

**ROCKY MOUNT TOWN COUNCIL
WORK SESSION
SPECIAL COUNCIL MEETING
NOVEMBER 1, 2011**

The November 1, 2011 work session special meeting of the Rocky Mount Town Council was held at the Community & Hospitality Center (Depot) located at 52 Franklin Street, Rocky Mount, Virginia at 6:00 p.m. with Mayor Steven C. Angle presiding.

On behalf of the Rocky Mount Town Council, the meeting was called to order by Mayor Angle, with the following members of Council being present:

Vice Mayor Gregory B. Walker and Council Members Jerry W. Greer, Sr., Bobby M. Cundiff, P. Ann Love, Robert L. Moyer and Robert W. Strickler

For the record, the following were present: All members of Town Council as noted, Town Manager C. James Ervin, Assistant Town Manager/Community Development Director Matthew C. Hankins, Town Attorney John T. Boitnott, Finance Director Linda Woody, and Town Clerk Patricia H. Keatts

APPROVAL OF AGENDA

Prior to the meeting, Council had received the agenda for review and consideration of approval.

- Motion was made by Council Member Love to approve the amended agenda as presented, seconded by Council Member Cundiff and carried unanimously by those present.

UTILITY RATES

On the agenda to discuss was the following:

1. Overview of Utility Fund balance, revenue and expenditures.
2. Review of Town of Rocky Mount water loss ratio and efforts to track and resolve the ratio.
3. Review of required breakeven rate for water and wastewater operations.
4. Request to set rates for the Fiscal Year 2013 Budget in advance of budget presentations.

The Town Manager informed Council that in May they had postponed serious discussion regarding utility rates, with Council wanting to look at the rates again in the fall. He also pointed out that staff is trying to get the loss ratio up-to-date.

The Finance Director gave the overview of the Utility Fund balance, revenues and expenditures. She referenced material handed out to Council prior to the meeting, which included a spreadsheet showing the revenues and expenses for the Utility Fund for fiscal years 2007 through proposed 2012. She pointed out the following:

- Fiscal Year 2011 is still an “estimate” at this time as the audit journal entries have not been presented or posted to the general ledger. The Fiscal Year 2012 (current year) has a projected deficit of \$106,000 at this time, which corresponds to the reduced water and sewer connection fees derived from the Lilly’s Leisure project.
- The Town has a proposed cash shortage (which is based strictly on revenue less expenses and not considering fund balance) of \$520,750 at the beginning of the current fiscal year (FY 2012). If the Town uses a simple approach to show a steady stream of revenue and expenses each month, the Town will add an additional deficit of \$106,000 to the fund balance. The cash balance at June 30, 2012 (which will be the fiscal year end) would then be <\$626,750> (a deficit / cash shortage).
- The Town can consider that unrestricted fund balance is available to help offset the cash deficit. This would be like tapping the your savings account to supplement your checking account. Only the restricted fund balance, and not the entire fund balance, is available to supplement the utility cash operations.
- At the end of Fiscal Year 2010 (June 30, 2010), the unrestricted balance was \$164,320. The estimated Fiscal Year 2011 (June 30, 2011) unrestricted balance is \$215,889. This number will change as the auditors add journal entries and consolidate for the financial statements. The Finance Director expects it to decrease before the financial statements are produced.
- Right now, with the unrestricted fund balance of \$215,889 available, the beginning cash deficit for Fiscal Year 2012 (the current fiscal year) is <\$304,861> (still a deficit). With the projected additional shortage of \$106,000 during Fiscal Year 2012, the ending cash shortage would be <\$410,861>.
- As adopted in the Fiscal Year 2012 budget with no increase in utility rates, and with the expenses cut to the bare essentials of operations with a stunted investment in infrastructure, the Town will only add to the current cash shortage in utility operations. There really is no further room to reduce expenses if the Town’s current level of operations is to be maintained. That only leaves an increase in revenues to offset the cash shortage.

