

CITY OF EDEN, N.C.

The special meeting of the City Council, City of Eden, was held on Tuesday, February 26, 2002 at 4:00 p.m. in the City Council Chambers, 308 East Stadium Drive. Those present for the meeting were as follows:

Mayor:		Philip K. Price
Mayor Pro Tem:		John E. Grogan
Council Members:		Ronald H. Reynolds
		Billy Vestal
		Christine H. Myott
		Jerry Epps
		C.H. Gover, Sr.
		Garry Tudor
City Manager:		S. Brad Corcoran
City Attorney:	(absent)	Tom Medlin, Jr.
City Clerk:		Kim J. Scott
Deputy City Clerk:		Sheralene Thompson
Representatives from City Departments:		Lori Ford, Dennis Asbury
Representatives from News Media:		Erica Kinnaird, <u>Eden Daily News</u> ;
		Leslie Brown, <u>Greensboro News & Record</u>

MEETING CONVENED:

Mayor Price called the special meeting of the Eden City Council to order and welcomed those in attendance. He explained that the meeting was to consider the Water & Sewer Rate Study. He then asked the City Manager, Mr. Brad Corcoran, for his presentation.

Introduction to Water & Wastewater System:

Mr. Corcoran explained that with the increased environmental and economic attention focused on the water and wastewater industry, the cost of providing water and wastewater services has increased dramatically over the last decade. The major challenge confronting us is the implementation of appropriate pricing structures to ensure self-sufficiency of the system thereby eliminating dependency on reserve funds in order to balance the budget. In addition, they have no choice but to make sure that the adopted pricing structures provide adequate funds to finance much needed infrastructure rehabilitation and capital equipment needs.

He explained that in an effort to save some time he would be skipping over the remainder of the section entitled "Introduction to Water & Wastewater System, and proceed immediately with the section entitled "Current Situation" that began on page three. *(A full copy of the Water & Sewer Rate Report is located in the office of the City Clerk.)*

Current Situation:

Mr. Corcoran explained that it was important to point out from the outset that their current financial dilemma was a situation that did not develop overnight. The financial crisis has developed over a period of several years and has now been exasperated due to the current economic conditions and the weakening economy.

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Due to the lack of revenues sufficient enough to offset a "bare bones" level of anticipated expenditures the current budget for FY 2001-02 included a significant allocation of available fund balance in order to balance several Water and Sewer related funds within the adopted budget. Currently, a total of \$ 1,509,407 in Water and Sewer related fund balances were allocated to balance the various Water and Sewer related funds. If they spend all of the money that was budgeted to be spent and received all of the money that was budgeted to be received they would be operating at a loss of \$125,784 per month or \$4,135 per day. Again, this was with a "bare bones" budget. Due to financial constraints, the current budget eliminated a variety of essential items. Those included: the 2" water line replacement program, rehabilitation work on various pump stations, much needed sewer outfall rehabilitation work, and a variety of other capital needs both in terms of projects as well as needed equipment.

When they factor in the closing of Spray Cotton Mill and the loss of the revenue they generated, approximately \$73,743.04 for water and sewer related expenses as well as the overall reduction in usage by other large volume users such as Karastan, Santee and Pillowtex it was easy to see that they were at a critical point in history. When they take it a step further and examine all of the cuts that have been implemented over the past several years it becomes evident that "additional cutting" was not practical nor was it the solution if the city expected to maintain both a functional and high quality water and sewer system. They have no choice but to generate enough revenue to cover their ongoing operational expenses. They have no choice but to generate enough revenue to meet their long-term debt obligations. They have no choice but to generate enough revenue to maintain their infrastructure and other capital outlay needs.

During the course of their analysis they discovered that the original rate structure developed in 1990 and revised in 1999-2000 was not set up to generate revenues for future capital outlay improvements or to account for depreciation. It was designed to deal exclusively with operational costs. They also discovered that the estimated revenue that would be created as a result of the 1999-2000 increase was significantly less than anticipated due to an error in the interpretation of the data received. It was apparent that the use of the water and sewer related fund balances and transfers to the General Fund over the years, has compromised the city's ability to fund future capital projects, ongoing preventative maintenance programs and much needed capital outlay equipment.

He then explained that according to the audited financial statements for the last several years, just prior to the closing of Pluma, Eden spent \$700,269 in Water Construction Funds and \$907,601 in Sewer Construction Funds for a total of \$1,607,870 on Capital Outlay Projects. In the last two years FY 1999-2000 and FY 2001, the city spent an average of \$58,897 on Water Construction Projects and an average of \$365,390 on Sewer Construction Projects. This was a total of \$424,287 or a reduction of 73.61% in Capital Outlay type spending, due to the lack of revenues. In the current budget, they appropriated \$259,550 for Water Construction Projects and \$1,000,000 for Sewer Construction Projects.

