

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2011 - 2012 Budgets for Enterprise Funds

The proposed budgets for the Town's Enterprise Funds for 2011-2012 are hereby submitted for your review. These Funds include the Water, Sewer and Electric Funds and represent a combined total of \$13,837,720. That reflects an increase of \$789,700 or about 6.05% more than the \$13,048,020 we expect to spend in the 2010-2011 fiscal year. I would note that the original 2010-2011 budgets for the Enterprise Funds were \$13,410,950, so the increase from the original budget in 2010-2011 is \$426,770 or 3.27%. A comparison of the estimated expenditures with the proposed budget follows:

	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>CHANGE</u>
Water Fund	\$2,432,190	\$2,859,570	\$ 427,380
Sewer Fund	\$1,924,310	\$2,088,800	\$ 164,490
Electric Fund	\$8,691,520	\$8,889,350	\$ 197,830

#### I. REVENUES

During 2010-2011, revenues in the **WATER FUND** did not meet expectations. Income from water sales will be \$16,600 below budget, but revenues from water taps and capacity fees will be an estimated \$28,000 less than what we anticipated. For much of 2010-2011, rainfall was above average, and people probably watered lawns and gardens less. The poor economy has had some effect, we are sure, with the closing of several restaurants and some businesses. Certainly the continuing slowdown in home construction affected us in the revenues from taps and capacity fees. Fortunately, expenditures will be much lower than expected as well. For the 2011-2012 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 \$100,000 in revenues, money that is needed as we continue to address the infrastructure needs of the water system. We propose that fees for water taps and capacity fees remain the same.

For 2010-2011, revenues from sewer customers should only be \$4,780 under budget. In the **SEWER FUND**, we also experienced a shortfall in tap and capacity fees, but only by an estimated \$6,650. Much of the revenue from capacity fees came from development along U. S. Route 19 or in the Junaluska Sanitary District. The continued depression in the housing market and general economy meant fewer taps. As with the Water Fund, estimated expenditures in the Sewer Fund will be lower than anticipated. But the Sewer Fund is in a healthier condition than the Water Fund, and we are not recommending any increase in sewer rates or for tap or capacity fees for the 2011-2012 fiscal year budget.

Fuel charges by Progress Energy continue to play havoc with the **ELECTRIC FUND**. In 2010-2011, fuel cost rose as Progress Energy experienced problems at nuclear facilities and used the more expensive coal and gas generation to meet demand. Higher fuel costs were passed along to us, and we in turn passed them along to our electric customers. Our electric revenues are higher than estimated as a result. The fund continues to do well. The Town entered a new wholesale supply contract with Progress Energy on January 1, 2010, and we planned a 5.5% rate increase to handle the higher charges under the new contract. But our overall costs have been lower and we have not had to assess that increase to customers. We are not recommending a rate increase to customers in 2011-2012, but will continue the monthly reviews of fuel charges assessed by Progress Energy and adjust Town's rates as needed. Other revenues in this fund have come close to projections, though Miscellaneous revenues are higher than normal due to a reimbursement from our insurance carrier for damages to the substation during a storm.

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 has presented a proposal for extending the contract beyond the December 31, 2015 termination date. Our electrical consultant, Kevin O'Donnell, is reviewing that proposal and weighing if it would be best to deal with Progress Energy on this extension or to wait until after Progress and Duke Energy have merged to finalize a new contract.

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% 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 2009-2010, the renewable fee for a partial year was \$18,173, and it should rise to \$36,500 in 2010-2011. We are proposing a figure of \$47,580 in 2011-2012. The fee is adjusted annually based upon the percentage Waynesville's consumption is of the overall consumption on the Progress Energy system.

## **II. EXPENDITURES**

**Water Fund** expenditures for 2011-2012 will grow by \$427,380. These increases can be narrowed to several specific areas. The proposed cost of living increase and the projected increase in health insurance and retirement for employees in water maintenance and at the water treatment plant will play a big part in the increase. But the largest increases will fall into debt service on loans on the system and at the water plant. We will begin making a \$30,000 annual payment on a \$300,000 loan for the Eagle Nest Water System and a \$67,400 annual payment on the \$904,740 loan on new water lines. At the water treatment plant, we will make a down payment of \$81,000 on concrete repairs on the treatment basins and on the dam's spillway. We budgeted 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 had been planned for the spring of 2011, but with the demand for timber low, it was suggested that we delay action for now.

