

CITY OF EDEN, N. C.

A special meeting of the City Council, City of Eden was held on Thursday, November 9, 2015 at 5:30 p.m., in the Conference Room at Eden City Hall, 308 East Stadium Drive. Those present for the meeting were as follows:

Mayor:	Wayne R. Tuggle, Sr.
Mayor Pro Tem:	Jim Burnette
Council Members:	Angela Hampton
	Donna Turner
	(absent) Darryl Carter
	Neville Hall
	Jerry Epps
	Jerry Ellis
Council Member Elect:	Bernie Moore
City Manager:	Brad Corcoran
City Clerk:	Sheralene Thompson
City Attorney:	Erin Gilley
Director of Public Utilities:	Terry Shelton
News Media:	Dallas Britt, Eden News

MEETING CONVENED:

Mayor Tuggle called the special meeting of the City Council to order and welcomed those in attendance.

WORK SESSION AND DISCUSSION ON PROPOSED WATER & SEWER RATE INCREASES:

Mayor Tuggle opened the floor up to City Manager, Mr. Brad Corcoran.

Mr. Corcoran explained that on September 14, 2015 MillerCoors announced it would be closing its brewery after 38 years of business here in Eden. Although the complete shutdown will not take place until September 2016 it's anticipated the transition for this closing will begin in January 2016. Accompanying this closing will be secondary and ancillary customer impacts. The closing of MillerCoors will result in **significantly** less water and wastewater revenue for the City of Eden (COE). He noted that in fact that total was about \$900,000.

He explained that earlier this year the COE, Rockingham County and the North Carolina Department of Commerce were successful in negotiating an economic incentive package to retain and expand Mohawk Industries' operation in Eden. While the negotiation was a success enabling the retention of 180 jobs, the addition of approximately 100 jobs and the

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

diversification of the Karastan facility by increasing manufacturing of thirty (30) new products, it did result in lower water and wastewater rates for Mohawk Industries and will result in less water and wastewater revenue for the COE.

Mayor Tuggle pointed out that was our contribution to keep those jobs here.

Mr. Corcoran added that the reality is that \$88,000 more that we are already in the process of losing than previously because of the incentive rates that they were given.

Within the past ten days they were contacted by the Henry County Public Service Authority (PSA) in Virginia informed us they have decided to build a water main to the Sandy Level Community. This will result in less water revenue for the COE to the tune of about \$45,000.

Council Member Ellis questioned when this would happen to which Mr. Corcoran replied they would be off by July 1. He added that Karastan was already happening and Miller would start to happen in January and would be fully in place by September.

Council Member Burnette stated that he knew they had lowered the rate but was there any expected increase in the water consumption.

Mr. Corcoran replied that they were actually losing about 140,000 but with that additional 140 employees their usage was going up and that was part of the incentive deal, but when you do all the math, the net loss was about \$88,000.

Although the COE has yet to receive a formal response concerning the time schedule we proposed for the implementation of our Environmental Protection Agency (EPA) Administrative Order (AO) on Sanitary Sewer Overflows (SSOs) we are faced with **immediate** funding needs in relation to this unfunded mandate and the multitude of projects that must be completed. Some of the immediate projects that will need to be funded during the next year include: Junction and Bridge Street Pump Station Rehabilitation Projects, Covenant Branch – Meadow Greens Force Main Project, and I & I Repair/Sewer Fix It Program.

In addition, he stated, even though he had not given a specific slide or amounts, he mentioned the ancillary impacts that may take place. There was a business here in Eden that was very dependent on Miller. About 67% of their production was tied to Miller. If they could not replace that, that would be another \$92,000 lost.

If you consider that the average family or residential customer uses \$60.11 a month, for every family or individual that moves away due to job loss, that is another \$700 lost per family. So, for every ten families, there is \$7,000 more. So you can see the domino affect here in terms of lost revenue and things that we need to do just to get back to where we have been.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

He stated that he had a draft copy of the audit and when you look at it, it indicates that the fund balance in their Water & Sewer Fund, at the end of June of this past year, was approximately \$5.9 million. That was a decrease of \$639,000 or roughly 9.75% when compared to last year's total of \$6.5 million.

The alarming thing was that if you look at where they were just four years ago, the fund balance was \$11.3 million. Due to insufficient revenues to meet our ongoing capital improvement needs we have been forced to use approximately 48% of our fund balance or roughly \$5.4 million dollars in just the past four years.

He explained that he thought this one slide more than any others underscores the need to raise rates to generate additional revenue as soon as possible. As they were aware, when they were hit with the Administrative Order in January of 2012, there was a lot of front-end engineering work that had to be done that there were no grants for loans for that they had to use their own money. That was why that drops significantly.

Also, when they look at the audited financial statements they would see that right now, as of June 30, there were still five (5) current water/sewer infrastructure projects underway. This does not count the ones that have to be started during the next year. That combined cost is a little over \$15 million. Of this total, he was pleased to note that over \$5 million of that would be received in the form of grants and principal forgiveness loans. However, that still leaves a balance of about \$10 million to be funded through low interest loans and revenues from their Water & Sewer Fund. Of the \$15 million, approximately \$6.7 million has already been completed which means there is still a remaining commitment on those five (5) projects where there was as of June 30, \$8.2 million. When you look at that \$8.2 million of course you hope most of that is still grant money to come in, unfortunately \$5.3 million of that \$8.2 million still has to come from loan funds and money from their Water & Sewer Fund.

He stated that he wanted to remind them all that the Water & Sewer Fund was an Enterprise Fund. This means the service rates put in place by the City Council must be sufficient enough to generate enough revenue to fully fund all of the necessary expenditures. This is a **legal** requirement stipulated in Section 143C-1-3 (a) (6) of the NC General Statutes that is governed by the Local Government Commission for NC.

He explained that when he first came here he had actually saw letters that the Local Government Commission sent to the city back prior to his arrival, basically telling them that they needed to raise water and sewer rates to make sure it was operating as an Enterprise Fund instead of using General Fund money to balance what they were doing with the Water & Sewer Fund.

