

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2012 – 2013 Budgets for Enterprise Funds

The proposed budgets for the Town's Enterprise Funds for 2012-2013 are hereby submitted for your review. These Funds include the Water, Sewer and Electric Funds and represent a combined total of \$15,055,800. That reflects an increase of \$2,133,940 or about 16.51% more than the \$12,921,860 we expect to spend in the 2011-2012 fiscal year. I would note that the original 2011-2012 budgets for the Enterprise Funds were \$13,837,720, so the increase from the original budget in 2011-2012 is \$1,218,080 or 9.4%, which is still a sizable increase. A comparison of the estimated expenditures with the proposed budget follows:

	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>CHANGE</u>
Water Fund	\$2,592,680	\$3,099,500	\$ 506,820
Sewer Fund	\$1,926,240	\$2,186,990	\$ 260,750
Electric Fund	\$8,402,940	\$9,769,310	\$1,366,370

I. REVENUES

During 2011-2012, revenues in the **WATER FUND** did not meet expectations. Income from water sales are estimated to be \$108,000 below what was anticipated. Income from water taps and capacity fees will be about \$14,000 below estimates. In 2011, rainfall was at or above average and people probably watered lawns and gardens less. We have also seen less consumption from our larger customers, particularly from the Junaluska Sanitary District and some of our restaurants. Perhaps that is connected to the economy remaining flat in many areas or perhaps it is related to conservation on the part of our customers. While we increased water rates by 5% effective August, 2011, we have come no where close to realizing such an increase in our revenues. For the 2012-2013 fiscal year, we are recommending a 6% increase in water rates as we feel the need to generate more revenues to pay for the needed repairs to our water distribution system and to make repairs at the water treatment plant.

For 2011-2012, **SEWER FUND** revenues from sewer customers will likely be \$61,000 below what we estimated, and will actually be \$45,900 lower than revenues in FY 2011 and \$59,000 lower than revenues in FY 2010. We have not increased sewer rates in four years, but we are recommending a 6% increase in 2012-2013 to provide the funds needed for improvements to the collection system and repairs to a bridge leading to the wastewater treatment plant. We hope that a surging economy will lead to more commercial and residential construction which will generate greater revenues from sewer taps and capacity fees. To properly maintain the systems will require more revenue from various sources.

In the budget report of 2011-2012, I noted that Fuel Charges by Progress Energy were playing havoc with the **ELECTRIC FUND**. The report for the 2012-2013 is no different, as Progress Energy continues to have problems operating their nuclear facilities. While the cost of natural gas has dropped to a near record low and the cost of coal is also down, the Town continues to be burdened with higher fuel costs from Progress Energy as they have a string of planned and unplanned outages at their nuclear facilities. For the most part, the Town has absorbed these higher fuel costs rather than pass them along to our own customers, but we do not know how long we can do that. We had mistakenly believed that the fuel costs would drop again, but these nuclear outages by Progress have prevented that from happening. Duke Power has a reputation for successful operation of nuclear facilities, so perhaps after the merger, we will see an improvement in that area.

While Progress Energy has been escalating our fuel charges, the revenues in the Electric Fund have been on the decline. The revenues for 2011-2012 will be about \$621,000 below our budget estimates for the year and \$484,000 below actual revenues in FY 2011 and \$608,000 below revenues in FY 2010. We attribute most of this drop to the unusually mild winter that we just came through and were told that it was the fourth mildest on record. Some of it may also have been a continuing impact of the poor economy and the fact that individuals and businesses have attempted to find ways to conserve.

The Town Board authorized a 5.5% rate increase to cover the higher energy charges in the new contract with Progress that went into effect on January 1, 2010. Thus far, the Town has not implemented any of that rate increase, even though we are paying more for the energy we buy. There were lower fuel costs at the end of 2009 and for most of 2010, and the savings to the Town were such that the higher rates were not required. Now as the Town pays higher costs due to the nuclear outages, implementing a portion of that rate increase may become necessary.

The new contract with Progress Energy runs to December 31, 2015, and base rates charged will remain the same. Fuel charges will vary during that time as will the Charge for Renewables, explained below, but the base rate for demand and kilowatts will be the same. Progress Energy had presented a proposal for extending the contract beyond the December 31, 2015 termination date, but our electrical consultant, Kevin O'Donnell, has recommended taking no action on an extension while the merger of Duke Energy and Progress is under consideration. He has also been in discussions with energy suppliers in other regions that are interested in selling energy to Waynesville at reduced rates, another reason to delay any extension of the contract with Progress Energy.

During 2009-2010, under Senate Bill 3 of the North Carolina General Assembly, the Town was required to add a charge to electric bills to help fund renewable energy sources. Under that legislation, by the year 2021, all utility companies must secure at least 12.5% of their energy from renewable sources – wind, solar, animal wastes, hydro or other sources. The Town may delegate this responsibility to Progress Energy, which will assess us a monthly fee to provide the renewable sources. The Town may then assess a similar amount to its electric customers to recover this charge. In FY 2010, the renewable fee for a partial year was \$18,173, and it was \$36,137 in FY 2011. We estimate it will rise to \$41,940 in FY 2012 and propose \$58,720 for FY 2013. The fee is adjusted annually based upon our share as a percent of the overall consumption on the Progress Energy system.