In the **Sewer Fund**, expenses will rise by \$164,490. The increases can be narrowed to a few areas. The proposed cost of living increase and the projected increase in health insurance and retirement for employees in sewer maintenance and at the wastewater treatment plant will play a major part. The largest increases will be at the treatment plant with higher costs for treatment chemicals, electricity and propane gas. We are also planning significant work on the bridge and the road surface for Walnut Trail.

In the **Electric Fund**, an expenditure increase of \$197,830 is requested. There will be some increases in personnel costs related to the cost of living adjustment and to the rising cost of hospitalization and retirement. We are recommending some part-time help which will be used to enter the data into the GIS system which was secured in 2010-2011. But the largest increase in this fund relates to a higher transfer of funds to the General Fund, with an increase of \$161,550.

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 2010-2011, compared with the amount we anticipate for the 2011-2012 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. Of the three funds, the **Electric Fund** is the strongest, the **Sewer Fund** follows and the **Water Fund** is third. Over the next few years, we will be paying off some large debts for water tanks, and the Water Fund should again show progress.

In the **Water Fund**, we have suggested a Fund Balance allocation of \$178,870. In the original budget for 2010-2011, we projected using \$84,390 from Water Fund reserves, but at this point, we do not feel that any reserves will be necessary 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. Over the next four years, the Town will pay off \$272,000 in debts on water tanks and other improvements, and that will make it easier to push the balance in the Water Fund back toward \$1,000,000.

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 was made in the 2010-2011 budget. In the next fiscal year, we are recommending an appropriation of \$140,760 from the reserves of the Sewer Fund to balance the budget. In the initial budget for 2010-2011, we proposed the use of \$81,330 in reserves in the Sewer Fund to achieve a balanced budget, but at this point, we do not anticipate using any of our reserves.

Dealing with the **Electric Fund** has been particularly challenging for several years. Just when we think we have a grasp on the fluctuations of the fuel adjustments, we are surprised by a high fuel adjustment charge. The past year, the fluctuations have related more to problems with the operation of the nuclear plants and not with cold weather, hurricanes or a booming economy in China driving the price of coal higher. We have learned to stay a bit ahead of the curve in projecting fuel adjustments for our own customers, and as a result, the Electric Fund has done much better. In the 2010-2011 budget, we originally estimated that \$356,230 in reserves might be needed to balance the budget. It appears that we will only use approximately \$98,170, and the reserves in this fund have grown and remained healthy during the past year. With the reserves approaching \$2,000,000, we are recommending that the Fund Balance appropriation from Electric Fund be \$512,120 in the 2011-2012 fiscal year.

#### IV. FEES FOR 2011-2012

In presenting the 2011-2012 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, 2011. 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 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. Those help us chip away at the water system needs, and in 2011-2012 we will be asking for \$300,000 toward water system improvements.

We are recommending that there be no increase in **sewer rates** for the 2011-2012 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, with the economy still in slow recovery, we would like to leave sewer rates the same next year.

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 and we saw slightly lower bills from Progress Energy, the **Electric Fund** became healthier. So we did not follow through on the rate increase and we feel that at this point, we would recommend leaving electric rates the same in 2011-2012.

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 20<sup>th</sup> lowest. Citizens in Waynesville benefit from low water and sewer rates and from low electric rates also. Even those not on our electric system benefit from the system, as the Electric Fund subsidizes the General Fund and keeps taxes low.

It is possible that the renewable energy charge the Town is required to assess may go up in 2011-2012. This fee is mandated as part 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. The fee increased to 53 cents in 2010-2011, and we suspect it will increase again in 2011-2012.

## V. HIGHLIGHTS OF EXPENDITURES FOR 2011-2012

### A. Cost of Living Adjustments and Merit Pay Increases

The last time Town employees received an across the board pay increase was in summer, 2008, some three years ago. I am pleased to report that the upcoming budget includes funds to allow a cost of living adjustment of 3% for all full-time and permanent part-time employees. For the three Enterprise Funds, this will require an additional \$46,490, which includes the added cost of fringe benefits.

