

SPECIAL MEETING
BOARD OF ALDERMEN
TOWN OF WAYNESVILLE
TOWN HALL
WAYNESVILLE, NC
MAY 16, 2011
MONDAY, 5:30 P.M.

The Board of Aldermen held a special meeting at 5:30 p.m. on Monday, May 16, 2011, at the Town Hall. This was the continuation of a meeting held on Friday, May 13, which was recessed until the above time, date and location. Board Members present were Mayor Gavin Brown, Aldermen Gary Caldwell, Wells Greeley and LeRoy Roberson. Also present were Town Manager Lee Galloway, Finance Director Eddie Caldwell and Assistant Town Manager Alison Melnikova.

Mayor Brown called the meeting to order at 5:30 p.m. and noted that the purpose of the meeting was a continuing discussion of the 2011-2012 Town Budget. He called upon the Town Manager to lead the presentation to the Board.

Galloway began the discussion with the Water Fund, noting that there was a proposed rate increase of 5% in the next budget. He pointed out that within the capital outlay section of the Water Treatment Plant, there was a project to repair the concrete surrounding the water basins at the plant as well as repairs to the concrete on the spillway of the dam. These projects have a combined estimated cost of \$360,000, and this would need to be financed over five years. The debt on this project would consume the majority of the revenues provided by the 5% increase.

Mayor Brown asked about the rate increase, wanting to know if staff had considered options of a smaller percentage increase for lower volume users and a higher increase for larger users. Galloway explained that such a proposal had been considered, but the idea was discarded when it was realized that only going with a 2% increase for the minimum users meant that anyone over the minimum would see a 7.5% increase to reach the revenue of \$115,000 which an across the board 5% increase produced. Finance Director Eddie Caldwell noted that Public Works Director Fred Baker had wanted to avoid a rate increase for the Junaluska Sanitary District and the Lake Junaluska Assembly; however, they are both such large volume customers, if they are removed from the rate increase, to reach \$115,000 would require an increase of more than 12% for everyone else. Staff felt that was too much of an increase.

Galloway also mentioned that in the Water Maintenance budget, funds were again provided for \$300,000 in the replacement or rehabilitation of various sections of the water system. He also noted that \$25,000 was budgeted for engineering work on the water line project which will have to be done when Howell Mill Road is constructed. At present, the Town has water lines on Howell Mill Road as far as Happy Hill Road, but new water line will need to be installed from Happy Hill Road to where it will connect with the water line serving Evergreen Paper (formerly Little Champion). That project will involve hanging the water line on a 500 foot long bridge which will be constructed as part of the Howell Mill Road project, and the estimated construction cost is \$400,000. That will have to be financed as part of the water maintenance budget.

The Water Fund remains the weakest of the four funds, but for the 2010-2011 fiscal year, there was some slight growth in the reserves of the fund. This is a reversal of the trend the Water Fund has followed for the past four years when the reserves were declining each year. In order to keep the fund on sound footing, the 5% rate increase is recommended. Galloway mentioned that when he came to the Town in 1994, the Town was only spending \$20,000 to \$25,000 annually on the repair or replacement of water lines and appurtenances. Today, the town is spending over ten times that amount on water system maintenance. In 2007, the Town received the results of an Asset Management Plan on the Water and Wastewater systems, and the study showed that by the year 2030, the Town would have approximately \$31,000,000 in costs for maintenance, repair and replacements of those systems. The Town Manager advised that progress was being made in both the water and sewer systems, but that the current Board is paying for the decision by Town Boards in the 1970s and 1980s that kept water rates low while not keeping up with the needed repairs to the systems. Some of those improvements, like the chlorine contact system at the water plant and replacement of the 85 year old storage tank on reservoir drive were very expensive and resulted in large costs being financed. Those large debt payments have kept the reserves from growing in the Water Fund.

In the Sewer Fund, Galloway advised that a rate increase was not necessary for 2011-2012. He explained that the only debt payment being made from the Sewer Fund is the \$43,100 annual payment being made on the sewer cleaning truck. All other debts in this fund have been paid, and that is part of the reason why the reserves in this fund are beginning to grow for Sewer Fund. The Finance Director noted that in 2016, a major project on the aeration system is expected at the wastewater treatment plant, with a cost of \$1,500,000. At that point, the Town will have to incur debt to handle such a cost.