II. EXPENDITURES

Water Fund expenditures for 2012-2013 will grow by \$506,820, primarily for capital outlay. At the Water Treatment Plant, we request \$498,000 as follows - \$305,000 for concrete basin repairs, \$143,000 for valves in the filter basins and \$50,000 for painting in the pipe gallery area. The proposed cost of living increase and projected increase in fringe benefits for employees in water maintenance and at the water plant reflect most of the rest of the increase in the fund. We will make a \$26,060 payment on the loan for the Eagle Nest Water System and a \$67,400 annual payment on the \$904,740 loan on new water lines. We budgeted an expense of \$75,000 related to implementation of the Watershed Management Plan. The Plan called for treatment of the white pine plantation, which would require work on some of the roads and hiring professionals to oversee the process. The work had been planned for the spring of 2011, but with the demand for timber low, it was suggested that we delay action for now; however, this may come up again in 2012-2013.

In the **Sewer Fund**, expenses will rise by \$260,750, mostly due to capital outlay. In Sewer Maintenance, we have asked for an increase in line maintenance/rehabilitation/replacement, going from \$300,000 to \$350,000. At the Wastewater Treatment Plant we are asking for \$100,000 to repair and repaint the bridge over Richland Creek on Walnut Trail. We had requested \$30,000 in the current budget, but it was nowhere close to meeting the cost of the work involved. Other increases in the sewer fund budget are related to the cost of wages and fringe benefits, the expense for treatment chemicals and electricity.

In the **Electric Fund**, an expenditure increase of \$1,363,370 is requested, but of that amount, \$1,307,090 is an increase in the cost of purchasing power from Progress Energy. Sonoco Products is expanding and will require two additional 2,500 Kv transformers which will mean a much higher demand for electricity. The rest of the increase in this fund is related to the higher sales tax that we must charge on the electricity we sell to Sonoco and on the wages and fringe benefits we provide to our electrical employees.

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 2011-2012, compared with the amount we anticipate for the 2012-2013 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 allocate money 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. Of the three funds, the **Electric Fund** has typically been the strongest, the **Sewer Fund** follows and the **Water Fund** is third. At present, due to the issue of fuel charges mentioned earlier, the Electric Fund has shown signs of stress while the Sewer Fund and the Water Fund have gained strength. Over the next few years, we will be paying off some large debts for water tanks, and the Water Fund should again show progress. We believe the Electric Fund will strengthen as Progress works through the issues of operating the nuclear facilities and when Sonoco puts its new facilities on line.

In the **Water Fund**, we have suggested a Fund Balance allocation of \$115,300. In the original budget for 2011-2012, we projected using \$178,870 from Water Fund reserves, but at this point, we do feel that a maximum of \$104,930 would need to come from reserves in this fund to achieve a balanced budget. We continue to try and address the infrastructure needs of the water system which were identified in the 2007 Asset Management Study by McGill Associates. In the current year, the Town is paying off a \$153,164 annual debt on the clear well tank and backwash tank at the water plant and in 2014, we will pay the last of the \$118,680 annual debt on the Reservoir Drive water tank. The annual debt on the lab expansion totaling \$52,000 will come off in July 2015. As these come off, the Town will be poised to put more and more money toward the costs identified in the Asset Management Study. We have already seen the Water Fund reserves grow to exceed \$1,000,000 again.

The **Sewer Fund** has seen an increase in the reserves in the past year, with the fund balance typically over \$1,000,000. We have paid off much of the debt in this fund in recent years, and the only debt we currently have is the second of five annual payments of \$43,098 on a Sewer Jet Truck. We are able to invest more money into the needs identified in the Asset Management Study. In the next fiscal year, we are recommending an appropriation of \$209,750 from the reserves of the Sewer Fund to balance the budget. In the initial budget for 2011-2012, we proposed the use of \$140,760 in reserves in the Sewer Fund, and at this point, we anticipate using a maximum of \$43,230.

As explained in other portions of the budget, managing the **Electric Fund** has been a real challenge for several years. Our electrical consumption has dropped, but our fuel costs have risen, and part of that is related to the shutdowns of the nuclear facilities by Progress Energy. Since November 4, Progress has had one or more of their nuclear facilities shut down continuously, and it has driven our costs higher for other, more expensive forms of energy. Were it not for the current lost prices of natural gas and coal, we would be seeing our profits fall to nothing. So we have seen our reserves drop in the Electric Fund during the year, and while the balance is much higher than it was five or six years ago, we are nervous about the trends we are seeing. In the 2011-2012 budget, we originally estimated that \$512,120 in reserves might be needed to balance the budget, and it appears that we may use \$670,200. For the 2012-2013 fiscal year, we are recommending \$320,470 from the reserves of the Electric Fund. We will need to watch the balances in this fund closely in the coming year. Once Sonoco goes on line, we should see a dramatic increase in electrical consumption and that should mean an increase in profits; however, should Progress Energy continue to assess higher fuel charges, we will find our profits dropping even further. The present reserves in this fund are close to \$1.5 million, so we are comfortable with an appropriation of \$320,470 from this fund.

IV. FEES FOR 2012-2013

In presenting the 2012-2013 budget, we recommend a rate increase in the **Water Fund**, proposing that **water rates and pump fees** be increased 6% for all customers inside and outside the town effective August 1, 2012. Connection fees and capacity fees would remain the same. In 2007, the Asset Management Plan identified nearly \$31,000,000 in construction needs in the water and sewer systems, including treatment plants, by the year 2030. This board has been supportive of the increases we have requested in the budget to address these needs. We must remain diligent in addressing these problems.

