

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2009 - 2010 Budgets for Enterprise Funds

The proposed budgets for the Town's Enterprise Funds for 2009-2010 are hereby submitted for your review. These Funds include the Water, Sewer and Electric Funds and represent a combined total of \$13,528,550. That reflects an increase of \$584,240 or about 4.51% over the \$12,944,310 we expect to spend in the 2008-2009 fiscal year. A comparison of the estimated expenditures with the proposed budget follows:

	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>CHANGE</u>
Water Fund	\$2,534,140	\$2,468,170	(\$ 65,970)
Sewer Fund	\$1,968,750	\$2,017,480	\$ 48,730
Electric Fund	\$8,441,420	\$9,042,900	\$ 601,480

I. REVENUES

When the economy is poor, people will generally try to conserve in all areas and save money any way they can. On our water system, during 2008-2009, charges for water consumption exceeded budget estimates, but only by \$8,410. Perhaps the severe drought in our region led people to use more water. Unfortunately, the economy definitely affected revenues for the sale of new taps and connection fees and for capacity fees for new connections. Those two sources combined fell \$45,100 below our revenue estimate. In the **WATER FUND**, for the 2009-2010 budget, we are recommending a 5% increase in rates we charge for water use as well as on pump fees. This should result in an increase of \$97,190 in revenues. Fees for new taps and impact fees are to remain the same.

For 2008-2009, revenues from sewer customers fell \$24,120 below estimates. During a drought year, infiltration and inflow to wastewater collection lines drop, so the volume being measured and pumped to the wastewater treatment plant drops as well. For the **SEWER FUND**, like the water fund, new construction was down, and the revenue from sewer taps was off by \$33,000. We did have some significant income from impact fees for new developments such as Best Buy and the Laurel Ridge Country Club. For the 2009-2010 fiscal year, we are recommending that there be no increase in sewer rates.

In the **ELECTRIC FUND**, we are now into the sixth year of dealing with escalating fuel adjustment charges, and we adjust the rates we charge on a monthly basis as we pass along higher fuel charges from Progress Energy. For 2008-2009, revenues for sales of electricity will exceed our estimates by \$332,820, but that allowed us to reduce the amount of money we felt was needed from the reserves of that fund. For the 2009-2010 fiscal year, we anticipate that charges for electricity will grow by \$441,880. The Town will enter a new contract with Progress Energy effective January 1, 2010, and this will necessitate a rate increase by the Town to cover the cost of the new contract. Rates are expected to rise by approximately 5.5%, but fortunately, the base rates charged by Progress should remain in effect for the length of the contract, until December 31, 2015. The fuel charges will vary during those six years, but the base rate for demand and kilowatts will be the same.

There are other issues going on with the Electric Fund. In addition to the increased charges to the Town for higher fuel costs Progress Energy must pay, we have seen growth in the actual consumption. According to Finance Director Eddie Caldwell, consumption by the average residential customer has increased nearly 5% in the past year. This stands to reason for we have hit several new peak demands in that time, and on February 5, 2009, we hit a new record of 20.853 megawatts, which is 4.82% higher than the peak of 19.894 megawatts set in January, 2008. So in addition to fuel charges, we are paying more for the outright purchase of power from Progress Energy, and our revenues are higher from the greater demand upon our electric system.

II. EXPENDITURES

Water Fund expenditures for 2009-2010 will decline by \$65,970. The truth is expenditures had to decline unless we planned to use all the reserves in the Water Fund. We have used a significant amount of fund balance to meet the needs of the water plant, where large chunks were used the past two years, some for the expansion of the plant lab in 2007-2008 and more for replacement of a major portion of the plant's roof in 2008-2009. In addition to these capital outlays, there has been an unprecedented increase in the price of chemicals used in the water treatment process, particularly in the cost of fluoride, where some of the manufacturers have ceased operating in recent years. The costs at the Water Plant were running so high that we had to reduce the amount of work that could be authorized for the maintenance, repair and replacement of deteriorated water lines. And the Board will recall from the study done by Martin-McGill, there are millions of dollars in needed improvements that must be made to the water plant and water system. Water rate increases simply will not cover all the needs, which is why the impact fees were introduced. When development surges, those impact fees will assist us in making the improvements, or perhaps we will be able to secure some of the money from the federal government which is part of President Obama's stimulus package intended to boost the economy.

In the **Sewer Fund**, expenses will rise by \$48,730, but that is misleading. We were able to pay off the debt on the Lime Stabilization System used at the Wastewater Treatment Plant, freeing up \$88,583 annually to meet other needs. As a result, we were able to shift those funds over to capital expenditures in either maintenance or at the treatment plant. This fund has grown stronger in recent years, with no money taken from reserves in 2008-2009 and only \$9,590 is needed from reserves to balance the 2009-2010 budget.

