

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2010 - 2011 Budgets for Enterprise Funds

The proposed budgets for the Town's Enterprise Funds for 2010-2011 are hereby submitted for your review. These Funds include the Water, Sewer and Electric Funds and represent a combined total of \$13,410,950. That reflects an increase of \$1,090,920 or about 8.85% more than the \$12,320,030 we expect to spend in the 2009-2010 fiscal year. I would note that the original 2009-2010 budgets for the Enterprise Funds were \$13,528,550, so we are starting off at less than we started the 2009-2010 fiscal year. A comparison of the estimated expenditures with the proposed budget follows:

	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>CHANGE</u>
Water Fund	\$2,357,270	\$2,669,140	\$ 311,870
Sewer Fund	\$1,904,120	\$2,036,270	\$ 132,150
Electric Fund	\$8,058,640	\$8,705,540	\$ 646,900

I. REVENUES

During 2009-2010, revenues in the **WATER FUND** did not measure up to our expectations in several areas. Water sales were short of budget by \$27,200, partly related to the poor economy, perhaps, but as likely related to the above average rainfall in 2009 when people had to water gardens and yards much less. We have also seen a decline in the income for new water taps and capacity fees, and those two sources will fall an estimated \$33,000 below budget estimates. For the 2010-2011 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 approximately \$125,000 in revenues. We will be adding the Eagle Nest area, and we anticipate roughly \$25,000 from those homes. We propose that fees for water taps and capacity fees remain the same.

For 2009-2010, revenues from sewer customers fell \$26,380 below estimates, almost the same shortfall as water revenues. Again, the economic slowdown and the higher rainfall in 2009 likely contributed to this drop. For the **SEWER FUND**, the drop in new construction meant a shortfall in tap fees and capacity charges, and we will be under by \$47,000 in those categories. For the 2010-2011 fiscal year, we are recommending that there be no increase in sewer rates or for tap and capacity fees.

In the **ELECTRIC FUND**, the economy has meant that the fuel adjustment charges from Progress Energy were on the decline during much of the year. This came at a great time for our customers. The Town entered a new wholesale power contract with Progress Energy on January 1, 2010, and we had planned a 5.5% rate increase to our customers to handle the higher charges under the new contract. With the drop in the fuel adjustment charges, it was unnecessary to raise rates, and we actually increased the fund balance in the Electric Fund during the fiscal year. Unfortunately, our largest customer, Associated Packaging, lost a major customer during the year, laying off some employees and reducing their energy consumption. For 2009-2010, revenues from electric charges will be down an estimated \$584,490 from the expected levels. Other revenues in this fund have come close to projections. It is noted that under the new contract with Progress Energy, the base rates charged should remain in effect for the length of the contract, until December 31, 2015. The fuel charges will vary during those six years and the Charge for Renewables, explained below, may change, but the base rate for demand and kilowatts will be the same.

During 2009-2010, the Town was required to add a charge to electric bills to help fund renewable energy sources in North Carolina. This resulted from Senate Bill 3 passed by the North Carolina General Assembly in 2007. Under that legislation, by the year 2021, all utility companies must secure at least 12% of their energy from renewable sources – wind, solar, animal wastes, hydro or other sources. Progress Energy may take on this responsibility for the Town and assess us a monthly fee to go toward providing these renewable sources. The Town is authorized to assess a similar amount upon its electric customers to recover this charge. In 2009-2010, the renewable fee is estimated at \$21,000 and will grow to \$47,580 in the 2010-2011 fiscal year. The fee is adjusted annually based upon the percentage Waynesville's consumption is of the overall consumption on the Progress Energy system. The fee is approximately 53 cents per month on a residential bill.

II. EXPENDITURES

Water Fund expenditures for 2010-2011 will grow by \$311,870. These increases can be honed down to several specific areas. The cost of health insurance and retirement for employees in water maintenance and at the water treatment plant will increase by \$53,360. The cost for operating vehicles, for gas, tires and repairs, is up \$11,770. The cost of chemicals for water treatment dropped significantly in 2009 but we expect it to return to prior levels in 2010-2011 and have a \$29,000 increase budgeted. We are adding several loan payments to the Water Maintenance budget next year, a total increase of \$97,000. These are for the Eagle Nest Water System (\$30,000), the water line improvements in the Dellwood area (\$58,050) and a new Bobcat loader (\$8,950). Finally, there is an expense of \$75,000 related to implementation of the Watershed Management Plan. That Plan calls for treatment of the white pine plantation, and this will require work on some of the roads and hiring professionals to oversee the process. The work is planned for the fall of 2010.

In the **Sewer Fund**, expenses will rise by \$132,150. As with the Water Fund, that rise can be narrowed to a few areas. The cost of health insurance and retirement for sewer maintenance employees and personnel at the wastewater treatment plant will rise by \$37,020. Materials and supplies will increase by \$12,000, while chemicals for wastewater treatment will increase \$12,500. Professional and contract services are up \$10,000. We will make our first payment of \$43,100 on the new Sewer Cleaning Truck.