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**. With the economic recession in recent years, the Retirement Systems experienced a large decline in the value of stocks and other investments of retirement funds. Another factor affecting the retirement systems is the large number of "baby-boomers" reaching retirement age. An actuary study revealed that a higher level of funding was needed to meet future retirement payments. As a result, the Town's contribution to the Retirement System increased by 1.55% in 2010-2011, going from 5% to 6.55% of payroll. In 2011-2012, there will be an additional .48% increase, and the Town will now pay 7.03% into retirement. 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.

The Town has some of the best employees to be found in any organization. Many of them have struggled during the recession, and granting them a 3% cost of living increase will be a welcomed reward for a job well done.

## 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. At this time, we plan no reductions in these three funds.

Some of longest serving employees are found in the Enterprise Funds, including at least 5 or the top ten in terms of length of service.

## C. FRINGE BENEFIT COSTS

The greatest fringe benefit provided our employees continues to be health insurance. Over the years, the cost of health insurance has increased far in excess of the inflation rate. In 2006-2007, we changed from the League of Municipalities to Blue Cross-Blue Shield, and we had good experience and maintained stable rates for the first three years. Our group experienced a high level of claims in 2009-2010, and as a result, the health insurance premium was to increase by more than 20% for 2010-2011. We made some 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 this year. We have seen some higher claims in 2010-2011 and Blue Cross-Blue Shield has suggested that another sizable increase may be likely. We continue to negotiate with our agent, Wells Fargo, and that firm is seeking quotes from other insurance companies. We are also seeking quotes from the League of Municipalities as we search for a way to hold this cost down. Health insurance costs represent approximately 6% of the Town's budget.

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 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 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, but 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) 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 2011-2012, we recommend an allocation of \$275,000 for rehabilitation of the **water system**. In addition, we are asking for \$25,000 for preliminary engineering costs on the changes in the water system related to the highway improvements on Howell Mill Road. 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 have also been awarded a \$213,333 grant from the Rural Center and those funds will be used to complete the interconnection with the Maggie Valley Sanitary District system.

During 2010-2011, the water system improvements in Eagle Nest Estates were completed. The property owners on Eagles 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. In 2011-2012, the town will make its first annual payment on this debt which will be \$30,000. The interest earned on this investment is returned to the Eagle Nest Homeowners' Association and the town reinvests the balance for another year. In addition, the Town will also be making its first payment on the \$904,759 low interest loan from the State, and this will cost approximately \$67,400. We will be making a debt payment of \$8,950 on the new Bobcat track hoe that was purchased in 2009.

At the water treatment plant, funds are needed to repair the spalling concrete on the dam's spillway and the concrete which surrounds the water basins. These two projects would be combined into one contract and we would finance approximately \$350,000 to \$400,000. In the 2011-2012 budget, we have included \$80,870 in the capital outlay of the water plant to go toward the expense of this project and we intend to finance the balance. There has also been a request to chip seal the Rocky Branch Road at an estimated cost of \$20,000, and we have included \$7,900 in funds for some lab equipment.

In the water maintenance department, we have requested \$23,000 to purchase a new pickup truck to replace a 2000 Ford F150 model.



In the **Sewer Fund**, we propose to continue the annual expense of \$300,000 for system rehabilitation. As with the Water Fund, we need to make this level of investment and more when possible to chip away at the \$31,000,000 in water and sewer system needs. We will make the second 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 \$36,600. The largest capital expense requested in the 2011-2012 budget for the treatment plant is for work on the bridge and surface condition of Walnut Trail. The Walnut Trail Bridge needs to be sandblasted and painted at an estimated cost of \$30,000 and \$52,800 is needed for a pavement overlay at the entrance to the treatment plant. In 2010-2011, we have made our final \$41,160 payment on the debt on the sludge belt press at the plant, and at this point, the only debt owed by the Sewer Fund is on the sewer cleaning truck. 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 2011-2012 budget for miscellaneous system improvements, and the department has requested the purchase of a new bucket truck to replace the 1992 GMC model that has served the Town well for 20 years. If purchased this year, the first payment would not be due on the bucket truck until the 2012-2013 budget. In 2010, we purchased all new Christmas street decorations and a GIS system to map all utility lines and appurtenances for the enterprise operations. In terms of long term debt, in 2011-2012, we will be making loan payments on the electric substation (\$310,850) and on a pole truck (\$41,450).