He then examined the source of those funds. First, \$8,550 of the Water Construction Funds and \$400,000 of the Sewer Construction Funds were coming directly from existing reserves within the Water Construction Fund and the Sewer Construction Fund. Secondly, the remaining \$251,000 in Water Construction Funds and \$600,000 in Sewer Construction Funds was coming from a transfer from the Water & Sewer Fund. This was a total of \$851,000 that was coming from the Water & Sewer Fund. However, when they looked at the Water & Sewer Fund, in order to balance that fund, they needed \$1,100,856.85. Obviously the only reason they have the \$851,000 available to transfer to the Water Construction and Sewer Construction Funds was due to the use an excess of \$1.1 million in reserves to balance the Water & Sewer Fund. Bottom line, the

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entire \$1,259,550 allocated for Water Construction and Sewer Construction Projects was due to Reserves. Without those Reserves, they would have had zero dollars for Capital Projects.

Finally, he wanted to address one other thing. He referred to the current Financial Statement for the period ending January 31, 2002. He noted that the Water & Sewer Fund had an Unencumbered Balance of \$5,101,765.27. This was very misleading. He explained that a large percentage of their expenditures take place during the final five months of each year. Again, they were starting with a total of \$5,101,765.27. First of all they have \$2,724,183.66 in Special Appropriation that has not been spent, but would be spent. Those were about \$1.5 million on their Debt Service, the transfers that occur to the General Fund, as well as the transfers that would be occurring to the Water Construction and Sewer Construction Funds. That knocks that Unencumbered Balance down to \$2,377,581.61. Next, they would probably spend their Contingency, in fact they have already pledged nearly \$60,000 of their \$100,000 Contingency. If they subtract that, they have an Unencumbered Balance of \$2,277,581.61. Next, if they take the Expenditures year to date for their Water & Sewer Resources, Water Filtration, Collection & Distribution, Water Reclamation, total them, divide them by seven and times them by twelve, to come up with a monthly cost, to find out what their final five months would cost, based on the same usage, they would come up with a total of \$1,533,320. That would leave them now with a total of \$744,261.61. If they looked further they would find that \$53,941 of Capital Outlay Expenditures have been temporarily placed on hold, waiting to see what the budget would be like. If they subtracted that, it brought it down to \$690,320.61. Next, if they go into each account, they would see that no money had been spent on training. Mr. Asbury does all of his training in the Spring, which was when all of the certifications come up. That was \$19,000 that was anticipated to be spent, so they were now down to \$671,320.61. Next, if they looked even further, they would find they have not spent much of their sludge removal money that was allocated. Mr. Asbury does most of this in the Spring, and that would probably be spent, so they would deduct that \$46,766.39 which gets them down to \$624,554.22. That was their best estimate of where they were probably going to end the year. To examine it further, why would they end with \$624,554.22. First, they went through and totaled every Personnel line item. Because throughout the year, as positions became vacant, they placed them on hold pending the Comprehensive Staffing Assessment. If they go back in and factor in those positions, that totals \$366,031. Second, if they looked under Color Removal Charges – Chemicals they would see that they were way behind. He reminded them that on those Color Removal Charges, was that if their expenses go down, so do their revenues. So when he told them that they were not going to spend \$309,054 that they anticipated spending, they were also not going to receive \$309,054. Finally they have asked each Department Head to try and cut spending by 10%. The Department Heads have put off many things. That 10% totaled \$264,431.39. Hence, if they had not put in place what they had put in place to cut savings, not frozen positions, or spent the color removal charges they would actually have been in the hole \$264,431.39. The point being, was that they needed to be careful of looking at the Unencumbered Balance and the fact that it looked impressive, because the staff knew when the spending occurred and they had looked at that, although it appeared that they had a lot of money with five months to go, as they see, they really did not have as much as they thought.

Moving on, Mr. Corcoran pointed out that obviously, they were not in a desirable situation. Their current situation supports the critical need to take immediate action. He noted that during his budget presentation last year he had promised that a plan of action would be formulated and submitted to them at this time. For the last several months he had been working closely with Mrs. Lori Ford, CPA, Director of Finance and Personnel, Mr. Dennis Asbury, Director of Treatment Plants and to a smaller extent Mr. David Cain, P.E., Finkbeiner, Pettis and Strout, Inc.

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Plan of Action - In General:

He explained that they were recommending a multi-step process in relation to their current situation.

First, they need to "stop the bleeding" by proceeding with an immediate increase in Water and Sewer rates. Their current water and sewer related costs were in excess of their current water and sewer related revenues by \$4,135 per day. He stated that they were requesting that the Council take immediate action on Tuesday, February 26th to implement the new rates effective with the billing scheduled for May 8, 2002. This would allow the Finance and Personnel Department a sufficient amount of time to implement the new rate schedule. In addition, by implementing the increase now they would be able to preserve a portion of the fund balance they currently have allocated for the FY 2001-02 budget.