Due to the closing of MillerCoors, the EPA AO and the other items listed above, the City Council has been put in the unfortunate predicament of being forced to raise our existing services rates substantially and immediately (Example – Town of Mayodan when Unifi closed). He noted that at their very next meeting the town council raised their rates 110%. A reporter came and talked with him at that time and asked for his thoughts and he told

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

him they were all one major industry away from that happening. When you are blessed to have huge water and sewer users like Eden was with HanesBrand, like they were on the water side with MillerCoors and like Mayodan was with Unifi, when you lose those companies there goes that was helping to subsidize the rates to the residential customers.

Mayor Tuggle pointed out that was almost 2 billion gallons lost with just those two industries.

Mr. Corcoran explained that over the last 10 years, Eden has lost some significant industries leaving our residential and commercial customers with the burden of paying more and more. With this most recent announcement, the COE will have **lost approximately 1,600 jobs and approximately \$4,893,691 in NET water/sewer revenue per year due to four industry closings since 2006**: Parkdale Mills (11-01-06), Liberty Textiles (07-31-07), Hanesbrands International (02-05-09) and MillerCoors (09-01-16). This exodus of our industrial customer base has and will continue to cause our water and wastewater rates to exponentially increase. Clearly if they had not lost those four (4) industries, they would not even be having this meeting. It was hard for people to understand and he understood that, but when you have lost \$4.8 million in debt money, something has to give. He added that people come up and question why he does not make cuts. Well, because of the size of their water plant and wastewater plant, they have to operate those facilities 24 hours a day, 7 days a week, 365 days a year. You can crunch the numbers any way you want but it takes a bare number of people to adequately staff those facilities. Then when you add in the miles upon miles of water and sewer lines that we have, and the age of those lines you have to have a sufficient staff on hand to fix the water breaks and sewer stoppages, etc. So again, when looking at their staffing levels, he would argue that on the water and sewer side they were right at bare bones as it was, so there was not really much more that could be done there.

Obviously this exodus of their industrial customer base has and will continue to cause their water and wastewater rates to exponentially increase.

Recent estimates (February 2015) from the COE consulting engineer W.K. Dickson projects the cost to comply with the AO from the EPA is approximately \$36.3 million and could end up being significantly higher when some of the additional condition assessments are completed.

The current estimate for all Capital Outlay Needs facing the COE water and wastewater system over the next 20 years is approximately \$90.1 million. He noted that for the most of them who had been on Council for a number of years all knew that it was almost an annual ritual during the retreat that they get the presentation on the digester situation at the Wastewater Treatment Plant. That one project alone was several million dollars but it has continued to be pushed off because of the EPA Administrative Order and the lack of funding.

He stated that with the closing of MillerCoors, the COE's financial consultant, Raftelis Financial Consultants, Inc., has projected the average residential water and wastewater bill

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

(4,000 gallons per month) for a customer living inside the corporate limits will need to be increased from \$60.11 per month to \$141.96 per month (increase of 136.2%) by 2035.

Alos, due to the closure of MillerCoors, the EPA AO and other factors already discussed, Raftelis Financial Consultants, Inc. has stated the COE will need to **substantially** increase its water and wastewater rates by 2017 to offset all of the revenue being lost. Specifically, they have projected that we will need to generate an additional combined total of \$1,994,830 in revenue by 2017.

He explained that of that \$1.9 million over \$1.1 million is just to replace what is being lost, \$900,000 Miller, \$88,000 Karastan, and \$47,000 Henry County. If there are some ancillary impacts and Raftelis is correct, then another \$92,000. Then the difference between that \$1.9 and what they were replacing within the revenue what was being lost was what they had to do to pay for the future debt service on projects that have already been completed or in the process of being completed or will soon be started related to the EPA AO (Administrative Order). That was why as they would see, the breakdown of that \$1.9 million as about \$1.1 something on the water side and about \$800,000 on the sewer side.

According to the February 2015 report entitled, "*Water and Wastewater Rates and Rate Structures in North Carolina*" published by the North Carolina League of Municipalities (NCLM) and the UNC Environmental Finance Center (UNC) the pressure to maintain low or relatively low rates has the potential to force utilities to run a deficit or avoid making necessary operational and capital expenditures. In other words the political environment often has Council's doing less than what they really have to do because of the situation of everyday life but those decisions then end up in the long run coming back to bite them.

Mayor Tuggle stated so they were the recipients at this point from just kicking the can down the road to which Mr. Corcoran replied correct and he had a slide that addressed that.

He stated that ideally, rates should reflect the cost of providing service, which depends on many diverse factors including regulatory unfunded mandates such as the EPA AO, the size of treatment facilities and infrastructure, customer base characteristics and usage, as well as the age of assets to name a few examples. He explained that the reason he said that was it was important to note that two neighboring utilities with similar sized customer bases may have very different costs that justify very different rate structures and rates. So, just because they have 16,000 residents and Community "C" has 16,000 residents, does not mean their water and sewer rates should be the same. Because "we" may be under the only EPA AO in the State of North Carolina and they (Community C) were not. "We" may be forced to do things on the water side in response to the bi-products disinfection rule for chloramines and they (Community C) were not. Maybe "our" facilities are much older and theirs are much newer. Maybe they still have a lot of industry and maybe "we" don't, so the reason he listed that in there was because citizens come to them, they may say "I just don't understand why Community C their rates are this and yours are that". Or, "hey, that community there they may be a little bit smaller but your rates are this and their rates are

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

that.” There were a lot of factors that come into play as to what the rates are and what the rate structures are.

Data also shows that utilities with low rates do not generate sufficient revenue to properly maintain their system’s assets, which could ultimately lead to long-term adverse costs and service impacts. He explained that Eden was living proof that was true. When you look back from 1987 to 2001 Eden averaged a staggering 2,028,819 gallons in SSOs annually. It went unaddressed and nothing was done and there they were today.

