

**ROCKY MOUNT TOWN COUNCIL
SPECIAL COUNCIL MEETING
WORK SESSION
NOVEMBER 8, 2012**

The Rocky Mount Town Council special meeting work session was held at the Rocky Mount Municipal Building located at 345 Donald Avenue, Rocky Mount, Virginia on November 8, 2012 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 Billie W. Stockton

For the record, the following were present: All members of Town Council as noted, Town Manager C. James Ervin, Finance Director Linda Woody, Superintendent of Water Department Robert Deitrich, 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 Vice Mayor Walker to approve the agenda as presented with motion on the floor being seconded by Council Member Love and carried unanimously by those present.

WORK SESSION ON UTILITY RATES AND ESTIMATES FOR COMING CALENDAR YEAR

The Town Manager stated that the reason for having this meeting was that Council wanted staff to communicate on a regular basis to them regarding the Town's utility rates.

Prior to the meeting, the Town Manager and Finance Director had provided for Council the monthly break-even costs for the current fiscal year, along with the past four fiscal years. He pointed out the following: these rates do not contain depreciation because that comes from the Utility Fund's fund balance; it is also net of the meals tax transfer each year; this is \$3.17 for fiscal year 2013; had this not been included as a reduction in the rate, an additional \$3.17 would be needed per 1,000 gallons to obtain the break-even point; and previous years' meals tax reductions were \$3.04 in FY 2012, \$3.23 in FY 2011, \$3.12 in FY

2010, and \$2.82 in FY 2009. He also pointed out that the utility rates were last adjusted on July 1, 2007 (five years ago), and at that time, water was increased 25 cents and sewer was increased 25 cents per 3,000 gallon monthly minimum bill.

Presented to Council were rates that reflected the monthly break-even per 3,000 gallons (to compare the current minimum monthly bill of 3,000 gallons). The rates are a combination of fixed and variable costs and do not contain depreciation and are net of the meals tax transfer. Fiscal Year 2013 is based on the proposed budget, while the past fiscal years are based on actual production and financial data:

Break-even rates as presented by Town Manager and Finance Director:

<u>Per 3,000 gal.</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Water	\$20.36	\$20.07	\$21.13	\$21.87	\$22.73
Sewer	\$31.98	\$31.18	\$27.93	\$33.45	\$25.83
Combined	\$52.34	\$51.25	\$49.06	\$55.32	\$48.56
Current	\$22.50	\$22.50	\$22.50	\$22.50	\$22.50

Note:
The break-even numbers are pretty consistent through the years.
The break-even rates are strictly for operations and debt service and are net of the annual meals tax transfer. There are no inclusions for any depreciation or long-term capital items/projects. Combined (water + sewer) annual depreciation numbers are \$15.33 for FY 2013, \$14.95 for FY 2012, \$15.56 for FY 2011, \$14.70 for FY 2010, and \$13.52 for FY 2009.

The Town Manager further explained the following:

- The break-even point for FY 2013 is estimated to be \$52.40 for 3,000 gallons of usage. The Finance Director outlines the trend in the break-even point since 2009. The Town's current charge is \$22.50 for 3,000 gallons of combined usage. The figure is net of the current meals tax transfer and does not include depreciation, which are the funds set aside for capital improvements.
- Given that the Town is currently operating at less than half of its required break-even revenue, and that the Town is facing substantial capital costs in each of the utility operations, staff proposes a series of rate increases over the next four years. These increases take the minimum bill from the current \$22.50 to \$27.95 in year 2013, \$31.40 in 2014, \$32.39 in 2015, and \$33.55 in 2016. The Town will still be short of its break-even point in 2016, but a slow phasing-in of market based rates is recommended over a sudden jump.
- Rates proposed are actually initial reduction in the price per 1,000 gallons of usage, and the institution of a flat capital recovery fee. This will allow the Town to remain

competitive in terms of industrial and economic development, while still garnering the revenue needed to invest in the utility operation.

- Additionally, the rates proposed initially offer a reduction for those citizens on the elderly and disabled program as the rate per 1,000 gallons is dropped and these individuals are exempted from the capital recovery charge.
- Town staff costs have remained flat for several years at its utility operation. The reason for the gradual inflation in the cost of delivering services is the increased cost of insurance, cost of fuel and energy, cost of medical benefits, and the ramping up of capital expenditures required to keep aging facilities in operation.