We were fortunate to receive a \$904,740 low interest loan for water system improvements through the State's Revolving Loan Fund and another grant of \$213,333 from the Rural Center. It also appears that the Town will be in line for another low interest loan from the State for additional radio-read water meters. All these outside funds help us chip away at the water system needs, and in 2012-2013 we will be asking for \$300,000 toward water system improvements.

We are also recommending a 6% increase in **sewer rates** for the 2012-2013 fiscal year, the first increase since the 2008-2009 budget, four years ago. Our revenues have been dropping in this fund and we need to find the resources to address the maintenance needs of the collection system and treatment plant.

When we entered a new contract with Progress Energy on January 1, 2010, we had anticipated that the higher charges would lead to a 5.5% increase in electric rates. But when the cost of fuel began to fall in 2009 and we saw slightly lower bills from Progress Energy, the **Electric Fund** became healthier. So we did not need to follow through on the rate increase. As we have seen the fuel costs from Progress begin to rise again, we are not certain just how long we should go before asking for the implementation of all or a portion of that 5.5% rate increase. This fund bears close observation in the coming months.

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.

Our electric rates are also something to brag about. A study by the North Carolina Utilities Commission reveals that of the 106 electric utilities in North Carolina, the residential rates in Waynesville are the 20th lowest. We do not know if the citizens of Waynesville realize how our water, sewer and electric rates compare to other communities, and I bet that most would be surprised if they realize how much lower Waynesville's rates are compared to other municipalities. Even those not on our electric system benefit from the system, as the Electric Fund subsidizes the General Fund and keeps taxes low. Were it not for the profits of the Electric Fund being transferred to the General Fund, the tax rate would need to be twelve cents higher to generate the same \$1,275,600 contributed by electric rates.

The renewable energy charge the Town is required to assess rose in FY 2012 and will likely rise again in FY2013. The fee is mandated by Senate Bill 3 passed by the General Assembly in 2007. Utility companies may increase rates to their customers to recoup their costs of buying alternative energy sources, and they must take 12.5% of their energy from renewable sources by 2021. Waynesville is allowed 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 started with a monthly fee of 36 cents to cover the charge from Progress Energy. The fee is currently 53 cents per month per household.

V. HIGHLIGHTS OF EXPENDITURES FOR 2012-2013

A. Cost of Living Adjustments and Merit Pay Increases

A visit to a grocery store, gas station or shoe store will reveal that prices are on the rise. The Town Board granted our employees a pay increase in the 2011-2012 budget after they suffered through three years without a raise. In the 2012-2013 budget, we are recommending a cost of living adjustment of 3% to most full-time and part-time employees. As noted many times, our employees are the most valuable asset we have and it is one we need to compensate fairly. The combined cost of the increase for the three Enterprise Funds, with fringe benefits, is \$47,440 but we feel this is a reasonable expense to reward employees for a job well done.

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 choose 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 the **Local Government Employees' or the Local Law Enforcement Officers' Retirement Systems**. With the economic recession of recent years, the Retirement Systems experienced a decline in stock values and other investments at a time when there are growing numbers of retiring baby boomers. As a result, in 2010-2011 and again in 2011-2012, the Retirement System increased the amount of employer contribution. In 2012-2013, there will be a slight decrease in the required contribution, but expect future increases as more baby boomers retire. 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.

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. There was a request for the addition of one position in the sewer maintenance section, but at this point we are unable to recommend that position.

C. FRINGE BENEFIT COSTS

The greatest fringe benefit provided our employees continues to be health insurance, the cost of which has increased far in excess of the inflation rate over the years. In 2006-2007, we switched coverage from the League of Municipalities to Blue Cross-Blue Shield. After an initial three years of low claims, the past three years have seen very high claims, and this has forced our premiums up. In 2010-2011, we made changes in our policy, raising the deductible from \$500 to \$5,000, with the Town taking on the difference of \$4,500 in the

deductibles. This led to a substantial savings over what the increase might have been, and our cost of absorbing the higher deductible has paid off. But our claims continued to rise in 2011-2012 and we were faced with a 17% increase for FY 2013.

Blue Cross-Blue Shield now offers a program where we can see a minimal increase, with the co-payments on drugs going to as much as \$100. After negotiations, we reached a compromise where the employees would pay \$10 for generic prescriptions and \$40 for name brand prescriptions. The Town will pay the cost of prescriptions between \$40 and \$100 so employees will not have to pay so much. A third party administrator will bill the Town for its share of co-payments weekly. More details on this new plan are presented in a separate report, but in essence, by taking this route, we are looking at an increase from Health Insurance of approximately \$70,000 annually. If we had simply renewed the policy with the same coverage, the increased cost would have been \$262,000.

At present, there is no charge to employees for their own health insurance, only for that of their dependents. In FY 2013, we are proposing that employees begin to pay a greater share of the health insurance costs. When premiums are increased, the insurance company might alter rates differently for different classes of employees depending upon the experience of that class. The rates for individual or employee-spouse or employee-children or the family coverage might go up at different percentages from one year to the next. The portion that employees pay has not changed in several years, and with varying increases to the different classes of employees, some employees are paying 12% of the cost of coverage, some are paying 13% and some are paying 24%. We propose bringing those paying the lowest percentages up to 16% of dependent cost in 2012-2013 and try to bring that higher over two or three years until all are paying 25% of dependent care costs.

Regarding retirement benefits, the Town has 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 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 for those with less than 25 years of service. The employees in this latter group would have to have 25 years of service to receive free health insurance for up to ten years in retirement.