Mayor Brown asked about the wisdom of having a capital reserve fund for the utilities as we do for the General Fund. Galloway suggested that could be done, but would require rates to be increased to raise money to create a capital reserve fund. He noted that a 5% increase in rates would produce about \$100,000 annually, and while it would be great to have such a fund to go to for capital needs, it would not accumulate a lot of money before 2016 when the \$1,500,000 would be needed. He noted that most governments seem to find a way to "pay as you go" rather than do much planning to finance needed improvements in the future.

In the Sewer Maintenance section of the budget, Galloway pointed out that the Town would again spend \$300,000 on improvements and rehabilitation of the sewer system. The Town has made good progress in reducing groundwater infiltration, but it is a constant battle and continuing work must be done to keep clear water out of the sewer lines.

In the Electric Fund, the Town Manager noted that there had been a substantial increase in the reserves, and he suggested that it was because of this large amount that the Finance Director and he were comfortable making a larger transfer to the General Fund. The Mayor asked Mr. Caldwell to explain the process the Town had used in trying to respond to the increasing fuel adjustment charges assessed by Progress Energy over the years. The Finance Director gave a history going back to 2004 when the Town saw the profits falling as fuel costs surged. He explained how the Town Manager and he now review the charges each month and adjust rates the Town charges rather than quarterly as before. The Town has finally gotten ahead of the curve in setting an electric rate that prevents a drop in profit, but in almost every case, the rates the Town charges for electricity are lower than the rate that is charged by Progress Energy.

It was noted that in the Electric Fund, no rate increases were proposed, other than tracking the fuel charges and responding accordingly. Galloway pointed out that in the capital outlay portion, the replacement of a 1992 bucket truck was requested, but the first payment on that unit would not be made until the 2012-2013 budget. The Town forces would continue to replace approximately 90 utility poles each year to make sure that we do not have weak, deteriorated poles in the ground and in danger of falling.

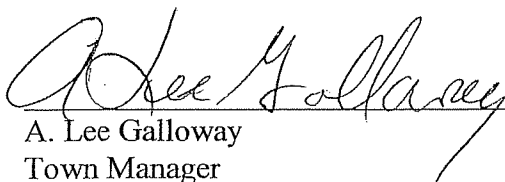
Galloway and Caldwell spent time with the Board in explaining the Southeastern Power Administration (SEPA) which supplied much less expensive power to municipal systems in the region. This is related to the presence of the Tennessee Valley Authority and a requirement that they share the hydro power they generate with regional water sources. In addition to providing several hundred kilowatts of power at three cents or less per kilowatt, SEPA also provides power that reduced the demand charges assessed to the Town by Progress Energy. In 2006, a dam on the Cumberland River in Kentucky breached and the water level had to be reduced. This meant that there was much less hydro power available, and as a result, the Town no longer receives assistance in reducing the demand and the volume of kilowatts is much less than they were previously. This has meant a higher cost of electricity from Progress Energy. It is hoped that in the next few years, the Corp of Engineers will have the dam repaired so that the Town can again receive this less expensive electricity.


There was brief discussion about the Internal Service Funds. Galloway noted that in the Public Works Fund, a request was made for the installation of additional equipment storage sheds on the grounds of public works. It was the recommendation of the Manager and Finance Director that those sheds and paving adjacent to those sheds be delayed until after we determine the cost of repairs to the Municipal Building. They also recommended that when the sheds and paving are done, the expenses should come from the Capital Reserve Fund. In the Garage Fund, the most notable expense was the increase in the cost of motor fuel. Galloway explained that the amount we have budgeted was not as much as we are now paying for gasoline and diesel fuel. They were gambling that the cost of fuel would decline during the next fiscal year from the current prices.

There was discussion about the cost of insurance, not just for health insurance, but for other forms of insurance as well – workers compensation, property and liability and automotive and dental. While health insurance has risen significantly, other forms of insurance have declined, and the Town continues to carry most insurance through the League of Municipalities.

Board members mentioned a desire to have talking points to use in conveying information to the public, and the Town Manager and Finance Director promised to work on these over the next week.

There being no further business, it was suggested by the Mayor that the Board wait on further budget work sessions until after the public hearing on June 14. By waiting until then, it would also allow the Town to have a better grasp of what actions the General Assembly might take that would impact the Town's finances. With that in mind, on a motion by Alderman Greeley, seconded by Alderman Roberson and passed unanimously, the meeting adjourned at 7:35 p.m.


A. Lee Galloway
Town Manager


Gavin A. Brown
Mayor