lead to an unreliable utility infrastructure, high water loss rates and roads, and sidewalks and storm water management systems that need repair.

The Town's finance staff estimates that the utility fund operated at a loss of \$157,947 in fiscal year 2009 and is operating at an estimated loss for the current year over \$74,000. This is after a substantial subsidy of over half a million dollars from the general fund via the meals tax transfer. The actual loss was approximately \$590,000 for FY 2010 and \$680,000 for FY2009 after factoring in the subsidy from the general fund. To fully fund all of the real costs in the utility operation and to fund capital expenses would require a monthly rate near \$50 for the average customer. Our current average monthly rate is \$35.80.

The Town also subsidizes the general fund historically through interest earned on cash reserves. The current investment market has cut this amount to a third of what it was only four years ago.

The most troubling outcome of the recession to date has been the impact on small businesses. We have seen small local businesses struggle, reduce staff, and close completely in the past 24 months. The Town's FY 2011 budget should, to the extent possible, ease the burden placed on small businesses. To help small businesses succeed, this proposed budget converts the Town's BPOL fee to a flat \$30.00 a year for businesses grossing under \$100,000. **This reduces the BPOL tax placed on our small businesses by \$30,000.** However this will require the Town to find \$30,000 in revenue from some other source. With a reduction in BPOL levels, the estimated decrease in revenue from FY 2010 is over \$820,000.

To accommodate this \$820,000 revenue shortfall, the following are proposed in this budget:

- De-funding two positions for a savings of \$110,000
- Reducing the Town's share of employee health benefits for savings of \$30,000
- No cost of living increases for Town employees

- Cutting line-item and operations by \$370,000
- Adopting a new water and sewer rate structure that will increase the utility revenue by \$185,000
- A ten-cents per pack tax on cigarettes that will generate approximately \$125,000.

The utility rates are still in development and will be presented during the May Council meeting. The features included in the rate structure include no change in the actual rate, but adds a small monthly capital recovery fee based on meter size and an exemption from the increase for those on our existing senior discount program.

We do have to keep up with capital needs, and there are a few new items in the fiscal year 2011 budget which represent bare minimum spending to keep up with our capital needs:

- \$20,000 to paint and repair the Floyd Avenue Fire Station
- \$25,000 to replace a marked police car
- \$19,500 for a new Public Works pick-up truck to replace one totaled this year
- \$30,000 for the local match of the Veterans/Lynch Parks Interconnector Trail
- \$30,000 for the Pigg River Dam Safety Project
- \$24,000 to extend the sewer line on Bernard Road
- \$15,000 to extend the sewer line on Scuffling Hill Road
- \$12,000 to replace the DO & PH sensors for oxidation at the Wastewater Treatment Plant
- \$3,000 to replace the PH sensors for I & E at the Wastewater Treatment Plant
- \$6,000 to replace the blower at the Wastewater Treatment Plant

We have also reduced agency contributions by \$16,700 to a total available of \$25,000. Most outside agency funding has been significantly cut with the exception of those agencies that provide direct services to our citizens most impacted by the recession.

There are very few capital items in this budget. We have included contingency funds of \$30,000 in the utility fund and \$25,000 in the general fund.

To make the utility fund balance, \$514,278 of meals tax revenue has been transferred from the general fund.

The reductions proposed are on the heels of an already lean year in which we drastically cut expenditures. Because we have recognized the impact of the recession, your department heads are working diligently to manage spending and have significantly reduced current year expenditures to adjust for the downturn in revenues.

The following calendar will be used during the budget discussion and approval process:

Thurs	4/01/10	Distribution of proposed FY 2011 Budget and FY 11 – 15 CIP
Mon	4/12/10	Joint Work Session with Planning Commission if needed on 5-year CIP (during the regular Council meeting)
Mon	4/19/10	Budget Work Session #1 at 4:00 p.m.
Mon	4/26/10	Budget Work Session #2 at 4:00 p.m.
Wed	5/5/10	Planning Commission: public hearing on proposed FY 11 – 15 CIP

Mon	5/10/10	Public Hearing on proposed FY 2011 tax rate effect, if needed
Mon	6/7/10	Public Hearing on proposed FY 2011 budget & FY 11 – 15 CIP (special Council meeting)
Mon	6/14/10	Adoption of FY 2011 budget & FY 11 -15 CIP & Appropriation Resolution (regular Council meeting)

OVERVIEW: GENERAL FUND

The General Fund tracks most services Town citizens expect. These services include administration, public safety, public works, buildings and grounds, parks, community development, and non-departmental costs such as debt service and interfund transfers. Revenues to fund these services include property taxes, other local taxes such as meals tax, cigarette taxes, business license taxes, fines, proceeds from investments like interest income, charges for selected services like garbage collection, and assistance from the State and Federal governments.