He stated that they felt that their new rates need to be sufficient enough to cover the current annualized shortfall of \$1,509,407 as well as additional funds for a limited amount of Capital Outlay related projects such as the restoration of the 2" waterline replacement program, additional funding for sewer outfall and pump station rehabilitation projects and for normal increases in water and sewer related expenditures. He stated that they felt that if all they did was recommend increases that would generate \$1.509, all they were doing was bringing their revenues to where their expenses were today and not where they would be tomorrow. As such, they did an analysis and they felt that an absolute "bare minimum of \$1,981,097 (barring any additional unanticipated circumstances such as future plant closings and/or large water usage reductions) would be needed to eliminate their dependency on reserves in the upcoming budget.

Second, and at the same time, a long-range strategic plan was desperately needed when it comes to water and sewer related improvements and rates. He stated that they felt that the city needed to look 20-25 years into its future but realize that this review would not be completed overnight. They needed to proceed immediately with the development of a request for proposals (RFP) for a comprehensive master strategic plan which would concentrate solely on water and sewer issues, needs and rates facing the City of Eden over the next 20 to 25 years. They needed to develop a specific strategic plan of action that includes all water and sewer related needs. They must define how the plan would be implemented, what it would cost and how it would be paid for. He stated that they hoped to have this long-range strategic plan completed prior to the conclusion of FY 2002-03 and ready for implementation during the FY 2003-04 budget year.

Third, he stated, they would need to implement the recommendations that would be set forth in the long-range strategic plan. Once the plan was completed they envisioned the recommendations being implemented in two phases. First, they felt that the city would need to look at a bond issue to cover those Capital Outlay needs facing the city between FY 2003-04 and FY 2008-09. Obviously, an additional rate increase may be needed, on the other hand with allocated \$1.5 million towards Capital Outlay projects, they were hoping that a large portion of that would be available to be used to help pay the debt service. Secondly, they did not pick FY 2008-09 by coincidence, it just happens that was the same year that their \$19 million revenue bond referendum would be paid off. As they pay off that bond referendum, that would free up the money they would be using for that debt service, so at that time they could look at whatever their other needs were for the next 10 to 15 years and looking at a second bond issue to use that money, rather than doing it all at one time.

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Immediate Recommendations:

Although they were only in the preliminary stages of the FY 2002-03 budget process they have identified what they believe was the "bare minimum requirements for FY 2002-03.

He noted that in the Council's handout was a chart that showed Estimated Expenditures for Water & Sewer Rate Expenses. He then basically explained what was done with this Estimated Expenditure sheet.

Mr. Corcoran then referred to the next page, which was the Estimated Revenue sheet and explained that this mirrored the current budget with the exception that they increased water sales.

He explained that in putting the two together they would arrive at the next chart, which was the combined anticipated "bare minimum" expenses. Their feeling was that water related expenditures should equal water related revenue and sewer related expenditures should equal sewer related revenues, rather than just doing a flat increase across the board. He noted that it was an enterprise fund and needed to be self-sufficient.

He noted that they have identified a need in their Water System of \$600,675 and a need of \$1,380,422 in their Sewer System for a combined total need of \$1,981,097.

Mr. Corcoran then made his specific recommendations. He stated that first, the City of Eden currently has a 75% surcharge on both the minimum meter charge/fixed cost as well as the consumption rate for all water and sewer customers who were located outside of the City of Eden. This was low when compared to some of their neighboring communities. For example, the City of Reidsville has a 150% surcharge on all water service charges outside their city limits and a 100% surcharge on all sewer related services. The Town of Stoneville has a 100% surcharge on all water and sewer. The City of Eden was facing a serious financial dilemma and they felt that it was more than fair to ask the customers who were located outside of the city limits to shoulder a portion of the additional responsibility. As such, they were recommending that their existing surcharge be increased from 75% to 100% on both the minimum meter charge/fixed cost as well as the consumption rate for all water and sewer customers who were located outside of the city. This would help reduce the increase that must be passed along to their taxpaying residents. He stated that they felt that their existing residents deserve a significant break when compared to customers who live outside the corporate limits and they also felt that a 100% surcharge was both fair and justifiable.

Minimum Meter Charges/Fixed Cost:

Mr. Corcoran explained that their second recommendation deals with minimum meter charges/fixed cost. Every water and sewer system incurs a variety of costs associated with each customer irrespective of the amount or rate of water they use. Those costs were referred to as customer costs and typically were costs that were recovered through a fixed charge on a per customer basis.

The rationale for having a minimum meter charge/fixed cost was to recover certain costs that were a fixed component of the customer's bill. In other words, it cost the same to go out and read the meter, process and send the bill and collect the money, regardless of whether the individual had used 20,000 gallons or 200 gallons.