According to the February 2015 NCLM/UNC report the median monthly amount charged for zero gallons of water throughout the State of North Carolina is currently \$15.00 and in Eden it was \$9.85. This was why it was so difficult. This was the challenge they have convincing the EPA to give them a twenty (20) year implementation period.

Council Member Ellis asked what if they did get the twenty years.

Mr. Corcoran replied that this presentation tonight was the twenty years. If they did not get twenty years then it was going to get a lot worse a lot quicker. His point was, it was hard to convince them that Eden was in dire financial condition and that their citizens were paying woefully too much when people who barely use any water at all are paying \$9.85 and the State average was \$15.00 a month.

He explained that the problem was, when he arrived in 2001 the rates were so ridiculously low that when we made our first rate recommendation in 2001 and we packed the Council Chamber it was like a 83% rate increase but the dollars was just a couple of dollars so the percentage looks bad because the rates are so low. That was why they need to look at the dollars too, it was not all about the percentages. He pointed out that dollars was what was important here because it looks bad because it was in percentages.

Mr. Corcoran explained that the State average for 5,000 gallons of water was \$31.32 and Eden was \$31.10. The State average for 10,000 gallons was \$53.16 and Eden was \$52.35. So as of today they were looking in good shape so this shows them despite what they have had to do, in the last fifteen (15) years, they were just now catching up to where a lot of places have been for many, many years.

He noted that as a point of comparison, a gallon of potable water at a major grocery retailer is approximately \$1.00 while the median bill for 5,000 gallons of tap water in Eden is approximately \$0.0062 per gallon, or 161 times cheaper. Wastewater bills across the State are generally higher than water bills. The median monthly wastewater bill for customers disposing of zero gallons is \$16.00 a month compared to Eden’s \$9.22, \$38.42 for 5,000 gallons a month, compared to Eden’s \$39.27 and \$65.31 for 10,000 gallons a month compared to Eden’s \$69.32.

So when they look at rates it was important to understand that there was two things that make up their rates, Base Charges and Volumetric Charges.

Base Charges

Base charges contribute to revenue stability because they do not vary from month to month, regardless of consumption. Unfortunately, due to the loss of some significant industrial customers and reduced usage of our residential and commercial customers our consumption levels have continued to drop for the past ten years. This has caused a serious financial hardship due to our reliance on volumetric charges in lieu of base charges.

Consider the following:

- A. **Billable water gallons** have decreased from 3,150,306,200 gallons in FY 2005-06 to a projected 621,665,900 gallons by FY 2016-17. This is a **reduction of approximately 80.27%**.
- B. **Billable wastewater gallons** have decreased from 1,769,763,100 gallons in FY 2005-06 to a projected 434,233,300 gallons in FY 2016-17. This is a **reduction of approximately 75.47%**.

He explained that when you have complete reliance on volumetric charges and you see your usage drop like this then that was a recipe for problems.

The current median residential base charge for the 510 water utilities and 424 wastewater utilities included in the 2015 NCLM/UNC report cited previously is \$15.00 per month for water (Eden was at \$9.85) and \$16.00 per month for wastewater (Eden was at \$9.22). For combined utilities, the median combined water and wastewater base charge is \$31.00 per month (Eden \$ 19.07).

Currently, we have 6,719 water accounts and 6,312 wastewater accounts. A \$1.00 increase per month on the existing water base rate would generate additional **annual** revenue of \$80,628 and a \$1.00 increase per month on the existing wastewater base rate would generate additional **annual** revenue of \$75,744.

Volumetric Charges

Mr. Corcoran explained that Eden currently utilizes a uniform rate structure when it comes to the volumetric charges for water and wastewater. In other words, you keep paying that \$4.25 or that \$6.01 no matter how much you use. In a uniform rate structure, the rate at which water and wastewater is charged does not change as the customer's usage changes. Currently, our volumetric charge per 1,000 gallons of water for our residential and commercial customers is \$4.25 and the volumetric charge per 1,000 gallons of wastewater for our residential customers is \$6.01 and \$9.71 for our commercial customers. He noted that commercial customers were already whacked at a higher rate than residential customers.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

Residential customers in North Carolina consume an average of 4,000 to 5,000 gallons per month. In Eden, our residential customers are averaging 4,000 gallons per month. Among the 510 water rate structures and 424 wastewater rate structures in the 2015 NCLM/UNC report cited previously, the median price for 1,000 gallons (not including base charges) at the consumption level of 4,000 gallons/month is \$4.31 per 1,000 gallons for water (Eden was at \$4.25) and \$5.50 per 1,000 gallons for wastewater (Eden was at \$6.01).

Currently, we have 6,719 water accounts and 6,312 wastewater accounts. A \$0.01 increase per month per 1,000 gallons on the existing water volume rate would generate additional **annual** revenue of only \$4,617 and a \$0.01 increase per month per 1,000 gallons on the existing wastewater volume rate would generate additional **annual** revenue of only \$4,468. So, they could see that they would have to raise their volume rates by a lot of pennies to generate a significant amount of money.

Over the course of the past several weeks' staff has held several meetings to discuss recommendations concerning future rate increases for 2016 and beyond. First, we continue to believe it makes better sense to increase rates incrementally on a consistent basis over time rather than to do nothing, wait, and then be forced to adopt more substantial rate increases at a later date. This is the same philosophy we used when dealing with the financial ramifications associated with the closing of Hanes Brand International. In that case, we lost over \$3.2 million in net revenue and the Council adopted 3 rate increases, adopted in one night and said on the following dates these rate increases will take place.

Second, due to the announced closing of MillerCoors, the anticipated secondary and ancillary impacts related to the closing of the brewery, the special economic rate adjustments that have already been conceded to retain and facilitate a work force expansion of Mohawk Industries, Inc. (Karastan Rugs), the loss of revenue from the Henry County PSA and the immediate projects related to the EPA AO there is an immediate need to increase our water and wastewater rates sufficient enough to generate a future combined total of approximately \$1,994,830 as previously noted. According to the financial analysis completed by Raftelis Financial Consultants, Inc. this is the additional annual revenue that will need to be generated by 2017.