In the **Electric Fund**, an expenditure increase of \$601,480 is requested over what we expect to spend in 2008-2009. The primary reason for this large of an increase is the first payment of \$310,000 due on the loan for the new electric substation. In addition, the new contract with Progress Energy will go into effect on January 1, 2010, resulting in an increase in the cost of purchasing power. Wages and fringe benefits in this department will rise by \$30,700, for we have continued to experience some turnover in this department, with times of vacancies and employee advancement through the probationary periods.

We are continuing our efforts to replace deteriorated power poles and aging transformers, and that is having a major impact on the operating budget. When we had the Long Range Plan for the system developed by Booth and Associates a few years ago, it was pointed out that we were behind in system maintenance; consequently, we are trying to make sure that the electric system infrastructure does not deteriorate any further. We have a goal of replacing 90 poles a year and have usually been successful.

In Section 6 of the Budget, you will find Budget Cost Comparisons for each of the funds the Town operates. These comparisons show the actual amount of revenues and expenditures we estimate for 2008-2009, compared with the amount we anticipate for the 2009-2010 fiscal year. The charts should be very helpful to the Board in understanding the origin of the money in each fund and how that money is spent.

III. USE OF RESERVES AND INTERFUND TRANSFERS

In order to balance the Water, Sewer and Electric Funds, we typically must allocate various sums from the reserves of each of those funds. The financial position of these funds has varied over the years, depending on major projects or unforeseen events. For many years, the **Sewer Fund** was the weakest of the three, but it has gained strength and now the **Water Fund** seems to have slipped behind the other two.

In the **Water Fund**, we have suggested a Fund Balance allocation of \$169,570, which is down considerably from the \$332,340 we expect to use in 2008-2009. As noted, we have used a lot of the reserves in this fund to pay for the expansion of the Water Plant Lab, the roof on the Water Plant, to repair or replace some of the deteriorated water lines and to purchase equipment needed to do the work. For a period of time, the reserves in the Water Fund were growing and exceeded \$1,000,000, but we have encountered a number of needed repairs which have eaten away at those reserves.

The **Sewer Fund** has seen an increase in the reserves in recent years, and I am pleased to say that there have been several audit reports which found that this fund actually made a little money. During 2009-2010, we are requesting that \$9,590 come from reserves in order to balance the budget. During 2008-2009, we do not believe that any funds will have to come from reserves to balance the Sewer Fund. With this in mind and in view of the stress the poor economy is having on so many people, we did not recommend a rate increase on sewer charges for the 2009-2010 budget year. In the future, we would like to spend more for the rehabilitation of the sewer system, and we would like to see funding provided from rates and charges rather than from reserves of the Sewer Fund.

The reserves of the **Electric Fund** over the past few years look like a roller coaster track. The funds would grow and we would be able to borrow those reserves for the recreation center or a sewer line or water line or a parking deck. Then the reserves would grow again until there was some other need. Over the past five to six years, the reserves have declined as we struggled with meeting the bills from Progress Energy driven higher by the cost of fuel which they had no choice but to pass along to their customers. The Town in turn, passed along the cost to our own customers, but we often found that we could not raise our rates high enough or fast enough to keep up with the increases from Progress Energy. So the amount of reserves in the Electric Fund became unpredictable. In the 2008-2009 budget, we anticipated making the first of 12 annual payments on the debt for the new electric substation located off Howell Mill Road. Delays in construction meant that payment did not have to be made until the 2009-2010 fiscal year, giving the reserves at the end of June, 2009, a decided boost. We are recommending the use of \$207,350 in reserves of the Electric Fund for the 2009-2010 budget. Ironically, in the 2008-2009 budget, we had recommended taking \$207,750 from the reserves of the Electric Fund, but we are predicting that we will end the year using about \$22,750 in reserves.

IV. FEES FOR 2009-2010

In presenting the 2009-2010 budget to the Board, we are recommending that **water rates and pump fees** be increased by 5% for all customers inside and outside the town effective on August 1, 2009. We are not recommending that connection fees or capacity fees be increased. These increases should produce additional funds to allow us to do more repairs and maintenance of the water system as suggested by the Asset Management Plan.

We are recommending that there be no increase in **sewer rates** for the 2009-2010 fiscal year. This fund seems to be stable at this point. While we could certainly use additional funds to pay for more work on maintenance of the wastewater collection system, we felt that the current economic challenges for many of our customers were a factor we should consider in not seeking a rate increase this year.

Although the Town has raised water and sewer rates almost every year, we still have some of the lowest charges. Section 6 of the Budget compares rates charged by municipal systems in our region as well as similar sized municipalities across the State, and our charges remain among the lowest. The data from the League of Municipalities was updated last fall, so rate comparisons are pretty current, and Waynesville remains quite low compared to other municipalities based on this data. There is also a calculation of typical bills after the rate increases, with the Finance Department calculating charges at various levels under the current rate and the proposed rate.

