

SPECIAL MEETING
BOARD OF ALDERMEN
TOWN OF WAYNESVILLE
HAZELWOOD BRANCH OFFICE CONFERENCE ROOM
280 GEORGIA AVENUE, WAYNESVILLE, NC
MAY 21, 2012
MONDAY, 5:30 P.M.

The Board of Aldermen held a special meeting at 5:30 p.m. on Monday, May 21, 2012, in the Conference Room of the Hazelwood Branch Office, 280 Georgia Avenue, Waynesville. Board Members present were Mayor Gavin Brown, Aldermen Gary Caldwell, Wells Greeley, Julia Freeman and LeRoy Roberson. Also present were Town Manager Marcia D. Onieal, Assistant Town Manager Alison Melnikova, Finance Director Eddie Caldwell and Management Advisor A. Lee Galloway.

Mayor Brown called the meeting to order at 5:30 p.m. and advised that the purpose of the meeting was to discuss the budget that has been presented to the Board by the management staff. Mayor Brown noted that when Ms. Onieal was hired as manager to replace Lee Galloway, retiring manager, it was agreed that Galloway would remain on board and be primarily responsible for developing the budget for the 2012-2013 fiscal year. Mayor Brown then called on the staff for the presentation of the budget.

Galloway took the lead in presenting the document, but he noted that all four staff members present were in attendance at almost every session when staff was discussing and developing the budget. He began with a review of the 2011-2012 fiscal year, guiding the Board through a discussion of each fund, pointing out and explaining any major variations in actual revenues and expenditures from what had been anticipated when the budget was adopted in June, 2011. He noted that the fund balances in the General, Water and Sewer Funds were healthy and growing, and he pointed out that the fund balance in the Electric Fund was still over \$1.4 million but that it had been in a downward trend for several months due to unusually high fuel charges by Progress Energy. He also noted that the Town had about \$100,000 of unexpected expenses in the Electric Fund in costs for large new transformers to accommodate the expansion of Sonoco Products.

In the General Fund, he advised that property tax revenues were higher as people were making more timely payments of their taxes. Sales taxes in Haywood County and across North Carolina were trending upward as the economy appears to be growing again after the recession years of 2008-2011. In the Water Fund and the Sewer Fund, he noted that revenues from sales had not reached the level expected. Even though there was a water rate increase of 5%, there was only a 2% increase in revenues. With cutbacks in water consumption and a drop in revenues, there was a related decline in sewer rate revenues, where there was no rate increase, since sewer rate billings are tied to water use. In the Electric Fund, Galloway pointed out that there had been a significant drop in revenues, due in large part to the mild winter when electric consumption was down. Of course, that meant that the purchase of wholesale power was down as well, so expenses were down along with revenues.

On the expense side, he noted that efforts continued to replace deteriorated water and sewer lines and he commended the Board for funding these repairs which were identified in the Asset Management Study of 2007. There are still a lot of repairs to be made on lines and at treatment plants, but he advised that success was being made in addressing the problems.

In all funds, there was some savings on health insurance reimbursements, as those were a bit less than the amount placed in the budget to cover them. There were also savings in some funds where we have vacancies after some retirements and job changes. There were also some savings in capital outlay expenditures, for some had to be delayed until the next fiscal year. In recent years, we have budgeted for a higher cost of gasoline and diesel fuel than we actually paid, so there was often savings in fuel costs at the end of the year. That is not likely to be the case in 2011-2012, as we will spend pretty much all that has been budgeted since fuel prices have remained high for most of the fiscal year.

He concluded that overall, 2011-2012 had been a relatively good year. He noted that when the budget was developed in the spring of 2011, every effort was made to trim any fat so that employees could be granted a cost of living increase. As a result, some of the departments will be overspent in their materials and supplies budget for 2011-2012, as some costs rose while funds available were cut. Fortunately, while there were some overspent line items in each department, most of those departments will be underspent overall for the year.

There were questions about the 2011-2012 budget, but most were related to why a particular account was overspent or underspent. There was more discussion about the Electric Fund, as it is not performing as well as the General, Water and Sewer Funds. There was particular discussion on the rate increase that was approved in 2009 but never implemented. Galloway explained that a new contract with Progress Energy began in January, 2010, and rates were expected to rise 5.5%. To be able to take that on, a 5.5% rate increase was authorized. But in the last half of 2009, fuel charges began to fall, offsetting the higher charges for energy; consequently, the Town did not implement the rate increase. During the 2011-2012 fiscal year, Progress Energy has had a number of planned nuclear shutdowns and some unanticipated nuclear outages as well. When nuclear plants are down, Progress Energy switches to the more expensive coal and natural gas for generation, and the fuel costs are passed on to their customers, including wholesale customers like the Town of Waynesville. The Town has been absorbing those increases rather than passing them along to its own customers, but Galloway advised that there were limits to being able to do this. He mentioned that this matter will be discussed more in the 2012-2013 budget presentation.