The Town Manager pointed out that the audit shows that the Town has a Utility Fund, but it is items that have cash value and in reality, the Town has no available cash. It was also pointed out that during this past spring, the Town did use up cash reserve by paying off one of the bonds. He further asked that before Council talks about what the Town can do

about this, or a time table, he would like to discuss what has been talked about when the Public Utilities Committee has met. He pointed out that some of the tasks the Town has done thus far to keep the Town's loss ratio as low as possible are:

- Hired an engineering firm to review the Town's usage and billing records and to make recommendations.
- Replaced and fine tuned the finished water meter at the Water Plant.
- Serviced the Town's altitude valves at the water tanks to help prevent overflowing and inspected those valves while in operation.
- Improved the Town's audit or unread of under read meters.
- Increased the Town's meter reading crews to make the reading and water accounting periods closer in time.
- Increased the Town's accounting for water used for firefighting and for system flushing.
- Increased the Town's accounting of water lost from known leaks as given by the Public Works Director.
- Randomly pulled meters and tested for accuracy, which did not indicate that the Town had a meter reading problem.

The Town Manager also pointed out work that is being planned and in progress:

- Developing rules for the inspection of fire suppression systems, wanting an annual report on this.
- The Town will perform a system-wide meter audit (should have a map to Council showing all this) to verify that:
 - All lots have meters.
 - All large parcels with multiple meters and multiple buildings have each building tagged to a meter.
 - All meters are audited to ensure a correct multiplier.
- Geographically tagging all parcels with a meter location to identify visually any potentially lost meter.
- Mapping water pressure within the system to identify areas of high pressure where leaks would be more likely, with this being done by the Water Plant Superintendent.

The Town Manager pointed out that this work is ongoing and expected to be completed in December. He further pointed out that based on all of the tests, audits and work performed to-date, the Town's water loss is most likely in the distribution system and is representative of actual leaks that need to be addressed through line replacement, lead detection and capital work. This type of investment in the system is one of the items that the Town has had to postpone due to limited revenue from the system. Additionally, it is likely that the loss the Town is encountering does not represent a revenue stream in that it is not water that is consumed in some way that could be billed, and there would be little, if any, return on the investment. He also pointed out that the areas that may represent recoverable revenue include finding unbilled meters and verifying that fire suppression systems are not tapped into for potable water and that the usage of those systems is correctly accounted for, with these initiatives being underway.

The Town Manager stated that it was very hard to find any water leaks between the manufacturing of the water and the billing process. He pointed out that the breakeven water rate is moving forward, and he thought it was imperative that Council sit down with staff to see what type of return the Town needs on its investment. He pointed out that the Town's average is near 80% accountability, which is above average for localities with water systems. The Town has a theoretical maximum of 89% accountability using a formula based on the number of connections, the system pressure, and the length of the piping in the distribution system. The 9% of the Town's water that is lost and could potentially be recoverable represents roughly 2.5 million gallons a month. This is a system-wide leakage of 57 gallons per minute.

Also pointed out by the Town Manager was that the Town has dealt with increased costs by decreasing its capital investment. In each of the recent budget cycles, the Town has had to push capital items into future years. The Town's plant managers believe the Town will need to invest approximately \$1,350,000 in plant maintenance in the next two to three years. There is likely another \$500,000 in the distribution system repairs and maintenance costs as well. It is not likely that the Town will get to its desired water accountability figures without capital work in the distribution system. This list of capital items had been previously circulated to Council. These items can be done incrementally as part of the budget process or as part of a single retrofit project funded by a revenue bond. Staff has proposed utility rates that would allow these capital items to be funded in the past two budget years, but the consensus of Council was that the timing was not right for a utility rate adjustment. The plants and distribution systems have substantial capital needs, but the Utility Fund is running a deficit. Additionally, monthly income from the solid waste and treatment wastewater is less than expenses, making it impossible to fund these repairs out of current revenue. The Finance Director's report indicated that the Town started the current fiscal year with a deficit in the Town's Utility Fund of \$304,861 and it is projected to have a deficit of \$401,861 at the end of the current fiscal year. The Utility Fund is out of money and a rate adjustment is essential at this time. The challenge now is that the Town has a cash deficit and probably can't borrow from a revenue standpoint. Ultimately, thinks the Town has a crisis of unbalance.