During the 1990s, the Town and Haywood County entered an agreement to extend sewer lines from Lake Junaluska to Queens Farm and along Russ Avenue from Route 19 to the Maple Grove Methodist Church. An agreement was reached that impact fees would be charged to connect to these lines and the Town and County would share equally in the revenues from those fees. That agreement will expire on June 30, 2009, and in the future, any impact fees collected will remain with the Town of Waynesville.

In 2007, the Board increased **electric rates** by 3.5% to provide funds for the capital and debt service costs on the new electric substation. That was the first general rate increase since 1988. In response to the increase in fuel adjustment charges from Progress Energy, the Board has allowed staff to adjust rates on a monthly basis to attempt to cover those increased costs. Unfortunately, fuel adjustment charges have outpaced the rate adjustments staff has added to bills, and the rate increase for the debt service on the new substation has been eaten up by fuel adjustment charges. On January 1, 2010, the Town will enter a new Power Supply Agreement with Progress Energy, and the rates paid to Progress will rise by an average of 5.50%. It is our recommendation that rates charged our own customers rise by a similar 5.5%.

I would also note that under Senate Bill 3 passed by the North Carolina General Assembly in 2007, all electric utility companies must move toward purchasing 12 % of their power supply from renewable energy sources by the year 2021. In order to do this, the utilities were authorized to increase rates to their customers to cover the costs of buying alternative energy sources. The General Assembly felt that unless there were additional revenues to pay for the renewable energy sources, there would be no incentive for people or companies to develop these renewable sources. Progress Energy began charging their own customers the fee on monthly utility bills in January, 2009, and they will need to charge their wholesale customers, such as Waynesville, as well. Our electrical consultant has been working with Progress Energy to arrive at an equitable charge, but during the year, we will have to begin passing along this cost to customers on Waynesville's system.

V. HIGHLIGHTS OF EXPENDITURES FOR 2009-2010

A. Cost of Living Adjustments and Merit Pay Increases

Because of the present state of the economy and the impact upon the revenues the Town receives, we are unable to propose a Cost of Living raise or merit increase for employees in the 2009-2010 budget. If financial conditions change later in the fiscal year, perhaps we can revisit this issue.

As has been done for several years, funds are provided to make a 5% contribution to a **401(k) retirement account** for every full-time employee. Employees may invest that money as they chose and may contribute their own money into the 401(k) account. In addition to the 401(k), the Town contributes 5% on behalf of every full time employee to either the **Local Government Employees' Retirement System** or to the **Local Law Enforcement Officers' Retirement System**. Employees also contribute to this retirement system and it is one of the finest benefits that are offered to our personnel.

As we have stated many times, and I know the Board is aware of this, the Town has some of the best employees that can be found in any organization. While we are unable to offer them higher compensation at this time, at least we are able to maintain the generous fringe benefits program as a reward for the excellent work they do.

B. Employment Levels

In 2007-2008, we added an employee in sewer maintenance, but we were unable to fill that position. When we asked departments to reduce budgeted expenditures by 3%, the sewer maintenance department suggested that this position be frozen. In developing the 2009-2010 budget, this position has been eliminated. We enter the fiscal year with 37 positions in the Enterprise Funds, 16 in Water Maintenance and Water Treatment, 14 in Sewer Maintenance and Wastewater Treatment and 7 in the Electric System.

C. FRINGE BENEFIT COSTS

The greatest fringe benefit provided our employees is health insurance. Over the years, the cost of health insurance has increased far in excess of inflation rate. We have tried various means in response to increasing costs - changing deductibles, changing providers and requiring that employees start picking up a share of the cost of this benefit. There is no charge to employees for their own health insurance, only for that of their dependents, and the Town continues to pay the full premium for an employee and for retirees with at least ten years of service. We are continuing to look at some possible changes on health insurance for some of our long term employees. As noted earlier, our personnel have been judicious in the use of their health insurance benefits this past year, and Blue Cross-Blue Shield has advised that for 2009-2010, there will be no increase. As the Town spends approximately \$1.5 million for health insurance, when there is no increase, it is a tremendous savings for the Town and our employees.

Our dental and life insurance coverage is provided through the North Carolina League of Municipalities which also provides our **Worker's Compensation, Property, Automotive and Liability Insurance**. We were pleased to learn that the premiums on property, automotive and liability insurance will be stable next year as the Town will be receiving some credits due to the length of time it has participated in those programs. We are seeing a substantial increase in Worker's Compensation Insurance due to some large claims in two areas.