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 2011-2012. 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**

The recession of the past few years has presented some surprises for us. It would be natural to expect that in a recession, prices would decline in response to decreased demand. In the area of utilities, we have seen some decreases, particularly in the cost of ductile iron pipe versus PVC pipe. We have also seen a drop in the cost of labor, and in recent years, we bid some projects and received some excellent construction prices. This allowed us to do some extra work we might not have been able to do otherwise.



But we have also seen the price of many products rise during the past three years, particularly for asphalt, concrete and now, in the past year, for fuel, oil and tires. One of greatest necessities we have is for gasoline and diesel fuel to operate close to 100 vehicles of various descriptions, and we purchase approximately 105,000 gallons annually. Being tax exempt, the Town pays about 40 to 45 cents less than the price we see posted at the pump, but we still feel the fluctuation in prices. A \$1.00 increase in the price of fuel results in an increased expenditure of \$105,000 for the Town. For the next fiscal year, we are recommending \$3.20 for regular and \$3.50 for diesel, an amount that is slightly less than what we are paying at the present time. We are taking a bit of a gamble that prices will decline over the twelve months beginning July 1, 2011.

In the 2011-2012 budgets, many departments asked for increases in Materials and Supplies. In most cases, we have denied these increases. We know department heads and supervisors have work they want to accomplish, but the funds will be limited. We will work with them to develop priorities, attempting those which rate higher and delaying others until adequate funds are available. 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. And some patience on the part of the Manager and elected officials as well as citizens might be needed as well.

Appropriations for travel and training are at or near the same level as in prior years. While training in all departments of the Town is important, it is especially critical in the Enterprise Fund where we have so many senior employees who are approaching a point in life when they could retire. Five of the ten longest serving employees work in the Enterprise Funds, so we must give particular attention to training for those who will follow them. We must provide training in technical skills but also in management and leadership skills as well. We will also have some new employees who are generally inexperienced, and they will need a good deal of training in the most basic skills in water, sewer and electric. And because of the extreme dangers in their work, training in safety and safe working procedures will be emphasized. Training at distant sites will be more limited. The School of Government is using more computer Webinars to conduct training and hold costs down, and we will try to take more advantage of these opportunities as well as programs through Western Carolina University and Haywood Community College.

#### **F. Miscellaneous Costs**

The **Professional and Contract Services** for the water and sewer fund will be up considerably in 2011-2012. In the budget for Water Treatment, we have allocated \$75,000 for implementation of the Forestry Management Plan. This work was planned for the 2010-2011 budget, 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. 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 on any of our three Enterprise Funds, though we do have a number of lease-purchase agreements in place. In the Water Fund, we are adding two new debts in 2011-2012 - Eagle Nest Water System (\$30,000), State Revolving Loan Repayment (\$67,400). The good news about the Eagle Nest debt is that it 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. We simply withdraw the payment each year, send it to the State and send the interest earnings to the Homeowner's Association. The State Revolving Loan Fund was to have been part grant and part loan, but they ran out of money and it ended up all loan for us. Still, it is \$904,740 of improvements being repaid over 20 years at 2.5% interest. During the upcoming year, we will need to finance concrete repairs at the Water Plant, with some work on the dam's spillway and major work on repairs to the concrete basins. We anticipate a total debt of between \$350,000 and \$400,000, and the first payment would be due in 2012-2013. Fortunately, in 2011-2012, 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**, during 2010-2011, we made 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** needs to purchase a new bucket truck in 2011-2012, with the first payment being due in the 2012-2013 budget. 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:

1. the eighth of ten annual payments - 2 million gallon water tank (\$118,680),
2. the eighth of eight annual payments-Chlorine Contact Tank-water plant (\$153,165),
3. the eighth and ninth of sixteen semiannual payments - water plant lab (\$51,270),
4. the first of twenty annual payments – SRF loan – water improvements (\$67,400),
5. the first of ten annual payments – Eagle Nest Water System loan (\$30,000),
6. the second of five annual payments – Track hoe for water maintenance \$8,950),
7. the second of five annual payments – Sewer Cleaning Truck (\$43,100),
8. the fourth of five annual payments – Pole Truck for Electric Department (\$41,438),
9. the third of twelve annual payments – Electric Substation (\$310,818).