Our dental 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 decreases. We were pleased to learn that due to our improved experience with accidents, the Workers' Compensation premium will drop by a significant amount. The Town will receive some credits due to our long term participation in these programs.

In addition to the 401(k) program, the Town offers the opportunity for employees to participate in other retirement programs, to purchase extra life insurance for themselves or dependents, to establish pre-tax health savings accounts, or 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 2012-2013, we recommend an allocation of \$300,000 for rehabilitation of the **water system**. This is an increase of \$25,000 from what was allowed for line replacement in the 2011-2012 fiscal year. The Town had an Asset Management Study done in 2007 and there was an identified need of \$31,000,000 for improvements to the water and wastewater system, including treatment plants, by the year 2030. We are attempting to allocate funds to address these needs on a pay-as-you-go basis. We did receive a low interest loan of \$904,740 from the State's Revolving Loan Fund, and replaced a number of undersized and deteriorated water lines. We were also awarded a \$213,333 grant from the Rural Center and those funds were used to complete the interconnection with the Maggie Valley Sanitary District system and replace a number of undersized lines in the Ivy Hills area.

At the Water Plant, the concrete on the top of the basin walls has been deteriorating for some time, and it is estimated that repairs will cost around \$305,000. The Department has also requested \$143,000 to replace the valve actuators in the filter system and \$50,000 for painting in the pipe gallery. A loan on the \$498,000 worth of work would be difficult, as BB&T has a lien on the building from when they financed the expansion of the lab a few years ago. Another financial institution would not likely bid on financing when BB&T holds a lien on the property. We did discover that the Town could waive bid requirements for a new loan and adjust the existing loan with BB&T, but the Town would still have to go through all the steps of public hearings and presenting the loan request to the Local Government Commission. Rather than do that, and because the General Fund has such a strong reserve at the present, we are proposing that the General Fund loan the Water Fund \$400,000 to repair the concrete basins and make some other improvements. The Water Fund would contribute \$98,000 to the work and the General Fund would provide the remaining \$400,000 as a loan which would be paid back \$100,000 a year over four years.

During 2010-2011, the water system improvements in Eagle Nest Estates were completed. The property owners on Eagle Nest raised \$300,000 as the local share on this project and the State secured approximately \$1,000,000 in grant funds to assure that this area was switched to a public water system. The property owners presented the Town with the \$300,000 and it was invested in local financial institutions. The State had indicated that of the total project cost, which turned out to be \$1,260,600, the \$300,000 from the homeowners would come off the top and the balance would be from State (federal) funds. In the end, the State decided to use the full \$1,000,000, so it reduced the sum required of the Homeowners from \$300,000 to \$260,600. In addition, the annual, no interest loan repayment will be \$26,060, not the \$30,000 we were previously advised. In 2011-2012, the town made the first payment on this debt, withdrawing the \$26,060 from the \$300,000 which was invested at local financial institutions. In addition, the Town will be returning \$39,400 to the Homeowners Association along with the annual interest earned on their \$300,000 investment. When they presented the \$300,000 into the Town's hands for safekeeping, it was agreed that the Town would return the annual interest earned to the Eagle Nest Homeowners Association.

The Water Maintenance Department has requested an asphalt cutter saw for \$18,000 and a laptop computer and software to help with the operation of the water pumps. The Water Plant requested a filter/process turbidometer for \$19,000 and a spectrophotometer for \$4,000. These things have been included in the budget. In addition to the payment on the Eagle Nest Water System, the Town will make other debt payments on the Lab Expansion (\$52,000), the 2 million gallon tank on Reservoir Drive (\$119,000), the low interest loan from the State for water line replacements (\$67,400) and on a Bobcat (8,950).

In the **Sewer Fund**, we propose to raise the annual expense on system rehabilitation from \$300,000 to \$350,000. As with the water system improvements, we must keep investing money in the infrastructure to try and move toward that \$31,000,000 figure in repairs that the Asset Management Study revealed in 2007. The Wastewater Treatment Plant personnel have requested the replacement of a pump motor at \$11,000 and a large blower motor at \$8,000. The largest capital expense requested in the 2012-2013 budget for the treatment plant is for work on the bridge on Walnut Trail. They had a quote and some funding in the 2011-2012 budget, but the amount of money was nowhere near what it is going to cost to repair this structure, sandblast and repaint the steel trusses. Being over Richland Creek, any contractor will have to take great precautions in the sandblasting as the paint is likely lead base and the water below must be protected. They are requesting \$100,000 for this work in the 2012-2013 budget. We will make the third of five annual debt payments of \$43,100 on the new sewer cleaning truck purchased in 2010, and that is the only debt of the Sewer Fund. The low debt is contributing to the growing stability of this fund. In the next five years, the Town will have to consider a sizable loan to upgrade the aeration basin at the plant.

The new capital expenditures in the **Electric Fund** will focus on various improvements to the system and on equipment needs. We have included \$20,000 in the 2012-2013 budget for miscellaneous system improvements, and the department has requested the purchase of a mower and equipment trailer for the new substation site. In the current 2011-2012 budget, the Town Board gave the department approval to order a new bucket truck, and that unit is on order and scheduled for delivery in the late summer. The first payment on the loan on this \$196,000 truck will not be due until the 2013-2014 fiscal year. This will work out well, for in the 2012-2013 budget, the Town will pay off the debt on the pole truck, which is \$41,450 annually. The estimated debt payment of the new bucket truck will be around \$52,750 annually. The Town would be paying off \$41,450 and taking on about \$51,750 annually, so it nearly balances out. In addition to the pole truck, in 2012-2013, we will make the loan payment on the electric substation (\$310,850).