In addition to the 401(k) retirement program, the Town offers the opportunities for employees to participate in other retirement programs, to purchase extra life insurance for themselves or their dependents, to establish pre-tax health savings accounts or special eye care accounts and to take part in a variety of other programs.

The budget includes funds for **Longevity, Safety and Christmas Bonuses**, and as required by federal law, the Town contributes 7.65% of earnings for each employee to Social Security. Our Town employees enjoy a generous fringe benefits program.

D. Capital Outlay/Infrastructure Improvements Costs

For 2009-2010, we recommend an expenditure of \$275,000 from the Water Fund for rehabilitation of the system, and we ask that the Board allow the maintenance department to finance a new Trackhoe which has an estimated cost of \$70,000. At the water treatment plant, \$60,000 is requested for repairs to the concrete on the clearwell basins and \$9,300 for a new chlorinator. We would ask your approval of these items.

In the **Sewer Fund**, the primary capital expenditure for 2009-2010 would be to replace the 1994 GMC Sewer Cleaning Truck. With a cost estimated at \$170,000, we will seek a lease-purchase financing agreement probably for a four year period with \$51,000 budgeted each year. Since the first payment would not have to be made until after July 1, 2010, there is no debt payment in the 2009-2010 budget, but we would like to order the sewer cleaning truck during the fiscal year. We would like to combine this truck with the excavator from the water maintenance department and put them in one package to solicit bids for financing. We also recommend spending \$300,000 on the rehabilitation of various wastewater lines in different parts of the system. At the Wastewater Treatment Plant, funds are requested for various pieces of equipment, the most costly being a Pasteurization Vessel used to heat the sludge and kill bacteria.

In the **Electric Fund**, with the substation completed, we turn our attention again to making system additions, and \$35,000 is budgeted for that purpose. We have also requested \$15,000 for the replacement of Christmas Decorations along with \$3,500 for a hydraulic press and \$4,000 for a riding mower.

This year's list of proposed capital expenditure items appears in Section 6 of the budget. You will find a list of items requested and what is recommended for 2009-2010. The list includes vehicles and equipment proposed next year, construction projects and lease-purchase payments we are making on equipment, improvements and repairs.

Since 1995, we have used a Five-Year **Capital Improvements Plan (CIP)**, and our department heads pay attention to this planning tool when developing budget requests. Each department spends time developing the list of items they feel needs to be replaced over the next five years. A CIP must be adjusted annually depending upon changing conditions or new circumstances. Such a plan should cause us to develop replacement schedules for major equipment, and help prevent a situation where all big-ticket items have to be replaced at the same time. We will continue our annual work on the CIP.

E. General Operating Expenditures

When the recession hit, we anticipated a drop in the price of many commodities the Town purchases. But we have seen the reverse of that, with many products rising in price. During the year, the price of gasoline and diesel fuel skyrocketed and was in short supply. We used an average price of \$3.10 per gallon to prepare the 2008-2009 budget, and we were afraid that would not be sufficient. Fortunately, petroleum prices have dropped significantly, saving us thousands of dollars. Prices of other items, such as concrete, asphalt, steel and certain types of pipe were on the rise. At the water plant, the price of treatment chemicals has gone to unbelievable levels. Two years ago we spent \$86,519 for chemicals that will cost an estimated \$173,100 in 2009-2010. We asked departments to give up 3% of their budgets, and in some cases, they cut a lot of general operating expenses. This meant that the budget was particularly tight, and with the economy continuing to be volatile, the budget for 2009-2010 will likely be just as tight.

Many departments asked for increases in Materials and Supplies, as they have work they want to accomplish. Regretfully, with the decline in revenues in several areas, it will be necessary to delay some projects and try to make the funds available spread over a twelve month period. This is particularly disheartening in water and sewer maintenance which is working against that \$30 million backlog of improvements needed.

While the cost of motels and food in restaurants rose a bit in 2008-2009, we have tried to hold travel and training expenses down for the 2009-2010 fiscal year. We are trying to do more to bring training to our site rather than send large numbers of personnel elsewhere for training. We continue to emphasize additional training for our personnel so they improve their job skills and increase their chances of advancement. We want to promote from within when we can and when our employees are capable. We have to try to make sure they are. We have some new employees in the Electric Department, and we are particularly anxious to see them receive proper training in this dangerous field.

F. Miscellaneous Costs

The **Professional and Contract Services** for the water and sewer fund will be down in 2009-2010. During the current year, we had a Leak Detection Study performed on our water system to help address the problem we have with the loss of over 30% of the water we supply to the system. On the Water Treatment side, we expect costs to remain stable but will continue to try and find a solution to the price of treatment chemicals. In the Sewer Fund and Electric Funds, we do not anticipate much change in the cost for professional services from the prior year.