The Town Manager suggested that if Council wants to do rates based on a calendar process, the rates would be set and not an item that can be changed during the budget process. Also, Council may want to consider rates proposed from last spring of taking it from \$30.00 to \$40.00, even though the breakeven point is now \$60.00. By taking it to a \$40.00 point, it does not hit the citizens as hard. He explained to Council what the Town's current base of 3,000 gallons for in-town bill was, being \$35.80, with him further explaining the breakeven amounts needed for water and sewer, which was roughly \$50.00 for combined water and wastewater bill. For the projected expenses in the current fiscal year, staff estimates that a breakeven rate for 3,000 gallons of water and wastewater service is \$60.69. The Fiscal Year 2012 budget included a proposed rate increase that would have taken

the base combined bill to \$40.30. This was proposed as a first step in a series of rate changes that would make the Utility Fund self-sufficient. The rates proposed for Fiscal Year 2013 would have been a slight increase from those proposed for Fiscal Year 2012. The Town has not implemented the proposed rates and inflation continues to raise the amount needed to bring the Town's rates in-line. If the Town holds off performing a series of rate increases, those needed increases becoming larger and larger. Ideally, utility rates should be adjusted each year to account for costs and capital needs.

He also pointed out that it is challenging to develop a budget when the rates are undefined, and that staff proposes that Council set the rates as a calendar year process so that utility rates are not contemplated in the budget process. This would enable the Finance Director to report to Council in November of each year, outlining what the current costs are for the Town's utility operations and what the proposed rates would be for the next year. The budget could then be developed based on a known utility rate structure. The capital needs of the Town's Water Plant, Wastewater Plant and water and wastewater distribution systems, combined with the depletion of the Utility Fund balance, point to a significant gap in the amount of revenue received in operating these utilities versus the costs the Town incurs.

Staff recommends:

- Rates be set on a calendar basis outside of the budget process.
- Rates for Calendar Year 2013 be adopted along the lines of those included in the proposed rate sheet (previously given to Council), resulting in a combined minimum of \$40.30 versus an estimated breakeven rate of \$60.69.
- Report annually to Council in November what the estimated breakeven rate is, as well as the state of the Utility Fund balance and recommend a utility rate structure for the next calendar year.

Council Member Strickler questioned how to address the water loss (Council Member Cundiff pointed out that it was at 75% the last time it was checked).

There were questions regarding how the increase of a utility rate would impact the bill, with it being brought out that it would be above \$5.00 per month increase, with the elderly/disabled actually seeing a decrease of approximately \$1.70 per month.

Council Member Love stated it would be smart to do the budget of utility rates outside of the budget process.

Vice Mayor Walker questioned how money would be spent when loan payment on Wastewater Treatment Plant is paid off. Town Manager explained that ideally the \$500,000 would go towards much needed capital expenses since the Town has substantially reduced Fund Balance from years past.

The Mayor indicated that the Town has aging infrastructure that is beginning to be slowly replaced when needed; Town will have to replace meters when needed; Town cannot sell water for less than it costs to make; Town has to reach a point

when water and water/sewer pays for itself; Town is not in business to make money, but it has to pay for itself; it is not a popular thing to do, but one that is necessary; agrees that the utility rates need to be taken out of the budget and discussed separately, with proposed rates being applied calendar year and not fiscal year so that things will not have to be around in the budget as in the past when proposed utility rates were not approved.

Council Member Cundiff agrees with rates being taken out of the budget process, but that he has a problem with the accountability of the water loss, with water leaks getting bigger, not smaller. Questioned why the Town had 50% more help at the Water Plant than "x" number of years ago.

Council Member Greer stated that things are going backwards.

The Mayor explained that Council needs to understand that costs are still going up to run the plants and the rates are still being kept the same.

The Finance Director stated that when looking at accounting for new meters, only found 39 new accounts that were added in the past two years.

