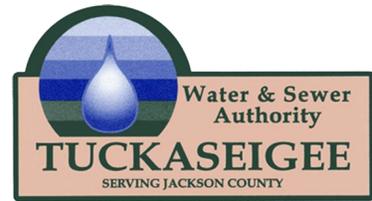


Tuckasegee Water and Sewer Authority
Budget Message
for
FY 2021-22

May 25, 2021



1246 West Main Street
Sylva, NC 28779

MEMORANDUM

To: TWSA Board
From: Daniel Manning, Executive Director
Date: May 25, 2021
Ref: Presentation of FY 2021-22 Proposed Budget

The Proposed Budget for the Tuckaseegee Water and Sewer Authority (TWSA) for FY 2021-22 has been completed for the timeframe commencing on July 1, 2021 and ending on June 30, 2022. This document has been prepared over the past several months through the efforts of TWSA staff and the Finance Committee of the TWSA Board and is attached for your review.

Although this is being presented in final draft form, this budget is not yet complete. Over the time leading up to the TWSA Work Session Meeting and the public hearing on June 8, 2021 (including additional public comment period due to remote meeting format), you will have an opportunity to review this spending plan for the upcoming fiscal year. As we review and discuss this plan and move it to a final form that is suitable for adoption, there may be questions that arise and our role as TWSA Board and Staff is to resolve those and make adjustments to produce an approved budget. Anticipating that we will be able to resolve all issues that arise from Board review and public comments, the final revisions will be incorporated into the budget and presented for TWSA Board approval at the June 15, 2021 TWSA Business Meeting.

The Proposed FY 2021-22 Budget, as presented, does reflect a total of \$4,756,700 for the operating fund, reflecting a 2.81% decrease from the FY 2020-21 budget of \$4,894,075. This less than normal decrease is primarily due to reduced revenue projections with regards to the current COVID-19 pandemic as well as the elimination of any fund balance transfers as performed in prior years. It also includes \$307,190 in planned capital expenditures inside the Operating Budget, details of which are provided in this message. The budget is prepared in accordance with the Local Government Budget and Fiscal Control Act. It does show departmental budgets in detail including the line item departmental appropriations requested. Likewise, revenues are provided in

detail form reflecting their source. The budget is balanced with the following adjustments to rates, fees and deposits being recommended.

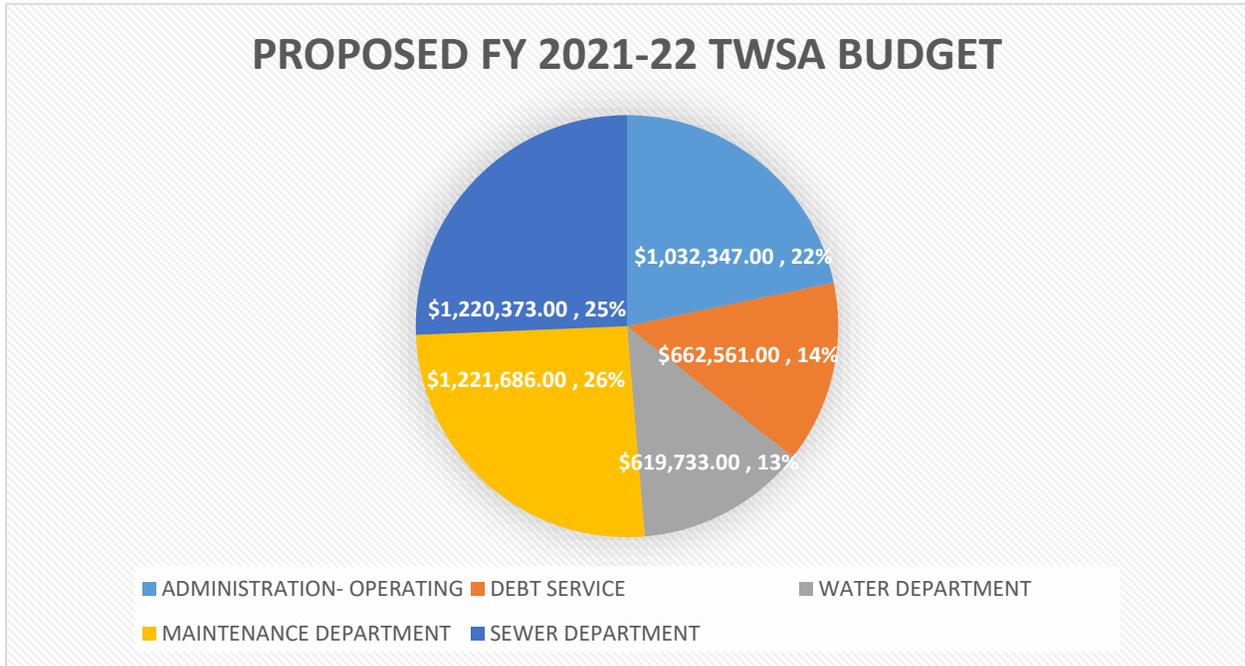
List of Proposed Changes to Rates, Fees and Deposits