Third, predicting the future is not possible. Due to the uncertainties surrounding what the EPA will or will not do in response to the implementation schedule outlined in our EPA AO remediation plan we will not be making additional rate increase recommendations for future years (beyond 2016 and 2017) until a final plan of action has been formally approved by the EPA and accepted by the COE.

This gets to sort of what Council Member Ellis was talking about earlier, this is 20 years. If they come back and say there were not going to give us 20 but only 10 years then the 20 years of projected rate increases from Raftelis gets crammed down into 10 years. If they come back and say there were not giving 20 or 10 years but only 5 years then the situation gets worse. He added that they were being optimistic because of the meetings held with the Governor, with the Secretary of NCDENR and with the additional information that was just submitted to the EPA and the precedent that Baltimore, Maryland has been approved

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

for a 20 year implementation they were hoping they would be able to get that period. But, it makes no sense to ask the City Council to adopt rates for 2018, 2019 and 2020 on “what ifs”. Regardless, the \$1.9 million is needed. That does not change with what the EPA does. He asked them to remember, that over \$1.1 million of that was just replacing what was lost. So the bulk of what they were talking about was in response to the closing of MillerCoors. Yes, there was a small amount in there because they saved 180 jobs and brought in 180 jobs, that \$88,000 was a good investment. He pointed out that Henry County was a little skiddish about what was going on with Chloramines, and he did not blame them. They can probably only imagine what the rates would do as a result of MillerCoors. He pointed out that it was MillerCoors and the EPA AO as well and that was what they needed to tell people. It was not a single thing that the City Council or staff could have prevented or had done. There was an unfunded mandate and the City of Eden was the only municipality in the State of North Carolina having to deal with this. He pointed out that they were having to deal with that on top of all the industries that they have lost within the last several years.

Based on our desire to increase rates incrementally rather than all at once, we believe the best course of action is to split the needed increase over a nine month period with the first rate increase becoming effective January 1, 2016 and the second increase becoming effective September 1, 2016. This corresponds with the reduction in production from MillerCoors anticipated to start in January 2016 and the full closing of this facility in September 2016. It is our hope that no additional increases will be needed during 2017.

So basically they would do those two increases in 2016 and then they would not do anything in 2017. They did discuss doing a January 1, 2016 and a January 1, 2017, but that just means for four months, September, October, November and December of 2016, they would probably have to use more Fund Balance to make up for all the loss that was already hitting at that time.

Council Member Ellis asked if he thought they would not give them any money whatsoever, unlike HanesBrands.

Mr. Corcoran explained no, they had a Take or Pay Agreement with Hanes and that was why. MillerCoors did not have that agreement.

They have provided four (4) rate increase scenarios for their review and consideration. He stated that he, Ms. Tammie McMichael, Director of Finance and Personnel, Ms. Amy Winn, CPA, Assistant Director of Finance, Mr. Terry Shelton, Director of Public Utilities all **recommend Option 3**. They feel this option offers a good split between their base and volumetric charges and causes less pain on both their low and high volume users while still making a significant increase on the base rate that everyone pays and is a reliable stream of necessary revenue. He noted that Council Member Burnette did a modification of Option 3 and it was kind of in the middle so they actually have 5.

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

He stated that it was a tightrope. On the one hand they should be very concerned about their retirees who live on a fixed income and low volume users. If they go too far however in the direction to try and take care of them then they place all of the burden on their hospital, their industries, and their other businesses. They are already paying a higher rate. If you place too much burden on those commercial establishments you run the risk of losing more industry or businesses or potentially the hospital, who knows. If that happened, he could assure them the citizens would then say “well you should have put more on us”. On the other hand if you put it all on the retirees even though it may only be \$10 more a month for some of them that was a 50% to 70% increase. It was a balancing act and the options here reflect that.

They would like to present the proposed rate increases for their formal consideration during the November 17th meeting with an effective date of January 1, 2016. This gives them time to advertise this change rather than making it effective without any advance warning.

OPTION 1

He explained that with this scenario they were putting the bulk of the burden on the low volume user.

Effective January 1, 2016 increase the base rate on water and wastewater accounts with a ¾” meter by \$5.00 each. In addition, increase the volumetric rate on water by \$0.40 per 1,000 gallons and the volumetric rate on wastewater by \$0.07 per 1,000 gallons.

Effective September 1, 2016 increase the base rate on water and wastewater accounts with a ¾” meter by \$5.00 each. In addition, increase the volumetric rate on water by \$0.40 per 1,000 gallons and the volumetric rate on wastewater by \$0.07 per 1,000 gallons.

These two increases will generate approximately \$1,175,640 in new water revenue and \$819,992 in new wastewater revenue for a combined total of \$1,995,632 based on current conditions.

The impact on various types of customers would be as follows:

<u>Usage</u>	<u>W/S Now</u>	<u>W/S 1/16</u>	<u>Increase</u>	<u>W/S 9/16</u>	<u>Increase</u>
1,500	\$ 34.47	\$ 45.17	\$ 10.70 or 31.04%	\$ 55.87	\$ 10.70 or 23.69%
4,000	\$ 60.11	\$ 71.99	\$ 11.88 or 19.76%	\$ 83.87	\$ 11.88 or 16.50%
10,000	\$ 121.67	\$ 136.37	\$ 14.70 or 12.08%	\$ 151.07	\$ 14.70 or 10.78%
74,000	\$ 1,052.11	\$ 1,096.89	\$ 44.78 or 4.26%	\$ 1,141.67	\$ 44.78 or 4.08%
125,000	\$ 1,764.07	\$ 1,832.82	\$ 68.75 or 3.89%	\$ 1,901.57	\$ 68.75 or 3.75%
265,000	\$ 3,718.47	\$ 3,853.02	\$134.55 or 3.62%	\$ 3,987.57	\$134.55 or 3.49%
1,000,000	\$13,979.07	\$14,459.07	\$480.00 or 3.43%	\$14,939.07	\$480.00 or 3.32%

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

He explained that for the average user, they were looking at an impact of \$11.88 the first time and \$11.88 the second time. For someone using just 1,500 gallons, a lot of retirees for example, \$10.70 and \$10.70.