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 2012-2013. 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 earlier 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, you might expect prices to fall. We have seen asphalt and concrete increase in price, driven primarily by the increased cost of fuel, but we did see the price of PVC water and sewer pipe fall. For a while, the price of ductile iron pipe was almost the same as PVC pipe, but prices began increasing again during the 2011-2012 fiscal year. We have continued to see the cost of labor remain low as construction companies bid low to keep their crews together and to remain in operation. This allowed us to expand the water line work along Route 19, for there were funds left to replace a good bit of small and deteriorated two inch line in the Ivy Hills area.

As noted, during the past year, the increase in gasoline and diesel fuel has taken a toll on the budget. The Town purchases close to 120,000 gallons of fuel annually, and when the price increases one cent, it means an increase of \$1,200. A \$1.00 increase results in an increased expense of \$120,000. Being tax exempt, the Town typically pays 40 to 45 cents less than the price we see posted at the pump, and while prices are looking better as this document is prepared, who knows what we will be paying in six months or a year from now. For the coming year, we are budgeting \$3.50 per gallon for the 65,500 gallons of gasoline and \$3.60 per gallon for the 55,000 gallons of diesel fuel.

In the 2012-2013 budgets, many departments asked for increases in Materials and Supplies. During the recession years, we tried to limit these increases, but we know that our department heads and supervisors have stretched their purchases to the limit. With the economy starting to grow again, we expect to see higher prices in almost every product, so we have allowed some increases in the line items for materials and supplies. We know department heads and supervisors have work they want to accomplish, and we will work with them in developing and reviewing priorities. This will require a lot of close management on the part of department heads and management personnel. It will also require skills in diplomacy as we explain to citizens why some projects cannot be accomplished in the time frame they might desire. Some patience on the part of the Manager and elected officials as well as citizens might be needed as well.

During 2010 and 2011, the Water and Sewer Maintenance Department was hit hard by retirements, losing close to 100 years of experience. We also have the five longest serving employees holding positions in the enterprise departments - David Smith, Billy Franklin, Phillip Wyatt, Wentford Henson and Kyle Cook. Those five individuals have combined service of 150 years with the Town. This emphasizes the importance of providing excellent training for our employees and doing a great deal of succession planning and training in the next few years. Appropriations for travel and training are up slightly in 2012-2013, and we will need to depend greatly on our senior employees to help train those who will follow them in the various water, sewer and electric operations.

F. Miscellaneous Costs

The **Professional and Contract Services** for the water and sewer fund will be up considerably in 2012-2013. At the Water Plant, we allocated \$75,000 for implementation of the Forestry Management Plan. This work was planned for 2010-2011 and again for 2011-2012, but the people we work with at Western Carolina University advised that the market for timber is very low at this time. The plan to remove a portion of the white pines that line the reservoir was about promoting the health of the forest; however, there is no reason that the Town should not benefit from the sale of the timber when it is removed. The contacts from Western also indicated that there would be more interest in the work when the markets rebound and the timber companies have more of an outlet for the pine wood. So we hope to undertake the work some time in 2012-2013. Some improvements will be needed to watershed roads 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 in any fund, though we do have several lease-purchase agreements in place. In the Water Fund, in 2011-2012 we added a debt for the Eagle Nest Water System (\$26,060) and the State Revolving Loan Repayment (\$67,400). In the 2012-2013 budget, we propose a loan from the General Fund to the Water Fund in the amount of \$400,000 for the cost of various improvements to the water plant – repairs to the concrete in the water basins, pipe valve actuators and repainting of the pipe gallery. Fortunately, in 2011-2012, the Town made 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**, during 2012-2013, we will make our third payment on the new Sewer Cleaning Truck, and that is the only debt in that fund. By having such a small amount going to pay off debts, the Sewer Fund reserves have begun to grow, and we can place more emphasis on rehabilitation of the sewer collection system and treatment plant.

The **Electric Fund** ordered a new bucket truck and it will be delivered late summer of 2012, so the first payment on the bucket truck will not be due until the 2013-2014 budget. That will be after the debt on the pole truck in that department has been paid off, so the payments should come close to balancing out. This fund 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 during 2012-2013:

1. the ninth of ten annual payments - 2 million gallon water tank (\$119,000),
2. the tenth and eleventh of sixteen semi-annual payments - water plant lab (\$52,000),
3. the second of twenty annual payments – SRF loan – water improvements (\$67,400),
4. the second of ten annual payments – Eagle Nest Water System loan (\$26,060),
5. the third of five annual payments – Track hoe for water maintenance \$8,950),
6. the third of five annual payments – Sewer Cleaning Truck (\$43,100),
7. the fifth of five annual payments – Pole Truck for Electric Department (\$41,450),
8. the fourth of twelve annual payments – Electric Substation (\$310,850).

During 2012-2013, we propose incurring no new debts other than the inter-fund loan, but the Town will be paying off \$668,810 in debt principal and interest.

In Section 7 of the budget, you will find a detailed report on each of the Town's lease purchase financing agreements, including the dates when the most recent payment was made and when the last payment will be paid so that the item is paid in full. You will also see what entity provided financing and the interest rate on the item. This is useful information in understanding how we were able to provide the facilities and equipment for the community.