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**

One of the things that I find personally satisfying about working with the present town board is the way it has insisted upon the assessment of the current water, sewer and electric systems and a plan to address the needs identified. Over the past 15 years, the Town has taken on some major and expensive Enterprise Fund projects –

lime stabilization system at the wastewater plant,  
slip-lining a mile of sewer collection line on the south shore of Lake Junaluska,  
new belt press at wastewater treatment plant,  
chlorine contact system needed at the water treatment plant,  
replacement of the 1925 water tank on Reservoir Drive,  
expansion of the water plant lab and upgrade of facilities,  
construction of a new electric substation to add to capacity to meet demand.

Now, the community is enjoying the benefit of all these new facilities and we are beginning to pay off the debts that were incurred to make them possible. As the debts have been paid off for wastewater plant improvements, the Sewer Fund has grown stronger and more stable. This has allowed the Board to delay any rate increases for sewer service even though costs are rising.

In the Water Fund, we have incurred new debts and will be asking for additional loans in 2011-2012, but there is light at the end of the tunnel, as we will lose a \$153,164 annual payment on the chlorine contact tank system in the 2012-2013 budget. In addition, we will lose an \$118,680 payment in the 2014-2015 budget. When those are paid off, the Town will have \$272,000 which can be used to pay off other debts or to make further improvements to the aging water system. The Water Fund will grow stronger and more stable again.

For many years, the Town kept its utility rates low, which is not a bad thing and something we continue to try to do. But while the rates were kept low, the Town was not making the expenditures needed to continually address the infrastructure needs of the water, sewer and electric systems. That is part of the reason why the Asset Management Study of 2007 found \$31,000,000 in needed improvements in the water and sewer systems. In 2011-2012, we will continue to spend \$300,000 in both the Water Fund and the Sewer Fund to repair and replace portions of the water and sewer systems which are failing. In addition, we will be proposing some new debt to address the deteriorated condition found in the concrete on the Water Plant basins and in the dam's spillway. In addition, there are significant funds allocated for materials and supplies which often go toward improving specific areas in the system.

The Town Board in recent years has also been more attentive to the needs of the Electric Department. With additional funds, our electric personnel have been dedicated to replacing power poles that are found to be rotting in the ground or leaning under the weight of the transformers and lines they support. They are also trimming back more trees and limbs near the power lines, trying to continually reduce the number of power blinks and outages, and these have certainly been reduced as compared to a decade ago.

During 2009-2010, we saw the fund balances of the Sewer Fund and the Electric Fund grow, but the reserves in the Water Fund declined. The 2010-2011 year is better, with Water Fund making some progress in building reserve funds. We need to work on this situation over the next few years, and paying off some of the debts in the Water Fund will help that effort. The increases in water rates requested this year will help strengthen the Water Fund. 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 and garbage fees as well. Our local newspaper has often printed the salaries of government employees, but they have shown no interest in printing articles about how our rate structure for water, sewer and electricity, tax rates and garbage fees compare to other communities. That would help our citizens understand that 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 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 are suggesting that the Electric Fund provide \$1,275,600 to the General Fund, allowing 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, all of which have remained flat or declined in recent years. We are also recommending that the Electric Fund provide \$103,100 to the Water Fund to assist it in meeting its obligations.

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 2011-2012 to administer the work and to allow for some improvements needed to prevent erosion along the roads at stream crossings.

## **VII. SUMMARY**

Over the course of the past dozen years, the Town has increased its attention to the needs of the Water, Sewer and Electric Funds. We are spending much more money today than we did during the 1990s on the maintenance and repair of the infrastructure making up these systems. Unfortunately, the investment that has been made is not as evident to the general public as are investments in facilities such as a recreation center, fire station or a police station and development office. People don't see the \$3,500,000 electric substation or the mile of slip-lining done on a sewer line. They do not pay much attention to the new water tank or the replaced galvanized water line that leaked underground. But all of these things are necessary and essential to the overall operation of the utility systems.