- In general, the overall intent for this budget was to evaluate current trends and expected expenditures for the next several years and adjust rates, fees and deposits to ensure that TWSA stays on track with funding needs. It is important to recognize that due to the current COVID-19 pandemic-related reduction in revenues and a lack of rate increases in the previous two fiscal years, a rate increase is needed. For most all user rates with exception of the Whittier Sewer System (described below), an increase of 6% is proposed. Details of all rate increases are provided in further detail within the proposed budget.
- System Improvement Charges (SIC's) are being proposed to increase 15%, adjusting the base rate per 1,000 gallons of water and sewer from \$1.12 to \$1.29. The System Development Fees (SDF's) for smaller projects within the Northern System that were either eliminated or decreased by 50% in the 20-21 fiscal year were extended to this budget, including a revised and reduced rental schedule (applicable to some commercial customers).
- The Northern System Development Fee tables for both Residential and Commercial developers have no proposed changes from the previous year. The changes from FY 20-21 that are still being implemented are:
 - The SDF category "A" was changed from 10 GPM to 7-10 GPM and projects below 7 GPM do not have an SDF. This change allowed construction of a single family residence of up to 3 bedrooms, without an SDF and only the water/sewer appurtenance charges applied. As part of the 2021-22 proposed budget, this is being extended for a period of two years to the end of the 2022-23 fiscal year.
 - SDF categories "A" thru "H" were reduced by 50% for both customer classes. This was also reflected in the associated rental rates. This broad reduction was intended to assist with economic development in regards to new small businesses and small to mid-range housing developments and to further assist with COVID-19 economic recovery efforts. Like the other SDF adjustments, this proposed change is to extend until the end of the 2022-23 year.

- No changes were made to Water and Sewer Rental System Development Fees. The changes adopted in the FY 2020-21 TWSA Budget were revised to use standard System Development Fee tables and methods in accordance with the Allocation Policy.
- For the Whittier System, the FY 2019-20 TWSA Budget reflected this system under TWSA ownership as Plant #4 in the Wastewater Department. All operating revenue is derived from customers and a \$14,000.00 payment by Jackson County (\$7,000.00 less than 2020-21, per agreement) to help buffer any rate increase. Annual rates were set to be increased to meet the cash flow needs for this system to become financially self-sufficient in accordance with agreements made before TWSA approved taking ownership of the sewer system. While this rate increase was suspended in FY 2020-21, a 20% increase is proposed in this budget. Future rates will be determined each year and any future increases will be based on the number of new customers the system acquires over time.

Discussion of Expenditures

The following chart and table provides a breakdown of the proposed Departmental expenditures.



TWSA PROPOSED FY 2021-22 BUDGET		
DEPARTMENT	BUDGET	PERCENT OF TOTAL
ADMINISTRATION- OPERATING	\$ 1,032,347.00	21.70%
ADMINISTRATION - DEBT SERVICE	\$ 662,561.00	13.93%
WATER DEPARTMENT	\$ 619,733.00	13.03%
MAINTENANCE DEPARTMENT	\$ 1,221,686.00	25.68%
SEWER DEPARTMENT	\$ <u>1,220,373.00</u>	25.66%
	\$ 4,756,700.00	

Non-Personnel Operating Expenses-

The Proposed FY 2021-22 Budget does reflect some changes in non-personnel related operating expenses.