VI. NOTEWORTHY ITEMS IN PROPOSED ENTERPRISE FUND BUDGETS

Often in recent years, various Board members will recall the Asset Management Study that was presented to the Town in early 2007. Board members want to know and be assured that we are working on the improvements that were identified in the study. During the 1970s and 1980s, Waynesville prided itself on having very low water and sewer rates. That was good to a point, but unfortunately, the condition of the system and the condition of some of our facilities were allowed to slip. The Town had very low rates but failed to provide the proper maintenance of the system.

During the 1990s, the Town Board in office was willing to raise rates so that we could perform the required work to maintain the distribution and collection lines and the treatment plants. The Boards that have served in the past decade have continued with that same diligence and the elected officials have shown determination to move toward the upgrades needed and identified in the Asset Management Study. In the mid-1990s, the Town was spending about \$25,000 annually to maintain the water lines and another \$25,000 on the sewer lines. Today we are spending \$300,000 on water lines and \$350,000 on sewer lines. We have also made significant expenditures on new tanks and on the treatment processes and on the buildings that house the treatment facilities. Yet when you look at the comparisons shown in Section VI of the budget document, you will find that the water and sewer rates for Waynesville are still among the lowest in the region and across the State. This Board and the ones that preceded you over the past 20 years have been good stewards, not only of the funds with which you are entrusted, but with the systems and the facilities as well.

The same thing can be said of the Electric System, for a study in 2002 showed that we needed to expand the system and provide a much higher level of maintenance to the lines and poles. That report led to the construction of a second substation in 2008, greatly expanding the Town's electrical capacity. Had it not been for that additional substation, the Town of Waynesville would not have been in the running when Sonoco was looking for a location to expand their manufacturing facility and create an additional 35 jobs for our area. And we will still have capacity with the electric system, as well as with the water and sewer treatment plants, for other entities interested in expanding in Waynesville.

We have incurred some debts to make sure these improvements occurred, but those debts are being paid off now at a much higher pace than new debts are incurred. And we are seeing the reserves of the Water and Sewer Funds grow, leaving us poised to make more improvements to the systems and facilities. The Electric Fund is much stronger than it was a few years ago, but the rates from our wholesale supplier, Progress Energy, are more volatile, determined by fuel costs that are completely beyond the control of the Town, and that makes the Electric Fund a little less stable.

The reserves of all three funds now each exceed \$1,000,000, something that has never been seen. But fund balances of that degree allow the Town Board to authorize more work on utility lines and facilities as we chip away at the \$31,000,000 figure identified in the Asset Management Study. We must be persistent in trying to increase those expenditures each year and hopefully at some point, the Town can be spending \$400,000 or even \$500,000 annually on maintenance and repair of the systems and facilities. It is a worthy goal and one that we believe is attainable in time.

We are recommending 6 % increases in the water and sewer rates during 2012-2013 as a way of assuring that we generate funds to meet the needs of the systems. We are not recommending an increase in the electric rates at this time; however, we are suggesting that the fund be monitored closely during FY 2013 to assure that the profits will grow and that the reserves do not slip below the \$1,000,000 level. The increases in water and sewer rates requested this year will help strengthen these funds and still, if you refer to the charts found in Section VI of the budget, you will see that the water, sewer and electric rates we charge are among the lowest of utility systems in our region and throughout North Carolina. That is true of our property tax rate as well. The Town Board attempts to provide a very high level of service at a lower cost than is typically found in other communities.

The Electric Fund should become stronger when Sonoco brings its new production facility on line, and we have recommended that the reserves be used to assist the General Fund in the amount of \$1,275,600 for 2012-2013. This will allow the General Fund to accomplish some things it might not be able to do if it depended solely upon the revenues generated by the property taxes, sales taxes and franchise taxes,. Such a transfer also allows the property tax rate to remain at 40.82 cents per \$100 of valuation. Without the contribution from the Electric Fund, property taxes would need to be twelve cents higher to provide the same amount of revenue.

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. The Board approved work in the watershed during 2010-2011, with approximately 50 acres of white pine trees scheduled to be thinned and removed. But the drop in the timber markets led to a suggestion from Dr. Bates that the Town delay the work until such time when there would be more companies interested in bidding the work and the markets were such that the Town would earn a better return on the timber that was sold. This work will 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 again set aside in the budget for 2012-2013 to administer the work and to allow for some improvements needed to prevent erosion along the roads at stream crossings.

In the meantime, Dr. Bates, Rob Lamb and Forest Stewards, an organization associated with Western Carolina, has begun developing a plan for forestry management of the Rocky Branch Tract of land. That 500+ acre tract of land does not provide water into the Town's reservoir and timbering on that tract would not impact the water quality entering our water treatment plant. At some point, the Town may wish to consider timbering the Rocky Branch tract or looking at it in the long term for an outdoor recreational facility.

VII. SUMMARY

For the first time ever, the combined total of the Enterprise Funds exceed the total of the General Fund, with the utilities totaling \$15,055,800 and the General Fund totaling \$14,186,410. Of course, the driving force is the growth at Sonoco products and the large increase in electrical purchases they will make as they expand their production capacity. The largest single purchase in the Town's budget is not in wages or fringe benefits as some might expect. The largest single expenditure is the purchase of wholesale power from Progress Energy at \$6,509,300, making up 22.3% of the total Town budget.