The Town Board has made a long term commitment to addressing the needs of the infrastructure for the enterprises we operate. You have been insistent that we conduct planning studies to identify the needs of the utility systems, and you have been bold enough to increase utility rates to supply the funds to meet those needs. We are seeing the results of those investments, as there seem to be fewer water leaks from deteriorated water lines, less infiltration entering the wastewater collection system and fewer power outages.

During the early part of my 17 years with the Town of Waynesville, more than once I bemoaned the fact that during the 1970s and 1980s, there was not enough of a financial commitment to the maintenance and repair of the water, sewer and electric systems. There were probably other challenges during those earlier decades that kept those elected officials from pledging adequate resources to meet the needs back then. Perhaps in 20 or 30 years from now, future Town Managers and elected officials may be asking why this manager and this Board did not do certain things. They will be able to assure themselves that we used all the funds we possibly could to provide the maintenance, repairs and upgrades to the utility systems in attempting to meet that needs list of 2030.

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 handwritten signature in black ink, appearing to read "A. Lee Galloway". The signature is fluid and cursive, with the first name "A." and last name "Galloway" clearly distinguishable.

A. Lee Galloway  
Town Manager

**PART 3 - 2011 - 2012 PROPOSED ENTERPRISE FUND BUDGETS**

<b>II. WATER FUND</b>			
<b>A. REVENUES</b>	<b>EST. ACTUAL 2010-2011</b>	<b>PROPOSED 2011-2012</b>	<b>DIFFERENCE</b>
<b>Water Charges</b>	2,332,400	2,449,000	116,600
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.			
<b>Water Taps/Connection Fees</b>	20,000	40,000	20,000
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.			
<b>Impact Fees - New Connections</b>	12,000	12,000	0
Comment: The new construction we hope for will mean more capacity fees.			
<b>Miscellaneous Revenues</b>	1,500	1,500	0
<b>Sale of Materials/Supplies/Fixed Assets</b>	50	75,000	74,950
Comment: There are plans to do some treatments of the white pine areas and sell the timber from those areas during the year.			
<b>Contributed Capital</b>	0	0	0
<b>Investment Earnings</b>	100	100	0
Comment: We do not anticipate any more earnings from interest next year.			
<b>Transfer from Electric Fund</b>	97,250	103,100	5,850
Comment: The Electric Fund is in the best shape it has been in years, and we recommend a transfer to the Water Fund to help give it a boost next year.			
<b>Fund Balance Appropriated</b>	0	178,870	178,870
Comment: We have been able to reduce the use of reserves to balance the budget to \$178,870. We would prefer that it be smaller, but such an amount is necessary if we maintain our effort at replacing deteriorated lines. To reduce the use of fund balance further would require a rate increase more than the 5% that has been proposed.			
<b>TOTAL WATER FUND REVENUES</b>	<b>2,463,300</b>	<b>2,859,570</b>	<b>396,270</b>

**PART 3 - 2011 - 2012 PROPOSED ENTERPRISE FUND BUDGETS**

<b>B. EXPENDITURES</b>	<b>EST. ACTUAL</b>	<b>PROPOSED</b>	<b>DIFFERENCE</b>
<b>Water Maintenance</b>	1,176,790	1,364,490	187,700
Comment: Wages and fringe benefits up with cost of living increase and the retirement system contribution and we have some retiree insurance to cover next year. Increases are seen in Gas, Tires and Vehicle Maintenance, Electric costs, Capital Outlay for a new truck and our debt payments will begin on the loans from the State for the water system improvements throughout Town as well as the Eagle Nest Water System.			
<b>Water Treatment</b>	947,330	1,161,370	214,040
Comment: Wages & fringe benefits will be up for cost of living increase and the retirement system contribution. We expect increases in Treatment Chemicals, Electric costs and Travel and Training with a new employee to replace a retiree. We will have \$75,000 in work in the watershed in advance of the removal of white pines and loan payments for the repairs to the basins and spillway.			
<b>Administration and Finance</b>	210,820	230,610	19,790
<b>Debt Service</b>	0	0	0
<b>Contingency</b>	0	0	0
<b>Transfer to Other Funds:</b>			
To General Fund	97,250	103,100	5,850
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.			
<b>TOTAL WATER FUND EXPENDITURES</b>	<b>2,432,190</b>	<b>2,859,570</b>	<b>427,380</b>
<b>C. WATER FUND SUMMARY</b>	<b>EST. ACTUAL</b>	<b>PROPOSED</b>	<b>DIFFERENCE</b>
<b>REVENUES</b>	<b>2,463,300</b>	<b>2,859,570</b>	<b>396,270</b>
<b>EXPENDITURES</b>	<b>2,432,190</b>	<b>2,859,570</b>	<b>(427,380)</b>
<b>DIFFERENCE</b>	<b>31,110</b>	<b>0</b>	<b>31,110</b>