There was discussion why the Water Department is running with four operators when less water is being produced. The Town Manager explained that he does not think you can consistently make less water by cutting down the hours and that by doing so, it still will not make up the \$500,000 dollars shortage. To make that amount up, Council would have to get rid of all the Water Department staff and one-half of the Wastewater Treatment Plant staff. He pointed out that both departments ran 89% to 86% less than what their departments' budget was and have worked very hard to continue to do so, and as of right now, does not want more they can carve out of their budgets to decrease cost.

There was discussion where the \$170,000 from the eliminated debt payment on annexed water bond is going, with the Town Manager outlining which projects they were, such as the Wastewater Treatment Plant ultraviolet system and camera and other capital projects as approved by Council, with the entire amount being allocated by Council to be spent.

There was discussion between the Mayor and Vice Member Cundiff regarding where the distribution leak would be, with Vice Member Cundiff noting that if there was such a leak, the Public Works Director should be able to see where it was. The Mayor disagreed, stating that whether it was a distribution leak or not, the Town needs to still set water rates to produce water at a breakeven point. Council Member Cundiff stated that he agrees with Mayor regarding cost is the same whether you account for it or not, but there is something out there they are not finding that is causing the water loss. The Mayor stated that obviously the water is going out that is not reaching a meter, but the loss has no impact on the cost of water being produced.

Council Member Moyer questioned why is it that the Water Department has six employees and they are running several million gallons of water that is less than what it was several years ago, and that you can run just as much with less employees. The Town Manager stated that when they were doing that several years ago, the Water Department was running it hot, which was running it faster without being run with the right permits from the Virginia Health Department. He further pointed out that the Water Plant Superintendent running the department now is running it according to the permit and as safe as possible, doing it the right way to run two million gallons a day. He further explained how the Superintendent was running the Water Department and how you can't budget when a current Council member says what a past Council member has stated about how many staff was needed to run the Water Department, and it is challenging to budget when this happens. He further stated that even if Council got rid of one position at the Water Plant, he is not sure it would make that much difference in the costs.

Council Member Cundiff questioned what the Superintendent of the Water Plant does to participate in manufacturing of treating water. The Town Manager explained it entails quite a lot, such as: collecting all the samples; making sure Water Plant stays within the permit from Department of Environmental Quality; making sure in compliance with Virginia Health Department; helps to make sure all operators are trained and know what they are doing; and ultimately seeing that the water that is produced is acceptable.

The Mayor indicated that the first thing the Town needs to do at this point is to decide if they want to take the utility rate out of the budget and put it on calendar basis. The Town Manager indicated that he and the Finance Director would need every year around October to be able to see if a water rate increase is needed. The Mayor indicated that the Town needs to have a plan in place so the rates will breakeven, but the Town does not need to incorporated this all at one time, but at least within three to four years, and that it is like running a business, you have to sell at a cost to break even.

Vice Mayor Walker stated that the Town needed to remember there are citizens in the Town that have lost their jobs and can't afford any rate increases.

There being no further discussion, the Mayor entertained a motion on having the utility rates operate on a calendar basis from January through December, with it being taken out of the budgeting process all together.

- Motion was made by Council Member Love to have the utility rates operate on a calendar basis from January through December, and to take it out of the budget process, with motion on the floor being seconded by Council Member Strickler. Let the record show that the motion on the floor passed unanimously by those present.

There was discussion regarding any utility rate change at this point, with the Mayor stating that he believes that before any proposed change, would like to get figures from the Finance Director on how much it would cost over the next two to three years to get to a breakeven point, and that it may have to be adjusted on a calendar basis after that. The Town Manager indicated that he will place this on the December regular Council meeting agenda.

SCUFFLING HILL ROAD

The Town Manager stated that Council has asked for a detailed look at the Scuffling Hill Road project during their November 1, 2011 work session. He pointed out the following:

- In 2008, the Town had applied for \$238,295 from the Virginia Department of Transportation (VDOT) to install curb, gutter, sidewalk and storm drain facilities on the most needed part of Scuffling Hill Road. The resolution and application to VDOT had previously been given to Council. The total cost of the project at that time had been estimated to be \$476,000.
- The Public Works Director now estimates that current storm water regulations will increase the cost. The exact amount is unknown unless the Town goes forward and hire a firm to design the storm water aspects of the project.
- The intent was to fund the Town's share of the costs in 2009, but budget years 2009 (Fiscal Year 2010), 2010 (Fiscal Year 2011) and 2011 (Fiscal Year 2012) all resulted in shrinking revenue due to the recession. The project is still on the Town's high priority list, but is dependent on revenue.