In the **Electric Fund**, an expenditure increase of \$646,900 is requested over what we expect to spend in 2009-2010. The primary increases in this fund can be narrowed to a few areas, but the majority is increased transfers to other funds. Because of the high fund balance in the Electric Fund, we are recommending that \$227,050 be transferred to the General Fund to make the payment on the parking deck downtown. We are also suggesting a transfer of \$97,250 to assist the Water Fund in meeting its obligations. Other increases include \$190,000 for increased costs for wholesale power and \$29,400 for the higher charge for renewable energy costs assessed to the Town. We are recommending an increase of \$8,500 for materials and supplies and transformers. We are seeking a \$50,000 increase in capital outlay, mainly for a Battery Backup System at the old substation and the implementation of a GIS system for all departments for mapping our infrastructure.

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 2009-2010, compared with the amount we anticipate for the 2010-2011 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 2009-2010, the **Electric Fund** has had a particularly good year and has gained much ground.

In the **Water Fund**, we have suggested a Fund Balance allocation of \$84,390, which is down from the \$119,750 we expect to use in 2009-2010. As noted previously, revenues in the Water Fund did not reach the levels we had hoped for. At the same time, we have been diligent in replacing the deteriorated water lines throughout the system; consequently, our fund balance has been below \$600,000 for most of the fiscal year. We have proposed a water rate increase for 2010-2011, and it is needed to help meet the needs of the water system. For next year, we are proposing that the Electric Fund contribute \$97,050 to the Water Fund to assist it with meeting its obligations. Over the next four years, the Water Fund will be paying off \$272,000 in debts on water tanks and other improvements, and that will make it easier to start working the fund balance toward \$1,000,000 again.

The **Sewer Fund** has seen an increase in the reserves in the past year, with the fund balance typically at or above \$800,000. We have paid off much of the debt in this fund in recent years, and the last payment on the belt press at the Wastewater Plant will be made in 2010-2011. In the next fiscal year, we are recommending an appropriation of \$81,330 from the reserves of the Sewer Fund to balance the budget. There is a good chance that we will not have to use that money, but we are comfortable in recommending the appropriation.

It has been particularly challenging to deal with the **Electric Fund** over the past few years. The problem was the fuel adjustment charges passed along to the Town by Progress Energy. We finally reached a point where we were able to anticipate fluctuations in the fuel charges a little better and to react more quickly. During the past year, the cost of natural gas and coal has dropped a bit and we have been able to make up some of the losses we experienced a few years ago. For 2009-2010, we do not believe we will have to use any of the \$207,350 budgeted from fund balance, and the reserves in this fund could approach \$2,000,000 by the end of the current fiscal year. With the strength of the Electric Fund, we would recommend that an appropriation of \$356,230 come from the fund balance for the 2010-2011 fiscal year. In addition, we are proposing that the Electric Fund pick up the cost of the payment on the downtown parking deck. When the Town negotiated a new contract with Progress Energy in 2002, there were savings of approximately \$250,000. The Town Board decided that saving could be used to fund the Town's \$2,500,000 contribution toward the cost of the parking deck. This was done for a few years, but when the Electric Fund's reserves began to drop as fuel adjustments escalated, the General Fund took on the deck payment. Now, with the General Fund in a more tenuous situation and Electric Fund quite healthy, we suggest that it is fitting for the Electric Fund to make this payment in 2010-2011. This would bring the transfer to the General Fund from \$887,000 to \$1,114,050.

The reserves of the Electric Fund will receive another boost in 2010-2011. When the electric substation project was concluded, the project cost was less than what was expected, and there was \$243,640 left in the account. BB & T, which has the loan on the substation, has agreed to allow us to use that \$243,640 to apply toward the payment on the substation due in the 2010-2011 budget. That will cover most of the \$310,850 debt payment due on the substation next year.

IV. FEES FOR 2010-2011

In presenting the 2010-2011 budget, we recommend a rate increase in the **Water Fund**, proposing that **water rates and pump fees** be increased 5% for all customers inside and outside the town effective August 1, 2010. Connection fees and capacity fees would remain the same. As you are aware, the Asset Management Plan presented in January, 2007, noted that the needs for improvements to the water lines and the water plant are significant. We were fortunate to receive a \$904,000 low interest loan for water system improvements through the American Recovery and Reinvestment Act, and that will help us move a few steps forward, but we cannot defer our commitment to replace deteriorated lines, old meters and to make the needed improvements to the water treatment plant.

We are recommending that there be no increase in **sewer rates** for the 2010-2011 fiscal year. This fund seems to be stable at this point. While we could certainly use additional funds to pay for maintenance work noted in the Asset Management Plan, but we felt the continuing economic crisis was reason to hold sewer rates the same next year.

We are always pleased to brag about the low water and sewer rates for Waynesville. 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. You will also find a calculation of various bills after the rate increases, and this may be helpful for you as you field questions from citizens about the budget.