- The 2020-21 FY presented TWSA with some difficult and costly repairs to aging infrastructure. Fortunately, these were able to be repaired within budget. With the aging existing infrastructure, additional funding was added to associated operating line items to adjust for repairs that are becoming more common. It should be noted that there is an ongoing effort to replace aging and failing components on our system and this is further enhanced by our recently completed Asset Inventory and Assessment Projects.
- Capital Outlay- The Proposed FY 2021-22 Budget contains \$307,190 for the following capital outlays:
 - Administration – Replacement Vehicle & Acct. Software \$ 43,000

 - Maintenance
 - Water – Allen Street Replacement \$ 25,500
 - Sewer – Chestnut Square & Western Builders
Pump Station Improvements \$ 21,690
 - Equipment - Replacement Vehicle &
Excavator w/Trailer \$ 155,000

 - Sewer
 - WWTP #1 – Dryer Study, Spectrophotometer &
Ice Machine \$ 62,000

Personnel and Labor Burden

TWSA is entering a period where over the next few years several long-time employees will be retiring. In FY 2020-21 three employees retired, with another scheduled to leave in FY 21-22 (two of these were in a supervisory role). This has resulted in an overall decrease in labor burden for this proposed budget. Proposed FY 2021-22 Budget includes personnel recommendations that have an impact related to costs;

- A Cost of Living Adjustment (COLA) of 2.5% is included in the proposed FY 2021-22 Budget.
- FICA costs are projected to decrease \$10,300
- Retirement costs are projected to increase \$2,850
- Employee Insurance coverages are proposed to remain with a NC Blue Cross Blue Shield Gold Plan with the employee option to contribute and upgrade to a Platinum plan. While keeping this proposed plan includes approximately a 9.5% increase from NCBCBS, due to the change in workforce, this budget item will decrease \$27,050 from last year.

The Proposed FY 2021-22 Budget includes proposed changes to the current TWSA Organization Structure.

- The position of “Assistant Director” is being removed.
- The position of “Accounting/GIS Technician” is remaining while now being identified as “Accounts Payable Clerk” and will now be included in the Administration Department Budget as opposed to the Maintenance Department.
- It is noted that several employees are becoming eligible for retirement in the next few years and there will be opportunities to adjust job descriptions and organizational structure with these transitions.

Overall, the recommended Personnel and Labor Burden actions contained in the Proposed FY 2021-22 Budget reflect a decrease of \$144,450.00 from the prior year.

- FY 2020-21 - \$2,391,900.00 – 48.87% of Proposed Budget
- FY 2021-22 - \$2,247,449.00 – 47.25% of Proposed Budget

As per prior years, it is recommended that the adoption of the FY 2020-21 Budget include adoption of specific staffing documents.

- Organizational Structure & Organizational Statistics
- Position Classifications with proposed slot counts.
- Salary Schedule

Indirect- Labor Burden Expenses

One Labor Burden item that typically grows as our employees reach retirement age is Other Post-Employment Benefits, which accounts for the costs of providing insurance coverage as per the TWSA Personnel Policy. Coverage is provided to those employees who were hired prior to June 30, 2005. Due to additional retirees, changing coverage, the death of one retiree and other individual factors, actual impact on the Post-Employment Benefits line item this year is an increase of \$19,100.00 from prior FY.

The largest shift in labor burden costs related to personnel occurs due to a change in the mandated employer contribution rate to the Local Government Employee Retirement System. The Local Government Employee Retirement System (LGERS) has instituted an employer contribution increase for FY 2021-22 from 10.23% of salary to 11.43% of salary. However, due to a change in workforce with reasons listed above, the overall increase to costs for this budget from the previous year is \$2,850.

Debt Service

As previously mentioned, the Annual Debt Service Costs for this FY is \$662,561, or +/- 13.93% of the Proposed FY 2021-22 Budget. It is to be noted that the 10-Year Capital Improvement Plan shows significant capital needs for the system that will only be able to be addressed by taking on new debt service in the future. It is imperative that future rate adjustments be projected accurately and any "Rate Stabilization" transfers come from the appropriate source of reserves. The TWSA Finance Committee reviewed this need and established Reserve Floors in FY 19-20. They further recommended that any future transfers for rate stabilization come from appropriately earmarked reserves. The Proposed FY 2021-22 Budget includes a rate increase and does not include a transfer from the "Rate Stabilization" reserve.

Capital Projects

There are no proposed Capital Projects for the FY 2021-22 Budget. There are many projects that have been approved in previous years and the intent is to move forward with plans and construction as quickly as possible. A revised 10-Year Capital Improvement Plan is in progress and expectations are to approve projects from this plan in future years.