**PART 3 - 2011 - 2012 PROPOSED ENTERPRISE FUND BUDGETS**

<b>III. SEWER FUND</b>			
<b>A. REVENUES</b>	<b>EST. ACTUAL 2010-2011</b>	<b>PROPOSED 2011-2012</b>	<b>DIFFERENCE</b>
<b>Sewer Charges</b>	1,904,720	1,904,720	0
Comment: We last increased sewer rates in 2009 and there has been a slight revenue growth since then. We recommend leaving rates the same next year.			
<b>Sewer Taps</b>	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 2011-2012.			
<b>Industrial Discharge Permits</b>	500	500	0
<b>Impact Fees</b>	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.			
<b>Impact Fees - Flow Allowances - Other Systems</b>	9,350	2,000	(7,350)
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 2011-2012.			
<b>Impact Fees - New Connections</b>	14,000	20,000	6,000
Comment: The Asset Management Study recommended capacity fees from new customers connecting to the system. Things were slow in 2009-2010 and 2010-2011, but we are hopeful of increased activity in 2011-2012.			
<b>Miscellaneous Revenue</b>	250	0	(250)
<b>Sale of Materials/Supplies/Fixed Assets</b>	0	500	500
<b>Contributed Capital</b>	0	0	0
Comment: There are no grant funds received from outside sources.			
<b>Investment Earnings</b>	320	320	0
Comment: We do not expect more from investment earnings in 2011-2012.			
<b>Fund Balance Appropriated</b>	0	140,760	140,760
Comment: We are comfortable recommending this amount from fund balance.			
<b>TOTAL SEWER FUND REVENUES</b>	<b>1,941,140</b>	<b>2,088,800</b>	<b>147,660</b>

**PART 3 - 2011 - 2012 PROPOSED ENTERPRISE FUND BUDGETS**

<b>B. EXPENDITURES</b>	<b>EST. ACTUAL</b>	<b>PROPOSED</b>	<b>DIFFERENCE</b>
<b>Sewer Maintenance</b>	687,090	726,590	39,500
Comment: Wages and Fringe Benefit Costs up to cover cost of living increase and retirement system contribution. We will add retiree health insurance costs with two retirees and we will see increases in contract and professional services.			
<b>Wastewater Treatment</b>	971,590	1,090,640	119,050
Comment: Wages and fringe benefit costs will be up with cost of living increase and retirement contribution. We expect increases in treatment chemicals, gas, Electricity and Maintenance and Repair of Buildings and Equipment. We have some major work to do on the bridge and road leading to the treatment plant.			
<b>Administration and Finance</b>	183,930	193,640	9,710
<b>Contingency Appropriated</b>	0	0	0
<b>Transfer to Other Funds:</b>			
To General Fund	81,700	77,930	(3,770)
Comment: We transfer a portion of the sewer fund revenues, after fund balance is deducted, to the General Fund.			
<b>TOTAL SEWER FUND EXPENDITURES</b>	<b>1,924,310</b>	<b>2,088,800</b>	<b>164,490</b>
<b>C. SEWER FUND SUMMARY</b>	<b>EST. ACTUAL</b>	<b>PROPOSED</b>	<b>DIFFERENCE</b>
<b>REVENUES</b>	<b>1,941,140</b>	<b>2,088,800</b>	<b>147,660</b>
<b>EXPENDITURES</b>	<b>1,924,310</b>	<b>2,088,800</b>	<b>(164,490)</b>
<b>DIFFERENCE</b>	<b>16,830</b>	<b>0</b>	<b>16,830</b>