In the middle 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 for a ten year period, the Town and County would share equally in the revenues from those fees. That agreement expired on June 30, 2009, and any subsequent impact fees collected are revenues of the Town of Waynesville.

As we entered the 2009-2010 fiscal year, it was felt that a 5.5% increase in electric rates would be needed to cover the costs of a new wholesale power supply agreement with Progress Energy. That agreement went into effect on January 1, 2010 and will be for a five year period ending December 31, 2015. As 2009 progressed, the cost of natural gas and coal dropped, and during the 2009-2010 fiscal year, the savings were to the extent that a rate increase did not appear to be necessary. Fuel costs have remained lower, and we feel comfortable entering 2010-2011 that we can defer any rate increase for longer.

Such will not be the case with the charge for renewable energy under the terms of Senate Bill 3 passed by the General Assembly in 2007. Utility companies were authorized to increase rates to their customers to cover the costs of buying alternative energy sources, for they are required to have 12% of their energy coming from renewable sources by 2021. As a wholesale customer of Progress Energy, the Town is authorized to have Progress Energy include the power the Town purchases as part of the 12% renewable sources the investor owned utility must find. Progress is charging all of its customers a renewable charge on their utility bills. The Town is assessed a charge by Progress Energy based upon the ratio that the Town's energy is to that of all Progress Energy customers, and we are empowered to collect that renewable energy from our customers. The charge took effect on December 1, 2009, and we commenced with a monthly fee of 36 cents to cover the charge from Progress Energy. We have been informed that the charge will increase in 2010-2011, and our renewable fee charge to our customers will increase in December, 2011.

V. HIGHLIGHTS OF EXPENDITURES FOR 2010-2011

A. Cost of Living Adjustments and Merit Pay Increases

With the continuing recession and the prolonged negative impact upon the Town's revenues, we are unable to recommend a cost of living raise or a merit increase for our employees in the 2010-2011 budget. Unfortunately, this is the second year that we have not had funds to grant increases. Last year, we were able to grant employees a larger Christmas bonus. If financial conditions improve during the fiscal year, perhaps we will be able to revisit the compensation issue.

Fortunately, all fringe benefits which our employees presently enjoy will continue without interruption or downgrade. 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. The funds in the 401(k) account are the property of the employee and goes with them when they retire or when they leave Town employment.

In addition to the 401(k), the Town contributes on behalf of every full time employee to either the **Local Government Employees' Retirement System** or to the **Local Law Enforcement Officers' Retirement System**. The Retirement Systems have been impacted by the economy as well, and the drop in the stock market affected the value of the retirement funds. In addition, with so many "baby-boomers" reaching retirement age, the Systems had an actuary study performed and it revealed that a higher level of funding was needed to meet future retirement payments. So the Town's contribution to the Retirement System will increase by approximately 1.55%, going from approximately 5% of payroll to approximately 6.55% of payroll. Employees have a mandatory 6% deducted from their paychecks for this retirement system, but the share employees contribute will not be increased this year. This is one of the finest benefits 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

During the 2008-2009 fiscal year, as we began making budget cuts, we eliminated five vacant, full-time positions, one being a maintenance worker in the Sewer Maintenance Section. 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 the inflation rate, but for the past three years, our rates from Blue Cross-Blue Shield remained pretty stable. Our group experienced a few very high claims in 2009-2010, and as a result, the health insurance premiums could increase by up to 25% for 2010-2011. If that is true, the Town would be paying \$1,678,460 for health insurance for employees, dependents and retirees. We have talked with the agency which handles the Town's account, and they have provided a number of alternatives for ways to reduce our premiums. The employee's deductible could be increased from the present \$500 level to something higher - \$1,000, \$1,750, \$2,500 and even \$5,000. There is a program through which the deductibles could be raised but then the Town could fund the higher deductibles so the cost does not come directly from the employees. We could also agree to higher co-pays, where the employee would pay an additional \$5.00 for office visits to primary care physicians or specialists. These would have varying impacts upon the potential 25% increase.

The agency with our account is continuing to seek ways to reduce our premium, and they will be meeting with us in early May with the rates to maintain the health insurance programs we presently offer employees. In addition, they will have more precise information on alternatives to reduce the premiums more. The budget which is presented to you has an estimated 25% increase in the line item for health insurance premiums. When we have the final numbers, we suspect that line item can be reduced.

At present, there is no charge to employees for their own health insurance, only for that of their dependents. The Town also currently pays the full premium for ten years on a retiree with at least ten years of service. We have two different employee groups in the health insurance program – those employed prior to January 1, 2006 and those hired after January 1, 2006. Those hired prior to January 1, 2006, enjoy lower rates on health insurance costs for dependents and receive free retiree health insurance for ten years if they have at least 10 years of service. Those hired after January 1, 2006, pay a bit more for dependent coverage and will find that retiree health insurance benefits will require varying levels of financial participation if they have less than 25 years of service.