OPTION 2

This scenario is the exact opposite or what he called the “easy way out”. This was to take care of the residents to the fullest extent possible while gouging the commercial and industrial customers to the maximum extent possible. The base rate would not increase at all.

Effective January 1, 2016 increase the base rate on water and wastewater accounts with a 3/4” meter by \$0.00 each. In addition, increase the volumetric rate on water by \$1.27 per 1,000 gallons and the volumetric rate on wastewater by \$0.92 per 1,000 gallons.

Effective September 1, 2016 increase the base rate on water and wastewater accounts with a 3/4” meter by \$0.00 each. In addition, increase the volumetric rate on water by \$1.27 per 1,000 gallons and the volumetric rate on wastewater by \$0.92 per 1,000 gallons.

These two increases will generate approximately \$1,172,718 in new water revenue and \$822,112 in new sewer revenue for a combined total of \$1,994,830 based on current conditions.

The impact on various types of customers would be as follows:

<u>Usage</u>	<u>W/S Now</u>	<u>W/S 1/16</u>	<u>Increase</u>	<u>W/S 9/16</u>	<u>Increase</u>
1,500	\$ 34.47	\$ 37.75	\$ 3.28 or 9.52%	\$ 41.03	\$ 3.28 or 8.69%
4,000	\$ 60.11	\$ 68.87	\$ 8.76 or 14.57%	\$ 77.63	\$ 8.76 or 12.72%
10,000	\$ 121.67	\$ 143.57	\$ 21.90 or 18.00%	\$ 165.47	\$ 21.90 or 15.25%
74,000	\$ 1,052.11	\$ 1,214.17	\$ 162.06 or 15.40%	\$ 1,376.23	\$ 162.06 or 13.35%
125,000	\$ 1,764.07	\$ 2,037.82	\$ 273.75 or 15.52%	\$ 2,311.57	\$ 273.75 or 13.43%
265,000	\$ 3,718.47	\$ 4,298.82	\$ 580.35 or 15.61%	\$ 4,879.17	\$ 580.35 or 13.50%
1,000,000	\$13,979.07	\$16,169.07	\$2,190.00 or 15.67%	\$18,359.07	\$2,190.00 or 13.54%

Council Member Hall asked who would fall under the big user category.

Mr. Corcoran replied that the hospital would be one of their main ones. He added that 74,000 was a McDonald’s, Burger King or Hardees type of establishment. He stated that 125,000 were some of the hotels or Walmart. He explained that 265,000 would be smaller industries that use less water like Weil-McLain, and then the hospital has several accounts. They have one account that averages about 1.2 million gallons a month.

OPTION 3

Effective January 1, 2016 increase the base rate on water and wastewater accounts with a ¾” meter by \$3.00 each. In addition, increase the volumetric rate on water by \$0.75 per 1,000 gallons and the volumetric rate on wastewater by \$0.41 per 1,000 gallons.

Effective September 1, 2016 increase the base rate on water and wastewater accounts with a ¾” meter by \$3.00 each. In addition, increase the volumetric rate on water by \$0.75 per 1,000 gallons and the volumetric rate on wastewater by \$0.41 per 1,000 gallons.

These two increases will generate approximately \$1,176,318 in new water revenue and \$820,840 in new wastewater revenue for a combined total of \$1,997,158 based on current conditions.

The impact on various types of customers would be as follows:

<u>Usage</u>	<u>W/S Now</u>	<u>W/S 1/16</u>	<u>Increase</u>	<u>W/S 9/16</u>	<u>Increase</u>
1,500	\$ 34.47	\$ 42.20	\$ 7.73 or 22.43%	\$ 49.93	\$ 7.73 or 18.13%
4,000	\$ 60.11	\$ 70.75	\$ 10.64 or 17.70%	\$ 81.39	\$ 10.64 or 15.04%
10,000	\$ 121.67	\$ 139.27	\$ 17.60 or 14.46%	\$ 156.87	\$ 17.60 or 12.63%
74,000	\$ 1,052.11	\$ 1,143.95	\$ 91.84 or 8.73%	\$ 1,235.79	\$ 91.84 or 8.03%
125,000	\$ 1,764.07	\$ 1,915.07	\$ 151.00 or 8.56%	\$ 2,066.07	\$ 151.00 or 7.88%
265,000	\$ 3,718.47	\$ 4,031.87	\$ 313.40 or 8.43%	\$ 4,345.27	\$ 313.40 or 7.77%
1,000,000	\$13,979.07	\$15,145.07	\$1,166.00 or 8.34%	\$16,311.07	\$1,166.00 or 7.69%

Council Member Ellis asked how many people inside the city use less than 1,500 gallons to which Mr. Corcoran replied that they did not know but that would be an astronomical amount of work to get those numbers. They would have to go in and look at each one. He explained that you take the total residential volume and you divide the number of residential accounts and you come up with an average of 4,000 gallons but for that you would have to pull each account one by one.

Council Member Ellis questioned that the woman who was 75 years old would she be told that her water bill was going up \$10.65 or was she going to be told that it was going to \$7.73.

Mr. Corcoran replied that was what they all will have to decide. If they went with scenario number three and she used 1,500 gallons her bill would go up by \$7.73.

Council Member Hall pointed out that if she used 2,000 gallons it would go up \$8.05. That was based on usage.

Ms. Erin Gilley, City Attorney, added that she would have to show them her bills so that they could look at them to see.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

Mr. Corcoran asked them to remember that on the last slide where they were putting it all basically on the commercial businesses this was about \$4,300. Now this is about \$2,300.