The final category in the budget is **Debt Service**. Waynesville is fortunate in that we have no bonded debt on our utility systems; however, we have entered some lease-purchase finance agreements to pay the cost of some expensive improvements. In the Electric Fund for 2009-2010, we will be adding our first payment on the debt on the electric substation. We should celebrate this year, for we made the final payment on the Lime Stabilization Equipment at the Wastewater Treatment Plant, and that allows us to plow \$88,583 back into the Sewer Fund to meet other capital needs. The following is a list of the loans and payments we will be making in the three Enterprise Funds:

1. the sixth of ten annual payments - 2 million gallon water tank (\$118,680),
2. the sixth of eight annual payments - Chlorine Contact Tank at water plant (\$153,165),
3. the fourth and fifth of sixteen semiannual payments - water plant lab (\$51,270),
4. the seventh of eight annual payments – Wastewater Sludge Belt Press (\$41,155),
5. the second of five annual payments – Pole Truck for Electric Department (\$41,438),
6. the first of twelve annual payments – Electric Substation (\$310,818).

In Section 6 of the budget, you will find a detailed report on each of the Town's lease purchase financing agreements, including the date when each will be paid in full.

VI. NOTEWORTHY ITEMS IN PROPOSED UTILITY FUND BUDGETS

At a time when the economy is poor and dollars are particularly hard to come by, it is important to recognize the progress that we are making on improvements to the facilities of the utility funds and on the distribution and collection lines. It is also important to recognize that the job is far from done and that we must remain on this course. It is simply the right thing to do. For many years, the Town had a tendency to keep rates low, and the Town fathers were proud of being able to offer those low rates. But there was a down side to that philosophy – the systems and facilities were not being well maintained. The infrastructure was not receiving proper attention, and as a result, the problems of the deteriorating systems began to become evident.

In light of this situation, Town officials made a decision that the problems must be addressed, and the only way to do so was to increase rates and invest more of the Town's resources on improvements to the infrastructure. During my tenure as manager, I have recommended increases in water and sewer rates almost every year, and the Town Boards have granted these increases. Electric rates have been raised as well, but it was only in response to the fuel adjustment charges passed along by Progress Energy or for the debt service on the new electrical substation.

The Town is investing more money to repair and maintain the water, sewer and electric systems than has been done previously. The study of the electric system in 2002 showed a crying need for the Town to have a program of replacing old power poles and lines and pointed to a need for a second point of delivery and substation. Since that time, Town Boards have provided funds that allowed our personnel to replace a minimum of 90 utility poles each year. In addition, land was purchased and funding was secured for the construction of a new electric substation, and that 15 megawatt facility was placed into service in April, 2009. Rather than funding every project imaginable in the General, Water or Sewer Funds, the resources of the Electric Fund are now being used to assure that the system is well maintained and adequate for the demands upon its production capacity.

In 2006, Martin-McGill completed an Asset Management Plan for the Town's water and sewer systems and noted that through the year 2030, there were \$31 million dollars in needs identified for the water distribution and wastewater collection systems and at the water and wastewater treatment plants. Although the Town Board had invested more money for improvements to the water and sewer infrastructure, the 2006 report revealed the enormity of the needs. In the budget proposed for 2009-2010, we are seeking \$275,000 for water system improvements and \$300,000 for sewer system improvements. This is approximately ten times what the Town was spending for system maintenance in 1994 when I became Town Manager, but as the Asset Management Study pointed out – the job is far from over and we still have much to do. Fortunately, we have made progress, and there are fewer leaking water lines and fewer sewer manhole overflows than we experienced previously. We have also made progress in replacing old equipment and making structural improvements at the water and wastewater treatment plants.

The proposed budget with its increases in the water rates will provide \$275,000 to address deteriorated lines. Many of our water lines were installed in a major expansion during the 1960s and they were mostly galvanized steel, a product with a life expectancy of 25 to 30 years. Now, many of those lines are more than 40 years old and leaking severely. In the next year, we will finally be able to repair the badly deteriorated concrete surrounding the clearwells at the water treatment plant, a project that has been delayed while funds went for the expansion of the lab and replacement of the roof at the water plant.

We are not recommending an increase in sewer rates for 2009-2010, but we are requesting \$300,000 for improvements to deteriorated lines and manholes. In addition, funds are provided to the wastewater treatment plant for some improvements – replacement of the influent line to the primary clarifier, purchase of a new pasteurizing vessel to heat the sludge and kill bacteria and to repair metal surfaces which have been damaged from exposure to high concentrations of lime used in the lime stabilization process.