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**. Some of these policies will have slight increases and some will have slight decreases, so we do not anticipate much change overall. The Town will receive some credits due to our long term participation in these programs.

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. I would note that the Town of Waynesville has always used a third party administrator to manage the pre-tax health savings account and has never had problems with misuse of funds in this program or with the abuse of these benefits.

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 2010-2011, we recommend an allocation of \$275,000 for rehabilitation of the water system. As noted, we have received a low interest loan from the ARRA funds, allowing us to install a new water line on Dayton Drive between Russ Avenue and Ivy Hills. We will also replace a lengthy section of undersized and deteriorated 2 inch water line on Mauney Cove Road with an eight inch water line. Finally, we will install almost 1,000 new water meters, many of which will be radio read meters, and replace 7,000 feet of old, leaking, galvanized water lines. We need to add the \$58,050 loan repayment in **Water Fund** expenses, but 50% of the loan should be forgiven in the future. At the water treatment plant, we will need to replace the roof on the oldest section of the building and funds are needed to repair the spalling concrete on the dam's spillway. We will begin making a debt payment of \$8,950 on the new Bobcat trackhoe that was purchased in 2009.

In **Sewer Fund**, we propose to continue the annual expense of \$325,000 for system rehabilitation. We will begin making the first of five annual debt payments of \$43,100 on the new sewer cleaning truck purchased in 2010. The Wastewater Treatment Plant personnel have requested an assortment of operating equipment totaling \$40,500, and we should be making the final \$41,160 payment on the debt on the sludge belt press at the plant. In the not too distant future, the Town will have to consider a loan to upgrade the aeration basin.

With the new substation completed, the capital expenditures in the **Electric Fund** will focus on various other system improvements. We propose the expenditure of \$20,000 for a battery backup system at the older substation and \$12,000 for purchase of a GIS system to map all utility lines and appurtenances for the enterprise operations. We have allocated \$40,000 for various electric system improvements, and \$18,000 is designated for replacement of Christmas decorations for the streets of the Town. Finally, we will be making debt payments on the substation and on a pole truck purchased in 2008.

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 2010-2011. The list includes vehicles and equipment proposed for next year, construction projects and lease-purchase payments we are making on equipment, improvements and repairs.

Since 1995, we have developed and maintained a **Capital Improvements Plan (CIP)**, and we expect department heads to pay attention to this planning tool each year when developing budget requests. Much time was spent by the departments in developing the list of items that they felt needed to be replaced over the next five years. As we develop the budget, we pay attention to the projections of the department heads, and we require that the CIP be reviewed and adjusted annually. Needs and conditions change and new circumstances arise that make us rethink early decisions and recommendations. The CIP 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.

E. General Operating Expenditures

During a recession, we expect to see a price drop in products purchased, but on many items, prices actually rose in 2008 and 2009, asphalt and concrete being examples. One of our largest purchases is in gasoline and diesel fuel to operate vehicles and equipment, and we purchase approximately 105,000 gallons annually. As you have noticed, the price of fuel has fluctuated significantly over the past two years, reaching over \$4.00 per gallon and then dropping close to \$2.00 per gallon before edging back up toward \$3.00 per gallon. Being tax exempt, the Town pays about 40 to 45 cents less than what you and I pay at a gas pump, but we still see the fluctuations in what we do pay. In 2009-2010, we budgeted \$2.50 for regular and \$2.70 for diesel fuel, and our costs have not exceeded that number. We are seeing the cost of fuel edging up and recommend \$2.60 for regular and \$2.70 for diesel fuel in 2010-2011, which will boost anticipated expenditures by \$24,100.

One area where we have seen some price decreases is in the price of water and sewer pipe. We have found that in many cases, ductile iron is close to the same price as the polyvinyl chloride pipe (PVC), so perhaps that will allow us to stretch our dollars more. The allocation for materials and supplies in the three Enterprise Funds will have to remain at or close to what was budgeted in 2009-2010.

Some organizations reduce training budgets in times of challenging finances, but we tried to maintain the allocations in the Enterprise Funds. We have many employees in the Water and Sewer Fund who are nearing retirement, and we must be sure newer employees receive the training to fill their shoes. We have some newer employees in the Electric Department who need technical training in that dangerous work.

F. Miscellaneous Costs

The **Professional and Contract Services** for the water and sewer fund will be up considerable in 2010-2011. In the budget for Water Treatment, we have allocated \$75,000 for implementation of the Forestry Management Plan. As you may recall, the Plan calls for the first treatment of the watershed to take place in the fall of 2010, and there are plans to remove a portion of the white pines that line the reservoir in hopes of opening up the forest floor to hardwoods. Some improvements will be needed to roads in the watershed and we will need to pay for the oversight of any contract for tree removal.

