

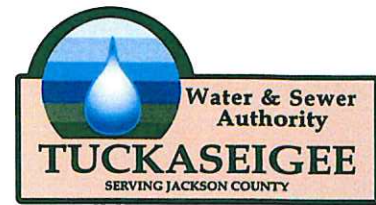
Tuckasegee Water and Sewer Authority

Budget Message

for

FY 2019-20

June 1, 2019



1246 West Main Street
Sylva, NC 28779

MEMORANDUM

To: TWSA Board

From: Dan Harbaugh, Executive Director

A handwritten signature in black ink, appearing to read "D Harbaugh".

Date: June 1, 2019

Ref: Presentation of FY 2019-20 Proposed Budget

The Proposed Budget for the Tuckasegee Water and Sewer Authority (TWSA) for FY 2019-20 has been completed for the timeframe commencing on July 1, 2019 and ending on June 30, 2020. 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 to you in a final draft form, the hard work isn't done yet. Over the time leading up to the TWSA Work Session Meeting and public hearing on June 11, 2019 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 will no doubt 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 18, 2019 TWSA Business Meeting.

The Proposed FY 2019-20 Budget, as presented does reflect a total of \$4,879,791.00 for the operating fund, reflecting an 8.28% growth over FY 2018-19 amended budget of \$4,506,380.00. This growth is primarily due to \$280,300.00 in planned capital expenditures inside the Operating Budget, details of which are provided elsewhere 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

- For all customers excluding the Whittier System, no changes to rates are proposed except for a \$0.02 / 1000 Gallons increase in the System Improvement Charges, or a corresponding increase in SIC's for Flat Rate customers. This is recommended to continue to grow revenues placed into Capital Reserves to meet future funding needs.
- For the Whittier System, the FY 2019-20 Proposed TWSA Budget reflects this system under TWSA ownership as Plant #4 in the Wastewater Department. The historical contract services revenues are removed and all income comes from customers and a \$28,000.00 payment by Jackson County to help buffer any rate increase. Proposed rates are set to be increased by 20% from the 2018-19 level to meet the cash flow needs to make this system financially self-sufficient in accordance with agreements which were made before TWSA approved taking ownership of the sewer system. 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.
- The deposit received by TWSA when a contractor rents a Hydrant Meter is intended to cover any damages or to replace the meter if it isn't returned. This deposit has been set at \$1,000.00 in recent budgets. With recent increases, costs for a replacement fire hydrant meter are now more than the historic \$1,000.00 deposit. The FY 2019-20 Proposed TWSA Budget includes a change to the deposit amount, being set at \$1,500.00 to cover current replacement costs.
- The Availability Locate Fee is collected when a project location not serviced by TWSA is proposed to be connected to water and/ or sewer. This fee is intended to cover the cost of TWSA Staff to do the review of the proposed use and to provide an invoice for System Development Fees and Tap Fees as appropriate. This fee is credited to the total costs on the invoice so if the applicant proceeds with the project they incur no cost for the up-front work by TWSA. If the project doesn't proceed the Availability Locate Fee is kept by TWSA to cover the work done. This process is to ensure that such requests by applicants are not made "speculatively". In the Approved FY 2018-19 Budget this fee is set at \$100.00. A review of the actual costs of performing the Availability Locate review was completed and was found to be higher than this. The FY 2019-20 Proposed TWSA Budget includes a change to the Availability Locate Fee, being set at \$150.00 to cover actual costs for TWSA staff to perform the review. The fee will still be credited if work proceeds.

- Two changes to Water and Sewer Tap Fees are included in the FY 2019-20 Proposed TWSA Budget to recoup increased material costs. These include:
 - ¾" X ¾" Water Service- FY 18-19 - \$1,100.00
Proposed FY 19-20 - \$1,125.00
 - 1" X 1" Water Service- FY 18-19 - \$1,290.00
Proposed FY 19-20 - \$1,330.00

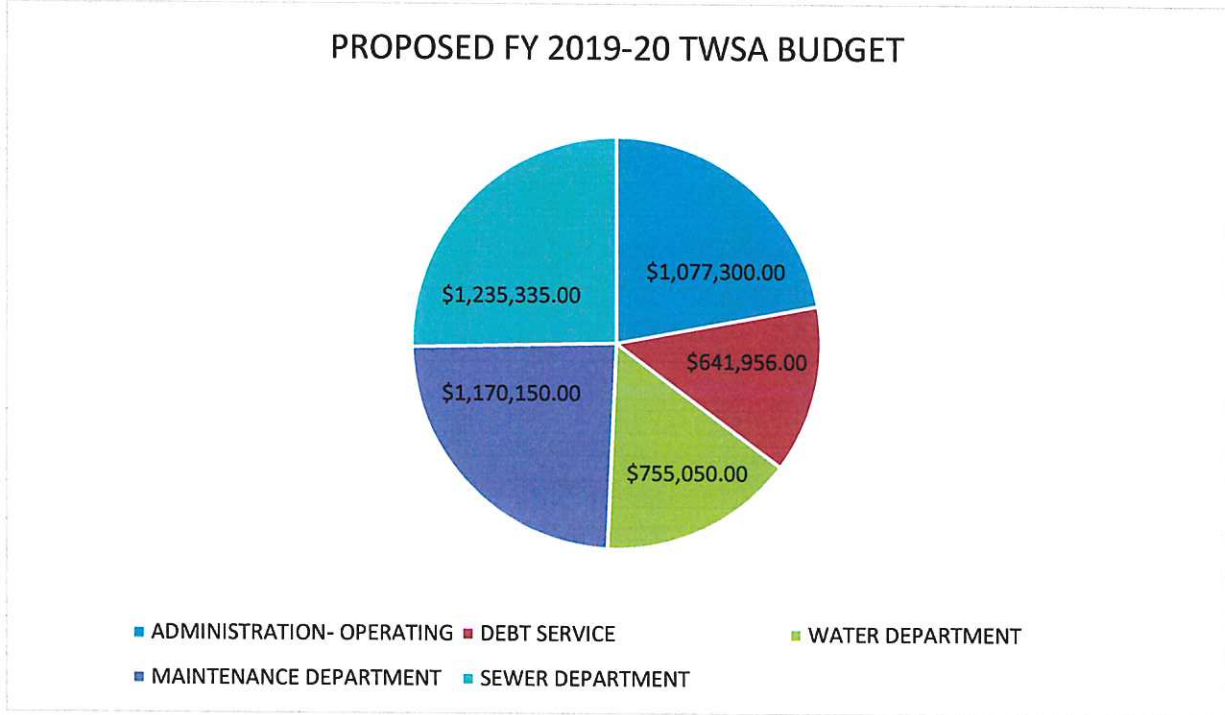
- Water and Sewer Rental System Development Fees in the FY 2019-20 Proposed TWSA Budget are shown with a 2% increase to the rates charged previously. The original basis of these rental fees was based on total costs of water and sewer assets / 50 year lifespan of assets. This adjustment is recommended to begin to bring the rental rates into conformance with the value of capacity as reflected in the adopted System Development Fees.
 - Excess Water Impact- FY 18-19 - \$0.007667 per gallon / per day
Proposed FY 19-20 - \$0.0078 per gallon / per day
 - Excess Sewer Impact- FY 18-19 - \$0.011750 per gallon / per day
Proposed FY 19-20 - \$0.012 per gallon / per day