Mayor Brown then asked if there were other questions, and being none, he asked Galloway to proceed to the 2012-2013 budget presentation. Galloway noted that the signs of a growing economy were reasons for optimism in the next budget, with sales taxes, property tax collections and some other revenues showing growth. But he also noted that there were some expenditures that had been delayed for some time and which will need to be made in 2012-2013. Because of that, the budgets of all four funds are proposed to increase.

Galloway advised that for the 2012-2013 budget, an across the board, 3% cost of living adjustment is recommended for most full time and part time employees. He also noted that there were changes to the Blue Cross-Blue Shield Plan that would be recommended and indicated that these would be addressed and explained in a separate report.

For taxes and fees in the coming year, Galloway noted that the budget calls for the property tax rate to remain the same, 40.82 cents per \$100. Staff was proposing a significant increase in the rates for garbage collections, with residential rates rising from \$6.50 to \$9.00 a month and commercial rates scheduled to rise 38.46%. There was a discussion about the Solid Waste Study conducted by the Land of Sky Regional Council, and the tremendous cost the Town invests in all forms of solid wastes.

At present, the fees collected from residential and commercial customers do not cover the cost of collecting and disposing of garbage, and those costs will be higher with the drive to the White Oak Landfill. Galloway explained that the County's decision to close the transfer station at Jones Cove Road is just part of the reason for the increase in residential rates. He noted that Haywood County has offered to contribute \$80,000 toward the increased cost to haul garbage to White Oak rather than Jones Cove Road, but that does not cover the increased costs the Town anticipates. In addition, the Study showed that the Town expends \$441,000 annually simply in the collection and disposal of yard wastes, so the fee is attempting to recoup some of that cost.

Town Manager Onieal indicated to the Board that staff was still analyzing the costs of the solid waste services and that during the coming year, a study would be conducted to identify cost savings or operational changes that might lead to cost savings. Finance Director Caldwell noted that most private solid waste haulers are reluctant to share their costs and fees for service, so it has been near impossible to determine how much of an impact the commercial rate increase will have on the customer base. The commercial operations in Waynesville are not required to use the Town's service, and it is possible that some will opt to go with a private hauler if their rates are lower.

Staff advised the Board that a 6% rate increase was proposed in Water Rates, including rates for pump fees, but taps and capacity fees are to remain the same as at present. Galloway noted that the Town will continue to spend \$300,000 annually on the maintenance and replacement of water lines, and he noted that \$498,000 is requested for capital improvements at the Water Treatment Plant. The higher water rates are needed to assist in meeting these maintenance costs.

Sewer Rates would also rise 6%, and Galloway explained that the bridge on Walnut Trail needed work, with repairs to some timbers, sandblasting and repainting planned. With the bridge spanning Richland Creek, environmental precautions are required as lead paint is likely, and this pushed estimated costs to \$100,000. In sewer maintenance, we are seeking an increase from \$300,000 to \$350,000 in funding to repair and rehabilitate the collection lines and the manholes on the system.

Galloway did not recommend implementing the electric rate increase approved in 2009, but he urged the Town to pay close attention to the reserves in the Electric Fund. If fuel costs continue to rise and reserves of the Electric Fund continue to drop, the Town may have to implement a portion of the rate increase. It will not be possible to continue absorbing these increases. At some point, the higher costs will have to be passed along to the electric customers. Finance Director Caldwell mentioned that it was anticipated that Progress Energy would be requesting a rate increase of around 10% to be effective in December. He reminded the Board that the Town has tried to keep its electric rates lower than those of Progress, and in most cases we succeed. If the December rate increase by Progress does go through, the Town would be able to raise rates some and still be lower than the rates of Progress.

Galloway noted that he was at a breaking point before presenting the highlights of the General Fund and Enterprise Fund budgets for 2012-2013, and the Board agreed that it was a good time to recess and reconvene on Friday, May 25 at 12:00 noon. The meeting ended at 7:54 p.m.

A. Lee Galloway
Town Manager

Gavin A. Brown
Mayor