Council Member Hall pointed out that it was going up 75 cents per thousand gallons and Council Member Ellis added it was about 35 cents a day.

Mr. Corcoran explained that was why the spreadsheets show percentages because people would focus in on it and it was an unfortunate situation that they City Council finds themselves in. He could only tell them that it was a lot worse in 2001. The rates were like \$3.00 or \$4.00 and when the City Council hired him they told him that his very first job was to take care of that 2 million gallons of sanitary sewer overflows. They told him to immediately develop a plan to take care of it. He explained that he and staff made recommendations and dollar wise it was hardly anything, but it was like 83% and the Council Chamber was packed. He stated that everything was phrased in percentage not in dollars. So people who are opposed to this will come in and talk percentages. Council Member Ellis was right and that was how they needed to present it by breaking it down per day or per month. They also needed to remind everybody that it was not only their "water bill" it was their water bill, their garbage bill and their sewer bill, three utilities.

He stated that security measures have been taken. They were this close to recommending that they never take payments again in person because of the fear of the way people act, because they cannot get to DirectTV or Time Warner. So they come into the city and take all of their frustrations out on those ladies who were just trying to do their jobs. They cuss and they scream to which Mayor Tuggle added that was why the glass was put up. Mr. Corcoran pointed out that it was scary. He stated that this was a real situation already and it was only going to get worse. It was a horrible situation to be in but they had to do something. The revenue was not there and the money was not in the bank to continue using fund balance.

OPTION 4

Effective January 1, 2016 increase the base rate on water and wastewater accounts with a 3/4" meter by \$2.00 each. In addition, increase the volumetric rate on water by \$0.92 per 1,000 gallons and the volumetric rate on wastewater by \$0.58 per 1,000 gallons.

Effective September 1, 2016 increase the base rate on water and wastewater accounts with a 3/4" meter by \$2.00 each. In addition, increase the volumetric rate on water by \$0.92 per 1,000 gallons and the volumetric rate on wastewater by \$0.58 per 1,000 gallons.

These two increases will generate approximately \$1,172,040 in new water revenue and \$821,264 in new wastewater revenue for a combined total of \$1,993,304 based on current conditions.

The impact on various types of customers would be as follows:

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

<u>Usage</u>	<u>W/S Now</u>	<u>W/S 1/16</u>	<u>Increase</u>	<u>W/S 9/16</u>	<u>Increase</u>
1,500	\$ 34.47	\$ 40.72	\$ 6.25 or 18.13%	\$ 46.97	\$ 6.25 or 15.35%
4,000	\$ 60.11	\$ 70.11	\$ 10.00 or 16.64%	\$ 80.11	\$ 10.00 or 14.26%
10,000	\$ 121.67	\$ 140.67	\$ 19.00 or 15.62%	\$ 159.67	\$ 19.00 or 13.51%
74,000	\$ 1,052.11	\$ 1,167.11	\$ 115.00 or 10.93%	\$ 1,282.11	\$ 115.00 or 9.85%
125,000	\$ 1,764.07	\$ 1,955.57	\$ 191.50 or 10.86%	\$ 2,147.07	\$ 191.50 or 9.79%
265,000	\$ 3,718.47	\$ 4,119.97	\$ 401.50 or 10.80%	\$ 4,521.47	\$ 401.50 or 9.75%
1,000,000	\$13,979.07	\$15,483.07	\$1,504.00 or 10.76%	\$16,987.07	\$1,504.00 or 9.71%

Mr. Corcoran explained that Scenario #5 was splitting the two in the middle and do a \$2.50 increase instead of \$2.00 and \$3.00.

Current Economic Development Rates
On Any Usage That Exceeds 5,000,000 Gallons Per Month (Non-Contract)

Per 1,000 Gallons Usage Charge: \$ 3.50 Water and \$ 4.96 Wastewater

Proposal

Current proposal based on existing conditions is to add another level for any usage that exceeds 1,000,000 gallons per month but is less than 5,000,000 gallons per month for any account.

We are recommending that the volumetric charges for usage **in excess of \$1,000,000** but less than 5,000,000 gallons per month be established at \$4.25 per 1,000 gallons of water and \$9.71 per 1,000 gallons of wastewater. The first 1,000,000 gallons each month would be based on the regular volumetric rates in place at that time for all commercial and industrial customers.

If option 3 were selected the monthly bill (September 2016) for the AVERAGE residential customer (4,000 gallons) for the **three different services** provided by the City would be as follows:

Water Service -	\$38.85
Sewer Service -	\$42.54
Refuse Collection Services	\$18.75

We believe these prices would still be competitive with the monthly costs for other utilities and services such as electricity, natural gas, internet, cell phone, cable TV, and telephone.

Discussion:

Council Member Ellis asked Council Member Burnette what his recommendation was for Scenario #5. Council Member Burnette replied that the base rate goes from \$3.00 per increase to \$2.50. The water rate goes from 75 cents to 84 and the sewer rate goes from 41

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

to 58. The percentage drops from 48 to 43. It was really not a whole lot but he thought it was something that might be viewed as positive.

Council Member Turner questioned putting the first increase off until March.

Mr. Corcoran replied that would just condense the second increase. He asked them to remember that effective January 1, they would not get their January bill until March.

He explained that if they would look at what Raftelis estimated, after this between 2018, 2019, 2020 and 2021 assuming a 20-year plan they would need to raise water rates by an additional \$720,000 and sewer rates by an additional \$1.6 million. Even if the EPA walked in tomorrow and lifted the EPA Order, he would still need to generate \$1.994 million. That still did not change anything. Because of Miller and also for projects they have already committed to on the sewer side. It would help in the future big time but it would not do anything with what they were discussing tonight which was why they were not recommending anything in this initial two year period because they did not know what would happen with the EPA Order. He added that they did think there were some things going on at the State level.

Council Member Turner recalled a meeting when she first became a Council Member in 2003. There had been a presentation by WK Dickson and they projected 20 years forward they had \$92 million worth of needs.