The final category in the budget is **Debt Service**. Waynesville has no bonded debt on any of our three Enterprise Funds, though we do have a number of lease-purchase agreements in place. In the Water Fund, we will be adding three debt payments, Eagle Nest Water System (\$30,000), ARRA Loan Repayment (\$58,080) and Bobcat Trackhoe (\$8,950). The good news about those is that the Eagle Nest Debt is paid out of a bank account set up by the Town and funded by the Eagle Nest Homeowners' Association to guarantee the repayment of that debt, and the ARRA Loan payment should be reduced by 50% once the project is completed, saving \$29,025 annually. In 2012, the Town will make the final payment of \$153,165 on the Chlorine Contact System at the water plant, and in 2014, the \$118,680 debt on the water tank on Reservoir Drive will be paid in full. When those are out of the way, the **Water Fund** should be in a much more solid financial position.

In the **Sewer Fund**, we will make our first payment on the new Sewer Cleaning Truck and our last payment on the Sludge Belt Press at the Water Plant. By having such a small amount of the budget going to pay off debts, the Sewer Fund has seen its fund balance begin to grow, and we will be able to put even more emphasis on rehabilitation of the lines and sewer collection system and treatment plant.

The **Electric Fund** will not add any new debt in 2010-2011, but will continue to have payments on the electric substation and on a pole truck purchased in 2008. The following is a list of the loans and payments we will be making in the three Enterprise Funds:

1. the seventh of ten annual payments - 2 million gallon water tank (\$118,680),
2. the seventh of eight annual payments-Chlorine Contact Tank-water plant (\$153,165),
3. the sixth and seventh of sixteen semiannual payments - water plant lab (\$51,270),
4. the first of twenty annual payments – ARRA loan – water improvements (\$58,050),
5. the first of ten annual payments – Eagle Nest Water System loan (\$30,000),
6. the first of five annual payments – Bobcat Trackhoe for water maintenance (\$8,950),
7. the eighth of eight annual payments – Wastewater Sludge Belt Press (\$41,155),
8. the first of five annual payments – Sewer Cleaning Truck (\$43,100),
9. the third of five annual payments – Pole Truck for Electric Department (\$41,438),
10. the second 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 ENTERPRISE FUND BUDGETS

Several years ago, we became aware of some significant needs by the water, sewer and electric systems. There were some big ticket capital items, such as the lime stabilization system at the wastewater plant, and slip-lining a mile of sewer collection line on the south shore of Lake Junaluska. There was a chlorine contact system needed at the water treatment plant and the 1925 water tank on reservoir drive needed to be replaced with a larger tank. The demand on the electric capacity was increasing and a second substation was needed to assure we could meet peak demands. These were projects beyond the cash reserves of the Town, so significant debt had to be incurred to meet these needs.

Now, we are starting to pay off several of those debts. The financial picture of the Sewer Fund is much rosier than it has been in years. When the Water Fund pays off its debts on the chlorine contact tank and the two million gallon tank on Reservoir Drive, that fund will begin to see its reserves climb again. With the second electric substation going into operation, the Electric Fund is in good shape for the foreseeable future.

The Water, Sewer and Electric Funds all include money to address the infrastructure needs of those systems. We are seeking the allocation of \$275,000 from the Water Fund to address deteriorated lines, and we are asking the Board to approve \$325,000 for the rehabilitation of sewer lines and manholes. In addition, there are significant funds allocated for materials and supplies which often go toward improving specific areas in the system. In the Electric Fund, we are recommending funds for a battery backup system at the older electric substation and the purchase of software to begin mapping our utility system on a GIS platform so that the many pieces may be more easily identified.

For many years, the Town fathers kept water and sewer rates low, but in doing so, the proper care of the lines and appurtenances often went lacking. The lines deteriorated and we have experienced many sewer backups and water leaks because we did not have the adequate funds to play catch up. Over the past dozen or so years, the Town Boards have been supportive of rate increases that provided funds so that the Town could begin addressing these systems. We have made tremendous progress, and in the past several years, we have had very few overflowing manholes due to poor sewer lines. We still have far too much treated water that leaks from the distribution system, but there has been some progress in that area as well. Our electric personnel have been much more attentive to replacing rotten power poles and poor electric line and they are trimming back limbs and trees near the power lines. The number of outages has been greatly reduced.

Funds are in the current budget to address the problem of deteriorated concrete around the clearwells at the water treatment plant, and in the coming year, we are seeking funds to cut out and replace the spalling concrete on the spillway of the dam. We also intend to replace the roof on the oldest part of the water plant building, and once done, the water treatment plant should be in relatively good shape. We need to continually address the problems of the deteriorated water lines and appurtenances of the water system and to make these improvements to the water treatment plant; consequently, we are seeking the Board's approval of a 5% increase in the water rates to make sure these are done.

The second electric substation was placed into operation in May, 2009, and the value of that facility was demonstrated in December, 2009. When the heavy snows fell on December 18, limbs and trees came down and there was a malfunction at the older substation. Portions of the Town's electric system were without power for six hours while our Electric and Public Works personnel worked to switch load to the new substation. Within six hours, almost all of the customers on the Town's electric system had power restored. Many on the Progress Energy system within the town did not have power for two days and some for even longer periods.