Operating Revenues-

The primary driver in analyzing rates for the 2021-22 fiscal year included future plans (and associated debt service), system improvements and growth. The lack of a rate increase since June of 2018 combined with the economic impact of the COVID-19 pandemic has played a major role in financial planning. As discussed in May of 2020, in reference to the current pandemic, rates would need to be increased when there was evidence of economic recovery. After modeling future years, including projected debt services and applying historical data trends and expectations to both labor and non-labor expenditures, a 6% increase to user rates is included in the FY 2021-22 Proposed Budget.

System growth is projected to be less than 1% for new customers. Growth is typically reflected in interest earned (extremely low for FY 2021-22) and other fees based on historic collection rates. As per prior planning, part of TWSA taking ownership of the Whittier System included rates increasing 20% for the first five years in order to make up for a lack of customers and the reduced supplemental payment from Jackson County (from \$21,000.00 to \$14,000.00). A rate increase was suspended last year and is re-established at 20% for the FY 2021-22 Proposed Budget. There have been discussions with developers and local leaders that more connections may be added in the near future. This may reduce the rate increases in future years once these connections are realized.

This operating revenue is without transfers from reserves for the Proposed FY 2021-22 Budget and yields a balanced operating budget.

Capital Revenues-

TWSA currently is collecting capital revenues through a combination of initial charges for new customers (System Development Fees) as set by the TWSA Board, and charges to current customers in their monthly bills for water and sewer services (System Improvement Charges). As discussed over prior years, the System Development Fees vary greatly from year to year and create much difficulty for future planning. System Improvement Charges, however, are paid by all customers on a cost per 1,000 gallons basis for both water and sewer. These revenues are steady and can provide support for long term Capital Improvement projects. The Proposed FY 2021-22 Budget includes a 15% increase to the base rate of System Improvement Charges.

TWSA Staff continues to recommend that this system be used going forward. This continues to generate revenues from new customers as has been the case since TWSA was created.

It is to be noted that the System Development Fees being collected were set below the ceiling allowed by State Law when adopted in FY 2018-19. For projects less than 106 GPM in the Northern System, the costs to new customers under the System Development Fee process run +/- 0.0 to 50.0% of prior System Development Fees from 2019-20. While this change was made for the FY 2020-21 Budget, it is being proposed to extend to the end of FY 2022-23.

Capital Reserves

It is to be noted that in the Proposed FY 2021-22 Budget there are no funds being appropriated for Designated Reserves. In recent years, the Designated Reserves have been a tool to help TWSA meet future capital needs and also maintain the recommended reserve floors identified in June 2018. As previously discussed, approved projects have not reached the construction phase and Capital Revenues were not used. This year several projects are planned to be in the construction phase and funds will not be placed in Designated Reserves, but rather directly into projects. For FY 2021-22, these floors have been adjusted after much review with the Finance Committee and are:

- **Operating Reserve-** 50% of Current O&M Budget = \$2,378,350.
- **Capital Reserve-** Average Cash Flow for ongoing projects (previous two years and next two years) + \$1,000,000.00 for Catastrophic Loss = \$1,337,370 + \$1,000,000 = \$2,337,370.

Summary

The items discussed in this Budget Message are meant to briefly touch the primary issues confronted in the budget process to date. In closing, it is to be noted that developing this budget has been a collaborative effort between TWSA staff at all levels, and the TWSA Finance Committee. With FY 2020-21 having new leadership and the COVID-19 pandemic, it has been a challenging time requiring new processes and efforts. All involved have shown great commitment to continuing the quality of service typical of TWSA. We especially wish to express our appreciation to the Finance Committee (Mike Byers, Ron Mau and Tom Sawyer) for the hard work they have put into this effort on behalf of the TWSA Board. As always, we value their expertise and their sensitivity to the diverse budget approaches of the Board in this work as we've sought to find the most balance methodology to developing a spending plan.

We anticipate there will be questions and discussions on this Proposed Budget from members of the Board as well as from the public. We look forward to discussions and working to resolve any questions that arise. The ultimate goal is to issue a revised budget for your final consideration and approval after the public hearing at the TWSA Board Meeting on June 15, 2021 (public hearing begins at the TWSA Work Session held June 8, 2021).