Mr. Corcoran explained that they have already spent about \$35 million. They have done from 2 million gallon average to just over a 100,000 gallon average. They also included that information in the revised remediation plan that they submitted to the EPA in mid October. He noted that when the Governor was here with the secretary of DENR, he said that if there was any community that has proven by its actions that they should stand up for them and try to help.

Mayor Tuggle added that what was puzzling was there were so many communities around that still have millions of gallons of SSO's a year and Eden was the one who was chosen.

Mr. Corcoran explained that as far as the 1.1 million in the water it is from the Miller closing, the saving of Karastan, from losing the Henry County PSA, and the spin off impacts of losing Miller. He added that 100,000 of the sewer was also Miller. The rest of the sewer with the exception of the small amount for Karastan or some ancillary impacts was the EPA Order, projects they have already done but they have not yet paid debt service because they have been putting this off and using fund balance but he stressed they could not keep doing that.

Council Member Burnette stated that with whatever rate increase they go with one of the things he had not heard mentioned and maybe it was in the calculations. He questioned what it did to the out of city, it doubles the rates, and it doubles everything. He asked what that did to their revenue stream.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

Mr. Corcoran explained that was figured in. However that was another important consideration because there were people who live in subsidized housing, get \$400 a month, their rent was “x” and her bill here was \$80.00. Normally her bill would have been \$40 but now it was \$80 because she pays 100% more. So, again a \$10.00 increase on that 1500 gallon customer in the corporate limits will be \$20.00 and times two would be \$40.00. Again, you cannot sacrifice your residents to take care of the people outside. They do have the opportunity to request voluntary annexation and move into the city if they live close enough.

He stated that they had discussed lowering their surcharge from 100% to 50% but that would not look good to take action to help people living outside the city while raising the rates on people who live inside the city.

Mayor Tuggle recalled a meeting one time where a group of people came to the meeting who lived outside the city and was ticked off about the EPA Order causing sewer problems and the water rates were going up outside of the city.

Mr. Corcoran stated that they needed to imagine that the Council Chambers was packed with people standing up and screaming and yelling. He asked at what point were they willing to say “I’m sorry we just had to do it.” In other words, he explained, they should only support an increase that could weather the storm. He told them not to bite off more of an increase if they did not feel comfortable with the storm that may come.

Mayor Tuggle added that they think about how many storms did they want to endure and was it better off to go on and do what you need to do and then it not be enough and you have to deal with it again.

Mr. Corcoran explained that was a discussion that was had at the League Conference he had attended with Council Members Burnette and Carter. They were discussing this inevitability and he had mentioned that he was probably going to recommend rate increases over a two year period to which Council Member Carter stated that he had rather do it all at once, let them yell once and get it over with rather than two rate increases. The Mayor has a valid point. Another idea that they looked at but he did not think they could afford was what if they assumed the best. What if they assumed getting a twenty year approval and what if they took the increases that they said also needed to happen in 2018, 2019, 2020 and 2021 and add it to what they say needs to happen in 2016 and 2017 and divide it by 6. Spread that over six years rather than front load it. The problem with that was that they lose so much in the first couple of years because of the immediate losses that they have talked about that you then have to dip into even more fund balance and then you were in really serious trouble.

Mayor Tuggle pointed out that the longer you put off projects the more it would cost daily.

Council Member Turner commented that there was a town in Iowa who had a nitrate run offs in their water and they were going to have to build a nitrate filtration plant that would cost zillions of dollars. They were going to have to build it immediately.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

She then pointed out that things were wearing out across the nation from the boom after World War II. Things were just worn out.

Mr. Corcoran stated that instead of them spending money on 2-inch water line replacements and things like that, they were having to spend money and worried about the last 20,000 gallons of sanitary sewer overflows when you can turn on the news any night and hear about communities within 100 miles of Eden who were spilling millions of gallons.

Council Member Turner stated that they just have to move forward.

Mr. Corcoran stated that it was just like when Miller announced it was closing people went to social media blaming Mike Dougherty, the City Council, the City Manager, but that was a corporate decision made on business.

The City Council or city staff had nothing to do with this EPA Order and they did not call them up. In fact he questioned where the EPA was from 1987 to 2011. Now they were here and unfortunately they just did not care.

Mayor Tuggle added that the attitude then was they (former Council) were saving the citizens all of this money but they were just kicking the can down the road for this particular City Council to have to make these major decisions. That was why the EPA was in here now.

Council Member Burnette stated that he thought it was very interesting that after election night they interviewed Mayor Nancy Vaughn of Greensboro. The newsman asked her if she could guarantee there would be no tax increase and would the water and sewer rates be the same. Her answer was that they did not have budgeted a tax increase but as normal we usually increase water and sewer rates every year.

Mr. Corcoran agreed that if you had done something like a 3% every year look where the rates would have been. Again, not trying to beat a dead horse but it was hard trying to convince the EPA that your rates are way out of whack when a State study comes out and Eden's rates in some areas were below the average.

Council Member Turner questioned the average and was it because there were some municipalities had really high rates.

Mr. Corcoran replied that he thought there were 510 water systems in the survey so they averaged out.

He stated that he had heard it and it was true where people were saying that their monthly bill now was higher than their bi-monthly bill used to be. They have raised rates since 2006 more than 100%. He pointed out that was more than 100% and they were still faced with this.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

Council Member Hall asked if you could do something with the savings account or fund balance, by another year you may get a water user and that would be obviously the ideal situation. But, you did not want to run your savings account down to zero trying to find another user but they have to assume that we are going to find a user for that Miller property.

Council Member Burnette commented that he believed they did delay a water & sewer increase two or three years ago to which Council Member Turner added that they put it off six months.

Mr. Corcoran explained they were able to do that because they were getting take or pay. He pointed out that for Miller, the money that they pay from January to June, if they did not reduce, but they are going to reduce and it was already in the budget. It was already counted on to pay this year's bills. The only money that was not in the budget was what they would do in July and August, which was not much. So when they prepare next year's budget they will probably put very little money in the budget from what they expect to receive from Miller. The money that they were going to get from now to June was already in this year's budget.