The Town Manager pointed out that prior to the meeting, Council had received the "2012 Virginia Water and Waste Water Rate Report", which stated the State average for a 5,000 gallon combined water and waste water bill is \$66.09; and that the proposed rate for Rocky Mount in 2015 would result in a 5,000 gallon bill of \$41.25, approximately two-thirds of the State average.

The Town Manager indicated that he and the Finance Director believe it is essential that a utility rate increase be implemented in calendar year 2013, and that each year Council make modest adjustments in the rates as proposed to keep rates current with inflation. Also indicated that the Town is approaching a point where its rates are so far below not only costs of operations, but also the average costs of operations across the State, and that catching up may be impossible or burdensome to the consumer. He relayed that utility rates that are also based on the cost of providing the product will remove utility pressure on the tax rates, allowing the Town to keep business taxes low and promote economic development and growth.

Also handed out to Council was a breakdown of the proposed CY 2013 water and sewer rates.

(The breakdown of the proposed rates is continued on the following pages: 5150 – 5153.)

Proposed CY2013 Water and Sewer Rates
Effective on bills issued after January 1, 2013

Rates per Gallons of Usage

	Inside	Outside
Water		
1 to 10,000 gallons	\$ 3.35	\$ 6.70
10,001 to 50,000	\$ 3.25	\$ 6.50
50,001 and up	\$ 3.15	\$ 6.30
Sewer		
1 to 10,000 gallons	\$ 3.30	\$ 6.60
10,001 to 50,000	\$ 3.15	\$ 6.30
50,001 and up	\$ 3.05	\$ 6.10

This represents a decrease in the rate charged per 1,000 gallons from \$3.75 to \$3.35 for water and from \$3.75 to 3.30 for sewer (inside rates) for the first 3,000 gallons.

Capital Recovery Base Charges

Meter Size	Water	Sewer
5/8"	\$ 4.00	\$ 4.00
1"	\$ 6.00	\$ 18.00
1.5"	\$ 12.00	\$ 36.00
2"	\$ 15.00	\$ 45.00
3"	\$ 30.00	\$ 60.00
4"	\$ 45.00	\$ 90.00
6"	\$ 90.00	\$ 180.00

While the rate for the first 3,000 gallons is reduced, a base charge is established which scales according to meter size. Since the charge is not based on consumption, but on the capital needs of the two systems, it is the same rate for inside and outside customers.

Estimated Bills

	Inside	Outside
5000 Gallons		
Water	\$ 20.75	\$ 37.50
Sewer	\$ 20.50	\$ 37.00
Total	\$ 41.25	\$ 74.50
Minimum Bill		
Water	\$ 14.05	\$ 24.10
Sewer	\$ 13.90	\$ 23.80
Total	\$ 27.95	\$ 47.90
Current Minimum	\$ 22.50	\$ 45.00

The minimum bill for those *not* on the elderly and disabled rate plan will be \$27.95 for inside customers, an increase of \$5.45 a month.

Increase in minimum from FY2011 and prior rates

Inside	Outside
\$ 5.45	\$ 2.90

Elderly and Disabled Rate Plan

	Inside
Current Rates	
Water	\$ 3.75
Sewer	\$ 3.75
2,000 Gallon Bill	\$ 15.00
New Rates	
Water	\$ 3.35
Sewer	\$ 3.30
2,000 Gallon Bill	\$ 13.30

Because the customers participating on the Town's elderly and disabled rate plan are exempt from the capital recovery base charge, they see a *reduction* in their bill based on the reduction of the water rate for the first 3,000 gallons. A customer using 2,000 gallons would save \$1.70 a month

Decrease in Monthly Bill for Customers on Elderly and Disabled Rate Plan

\$ 1.70

Fire Suppression Connection Fee

\$50.00

Proposed CY2014 Water and Sewer Rates
Effective on bills issued after January 1, 2014

Rates per Gallons of Usage

Water	Inside	Outside
1 to 10,000 gallons	\$ 3.35	\$ 6.70
10,001 to 50,000	\$ 3.25	\$ 6.50
50,001 and up	\$ 3.15	\$ 6.30
Sewer		
1 to 10,000 gallons	\$ 3.30	\$ 6.60
10,001 to 50,000	\$ 3.15	\$ 6.30
50,001 and up	\$ 3.05	\$ 6.10