There was discussion regarding:

- Public Works Director and Town Managing believing this is something that Council wishes to do, and due to this, would like to see some design work done in order to know what the costs would be to do the project, especially since the Public Works Director believes it is out of his element to come up with the cost figures.
- Residents along Knollwood Drive that were not hooked onto the Town's sewer would possibly now have to hook on due to the work being done.
- Would have to acquire some property for a pond to hold the water runoff. The Public Works Director feels like the Town would need someone with stormwater expertise to figure this out.
- Project was being considered because of the intense erosion problem on Scuffling Hill Road due to the water runoff cutting into the asphalt; constantly getting citizens complaining; and that the Public Works Director believes that in the long run, curb and guttering is needed to address the problems with water runoff.
- Need to at least get preliminary report on the project before proceeding, with the Town being in danger of losing the Virginia Department of Transportation funding that is available to help with this project due to a time line.
- Mentioned other properties in-town also having water runoff problems, specifically mentioning Trail Drive.
- Went over the basis of what a preliminary report would do.

Let the record show that it was the consensus of Council for the Town Manager to go ahead and get a preliminary engineering report on the Scuffling Hill Road proposed project before proceeding any further. The Town Manager so noted.

LEASING THE COMMUNITY & HOSPITALITY CENTER (DEPOT)

The Town Manager went over the history of Community Partnership for Revitalization (CPR) and also the Franklin County Chamber of Commerce managing and operating the Depot for the Town. At present, there is no entity operating the Depot on behalf of the Town. He informed Council that the Town now has Franklin County Retail Merchants Association (RMA) stepping forward and offering to operate the facility, with them submitting a letter of offer. He relayed to Council RMA's key points that they will do if they are allowed to operate the Depot on behalf of the Town:

- The Depot will be staffed and opened 8:30 a.m. to 2:30 p.m., Monday through Friday, and on 8:30 a.m. to 10:00 a.m. Saturday (longer if the Town provides volunteers).
- At the request of RMA, the Town would no longer rent the facility as RMA Executive Director, Dorothy Cundiff, believes that to set up the facility as a visitors' center, some items will need to be placed in the facility that would make it hard to safely rent, with this including merchandise and other sale items relative to Rocky Mount, the Crooked Road, and the Town's history. Rental of the Board Room would still be an option.
- RMA would pay \$50.00 a month to the Town for renting the Depot.
- RMA would have access to the caboose.
- At the request of RMA, the Town would continue paying for the upkeep of the building.

Prior to the meeting, Council had received a copy of the last rental/lease agreement with the Franklin County Chamber of Commerce so they could compare what RMA was asking as to what the Town did for the Chamber of Commerce.

The Town Manager pointed out:

- A compromise to the renting of the facility could be that the Town cease renting the Board Room and allow RMA to place items that they do not want unattended in that space, but to continue renting the Main Hall area. Recommends that if Council wishes to pursue this, the Town asks that the Depot be opened until 5:00 p.m., Monday through Saturday, and that RMA be tasked with recruiting and managing the volunteers.
- Actual receipts from the rental of space at the Depot for Fiscal Year 2011 was \$5,920, up from \$3,491 in Fiscal Year 2010 and \$3,769 in Fiscal Year 2009.
- The Franklin County Historical Society has a stewardship agreement with the Town relative to the caboose (Council had received prior to the meeting a copy of the agreement). This agreement would have to be revised if the Town intends to have the caboose accessible to RMA, and the Town could not agree to allowing RMA access until the agreement is updated.

- An alternative to the proposal is to proceed with hiring part-time staff to operate the Depot. This is estimated to cost \$16,000 per year.