The electric system now has 35 megawatts of capacity at two substations. At one time, the Town's peak demands were about 14 megawatts, but that changed with the arrival of Associated Packaging Technologies in 1996. They use 5 megawatts, which pushed our single, 20 megawatt substation nearly to capacity, and in February, 2009, the 20,853 megawatt demand topped rated capacity. The second substation's 15 megawatts of power will allow us to meet demand on many mild days, and it will supplement the capacity of the system on days that are extremely cold. In addition to the new substation, underground feeder lines were installed from the facility to Associated Packaging, so our largest customer should no longer be impacted by squirrels on transformers or trees or limbs falling on power lines, either of which causes momentary outages or blinks to power supply.

We have made progress in rebuilding the fund balances of the Sewer Fund and the Electric Fund, but we have drawn from the reserves of the Water Fund in a heavy way the past few years. We should continually strive to build up these reserves over the next few years so that we are in a better position to handle any unanticipated expenditures that arise. We especially need to find ways to rebuild the reserves in the Water Fund.

I am often asked why sewer rates are higher than water rates, and you may have been asked that same question. We set rates based upon the cost of the service, and the cost of replacing a sewer line is about twice the cost of replacing a water line. The cost of operating the wastewater plant is considerably higher than the cost of operating the water plant. At the water plant, the budget for electricity is less than \$20,000 annually, while the wastewater plant has an electric budget of \$170,000, almost nine times higher.

In 2005, the Town Board approved conservation easements on the Allens Creek Watershed. Dr. Peter Bates and the Natural Resources Department at Western Carolina University prepared a Forestry Management Plan for the watershed, and the Board approved this plan in 2008. The Town has an annual contract with Dr. Bates and Rob Lamb to continue to gather data on the plant life and monitor water quality in the water shed so we have baseline data on impacts storms have upon the quality. At some point, the Watershed Advisory Committee and Dr. Bates may approach the Town Board to discuss implementation of the recommendations in the Watershed Management Plan.

In 2007, a special committee evaluated Christmas decorations and considered a style of new decorations that might be desirable for Waynesville. In the 2009-2010 budget, we have \$15,000 budgeted for replacement of Christmas decorations, an expenditure that will need to be repeated for at least two years to upgrade all the decorations in the town.

VII. SUMMARY

When I made the decision to seek a career in local government, one of the driving forces was the fact that you encountered problems, found solutions and improved the quality of life in a community. Perhaps you entered public service as an elected official with that same philosophy. But in order to accomplish a goal, you have to plan. Baseball great and wise philosopher Yogi Berra may have said it best: ***“You've got to be very careful if you don't know where you are going, because you might not get there”***.

For the past decade, the Town Board has required that we do good planning and conduct studies on all phases of our operations. We have had studies of our planning and zoning ordinances, studies of town staffing and town facilities, pay and classification studies and studies of current and future water, sewer and electric system needs. And when the studies were done, the Town Board insisted that work be done to address the needs. More importantly, the Waynesville Town Board has been willing to fund solutions to meet the needs. This might include higher tax rates to build a fire station, a new police station and development office, or to hire additional planning staff and give more attention to Land Use Planning, or to increasing electric rates to pay for the cost of a new substation. So, thinking back to Yogi Berra, I might say that the Town Board has a pretty good idea about where it wants to go. Now, it is a matter of finding the means of reaching that destination.

To talk about a need of \$31 million in the water and sewer systems is mind-boggling. When you see that we are requesting \$275,000 from Water Fund and \$300,000 from Sewer Fund to address these needs, you realize that it is not unlike the boy with his finger in the dike – it is simply not enough. But, it is a far greater number than it used to be, and we are making progress on improving the systems. We have to take some pride in that.

The needs of the electric system, while not as great, are still important and critical for the Town. The current and previous Board provided financial resources so that we could begin replacing poles and lines and transformers, to rehabilitate the old substation on Smathers Street and to construct a new one off Howell Mill Road. It was expensive, yes, but we should be poised to meet the demands on the system for the future.

Even during a time with a poor economy, it is essential to maintain the resources or infrastructure with which we have been entrusted. As elected officials and administrators, we have a duty to be good of stewards of the infrastructure just as we are of funds in the bank. Citizens expect that of us, and there is an obligation to fulfill those expectations. That might include making sure that the utilities are well maintained, that water line leaks are repaired, that sewage manhole overflows are prevented, that the water placed in the distribution system at the head of Allens Creek and the discharge to Richland Creek where it feeds into the Pigeon River are of almost identical quality and that power poles are replaced before they fall to the ground due to wood decay. We feel that the budget proposed for 2009-2010 reflects a meaningful attempt to achieve those goals.

We certainly have other issues to face besides the upkeep of the infrastructure. As with the General Fund budget, the spending plan for the Water, Sewer and Electric Funds do not leave a lot of play. It will be mandatory that management and department heads provide oversight to this budget from day one to assure that spending remains within the budget. We must also be prepared to deal with the possibilities that the nation's economy does not rebound as quickly or as strongly as everyone hopes. We will try to meet the needs of the systems with the resources we have available.