The investment of \$3.6 million in the new electrical substation and underground lines extending to the Associated Packaging site (now Sonoco) has turned out to be a very wise investment, indeed. First, during a severe snow storm in 2010, when the demand exceeded the capacity on the older substation and there were trees falling on power lines, we had to take portions of the old substation out of service. We were able to switch over to the new substation and brought the system back to full power within two hours. Then, when Sonoco was looking for a site to expand their plastics manufacturing operation, Waynesville was positioned to supply them with the power they needed. It was because of the substation that we were able to land the expansion with its \$12 million investment and 35 new jobs. There is an old saying about having to spend money to make money, but that has certainly proven true with the investment in the substation and in improvements to the electrical distribution system throughout the Town.

Like so many towns and cities and counties across North Carolina and beyond, we have meandered through four years of recession and now the community seems to be emerging with new strength and vigor. We seem to have weathered the worst of the recession and we are now seeing growth occurring in commercial and industrial operations. While we have the capacity available to meet most demands for water, sewer or electricity, we are expending funds to constantly upgrade and maintain the water distribution, sewer collection and water and wastewater treatment facilities. In the 2012-2013 budget, the investment of \$300,000 in maintenance of our water lines and \$350,000 in maintenance of our sewer lines will be significant in working toward the \$31,000,000 in needs which the Asset Management Study brought to light.

In addition to those investments, the Water Fund will be expending nearly \$500,000 on upgrades and improvements at the Water Treatment Plant, repairing deteriorated concrete, replacing valves that were installed in the 1960s and repainting the pipe gallery for the first time in years. At the Wastewater Plant, the Town will have the bridge leading to the plant sandblasted and repainted at a cost of nearly \$100,000. We will do this work in an environmentally responsible manner, protecting Richland Creek below from any lead paint that might be removed from the bridge during the course of the work.

The Town of Waynesville has a reputation of 'taking care of business', and in the work that is being requested in the 2012-2013 budget, we believe we are fulfilling that goal. Town Boards and town managers who sit in our seats years from now will not wonder why the Town did not do what needed to be done in addressing the needs of the water, sewer and electric systems. They will look back and be glad that the Town dealt with the issues.

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 either of us 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,



Marcia D. Onieal
Town Manager



A. Lee Galloway
Management Advisor

PART 3 - 2012-2013 PROPOSED ENTERPRISE FUND BUDGETS

II. WATER FUND			
A. REVENUES	EST. ACTUAL 2011-2012	PROPOSED 2012-2013	DIFFERENCE
Water Charges	2,341,000	2,455,400	114,400
Comment: We are proposing a 6% increase in water rates as we continue to address system improvements. Revenues declined in 2011-2012 from prior years, even with a rate increase.			
Water Taps/Connection Fees	30,000	40,000	10,000
Comment: With the increase in commercial construction, we are anticipating some higher connection fees.			
Impact Fees - New Connections	8,000	12,000	4,000
Comment: New construction should generate some capacity fees for the system.			
Miscellaneous Revenues	1,800	1,500	(300)
Sale of Materials/Supplies/Fixed Assets	3,850	75,000	71,150
Comment: We continue with plans to sell some white pine from the Watershed if the markets improve for the sale of timber.			
Investment Earnings	0	300	300
Comment: Earnings are small and offset by banking service fees.			
Transfer from Electric Fund	103,100	0	(103,100)
Comment: Water Fund should not need this cash from the Electric Fund in FY 2013.			
Borrowed from Other Funds	0	400,000	400,000
Comment: We are proposing that the General Fund loan Water Fund \$400,000 to complete construction projects at Water Plant. Funds would be paid back over a four year period of 2013-2014 to 2016-2017. We propose this rather than going to the Local Government Commission to adjust our existing loan on the plant lab.			
Fund Balance Appropriated	104,930	115,300	10,370
Comment: The Water Fund is in better shape than it has been in some time, so we feel comfortable recommending a portion of the fund balance to meet budget.			
TOTAL WATER FUND REVENUES	2,592,680	3,099,500	506,820

PART 3 - 2012-2013 PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Water Maintenance	1,295,220	1,354,820	59,600
Comment: Wages and fringe benefits will be up with cost of living adjustment and the provision of health insurance to retirees. Materials and supplies and capital outlay expenditures should be higher in FY 2013.			
Water Treatment	963,750	1,413,480	449,730
Comment: Wages & fringe benefits will be up with cost of living adjustments but the greatest increases will be in capital outlay where we propose expending \$305,000 on repairing the concrete on the water basins and \$193,000 on repairs and replacement of filter valves and repainting of the pipe galley. These will be funded with the loan from the General Fund.			
Administration and Finance	230,610	227,830	(2,780)
Debt Service	0	0	0
Contingency	0	0	0
Transfer to Other Funds:			
To General Fund	103,100	103,370	270
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	2,592,680	3,099,500	506,820
C. WATER FUND SUMMARY	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	2,592,680	3,099,500	506,820
EXPENDITURES	2,592,680	3,099,500	506,820
DIFFERENCE	0	0	0