In determining the types of cost to be recovered through the minimum charge, the city needed to evaluate the impact on customers, the market average and other pricing objectives. During the course of their review, they

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conducted a detailed analysis of each community within Rockingham County. They discovered that the average meter charge/fixed cost for a ¾" meter (water) was \$10.64 per bi-monthly bill and the average meter charge/fixed cost for a ¾" sewer was \$9.75 per bimonthly bill for a combined total of \$20.39 per bi-monthly bill. This translates into a monthly cost of only \$10.195. The City of Eden was not even close. Currently, they charge a total of \$5.56 per bimonthly bill for a ¾" meter (water) and \$3.92 per bimonthly bill for a ¾" sewer for a combined total of \$9.48 per bimonthly bill. This translates into a monthly cost of only \$4.74, which was not even coming close to covering their actual fixed costs. They estimate that their fixed costs were a minimum of at least \$10.00 per month (depending upon what was or was not included in the calculation). He noted that some places include their debt service in the calculations.

He stated that their first recommendation was to double the charge on their ¾" meter for both water and sewer charges. This would bring the combined bimonthly cost to \$18.96 or \$9.48 per month. This was still below the survey average and was close to their actual fixed costs at \$10.00 per month. In addition they were recommending that they maintain the same percentage spread between the remaining meter sizes. The percentage spread amongst their various meter sizes was very similar to the communities surveyed with the exception of the difference between a 6" meter and an 8" meter. Currently, they have a difference of only 19.62% and the survey average indicates a difference of 75.43%. They were recommending that the city use the same percentage as indicated in the survey average. He stated that they felt this was more indicative of the difference between a 6" meter and 8" meter. He noted that the theory behind different meter costs was that the meter size represents a potential level of demand placed on the system by the customer, with larger meter sizes recovering a greater percentage of the demand-related costs.

He noted that the next couple of pages show the actual meter sizes, the total number of meters, the proposed cost per month, as well as the annual revenue that would be derived. An analysis of this indicates that the current meter charges were generating a total of \$311,136 for water and \$197,824 for sewer or a combined total of \$508,960. The proposed meter charges would be generating a total of \$641,253 for water and \$407,516 for the sewer for a combined total of \$1,048,769. This was an increase of \$330,117 in water revenue and an increase of \$209,692 in sewer revenue.

He noted that if they dropped to the bottom of the page they would see how that impacts what they needed. They started off with a need of \$1.9 million, they have just received some money on water and sewer, so now their new water need was \$270,558 and their sewer need was about \$1.1 million. He explained that they would receive that from their consumption charges, which was the final part of the recommendation.

Consumption Charges:

He explained that costs that were not recovered through minimum meter charges must be recovered through consumption or usage charges. Charges based upon consumption vary by the amount of usage, typically measured through water meter readings.

The city's rate design for metered water sales includes a charge per unit basis with each unit representing 1,000 gallons. Essentially there were four types of consumption charges: uniform, declining block, inclining block and seasonal rate structures. He noted that the City of Eden utilized the "uniform rate structure".

The problem with a uniform rate structure was that it did not take into consideration the potential impact on large volume users within a community. Many municipalities have developed special rates for their large

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volume users in order to encourage job growth as well as the overall retention of the existing industries. He stated that they have recognized this situation and were recommending that the new rates be limited to the first 5,000,000 gallons of usage per month. They have two industries within the Eden corporate limits (Karastan and Santee) that used in excess of 10,000,000 gallons per month and a straight across-the-board increase on all 10,000,000 gallons per month would create a significant hardship on those industries. He stated that they were recommending that the city implement the use of an economic development rate so that anything above 5,000,000 gallons would be held at their current rates of \$1.14 on water and \$1.34 on sewer.

Ideally, an effective economic development rate encourages community-related economic development by setting the rate for water service and sewer service at a level that retains existing customers, attracts new customers who were critical to the community's development and economic welfare, and encourages new and expanded uses of water from existing customers.

As such, some level of subsidy did exist. To be successful though, the subsidy must be enough to entice the targeted customer and at the same time result in a positive benefit to the community. They believed that the creation of an economic development rate was critical to the continued existence of both Karastan and Santee. Although they were not aware of their internal financial conditions or of their future business plans, but they did know that the creation of an economic development rate on all usage in excess of 5,000,000 gallons would translate into a significant saving when compared to what would be charged without this rate. The impact on Karastan would be in excess of \$95,023.68 per year and the impact on Santee would be in excess of \$66,805.80.

So now that they know what they wanted to do, the first step involved in determining the appropriate consumption charge was to examine usage data in an effort to determine how much money would be created for every penny of an increase.