There is the potential for other funding sources. We have been successful in securing a grant from the State of North Carolina for the installation of the Eagle Nest Water System, and when that is installed, the Town will take over the ownership and maintenance of the 13,000 feet of new water lines, two new tanks and two new pump stations. We have also made application for funding under the American Recovery and Reinvestment Act for several water and sewer projects. We did not receive funding in the first round, but we have been encouraged to reapply in the second round. We are optimistic of success then.

There are several things that I find particularly enjoyable about my job. One of those is variety – the fact that in municipal management, no two days are alike. Another is that I enjoy and often thrive off the excitement of facing and meeting challenges. These are indeed challenging times, but they are also exciting times, for during this lull, we are making plans for the future. At the same time, we are fixing the here and now – repairing the infrastructure in the ground or on the poles. We are guarding and caring for our assets while still working to lay out a path for the future.

And as we face these challenges, there is no group of elected officials, department heads and employees with whom I would rather walk this road, than the group we have on hand. The elected officials are willing to make the hard decisions, and they do so in a thoughtful way and only after they have researched the issues. Our department heads and employees are loyal and dedicated, and they believe in serving the citizens well. I am grateful to be a part of this team.

As you review the various documents and supporting information submitted to you as part of the budget, we are sure that there will be questions and the need for additional information. Please feel free to contact Finance Director Eddie Caldwell or me as issues arise, for we stand ready to assist you. We would also encourage you to offer comments and suggestions on ways the budget document or process might be improved.

Respectfully submitted,

A handwritten signature in cursive script that reads "A. Lee Galloway". The signature is written in black ink and is positioned above the printed name and title.

A. Lee Galloway
Town Manager

PART 3 - 2009 - 2010
PROPOSED ENTERPRISE FUND BUDGETS

II. WATER FUND			
A. REVENUES	EST. ACTUAL 2008-2009	PROPOSED 2009-2010	DIFFERENCE
Water Charges	2,122,410	2,219,600	97,190
Comment: In order to continue to meet the needs of rebuilding the water system, we have recommended an increase in water rates and pump fees.			
Water Taps/Connection Fees	33,600	50,000	16,400
Comment: We are hopeful that there will be growth in residential and commercial development in 2009-2010, driving up revenues for taps.			
Impact Fees - New Connections	21,300	25,000	3,700
Comment: An increase in construction should add to this form of revenue.			
Miscellaneous Revenues	1,500	1,500	0
Sale of Materials/Supplies/Fixed Assets	12,040	0	(12,040)
Comment: There is little capital here, so we do not expect anything will be sold this year. Revenue would thus drop.			
Contributed Capital	0	0	0
Comment: This is generally for grants received, but the grant for the Eagle Nest Water System will be set up as a Capital Project Fund since it will likely extend over two fiscal years.			
Investment Earnings	10,950	2,500	(8,450)
Comment: Our fund balance dropped considerably this year, so we will not have much money to invest and the interest rate will be low also.			
Transfer from Electric Fund	0	0	0
Fund Balance Appropriated	332,340	169,570	(162,770)
Comment: The use of fund balance is down from last year, but it is still more than what the Finance Director and I would like to see.			
TOTAL WATER FUND REVENUES	2,534,140	2,468,170	(65,970)

PART 3 - 2009 - 2010
PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Water Maintenance	1,183,770	1,159,500	(24,270)
Comment: Professional services are down \$17,500, Gas, Tires and Vehicle Maintenance are down \$25,120, Materials and Supplies down \$26,200, Electricity is up \$6,400, Equipment Repair up \$7,000, Vehicle Purchase down \$29,000, Capital Improvements on lines up \$36,200.			
Water Treatment	1,064,010	1,026,200	(37,810)
Comment: Wages and fringe benefit up \$13,400, Electricity up \$2,000, Equipment Repair up \$12,000, Capital Improvements down \$79,410			
Administration and Finance	211,940	190,520	(21,420)
Debt Service	0	0	0
Contingency	0	0	0
Transfer to Other Funds:			
To General Fund	74,420	91,950	17,530
Comment: We transfer a portion of the water fund revenues, after fund balance is deducted, to the General Fund.			
TOTAL WATER FUND EXPENDITURES	2,534,140	2,468,170	(65,970)
C. WATER FUND SUMMARY	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	2,534,140	2,468,170	(65,970)
EXPENDITURES	2,534,140	2,468,170	65,970
DIFFERENCE	0	0	0