Unfortunately, one of the reasons for the second substation never occurred. As our largest customer, Associated Packaging, grew and expanded its business, the demand on our electric system swelled. There were some cold winter days in January and February, 2009, when our older, 20 megawatt substation had peaks exceeding 21 megawatts. So we were particularly anxious to see the second substation on line in the event of another cold winter. The cold winter came, but we never reached the peaks experienced in winter, 2009. Associated Packaging lost a large account and in the latter half of the 2009-2010 fiscal year, that firm has reduced utility purchases by over \$30,000 each month. They have had to lay off a number of employees and have switched operations to five days a week from seven days a week. Our sales are down, but so too are the expenditures to purchase the power to meet the needs of this customer. We are hopeful that the firm will generate new customers in the future and be able to increase employment again.

During 2009-2010, we have seen the fund balances of the Sewer Fund and the Electric Fund grow, but the reserves in the Water Fund have declined. We need to work on that situation over the next few years, and believe paying off some of the debts in the Water Fund will help in that effort.

The Electric Fund has made tremendous progress in its fund balance this year, and we have recommended that the reserves be used to assist the General Fund to a higher degree than the past few years. We would like for the Electric Fund to handle the cost of the parking deck payment (\$227,050) rather than leave that to the General Fund next year. We are also recommending that the Electric Fund provide \$97,000 to the Water Fund to assist it in meeting its obligations. The construction of the new substation cost less than had been budgeted, and there were \$243,640 remaining in the loan escrow at the conclusion of the project. BB&T has agreed to let us use the remaining funds to apply to the loan payment of \$310,850 in 2010-2011, and that will make it possible to shift some of the reserves in that fund to the General and Water Funds.

In 2005, the Town Board approved the conservation easements for the Town owned property in the Allens Creek Watershed. In the years since, Dr. Peter Bates and others from the Natural Resources Department at Western Carolina University have developed a Forestry Management Plan for the watershed. That Plan calls for some work in the watershed during 2010-2011, with approximately 50 acres of white pine trees scheduled to be thinned and removed. This should allow hardwood trees to start to grow as the pines begin to die off and avoid the situation where the pines die and there is nothing beneath them growing to keep silt and sediment from washing into the reservoir. Funds are set aside in the budget for 2010-2011 to administer the work and to allow for some improvements needed to prevent erosion along the roads at stream crossings.

VII. SUMMARY

In the movie "Patton", there is a scene where the Third Army is trudging through the vicious cold and deep snow, making its way to support the entrapped division under General McAuliffe at Bastogne in Belgium. As he watches the troops plodding through the snow, he comments "this is where it pays off, all the hard work, the hours and hours of training and preparation - this is where it all pays off". The 3rd Army under General Patton moved 100 miles in 48 hours to relieve the 101st Airborne under General McAuliffe.

On a much smaller scale, we see the Town of Waynesville trudging through tough economic times. Fortunately, Town Boards of the past decade insisted on good planning, on addressing the needs of the infrastructure for the various utility systems and for providing funds to meet those needs. Under the direction of the elected officials, the Water, Sewer and Electric Funds, along with the General Fund, have developed healthy fund balances so that when a poor economy challenged the ability of those funds to pay their way, we have been able to dip into the reserves to continue moving toward our goals of improving the facilities and equipment with which we have been entrusted. In times like 2009-2010 and in 2010-2011, the planning pays off, the efforts to build the fund balance pays off. The Town continues to take care of the need to address our water, sewer and electric systems and to provide the services the citizens have come to appreciate and expect.

In the 2010-2011 budget, we continue to allocate funds of at least \$275,000 toward addressing water system needs, and we have borrowed funds to support another \$904,000 of work on water lines and meter replacements. Next year, we will be expending at least \$325,000 on improvements to the sewer system and the wastewater treatment plant. In the Electric Fund, \$90,000 is dedicated to capital outlay for various improvements and another \$190,000 is pledged from the materials and supplies and transformer replacement budgets to upgrade the system. The Town Board is to be commended for not taking the short sighted approach of delaying expenditures in the area of capital outlay or in maintenance and repair of the systems. You have seen the reports on the Enterprise systems and know that we cannot put off the needed attention to this infrastructure. I believe this commitment demonstrates that the Town Board, management and department heads are simply trying to be good stewards of the facilities and equipment with which the citizens have entrusted us.