He explained that there they would have the water and sewer rate sensitivities and that showed what they generate, for every penny of the increase if they did the economic development rate, as well as if they decided not to.

He noted that they have accounted for the reduced usage as a result of the Spray Cotton Mill closing as well as any usage by their contract customers. National Textiles, Dan River Water, Inc., and Miller Brewing Company have pre-established contract rates and would not be affected by any increase voted upon by the City Council.

He explained that the next three paragraphs basically just give them a brief synopsis of the current contracts that were in place with National Textiles, Dan River and Miller Brewing. They were followed by a table, which showed what their current rates were. He also pointed out that the rates applicable to their contract customers were established on an annualized basis after they receive their audit, so the next increase that would be cast upon to those customers would most likely be in December or January and they do back bill them to July.

He stated that obviously now that they know how much money was going to be created for each penny, it was then fairly simple to figure out how much their rates needed to go up to generate \$270,558 on water and \$1.1 million on sewer.

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He noted on the next page that basically they had two charts. The first chart was the proposed rates with the 5,000,000 gallon per month rate. He noted that it recommends that the inside city rates going from \$1.14 to \$1.39 for water and \$1.34 to \$2.62 for water. This was a combined total of \$2.38 to \$4.01 or an increase percentage-wise of 61.69% in terms of their consumption rates.

He continued in that the main question now was how would the new rates impact various classes of users. He noted that the higher the usage the lower the percentage increase and the lower the usage the higher the percentage increase. They have 5,448 water customers or 77.38% who were utilizing less than 10,000 gallons per month and 5,129 sewer customers who were utilizing less than 10,000 gallons per month. The rates for their low volume customers have not been competitive with the overwhelming majority of other communities. As stated previously, there were certain fixed costs associated with each customer irrespective of the amount of water they use. The increase in the meter charges would go a long way towards funding their needs and would come close to recouping the actual per customer costs that they were currently incurring on a monthly basis.

One of the reasons they have been unable to attract grants for their water and sewer infrastructure improvement projects has been due to the fact that their rates were not at a level sufficient enough to qualify them for funding. The eligibility standards for the High Unit Cost Grant Program requires that the average projected monthly water and sewer bills exceed 1.5% of the current median household income. The current median household income for the City of Eden was \$28,952, according to information received from Economic Development Partnership. The required threshold of 1.5% equals \$434.28 per year. Based upon an averaged usage of 7,000 gallons per month, their average projected monthly water and sewer bills would now equal, \$450.60, which obviously should go a long way to improving their opportunities in relation to various grant based programs.

Finally, Mr. Corcoran stated that one of the important considerations to keep in mind was that they were talking about two (2) utilities, water and sewer. The new monthly cost that will be passed onto their customers would still represent a remarkable deal when taking into consideration their fixed costs as well as the minimum charges being used by other utilities. He noted that they contacted officials with the electric company, the telephone company, the natural gas company and the cable television company. According to Duke Power, they charge a fixed facility fee of \$7.87 per month as well as costs associated with the actual usage on the meter. Their minimum bills, once they factor in consumption charges were easily in excess of \$25.00 per month. According to Sprint Telephone, they have a monthly charge of \$10.91 for a regular private line. This did not include touch tone, which was another \$0.50 per month. The representative estimated that the minimum monthly bill was somewhere in the neighborhood of \$15.00 to \$18.00 per month, once all of the surcharges were factored into the equation. According to the representative of North Carolina Gas, the minimum monthly cost fluctuates with the seasons as well as the overall usage of each customer. According to spreadsheets, it seemed that a minimum monthly cost on an annualized basis was somewhere in the neighborhood of \$42.10 per month, which included a fixed cost of \$8.53 per month. Finally, according to a representative of Time Warner Cable, the bare minimum basic service package costs a total of \$10.84 per month. The city's proposed minimum meter charge/fixed cost fee of \$9.48 per month was well within the minimum averages being observed for other utility companies.

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He stated that they have included for the Council's review and consideration an analysis of ten different bills. They would include some residential, some commercial, some industrial, to show them the exact impact. He noted that the lower the usage, the higher the percentage increase. The higher the usage, such as Karastan, Meadow Greens Country Club, Santee, the lower the percentage.

Mr. Corcoran stated that in conclusion, they have presented a plan of action, which in his opinion was vital to the financial solvency of their water, and sewer related funds. He stated that they felt that they have presented both short and long-term objectives and have recommended the implementation of appropriate pricing structures which if adopted would ensure self-sufficiency of the system thereby eliminating the city's dependency on reserve funds in order to balance the budget. In addition, they have made sure that the adopted pricing structures would provide adequate funds to finance much needed infrastructure rehabilitation and capital equipment needs.

He added that they were not at all pleased to be recommending the rate increases, but they were in unanimous agreement that this course of action was needed immediately in order to project the financial integrity of their city.