**PART 3 - 2011 - 2012 PROPOSED ENTERPRISE FUND BUDGETS**

<b>IV. ELECTRIC FUND</b>			
<b>A. REVENUES</b>	<b>EST. ACTUAL 2010-2011</b>	<b>PROPOSED 2011-2012</b>	<b>DIFFERENCE</b>
<b>Electric Charges</b>	7,924,640	7,964,260	39,620
Comment: We do not anticipate significant growth in demand in 2011-2012 but would not be surprised to see fuel charges rise gradually. Traditionally, as gas increases, so too do fuel charges for electrical production.			
<b>Security Lights</b>	45,000	45,000	0
Comment: Rates will remain the same and revenues should as well.			
<b>Street Lights</b>	88,800	88,800	0
Comment: We charge other funds for street lighting and on Town property.			
<b>Underground Service Installation</b>	500	2,000	1,500
Comment: We hope to see some increased construction activity next year.			
<b>Renewable Charge Revenue</b>	36,500	47,580	11,080
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. We expect to see these increase in 2011-2012.			
<b>Electric Pole Rental</b>	13,700	13,700	0
Comment: These are charges made to other utilities for use of Town poles.			
<b>Sales Tax Charges</b>	196,600	204,270	7,670
Comment: If sales increase next year, the sales tax paid will go up also.			
<b>Miscellaneous Revenues</b>	28,050	3,000	(25,050)
Comment: This was unusually high in 2010-11 due to reimbursement from insurance for damages to the substation.			
<b>Sale of Fixed Assets</b>	2,000	8,000	6,000
Comment: We are anticipating the sale of a pole truck being replaced.			
<b>Investment Earnings</b>	620	620	0
Comment: We do not expect to see more revenue from interest earnings.			
<b>Funds Transferred from Loan Escrow</b>	256,940	0	(256,940)
Comment: This was a one time benefit from the substation loan.			
<b>Fund Balance Appropriated</b>	98,170	512,120	413,950
Comment: We are comfortable with this being appropriated from fund balance for one or two years since the Electric Fund has very high reserves at this time.			
<b>TOTAL ELECTRIC FUND REVENUES</b>	<b>8,691,520</b>	<b>8,889,350</b>	<b>197,830</b>

**PART 3 - 2011 - 2012 PROPOSED ENTERPRISE FUND BUDGETS**

<b>B. EXPENDITURES</b>	<b>EST. ACTUAL</b>	<b>PROPOSED</b>	<b>DIFFERENCE</b>
<b>Electric Maintenance</b>	1,239,800	1,231,290	(8,510)
Comment: Wages and fringe up with cost of living increase and retirement system contribution. We are continuing part time help to enter data for GIS system. Outlay for Professional Services will be down as will allocation for equipment since Christmas decorations have been purchased.			
<b>Purchased Power</b>	5,676,420	5,679,600	3,180
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.			
<b>Renewables Energy Payment:</b>	36,500	47,580	11,080
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 lower in 2010-2011 and we expect a sizable increase in 2011-2012.			
<b>Sales Tax on Purchased Power</b>	127,000	141,990	14,990
Comment: As sales rise, so too does the sales tax paid to the State.			
<b>Bad Debt Expense</b>	30,000	32,000	2,000
<b>Administration and Finance</b>	370,500	378,190	7,690
Comment: This is the charge to Electric Fund for the cost of services provided the Fund by General Fund personnel.			
<b>Transfer to Water Fund</b>	97,250	103,100	5,850
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.			
<b>Transfer to General Fund</b>	1,114,050	1,275,600	161,550
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 10 cents. With so much extra cash, we feel Electric can make this transfer for a year or so.			
<b>TOTAL ELECTRIC FUND EXPENDITURES</b>	<b>8,691,520</b>	<b>8,889,350</b>	<b>197,830</b>
<b>C. ELECTRIC FUND SUMMARY</b>	<b>EST. ACTUAL</b>	<b>PROPOSED</b>	<b>DIFFERENCE</b>
<b>REVENUES</b>	<b>8,691,250</b>	<b>8,889,350</b>	<b>197,830</b>
<b>EXPENDITURES</b>	<b>8,691,250</b>	<b>8,889,350</b>	<b>(197,830)</b>
<b>DIFFERENCE</b>	<b>0</b>	<b>0</b>	<b>0</b>