As you review these documents and supporting information, we are sure that there will be questions and the need for additional information. Please contact Finance Director Eddie Caldwell, Assistant Manager Alison Melnikova 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. Lee Galloway
Town Manager

PART 3 - 2010-2011 - PROPOSED ENTERPRISE FUND BUDGETS

II. WATER FUND			
A. REVENUES	EST. ACTUAL 2009-2010	PROPOSED 2010-2011	DIFFERENCE
Water Charges	2,192,400	2,349,000	156,600
Comment: Although we received federal grants to address some of the needs of the water system, we need to maintain our own spending on replacement of the deteriorated lines. We are recommending a 5% increase in water rates.			
Water Taps/Connection Fees	30,000	40,000	10,000
Comment: We are hopeful that as the economy picks up, we will see an upturn in development and some additional water taps as a result.			
Impact Fees - New Connections	12,000	20,000	8,000
Comment: The new construction we hope for will mean more capacity fees.			
Miscellaneous Revenues	1,800	1,500	(300)
Sale of Materials/Supplies/Fixed Assets	0	75,000	75,000
Comment: There are plans to do some treatments of the white pine areas and sell the timber from those areas during the year.			
Contributed Capital	0	0	0
Investment Earnings	1,320	2,000	680
Comment: We are anticipating a slight increase in interest rates in 2010-2011.			
Transfer from Electric Fund	0	97,250	97,250
Comment: The Electric Fund is in the best shape it has been in years, and we would recommend a transfer to the Water Fund to help give it a boost next year.			
Fund Balance Appropriated	119,750	84,390	(35,360)
Comment: We have been able to reduce the use of reserves to balance the budget to \$84,390. It is still a high number and a large percentage of the fund balance remaining in Water Fund. If you wish to reduce this number, it may be necessary to increase water rates a bit more than the 5% recommended.			
TOTAL WATER FUND REVENUES	2,357,270	2,669,140	311,870

PART 3 - 2010-2011 - PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACT.	PROPOSED	DIFFERENCE
Water Maintenance	1,114,450	1,283,560	169,110
Comment: Wages and fringe benefits up \$37,180, with Retirement and Health Insurance accounting for \$33,340, Automotive costs up \$18,900, Electricity up \$7,000, Equipment Repair & Maintenance up \$6,000, Loan payments for Capital will be up \$97,000 with payments on the Eagle Nest System, the ARRA debt and on a new Bobcat loader.			
Water Treatment	960,350	1,077,510	117,160
Comment: Wages & fringe benefits up \$25,440, with Retirement and Health Insurance and fringe benefits accounting for \$20,020, Professional Services up \$3,000, Automotive costs down \$3,860, Treatment Chemicals up \$29,000, Electricity up \$2,650, Equipment Repair up \$5,000, Contract Services up \$75,000, Capital Outlay down \$27,310.			
Administration and Finance	190,520	210,820	20,300
Debt Service	0	0	0
Contingency	0	0	0
Transfer to Other Funds:			
To General Fund	91,950	97,250	5,300
Comment: We transfer a portion of the water fund revenues after fund balance is deducted. We are covering this expense with a transfer to the Water Fund from the Electric Fund.			
TOTAL WATER FUND EXPENDITURES	2,357,270	2,669,140	311,870
C. WATER FUND SUMMARY	EST. ACT.	PROPOSED	DIFFERENCE
REVENUES	2,357,270	2,669,140	311,870
EXPENDITURES	2,357,270	2,669,140	(311,870)
DIFFERENCE	0	0	0

PART 3 - 2010-2011 - PROPOSED ENTERPRISE FUND BUDGETS

III. SEWER FUND			
A. REVENUES	EST. ACT. 2009-2010	PROPOSED 2010-2011	DIFFERENCE
Sewer Charges	1,909,520	1,909,500	(20)
Comment: Although rates were increased in 2009-2010, revenues did not grow. We are proposing that there be no Sewer Rate increase in 2010-2011.			
Sewer Taps	12,000	20,000	8,000
Comment: As with the Water Fund, we are hoping that there will be some growth in sewer taps and sewer tap revenue in 2010-2011.			
Industrial Discharge Permits	500	500	0
Impact Fees	0	0	0
Comment: These were fees to connect along Route 19 and to the sewer line to the Maple Grove Church, and we share them equally with Haywood County. That 10 year agreement has ended and any fees collected remain with the Town.			
Impact Fees - Flow Allowances - Other Systems	0	2,000	2,000
Comment: These are Impact Fees the Board approved for new developments on the Junaluska Sanitary District and Clyde systems. They had slow growth too, but we anticipate an increase in activity in 2010-2011.			
Impact Fees - New Connections	10,000	20,000	10,000
Comment: The Asset Management Study recommended capacity fees from new customers connecting to the system. Things were slow in 2009-2010, but we are hopeful of increased activity in 2010-2011.			
Miscellaneous Revenue	850	500	(350)
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	1,620	2,440	820
Comment: We hope to see an increase on investment earnings in 2010-2011.			
Fund Balance Appropriated	0	81,330	81,330
Comment: We are comfortable recommending this amount from fund balance.			
TOTAL SEWER FUND REVENUES	1,934,490	2,036,270	101,780