REVENUES

In FY 2011, the general fund revenues are projected to decrease 4.5% from FY 2010. Without the proposed reduction in BPOL revenue of \$30,000 and the additional revenue in cigarette taxes, the decrease is estimated to be 3.9%.

Personal property taxes will decrease while real estate tax collections should see a small increase. This results in a net decrease of \$8,022 or 1.0% from last year in general property taxes.

Other local taxes are projected to increase 5.3% or \$106,606 with the introduction of the cigarette tax. We project a decrease in utility tax, communications tax, and decals. Without the cigarette tax, other local taxes would see a decrease of 0.92% or \$18,394.

Business and Occupational Licenses is showing a 0.78% or \$3,378 decrease. Without the elimination of the gross receipts tax on those businesses earning less than \$100,000 in gross sales, there would be a 7.7% or \$33,378 increase.

After seeing a significant increase in FY08, court fines and parking fees decreased in FY09 and FY10 and we are projecting a further decline of \$10,800 or 35.5% in FY 2011.

Proceeds from the Use of Assets are seeing a \$58,215 or 22.9% decrease. This is due to the diminished interest income on our investments.

Non-Categorical Aid from the State is projected to increase by 1.7% (\$1,255).

Categorical Aid from the State is projected to show a 2.3% (\$29,907) decrease.

EXPENDITURES

General government administration in the general fund includes the accounts for the Mayor & Town Council, Town Manager, Town Attorney, Finance, and the Electoral Board. These accounts are projected to be \$596,540 and comprise 9.05% of the total FY 2011 general fund

proposed budget. General government administration is showing a 3.09% (\$19,050) decrease from FY 2010.

Public Safety includes the accounts for the Police Department and the Fire Department. After eliminating capital projects in FY 2011 to compare with FY 2010, there is a 6.10% decrease (\$101,722). Public safety comprises 24.42% of the total FY 2011 proposed budget.

Public Works makes up 18.63% of the FY 2011 proposed general fund budget. There is a \$32,823 (2.75%) increase from FY 2010 due to increases in traffic control (electricity), sidewalks (safety repairs), and snow removal (anticipated increased precipitation). Services included in this department are street lighting, traffic control, street maintenance, sidewalks, curbs, gutters, street cleaning, refuse collection and snow removal. The vast majority of these expenses are reimbursed by the State's street maintenance program.

Buildings and grounds maintenance comprises 3.44% of the budget and is showing an 11.76% (\$23,885) increase from the previous year. Most of the increase is related to the inclusion of funds to improve the Pigg River Dam and for the local match for the Park Interconnector Trail.

Community Development makes up 5.42% of the total general fund FY 2011 proposed budget and is showing a 20.78% or \$93,782 reduction from FY 2010 due to not funding the vacant Planner position or the music grants program approved in FY 2010.

The non-departmental account in the general fund includes the payment of 75% of liability and property insurance premiums, interfund transfers, debt service, and contributions to outside agencies. A \$25,000 contingency fund is budgeted for FY 2011. The normal \$514,278 transfer to the utility fund to defray the debt service on the Wastewater Treatment Plant is in this account. Other debt service funded from the general fund includes the Emergency Services Building (which has a balloon payment of \$1,583,467 due during FY 2011), the Old Fort Road improvements, as well as the Public Works shop and the new central business district public parking lot development. **Contributions to agencies have dropped to \$25,000, a 40.05% reduction.** The non-departmental account is 39.03% of the general fund budget. It is seeing a 4.4% decrease in FY 2011 without the balloon payment.

OVERVIEW: UTILITY FUND

REVENUES

The utility fund revenues are projected to be \$3,197,391 for FY 2011, which is a decrease of 6.98% or \$234,727 – even with the contemplated rate increase. The production and sale of water is expected to remain level with present consumption. The cost of producing water and treating sewer continues to climb, but all aspects of the utility fund have cut their discretionary expenses. Because of this, there are no expansion projects or major replacement projects proposed. Although major repairs and upgrades are needed at the Water Treatment Plant, there are no funds allocated to that this fiscal year.