He stated that they appreciated the Council's consideration of the proposal as submitted and would respectfully request that they adopt a motion, adopting the complete analysis and all recommendations contained herein with an effective date with the next billing cycle scheduled for May 8, 2002.

Mayor Price thanked the City Manager and his staff for their report. He then opened the floor for questions or discussions.

Council Member Gover stated that he would like to touch on that five million that they had in their last financial report, and they brought it down to \$241,000 or there about.

Mr. Corcoran replied that they actually brought it down to \$624,554.22. Then they told the Council that they had 6 or 7 positions, which were vacant during the year, which saved them \$366,031. They were also told that their removal charges were down by \$309,054 which meant that their revenue would also be down, and they told them that their ten percent cutback totaled \$214,665 and that if they had not implemented the cutback, if the removal charges was at it had been in the past and as anticipated, and if they had not held positions open, they actually would be in the hole at the end of the year by \$264,431.39, not in the positive.

Council Member Gover stated that they spent \$2,806,000 in eight months and they were going to spend \$5,000,000 in the next four.

Mr. Corcoran replied that first of all, right off the top they were going to spend \$1.5 million on debt service. Secondly, none of the money that had been allocated for the water and sewer construction funds had been spent yet because of the impending approval of engineering plans on Meadow Green. He noted that that project was ready to go out to bid and they anticipate it being done at the end of this year (2002). All of that money would be spent. Also, in the special appropriations was their transfers from the water and sewer fund to the general fund to recoup the percentage costs, all of that would be done. He noted that since they have received that, money appropriated for the water and sewer construction fund has already been moved out. It

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was now in the water construction fund and in the sewer construction fund, getting ready for projects. On the water side, they have approved the Roll About skating rink, the Forest-Smith Road, and several other things.

Council Member Gover asked how much of the capital outlay was involved in that \$1,981,000.

Mr. Corcoran replied that the \$53,941.00 was in operating budget. If they looked for instance in Water Filtration, if they looked in Wastewater Filtration, or in C&D, they would see accounts that say c/o Equipment. He explained that meant that capital outlay equipment, capital this or that, so if they go through each page, they would see that \$53,941.00 of capital outlay items in their operating budget had not been spent yet.

Council Member Gover noted that on those they were doubling, they were doubling the meter, and that was inside, not outside.

Mr. Corcoran replied that outside would be 100% increase because their first recommendation was that they go from a 75% surcharge to 100%. Currently if they were to look at their meter charges, what they would see was the inside city rate, and if they timed that by 75% surcharge, that was what they would see the outside meter as being. So they doubled the three-quarter inside on water and sewer then they kept the same percentage spread.

Council Member Gover referred to Page 22, and noted that the three-quarter meter on the family for three children, and it was doubled up...Mr. Corcoran replied that the current bill was \$34.28 or \$17.14 a month for 5,000 of usage a month to \$59.06 or \$29.53 a month, so basically it was an increase of \$12.39 per month or 72.29%.

Council Member Gover stated that he thought it was only affecting the outside users.

Mr. Corcoran replied that he had said that they were going to double the meter rate on the inside customers. Currently the sewer was \$1.96 a month and \$2.78 for water. Then they doubled the inside rate and kept the same percentages that were already in place.

Council Member Gover pointed out that going back to the capital outlay, that was a one shot deal. If they have any capitalization built into that, that was one of his concerns, what would they do with the money in the future.

Mr. Corcoran replied that was a good point. The first thing, he reminded them to look in last year's budget and they would see that large capital outlay requests that were requested by the departments totaled \$8,617,300. The Council approved \$2,435,900. So, essentially, they cut \$6.2 million dollars out of what the Department Heads requested last year. He noted that if they looked at the five year plan, they would see significant funding that was going to be needed over the next five years, and that did not even account what may happen if the city annexed.

Council Member Gover asked if this money was earmarked just for water and sewer.

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Mr. Corcoran replied yes, it was an enterprise fund where their revenues were supposed to equal their existing expenditures.

Council Member Gover asked why in their budget were they projecting higher revenues than they get in. The years past did not show the amount of money that they project, and yet they still keep projecting those high figures.

Mr. Corcoran replied that he really did not want to get into that in here, as his focus was to move forward and not backward, but Mr. David Cain (Finkbeiner, Pettis & Strout) had prepared a sheet when he appeared before Council during the last rate increase, and on that sheet it showed total water revenue and total sewer revenue, and what happened, someone took the bottom figure and put that in the budget and told them that was the new revenue that was going to be generated. He asked them to recall that Mr. Asbury had found, after investigating it last spring, the total figure at the bottom included everything, tap fees, color removal, etc., so that number was a mistake. He added that they had discussed that last spring and the minutes would probably reflect that.