No Change Proposed in charges per 1000 gallons of water/waste water

Capital Recovery Base Charges

Meter Size	Water	Sewer
5/8"	\$ 5.00	\$ 5.00
1"	\$ 6.60	\$ 19.80
1.5"	\$ 13.20	\$ 39.60
2"	\$ 16.50	\$ 49.50
3"	\$ 33.00	\$ 66.00
4"	\$ 49.50	\$ 99.00
6"	\$ 99.00	\$ 198.00

Capital Recovery Base Charges Increase

Estimated Bills

	Inside	Outside
5000 Gallons		
Water	\$ 21.75	\$ 38.50
Sewer	\$ 21.50	\$ 38.00
Total	\$ 43.25	\$ 76.50
Minimum Bill		
Water	\$ 15.05	\$ 25.10
Sewer	\$ 16.35	\$ 24.80
Total	\$ 31.40	\$ 49.90
Prior Year Minimum	\$ 27.95	\$ 47.90

Increase in minimum from CY2012 rates

	Inside	Outside
	\$ 3.45	\$ 2.00

Elderly and Disabled Rate Plan

	Inside
New Rates	
Water	\$ 3.35
Sewer	\$ 3.30
2,000 Gallon Bill	\$ 13.30
Prior Bill	\$ 13.30
Increase	\$ -

No Pricing Change Proposed

Fire Suppression Connection Fee \$50.00

Proposed CY2015 Water and Sewer Rates

Effective on bills issued after January 1, 2015

Rates per Gallons of Usage

	Inside	Outside
Water		
1 to 10,000 gallons	\$ 3.52	\$ 7.04
10,001 to 50,000	\$ 3.41	\$ 6.83
50,001 and up	\$ 3.31	\$ 6.62
Sewer		
1 to 10,000 gallons	\$ 3.47	\$ 6.93
10,001 to 50,000	\$ 3.31	\$ 6.62
50,001 and up	\$ 3.20	\$ 6.41

5% increase in per gallon charges

Capital Recovery Base Charges

Meter Size	Water	Sewer
	5/8"	\$ 5.00
1"	\$ 6.60	\$ 19.80
1.5"	\$ 13.20	\$ 39.60
2"	\$ 16.50	\$ 49.50
3"	\$ 33.00	\$ 66.00
4"	\$ 49.50	\$ 99.00
6"	\$ 99.00	\$ 198.00

No Change in Capital Recovery Base Charges

Estimated Bills

	Inside	Outside
5000 Gallons		
Water	\$ 22.59	\$ 40.18
Sewer	\$ 22.33	\$ 39.65
Total	\$ 44.91	\$ 79.83
Minimum Bill		
Water	\$ 15.55	\$ 26.11
Sewer	\$ 16.84	\$ 25.79
Total	\$ 32.39	\$ 51.90
Prior Year Minimum	\$ 27.95	\$ 47.90

Increase in minimum from CY2013 rates

Inside	Outside
\$ 4.44	\$ 4.00

Elderly and Disabled Rate Plan

	Inside
New Rates	
Water	\$ 3.52
Sewer	\$ 3.47
2,000 Gallon Bill	\$ 13.97
Prior Bill	\$ 13.30
Increase	\$ 0.66

Price per 1,000 gallons is increased 5%

Fire Suppression Connection Fee \$50.00

Proposed CY2016 Water and Sewer Rates

Effective on bills issued after January 1, 2016

Rates per Gallons of Usage

	Inside	Outside
Water		
1 to 10,000 gallons	\$ 3.52	\$ 7.04
10,001 to 50,000	\$ 3.41	\$ 6.83
50,001 and up	\$ 3.31	\$ 6.62
Sewer		
1 to 10,000 gallons	\$ 3.47	\$ 6.93
10,001 to 50,000	\$ 3.31	\$ 6.62
50,001 and up	\$ 3.20	\$ 6.41

No Change in Price per 1,000 gallons

Capital Recovery Base Charges

Meter Size	Water	Sewer
5/8"	\$ 5.50	\$ 5.50
1"	\$ 7.26	\$ 21.78
1.5"	\$ 14.52	\$ 43.56
2"	\$ 18.15	\$ 54.45
3"	\$ 36.30	\$ 72.60
4"	\$ 54.45	\$ 108.90
6"	\$ 108.90	\$ 217.80