PART 3 - 2010-2011 - PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACT.	PROPOSED	DIFFERENCE
Sewer Maintenance	620,270	703,550	83,280
Comment: Wages and Fringe Benefit Costs are up \$16,660, with Retirement and Health Insurance accounting for \$9,880, Professional Services are up \$8,000, Materials and Supplies up \$10,000, Loan Payments up \$43,100 for Sewer Truck.			
Wastewater Treatment	1,023,030	1,067,090	44,060
Comment: Wages and fringe benefit costs are up \$37,560, with Retirement and Health Insurance accounting for \$27,140, Treatment Chemicals up \$12,500, Materials and Supplies up \$2,000, Electricity up \$2,880, Propane Gas up \$7,000, Equipment Repair up \$5,000, Capital Outlay down \$30,500.			
Administration and Finance	177,750	183,930	6,180
Contingency Appropriated	0	0	0
Transfer to Other Funds:			
To General Fund	83,070	81,700	(1,370)
Comment: We transfer a portion of the sewer fund revenues, after fund balance is deducted, to the General Fund.			
TOTAL SEWER FUND EXPENDITURES	1,904,120	2,036,270	132,150
C. SEWER FUND SUMMARY	EST. ACT.	PROPOSED	DIFFERENCE
REVENUES	1,934,490	2,036,270	101,780
EXPENDITURES	1,904,120	2,036,270	(132,150)
DIFFERENCE	30,370	0	(30,370)

PART 3 - 2010-2011 - PROPOSED ENTERPRISE FUND BUDGETS

IV. ELECTRIC FUND			
A. REVENUES	EST. ACT. 2009-2010	PROPOSED 2010-2011	DIFFERENCE
Electric Charges	7,890,210	7,711,900	(178,310)
Comment: We have seen a decline in the amount of electricity used by our largest customer, Associated Packaging, and this is reflected in our estimates for 2010-2011.			
Security Lights	45,000	45,000	0
Comment: We increased rates for security lights and earned more revenue.			
Street Lights	88,800	88,800	0
Comment: We charge other funds for street lighting and on Town property.			
Underground Service Installation	700	2,000	1,300
Comment: We hope to see some increased construction activity next year.			
Renewable Charge Revenue	21,000	47,580	26,580
Comment: This is the charge required under Senate Bill 3 and is paid to Progress Energy to assist them in meeting the 12.5% renewable energy level.			
Electric Pole Rental	13,700	13,700	0
Comment: These are charges made to other utilities for use of Town poles.			
Sales Tax Charges	202,250	189,000	(13,250)
Comment: With sales down next year, sales taxes collected will be down also.			
Miscellaneous Revenues	8,250	3,000	(5,250)
Sale of Fixed Assets	100	0	(100)
Comment: There were no real assets to sell in 2009-2010.			
Investment Earnings	3,520	4,690	1,170
Comment: Interest rates have declined and interest earnings dropped as well.			
Funds Transferred from Loan Escrow	0	243,640	243,640
Comment: At the conclusion of the project to build the new substation, there were funds leftover. BB&T has allowed us to apply these funds to the loan payment.			
Fund Balance Appropriated	0	356,230	356,230
Comment: We are comfortable with this being appropriated from fund balance for one year since the Electric Fund has higher reserves at this time.			
TOTAL ELECTRIC FUND REVENUES	8,273,530	8,705,540	432,010

PART 3 - 2010-2011 - PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACT.	PROPOSED	DIFFERENCE
Electric Maintenance	1,174,720	1,259,620	84,900
Comment: Wages and fringe benefits up \$24,290, with Retirement and Health Insurance accounting for \$15,470, Professional Services up \$5,000, Materials and Supplies up \$5,000, Transformers up \$3,500, Repair of Equipment down \$17,000 and Capital Outlay up \$50,000.			
Purchased Power	5,428,000	5,618,000	190,000
Comment: Fuel adjustment charges passed along by Progress Energy were down this past year, but we are concerned that they will rise again. Associated Packaging has been purchasing a lot less power due to production cutbacks.			
Renewables Energy Payment:	18,180	47,580	29,400
Comment: Under Senate Bill 3, every electric provider must achieve a 12.5% of electric generation from renewable sources by 2021. Waynesville is allowed to pay Progress Energy an amount to expend on that renewable energy. We are expecting our renewable charge to increase a good bit in 2010-2011.			
Sales Tax on Purchased Power	162,840	168,540	5,700
Comment: With lower sales, we pay less in sales taxes.			
Bad Debt Expense	26,780	30,000	3,220
Administration and Finance	361,120	370,500	9,380
Comment: This is the charge to Electric Fund for the cost of services provided the Fund by General Fund personnel.			
Transfer to Water Fund	0	97,250	97,250
Comment: It is not without precedent for the Electric Fund to assist other utility funds. Water Fund needs assistance and the Electric Fund has some extra cash.			
Transfer to General Fund	887,000	1,114,050	227,050
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.			
TOTAL ELECTRIC FUND EXPENDITURES	8,058,640	8,705,540	646,900
C. ELECTRIC FUND SUMMARY	EST. ACT.	PROPOSED	DIFFERENCE
REVENUES	8,273,530	8,705,540	432,010
EXPENDITURES	8,058,640	8,705,540	(646,900)
DIFFERENCE	214,890	0	214,890