Council Member Hall asked if there were any grant options to which Mr. Corcoran replied no and the grants were drying up.

Mr. Terry Shelton, Public Utilities Director, added that it was also important to keep the rates up because there was something called a high unit cost medium income that you have to hit. If they fall back below that then they were not eligible for grants anymore.

Council Member Epps also stated that they have equipment out there that could go bad and they had to have funds to fix it.

Mr. Corcoran asked them to remember when they that severe drought they used hundreds of thousands of dollars instantly to bring in supplemental pumps. You have to keep some money, especially on the water and sewer side because you just never know.

After some brief discussion on the options Council Member Burnette asked if Option 5 was considered if he had verified the numbers to which Mr. Corcoran replied he had not.

Mayor Tuggle stated that they could let the City Manager know what the option would be and he could make that presentation at the Council Meeting. Council Member Burnette added that he thought the necessity of this also needed to be talked about.

Mr. Corcoran stated that he guessed what he was hearing from them was that they like an approach that spreads the burden as opposed to placing it all on residential or all on commercial.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

Council Member Burnette stated that in his opinion he could rule out Option 1 and Option 2 now to which Council Member Turner agreed.

Mayor Tuggle asked if they would all agree that \$2.50 and \$3.00 would be the two options for him to focus on to which that was the consensus of the Council.

Mr. Corcoran also pointed out that Option 2 takes care of the small residential people more and puts a little bit more on the commercial. You just run the risk of more consumption. All dollar-wise it was close. So for someone using 1500 gallons then \$2.00 would be 36.26 versus \$2.50 at 43.16.

Mayor Tuggle stated that still with a base rate of \$2.50 or \$3.00 as opposed to \$2.00 you know you have consistent money coming in and Council Member Burnette agreed that the more you reduce the base the less you were likely to get.

Mr. Corcoran explained that for every \$1.00 on the base you are generating over \$150,000, yet it takes a dime on water and sewer just to generate \$80,000. So you basically have to raise your volume by almost 25 cents to equal a \$1.00 base rate increase.

Mayor Tuggle stated that was the problem in trying to get the base rates too low if people were cutting back they would end up revenue short.

Mr. Corcoran replied that to be honest, they were upside down. When you read the literature, if you were a large utility with all sorts of usage your base rate is typically small, your volume charge is higher because there was so much volume being used and that was what funds your system. That was what they used to be. They now were sized as a large utility, they have the capacity, but they were a small utility and small utilities for the most part have a high base rate and a much smaller volume rate because they need a reliable stream of revenue. Because Eden's base rate was low, to get it up towards the average, was where people say "oh my gosh there is a 70% increase" even though they were only talking here \$7.00 or \$8.00.

Mayor Tuggle asked everyone to send Mr. Corcoran which option they thought would be the best so he could make a decision as to what to present to the City Council.

Ms. Gilley asked if that included the new economic development rate to which it was agreed that they did.

BREAK:

Mayor Tuggle called for a short break.

WORK SESSION AND DISCUSSION ON RECONNECTION FEES AND LATE PAYMENT POLICIES FOR WATER AND SEWER CUSTOMERS:

Mr. Corcoran moved to the next item on the agenda.

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

- The current ordinance and policy doesn't allow us to immediately charge the delinquent customers the reconnect fee unless we actually disconnect their service.
- We also pull or lock the meters, if the account is still delinquent 10 more days after the cutoff date. Currently, we give a total of 30 days before we disconnect service and 40 days before we pull or lock the water meter.
- These customers are already extremely late and, it's not fair to customers who are at the beginning of the cut off list to have to always pay the reconnect fee. If you're delinquent you're delinquent!
- Ms. Tammie McMichael, Director of Finance and Personnel has contacted 11 other municipalities and each of them **apply the penalties immediately when the list is generated.**
- It is staff's recommendation that we amend our ordinance & policy to state that we are going to apply this \$25.00 late payment penalty when the list is generated.
- We believe if a customer is delinquent, they should be required to pay the penalty no matter where their name appears on the list.
- We also believe customers shouldn't be allowed to negotiate with the meter technician to avoid paying the reconnection fee.
- When we have approximately 200 customers a month on the cut off list, it creates a lot of confusion in the office.
- It is constant confrontations with customers in the office and on the telephone discussing whether their water has been turned off or not.
- Again, the recommendation is to apply a \$25.00 late payment penalty when the disconnect list is generated (after 30 days to pay their monthly bill).
- We would like to present an amended ordinance and policy for your formal consideration during the November 17th meeting with an effective date of January 1, 2016.
- This gives us time to advertise this change rather than making it effective without any advance warning.

Mayor Tuggle asked so in other words they have a list of 200 people and the first 10 or 15 people on the list it costs them and anybody beyond that they can negotiate and to tell you the truth, he did not think a technician should be going to a house and negotiating with somebody, that needed to be taken care of somewhere else. So, they would not have to pay whereas the previous 10 or 15 they would have to pay and that was not fair.

Ms. Gilley explained that they currently call it a reconnect fee so now they were changing it to a nonpayment fee because you cannot charge the reconnect fee if you do not cut them off.

Mr. Corcoran added that the purpose was you have 30 days and the list is generated.

Council Member Burnette asked that of the 200, what kind of repeat was there.

November 9, 2015

Minutes of the November 9, 2015 meeting of the Eden City Council, Continued:

Ms. Tammie McMichael, Finance Director, replied that it was the same.

Mr. Corcoran pointed out that the revenue from late fees was over \$200,000. So if people start paying their bills that was \$200,000 more they need in water and sewer rate increases.

ADJOURNMENT:

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

Respectfully submitted,

Sheralene S. Thompson
City Clerk

ATTEST:

Wayne Tuggle, Sr., Mayor