Council Member Gover explained that was why he highlighted the color removal to which Mr. Corcoran asked Mr. Dennis Asbury, Treatment Plants Director, to address why that was down.

For clarification, Council Member Gover stated that they projected \$650,000 and knowing they were not reaching that.

Mr. Asbury replied that they did not know what the industries were going to be doing. Every year they project how many gallons they were going to treat and they also did not know what the color intensity was going to be. He stated that it was a very soft figure for them because it depended on the flow and the intensity of the color and they were very dependent upon what came from Santee, Karastan and National Textiles. He stated that they wanted to make sure that they budgeted adequately for them and as Mr. Corcoran pointed out, the figure was pretty much dollars in dollars out. He added that there was really no impact on their rates.

Council Member Gover explained that one reason he was concerned about over projection was that it made their deficit certainly larger than what it really was.

Mr. Corcoran stated that if they reviewed the audits for the last couple of years, they would actually see that the color removal charges were this high, in fact in one of the audits, it was at \$750,000. Obviously all the companies were cutting back. That was what hit the budget crisis and after September 11th, and so if they cut back, that reduced the amount. Again, Mr. Asbury's estimate was based on actual figures in the past.

Mr. Asbury added that another factor that figured in was rainfall. They were treating for the industrial flow at the Mebane Bridge Wastewater Treatment Plant, so all the flow that comes through all the cracks and all the sewers in town, comes to that plant, and the polymer was fed in to the aeration basin and it depended upon all the corporate flow into that plant. So, if they had a dry summer, then they were going to have a considerable low polymer usage.

Minutes of the special February 26, 2002 meeting of the City Council, City of Eden, N. C. continued:

Mr. Corcoran also added that first of all, last year when they discovered that there would be a shortfall they immediately clamped down on spending. That coupled with the fact that they received right at \$700,000 in bad debt expense was why they had a good year, according to the audit. This year, if they looked at their revenues, the January statement would tell them that they were about 56% and they should be at 58%. What they did not see in there was to get to that 56% that included a huge settlement check that they receive from Pluma, which was in those water charges and those sewer charges. When that check was taken out, they would see that their revenues were really at 52% when they should be at 58%. Also, they actually pulled the accounts from Santee, Karastan, Pillowtex, Spray Cotton Mills, etc., to look at their exact usage for the past six months, to the same six months a year ago, and they saw that their usage was down to such a degree that if they annualized it out and computed in dollars they were looking at \$200,000 less this year than last year.

Council Member Gover commented that roughly they received in revenues \$150,000 in water as he had said; now that was for the first 8 months, he asked if they could anticipate more revenue for the next 4.

Mr. Corcoran replied that one of the reasons the water looked good right now was that they just passed on to their contract customers their increase and Mrs. Ford back billed them from July through December, so they had this rush of money coming in. Their sewer rate went down. They were going to have an influx of water revenue because all the contract customers went up by six cents but on the sewer side it went down by a penny.

Council Member Vestal commented that Mr. Corcoran had stated that the contract customers usage would not be affected but it was his understanding that the more increase he had in expenses then that did affect the contract usage.

Mr. Corcoran replied that it did on the operational side. On the capital side, for instance Miller did their Take or Pay up front, so they did not have a Take or Pay. National Textiles did have a Take or Pay, but it was already a pre-established rate already in there, so yes, that was the reason during the Staffing Assessment they recommended, with Council's approval, moving Billing & Collections from the Finance Department to the Water & Sewer Department. That would put those costs where they should be, so next year, instead of \$110,000 increase they would see an increase of about \$170,000. On the operational side, for every dollar spent, they earn 75 cents on the dollar from the contract customers.

Council Member Grogan commented that since 1983, the Eden City Council had not had tax increases, they have increased very few fees and no water rates until last year, and if Pluma had not gone bankrupt they would still be sitting there thinking everything was wonderful. But, since 1983 through 2000, they have seen their infrastructure deteriorate, their water and sewer lines deteriorate, income not meeting expenses, they have cutback personnel, postponed capital expenditures and every year since 1983. He noted that it had been a wonderful ride, as he was a taxpayer also, but unfortunately it was not going to go away. He stated that he was truly concerned about outfall lines. He stated that personally it would be nice to put their head in the sand, and it all go away.

Minutes of the special February 26, 2002 meeting of the City Council, City of Eden, N. C. continued:

A motion was made by Council Member Grogan seconded by Council Member Myott that this City Council support the City Manager and his staff in their assessments and their recommendations and adopt these fees effective as soon as possible (May 8, 2002).

Council Member Reynolds asked them to look out there in the audience, where they did not see any city tax payers. He stated that he thought this meeting should have been held at 7:30 at night, because this was a big deal. He pointed out that they had people in this town who had to decide between buying medicine or food. He stated that he saw them and he for one did not support this recommendation at this time. He added again that he really thought the public, even Council Member Tudor, did not get their until 4:00 (right at the time the meeting started) and if the meeting had been held at 7:30 the room would have been full.