PART 3 - 2009 - 2010
PROPOSED ENTERPRISE FUND BUDGETS

III. SEWER FUND			
A. REVENUES	EST. ACTUAL 2008-2009	PROPOSED 2009-2010	DIFFERENCE
Sewer Charges	1,916,780	1,935,900	19,120
Comment: With a drought, there is less infiltration into the sewer system, so we do not have as high a flow to measure and charge from Clyde and the Junaluska Sanitary District. We would expect more rainfall and higher flows and revenues the coming year.			
Sewer Taps	12,000	25,000	13,000
Comment: Growth has slowed considerably and there have been very few new taps of either commercial or residential customers.			
Industrial Discharge Permits	500	500	0
Impact Fees	960	2,000	1,040
Comment: These are fees to connect along Route 19 and the line to the Maple Grove Church. We now receive all revenues for taps on this line.			
Impact Fees - Flow Allowances - Other Systems	0	2,000	2,000
Comment: These are Impact Fees the Board approved for any new developments on the Junaluska Sanitary District and Clyde systems.			
Impact Fees - New Connections	45,000	40,000	(5,000)
Comment: The Asset Management Study recommended capacity fees from new customers connecting to the system. We expect to see some growth in this area in 2009-2010.			
Miscellaneous Revenue	250	500	250
Sale of Materials/Supplies/Fixed Assets	0	0	0
Contributed Capital	0	0	0
Comment: There are no grant funds received from outside sources.			
Investment Earnings	10,940	1,990	(8,950)
Comment: Investment income will decline as interest rates decline.			
Fund Balance Appropriated	0	9,590	9,590
Comment: We should only need a small amount from fund balance.			
TOTAL SEWER FUND REVENUES	1,986,430	2,017,480	31,050

PART 3 - 2009 - 2010
PROPOSED ENTERPRISE FUND BUDGETS

IV. ELECTRIC FUND			
A. REVENUES	EST. ACTUAL 2008-2009	PROPOSED 2009-2010	DIFFERENCE
Electric Charges	8,032,820	8,474,700	441,880
Comment: A new contract with Progress Energy goes into effect on January 1, 2010, and we will need to raise rates to cover the higher rates.			
Security Lights	36,000	41,000	5,000
Comment: We believe there is potential for increased revenues here.			
Street Lights	82,150	82,150	0
Comment: We charge other funds for street lighting on Town property.			
Underground Service Installation	500	2,000	1,500
Comment: We would anticipate an increase in construction in 2009-2010.			
Electric Pole Rental	13,700	13,700	0
Comment: These are charges made to other utility companies for the use of our power poles.			
Sales Tax Charges	213,980	214,760	780
Comment: When electric sales rise, so too do the sales taxes we must assess on the electric sales.			
Miscellaneous Revenues	10,500	3,000	(7,500)
Sale of Fixed Assets	9,500	0	(9,500)
Comment: We sold a surplus pole truck in 2008-2009, but do not expect to have anything of large value to sell in the coming year.			
Investment Earnings	19,520	4,240	(15,280)
Comment: Interest rates have declined and interest earnings have dropped to a low level as well.			
Fund Balance Appropriated	22,750	207,350	184,600
Comment: We are anticipating a higher use of fund balance to cover the expenses in 2009-2010.			
TOTAL ELECTRIC FUND REVENUES	8,441,420	9,042,900	601,480

PART 3 - 2009 - 2010
PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Electric Maintenance	911,720	1,222,350	310,630
Comment: Wages and fringe benefit costs up \$30,700 due to vacancies last year and new personnel coming on board, Transformers up \$4,000, Equipment Repair & Maintenance up \$18,600, Capital Outlay down \$11,500 and the first loan payment on the substation is shown at \$310,000.			
Purchased Power	6,072,600	6,355,000	282,400
Comment: Fuel adjustment charges passed along by Progress Energy have resulted in a much higher expense for the purchase of power. We expect those increases to continue in 2009-2010.			
Sales Tax on Purchased Power	182,180	190,650	8,470
Comment: With higher sales, we pay more in sales taxes.			
Bad Debt Expense	26,780	26,780	0
Administration and Finance	373,140	361,120	(12,020)
Comment: This is the charge to Electric Fund for the cost of services provided the Fund by General Fund personnel.			
Contingency Appropriated	0	0	0
Transfer to General Fund	875,000	887,000	12,000
Comment: The Electric Fund has traditionally provided a subsidy or profit sharing to the General Fund. Without this transfer, replacing the amount of money in the General Fund would mean a tax increase close to 9 cents.			
Transfer to Other Funds	0	0	0
TOTAL ELECTRIC FUND EXPENDITURES	8,441,420	9,042,900	601,480
C. ELECTRIC FUND SUMMARY	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	8,441,420	9,042,900	601,480
EXPENDITURES	8,441,420	9,042,900	(601,480)
DIFFERENCE	0	0	0