PART 3 - 2012-2013 PROPOSED ENTERPRISE FUND BUDGETS

III. SEWER FUND			
A. REVENUES	EST. ACTUAL 2011-2012	PROPOSED 2012-2013	DIFFERENCE
Sewer Charges	1,843,680	1,933,800	90,120
Comment: We are proposing a 6% increase in sewer rates. We have not increased this fee in several years and need the revenue to make more repairs on the system.			
Sewer Taps	15,000	20,000	5,000
Comment: With the increase in commercial construction, we are optimistic that there will be an increase in sewer connection revenue.			
Industrial Discharge Permits	400	500	100
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 in recent years, but we hope they will see growth as the economy rebounds.			
Impact Fees - New Connections	18,000	20,000	2,000
Comment: The Asset Management Study recommended capacity fees from new customers connecting to the system, and these are the capacity fees related to new commercial construction.			
Miscellaneous Revenue	380	400	20
Sale of Materials/Supplies/Fixed Assets	5,550	100	(5,450)
Comment: We do not expect to have much to sell in FY 2013.			
Contributed Capital	0	0	0
Comment: There are no grant funds received from outside sources.			
Investment Earnings	0	440	440
Comment: We expect some revenue in this fund since it has a stronger reserve.			
Fund Balance Appropriated	43,230	209,750	166,520
Comment: This fund is more solid and we are comfortable with this use of reserves.			
TOTAL SEWER FUND REVENUES	1,926,240	2,186,990	260,750

PART 3 - 2012-2013 PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Sewer Maintenance	654,930	798,600	143,670
Comment: Wages and Fringe Benefit Costs will be up with cost of living adjustments and we do not anticipate so many vacant positions in FY 2013. We are also asking for an additon of \$50,000 on sewer line repairs and replacements.			
Wastewater Treatment	999,740	1,113,100	113,360
Comment: Wages and fringe will be up with cost of living adjustments and we need to make some repairs and repaint the bridge leading to the Wastewater Treatment Plant on Walnut Trail.			
Administration and Finance	193,640	197,890	4,250
Contingency Appropriated	0	0	0
Transfer to Other Funds:			
To General Fund	77,930	77,400	(530)
Comment: We transfer a portion of the sewer fund revenues, after fund balance is deducted, to the General Fund.			
TOTAL SEWER FUND EXPENDITURES	1,926,240	2,186,990	260,750
C. SEWER FUND SUMMARY	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	1,926,240	2,186,990	260,750
EXPENDITURES	1,926,240	2,186,990	260,750
DIFFERENCE	0	0	0

PART 3 - 2012-2013 PROPOSED ENTERPRISE FUND BUDGETS

IV. ELECTRIC FUND			
A. REVENUES	EST. ACTUAL 2011-2012	PROPOSED 2012-2013	DIFFERENCE
Electric Charges	7,343,290	8,995,600	1,652,310
Comment: With the expansion of Sonoco and the addition of two large transformers, we are anticipating a significant increase in the revenues from Sonoco. We also had lower sales this past year due to an abnormally warm winter.			
Security Lights	45,890	45,000	(890)
Comment: Rates will remain the same and revenues should as well.			
Street Lights	88,800	129,250	40,450
Comment: The cost of providing street lighting has been revised for the first time in many years and the Street Department will pay more of the actual cost of service.			
Underground Service Installation	500	2,000	1,500
Comment: We anticipate an increase in requests for underground service in FY 2013.			
Renewable Charge Revenue	42,560	58,720	16,160
Comment: This is the charge required by the State for renewable energy. Progress Energy raised the rate to us in FY 2012 and we must pass it along to our customers.			
Electric Pole Rental	13,700	13,700	0
Comment: These are charges made to other utilities for use of Town poles.			
Sales Tax Charges	190,000	193,000	3,000
Comment: As sales go up or down, so do the sales taxes that the Town must pay on the electricity sold. As sales dropped this year, the sales tax declined.			
Miscellaneous Revenues	3,000	3,000	0
Comment: There was very little revenue received that did not fit in another category.			
Sale of Fixed Assets	8,000	8,000	0
Comment: We expect to sell the old bucket truck in FY 2013.			
Investment Earnings	0	570	570
Comment: Earnings will remain low with the interest rates so low.			
Fund Balance Appropriated	670,200	320,470	(349,730)
Comment: We were trying to hold down the use of reserves to see how Sonoco does.			
TOTAL ELECTRIC FUND REVENUES	8,405,940	9,769,310	1,363,370

PART 3 - 2012-2013 PROPOSED ENTERPRISE FUND BUDGETS

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Electric Maintenance	1,247,900	1,283,380	35,480
Comment: Wages and fringe will be up with cost of living adjustment and with newer employees earning probationary increases. Materials and supplies will be up.			
Purchased Power	5,202,210	6,509,300	1,307,090
Comment: With the expansion of Sonoco, we should see a substantial increase in the amount of power purchased from Progress Energy.			
Renewables Energy Payment:	41,940	58,720	16,780
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. Our rate was increased in 2011-2012, and will likely again in FY 2013.			
Sales Tax on Purchased Power	125,000	195,280	70,280
Comment: As sales increase, the amount in sales tax also rises.			
Bad Debt Expense	32,000	32,000	0
Administration and Finance	378,190	415,030	36,840
Comment: This is the charge to Electric Fund for the cost of service provided by the General Fund and it has been on the rise.			
Transfer to Water Fund	103,100	0	(103,100)
Comment: This transfer will not be needed in FY 2013.			
Transfer to General Fund	1,275,600	1,275,600	0
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 require a tax rate increase of eleven cents. We will need to watch this closely in 2012-2013 to see if Electric can provide this much money.			
TOTAL ELECTRIC FUND EXPENDITURES	8,405,940	9,769,310	1,363,370
C. ELECTRIC FUND SUMMARY	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	8,405,940	9,769,310	1,363,370
EXPENDITURES	8,405,940	9,769,310	1,363,370
DIFFERENCE	0	0	0