There was discussion regarding the following:

- Board Room is very seldom rented out, maybe twice a month. Main Hall is rented a lot more frequent and rental fees totaled around \$6,000 from last year. The Main Hall is used a lot on Thursdays through Sundays, with the Footlights of the Blue Ridge using it also a lot on Fridays. There are a lot more bookings seasonal for the year for the weekdays.
- Town should not be in the rental business when there are private businesses in-town trying to rent their buildings out, with the Town needing to not compete with private businesses.
- Should let RMA manage the Depot, the Town should let Mrs. Cundiff run it the way she has proposed, and if the Town does not rent out the Main Hall area, let her pay all utilities, even though she is not proposing that now.
- Not convinced Depot needs to be open but for the hours that RMA is proposing.
- The Town Manager indicated that Mrs. Cundiff may be open to making the Depot space available to rent for one event, and that she could store her merchandise in the Board Room.
- Sometimes the utilities can be as high as \$800.00 per month. Perhaps Mrs. Cundiff may be willing to pay one-half of the utility bills.
- The Franklin County Historical Society has stewardship of the caboose, with the Town Manager needing to sit down with the Managing Director, Linda Stanley, to renegotiate the agreement.
- Believes Town can accommodate Mrs. Cundiff's request for a storage building on the site.
- Council needs to know if Mrs. Cundiff wants to renegotiate, and if not, Town will need to put a part-time person in the Depot.

The Town Manager confirmed to Council the following items needing to be negotiated with Mrs. Cundiff, being:

- Expand time that Depot needs to be open.
- Need to continue renting the Main Hall Friday through Sunday.
- Put merchandise in Board Room.

BILLBOARD ART

The Assistant Town Manager stated that he was not satisfied at this time with the proposed billboard art that he was going to present to Council for their review and consideration of approval; therefore, he will send something out to Council in their Friday weekly packet, and then will poll Council before next Tuesday.

There was discussion on what businesses will be advertised on the billboard.

Vice Mayor Walker mentioned that Mrs. Cundiff with Franklin County Retail Merchants had a good idea at one time of putting on the grain tower something like "Welcome to Rocky Mount" and then put the Town's insignia on it.

CLOSED MEETING

At 7:54 p.m., motion was made by Council Member Love to go into Closed Meeting, seconded by Council Member Moyer and carried unanimously by those present to go into Closed Meeting to discuss the following:

- Section 2.2-3711(A).3 – Discussion or consideration of the acquisition of real property for a public purpose, or of the disposition of publicly held real property, where discussion in an open meeting would adversely affect the bargaining position or negotiating strategy of the public body (property located in downtown Rocky Mount, Virginia suitable for proposed music venue).

At 8:40 p.m., motion was made by Council Member Strickler to come out of Closed Meeting and to reconvene the meeting back into open session, with motion on the floor being seconded by Council Member Greer and carried unanimously by those present.

CERTIFICATE OF CLOSED MEETING

Whereas, the Town of Rocky Mount Council has convened a Closed Meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

Whereas, Section 2.2-3712 of the Code of Virginia requires certification by this council that such Closed Meeting was conducted in conformity with Virginia Law;

Now, Therefore, Be It Resolved that the Rocky Mount Town Council hereby certifies that, to the best of each members' knowledge: (1) only public business matters lawfully exempted from open meeting requirements under this chapter and (2) only such public business matters as were identified in the motion by which the Closed Meeting was convened were heard, discussed, or considered in the meeting by the public body.

Steven C. Angle, Mayor

Motion was made by Council Member Love certifying that nothing was discussed in Closed Meeting other than what was stated. Motion was seconded by Council Member Greer. The Mayor swore to adopt the motion on the floor by Council Member Love that this was all that was discussed as defined in Section 2.2-3412 Code of Virginia. Voting yes were Vice Mayor Gregory B. Walker and Council Members Bobby M. Cundiff, Jerry W. Greer, Sr., P. Ann Love, Robert L. Moyer, and Robert W. Strickler.

The Mayor reported that no action was taken.

ADJOURNMENT

At 8:41 p.m., motion was made by Council Member Greer to adjourn, seconded by Council Member Moyer and carried unanimously by those present.

Steven C. Angle, Mayor

ATTEST:

Patricia H. Keatts, Town Clerk