Council Member Gover commented that going up on water and doubling the meter bothered him. He stated that he agreed with Council Member Reynolds that he hated to hit the people with such an impact all at one shot, instead of phasing something in. He noted that in 1983, they had a thriving city. This was 2002 and they have a lot of people laid off. It was hard to give the people a double whammy.

Council Member Vestal stated that he wanted to add something along there too. He agreed with them and his concern was that without the meter increase, if they were just talking a water increase, it was only a \$2.50 increase, and it looked like the biggest subsidy coming in was the meter increase. He questioned if they could phase in steps over a period of time instead of hitting everyone at one shot.

Council Member Tudor commented that he was on the committee that conducted the search for a City Manager and he had been one to say many times to turn the operation of the city over to the City Manager. He noted that the Council existed of course to set policy. He stated that he had been very pleased with the City Manager and he and his staff had put together a study that he (Tudor) would not have been capable of putting together. He stated that was why they had people with various expertise in certain areas and that was why they had a City Manager, a CPA for a Finance Officer and he was of the opinion that although he did not feel good about having to raise rates, everybody that he had talked to that had an educated opinion that he would respect had said to him many times, that they all knew that eventually rates, etc., would go up. He stated that he felt that they sell their citizens short if they think that all of them were not going to understand. A whole lot of them were not going to like it, but a lot of them were intelligent people who were going to understand that nothing costs what it cost in 1983, or 1993.

Mayor Price commented that he thought that at the last meeting somebody had made a statement in speaking to the Council that the City of Eden had water to burn. They were blessed to have a lot of water coming into their community. He noted that due to the forward thinking of some people twenty-five years ago, they have a wonderful treating facility for water and as importantly for sewage. He stated that he thought everyone would agree that the city has not funded their collection and distribution lines like they needed to do. He added that no one liked to do this, but if they did not make some decisions, beyond having enough money coming in for their operational expenses, then they were going to jeopardize those young people that they talk about every time that they have a conversation about what they were going to do for them. He stated that he certainly encouraged a positive vote on this.

Minutes of the special February 26, 2002 meeting of the City Council, City of Eden, N. C. continued:

He then asked Council Member Vestal if he had a substitute motion in mind to which he replied that he would like for the City Manager to specify if he thought that was a feasible aspect.

Mr. Corcoran replied that if they eliminated the increase on the fixed meter, that eliminates \$539,809. That would mean they were only raising \$1.4 million which meant they were still short \$539,000. To get that \$539,000 then they were going to have to raise their consumption rate even more. Again that would have a heavier impact on some of those large water users. He stated that if they phased it in, they would still be short and so his recommendation was that they do it all at once.

Council Member Grogan recognized Mr. Asbury, who had been with the city since 1983 and he did not know what the city would do or had done without his expertise. He thanked Mr. Asbury for what he had done and was doing, and hopefully he would continue to do it.

Council Member Epps commented that he had mentioned in running for Council that infrastructure was going to be one of their major issues. They knew there were several spills and so forth, and he did not know how big of a deficit they were in. No one felt comfortable having to do something like this, but if they did not do something now, they would get deeper into that hole. He noted that there were projects standing by now to be done. He stated that the people who voted for him and others knew that this was going to be an issue and that they were going to address it, and they would address it the best they knew how.

Council Member Myott stated that she agreed with Mr. Epps. She stated that when they ran for Council, they were honest and told the citizens that there were hard decisions to make. She stated that she supported the City Manager, as it was a very well thought out plan.

Council Member Reynolds asked how they would get their water payment when people could not pay their bill and their water was turned off. He added that of course, none of them had to worry about that.

Council Member Gover added that what bothered them was all the overrides that they have been having and no one wanted to check those overrides when they have a project. Just like the new City Hall building, they still have a tremendous override in this building and they still have not finished it.

Council Member Myott noted that it was important that they were shown a comparison to the county, average of people living in the county, what they were paying, compared to what the city residents would be paying. She noted that if they looked closely, Eden residents would be paying less than county residents would.

Action on the motion was as follows: Council Members Tudor, Myott, Grogan, Epps and Vestal voted in favor of this motion. Council Members Reynolds and Gover voted in opposition. This motion carried.

Adjournment:

A motion was made by Council Member Gover seconded by Council Member Epps to adjourn. All Council Members voted in favor of this motion. This motion carried.

February 26, 2002

CITY OF EDEN, N. C.

Minutes of the special February 26, 2002 meeting of the City Council, City of Eden, N. C. continued:

Respectfully submitted,

Kim J. Scott, City Clerk

ATTEST:

Philip K. Price, Mayor