The Town of Rocky Mount delivers quality water and sewer services to our customers for below market rates. Seventy-one percent (71%) of our water revenue comes from residential, commercial, and industrial customers living within the Town limits. Although eighty percent (80%) of our customers use 5,000 gallons or less per month, those customers (both in-town and out-of-town) account for forty-three percent (43%) of total water and sewer revenue. There was a small increase in FY 2008 (3 years ago) of 25 cents for water and 25 cents for sewer. The utility fund continues to be subsidized by the general fund to pay the wastewater treatment plant

debt service. The usual \$514,278 transfer from the general fund is included in this year's budget.

Town staff has successfully improved water accountability in the past several years. Water accountability in FY 2007 was 80.10%, 85.90% in FY 2008, 84.95% in FY 2009, and is 85.31% so far in FY 2010.

Water use charges are projected to show a 10.15% (\$123,290) decrease for FY 2011. Actual water sales began declining during FY 2009. Wastewater use charges are projected to show a 5.03% (\$38,240) increase for FY 2011.

Miscellaneous revenue is made up of cell phone tower rent. There is a projected decrease of 26.29% (\$16,040) due to the Town acquiring the Forest Hills customers that were previously serviced by the County buying bulk water from the Town. Transfers from other funds are projected to show a 3.46% increase (\$17,200) due to withholding funds to balance the general fund in FY 2010.

EXPENSES

Water treatment and distribution make up 25.42% of the utility fund budget. There is a projected 3.38% (\$28,459) decrease in FY 2011. Due to reduced revenue projections, there are no water line replacement projects in the FY 2011 budget.

Wastewater collection and treatment make up 16.13% of the utility fund budget. There is a projected 4.33% (\$23,330) decrease.

Miscellaneous expenses include utility billing and non-departmental accounts. The utility fund's non-departmental expenses include 25% of total liability and property insurance premiums, debt service, and a \$30,000 contingency. Miscellaneous expenses make up 58.45% of the utility fund budget. This category is projected to see a 5.86% (\$116,321) decrease because of lower depreciation expense estimates for FY 2011.

OVERVIEW: CAPITAL PROJECTS AND 5-YEAR CIP

The 5-year capital improvement plan (CIP) is a tool for long-term financial planning to identify major equipment and infrastructure needs over the next 5 fiscal years. Only projects approved in year 1 need to be funded. Projects in years 2 through 5 do not demonstrate a commitment to funding but only that the projects are currently planned to occur during years 2 through 5.

Not counting the \$1,583,448 balloon payment due on the Emergency Services Building for this fiscal year and the department heads realizing that there were no funds for capital items, there were \$748,500 capital requests from the departments. Of department requests, \$184,500 of projects were placed in this year's (FY 2011) budget. Capital spending has been delayed again for FY 2011. This is a tactic that cannot be used often as the Town must maintain its infrastructure on a yearly basis in order to remain financially secure. The CIP schedule can be found under the "Capital Improvement Plan" section in this budget document.

CONCLUSION

This budget represents a significant reshaping of our fees and taxes. It proposes to reduce fees placed on small businesses and to make the utility fund closer to being self sufficient. The utility

fund has operated at a loss of up to \$750,000 each year for the past five years (including the meals tax transfer). Ultimately this will be the first in a series of rate adjustments for the utility fund so that our water and sewer operations can become self sufficient, make future capital investments in an orderly fashion, and maintain the high level of reliability our customers expect.

Based on the available data, we have responsibly projected decreases in our revenue and offset that with reduced expenditure budgets across all the departments. Hard decisions were made to balance the desired level of service with the ability to fund them. Fee and tax increases are included in this proposed budget, but unlike the State and Federal budgets, we must balance our budget and we must pay for the services we provide.

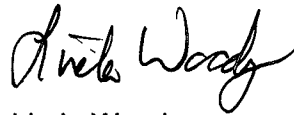
This budget would be impossible without the guidance from the department heads during the preparation process. They continue to provide the highest quality service at the lowest cost to taxpayers. They inspire their employees to continue to provide dedicated service to the Town's citizens and customers.

This budget would also have been impossible without the guidance and assistance of Town Council. You have provided a unified course of direction for the Town of Rocky Mount and a consistent vision for the development of this budget.

Sincerely,



C. James Ervin
Town Manager



Linda Woody
Finance Director