10 % Capital Recovery Base Charges Increase

Estimated Bills

	Inside	Outside
5000 Gallons		
Water	\$ 23.09	\$ 40.68
Sewer	\$ 22.83	\$ 40.15
Total	\$ 45.91	\$ 80.83
Minimum Bill		
Water	\$ 16.05	\$ 26.61
Sewer	\$ 17.50	\$ 26.29
Total	\$ 33.55	\$ 52.90
Prior Year Minimum	\$ 27.95	\$ 47.90

Increase in minimum from CY2013 rates

	Inside	Outside
	\$ 5.60	\$ 5.00

Elderly and Disabled Rate Plan

	Inside
New Rates	
Water	\$ 3.52
Sewer	\$ 3.47
2,000 Gallon Bill	\$ 13.97
Prior Bill	\$ 13.97
Increase	\$ -

No Change

Fire Suppression Connection Fee \$50.00

The Town Manager pointed out that at some point and time, the Town will have to fund capital projects that have been pushed back due to the slow turn in the economy during the past several years, and adjusting these rates will assist with this.

The Town Manager also indicated that he has asked the Superintendent of the Water Department to speak regarding trying to address the next budget and major capital item needs (plus another two million dollars of work coming down the pike), as there is only about \$35,000 in the Utility Fund right now, and right now, it is very hard selling water at the current cost. The State requires that this fund be used for these type of repairs, and it is not possible to keep the system running at \$22.50 a month when it costs about \$50.

At the request of the Town Manager, the Superintendent of the Water Department relayed to Council that as of right now, the two water tanks on Pendleton need replacing (referencing report by Caldwell on the Pendleton elevated tank). This was discovered after the Town's contract maintenance crew painted the tanks. It will cost anywhere between \$300,000 to \$400,000 for the tank replacements; plus, another \$100,000 to remove them. There was discussion regarding replacing both tanks with just one larger one. Also discussed that the current maintenance contract for the water tanks is being cancelled, with the Town going out to bid.

Also discussed how the fire hydrants are now getting age on them, with a lot of them needing to be replaced.

Also discussed the water lines, with the Town Manager informing Council that there is money in the budget to fix lines whenever a problem is seen; if the Public Works Director has a paving job coming up and he notices that lines need to be fixed, he will do so; and those streets that are not paved so often, lines are not replaced. Discussed how better to foresee when lines need to be replaced instead of waiting for paving of the streets.

Also discussed how the auditors look at the Town's utility operations, its assets, depreciation, and looking for the Town to fund it. Due to the slow economy, assets have gone down in value. The Town Manager explained how this works. Town Manager also informed Council that they need to look at it as a seven member board running a utility system. Also mentioned that he and the Finance Director have struggled for at least the last three years on how to meet the demand on how to fund the Town's capital improvements.

Discussion ensued regarding how the monies were being used out of the meals tax fund and how it was originally set up to be used.

There was also discussion regarding the need for the Town to set aside a specific or special fund that would only be used for utilities, with the Town Manager assuring Council that no monies could be pulled from that fund unless specifically used for utility needs, with him also stating that the auditors would let Council know immediately if funds were not appropriated according to how it should be designated and set up.

Council visited the issue on how much an increase would cost the residents, with the Town Manager stating that it should not be more than \$2.75 or \$2.76 a month.

There being no further comments, it was the consensus of Council to have the Town Manager redo the figures presented to them for the amounts to come out to no more than \$2.75 or \$2.76 per month and to designate a stand-alone utility fund similar to a utility capital fund that only Council can designate funds to be used for utility needs.

MISCELLANEOUS ITEMS

The Town Manager brought the following before Council:

1. In anticipation of the upcoming Veterans' Memorial Ceremony event scheduled for Saturday – November 10th, the Town Manager had a nice vinyl fence put in place so the Town could have a safe secure fence in place where the bank is eroding away.
2. Has asked the Chief of Police and Public Works Director to install a lockable building for cones to be stored at the railroad crossing on School Board Road (next to Sheetz), so when it floods in that area, the cones will be easily accessible.

Council Member Greer stated that Council needs to start looking at raising the garbage fees for commercial businesses. There was discussion that this could be brought up during the budget process time. Also discussed that everyone having garbage picked up needs to start using a can.

ADJOURNMENT

At 8:02 p.m., motion was made by Council Member Greer to adjourn, seconded by Council Member Moyer and carried unanimously.

Steven C. Angle, Mayor

ATTEST:

Patricia H. Keatts, Town Clerk

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