- A new fee similar to the Availability Locate Fee charged for new service locations is proposed for locations already served by TWSA which intend to change the use previously approved for the location. It is proposed that there be no charge for an initial "Change of Use" review. If the applicant changes the previous plans and /or the property location, a new review is required. The second and subsequent reviews shall be subject to a \$150.00 review fee. No more than one \$150.00 review fee will be credited to the applicant's costs if the applicant proceeds with the project. This process is to ensure that such requests by applicants are not made "speculatively".

- The System Development Fee tables for both Residential and Commercial developers has one change proposed. The first meter tier is proposed to be reduced from 15 GPM of water capacity to 10 GPM and the System Development Fees reduced also. This change will reflect the fact that the lowest tier should allow construction of a single family residence of up to 4 bedrooms, without overcharging. The proposed SDF's for Meter Tier "A" go down as a result.

Discussion of Expenditures

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



TWSA PROPOSED FY 2019-20 BUDGET		
DEPARTMENT	BUDGET	PERCENT OF TOTAL
ADMINISTRATION- OPERATING	\$ 1,077,300.00	22.08%
DEBT SERVICE	\$ 641,956.00	13.16%
WATER DEPARTMENT	\$ 755,050.00	15.47%
MAINTENANCE DEPARTMENT	\$ 1,170,150.00	23.98%
SEWER DEPARTMENT	\$ 1,235,335.00	25.32%
	\$ 4,879,791.00	

Non-Personnel Operating Expenses-

The Proposed FY 2018-19 Budget does reflect some noteworthy changes in non-personnel related operating expenses which have been encountered.

- Data Processing and Communications- IT continues to be a focus of this upcoming budget. Staff has made progress on implementing a new Utility Billing Software package including a new website and an on-line payment option. This project is being wrapped up and will “go live” in July, 2019. Also progressing are enhanced field capabilities to allow for remote monitoring of sewer lift stations and the receipt and processing of work orders and requests for underground locates. The ongoing Asset Inventory and Assessment is going to be completed by the end of FY 2019-20 and we intend to than use it for the basis of an Asset Management System for scheduling and tracking non-customer generated work orders. Costs for Data Processing will be increasing in FY 2019-20 to support these initiatives.
- Capital Outlay- The Proposed FY 2019-20 Budget does include \$280,300.00 following capital outlays.
 - Vehicle Replacements- 1- Maintenance. Dept., 1-WWTP, \$ 64,000.00
 - Main Office Major R&R.- Stucco, Server, Toilets & Pavement \$131,200.00
 - Water Plant- Raw Water Intake Pump and Turbidity Meters \$ 29,000.00
 - Whittier WWTP- Transfer Switch for Generator \$ 15,000.00
 - Maintenance- Sewer System SCADA, Spare pumps for L.S.'s \$ 41,100.00

Personnel and Labor Burden

The Proposed FY 2019-20 Budget includes personnel recommendations that have an impact related to costs;

- As has been the case over the past 6 years, a Cost of Living adjustment based on Consumer Price Index- Urban (C-CPI-U), used for adjustments to the Social Security programs is included in the Proposed FY 2019-20 Budget. The 2018 C-CPI-U was 2.8%
- A merit increase of up to 1.25% for employees is included in the Proposed FY 2019-20 Budget, the actual amount granted being based on their individual performance evaluations.

- The Proposed FY 2019-20 Budget includes the elimination of one part time position from the Administration Department. This position was approved for FY 2018-19 to assist in the implementation of the new Utility Billing Software and the new TWSA Website. This position wasn't filled when it became apparent TWSA staff was accomplishing the work with the assistance of the vendor.
- FICA costs are projected to increase \$10,000.00
- Employee Insurance coverages are set to remain as currently provided with a \$4,000.00 decrease in total budgeted expenditures for this item.

The Proposed FY 2019-20 Budget reflects the following recommended changes to the TWSA Organization Structure.

- The Water Plant is recommended to be kept at a total of 6 slots. This level of staff is considered the minimum to provide adequate run times for the plant and allow staff to attend training and take leave. If water consumption continues to grow options for additional staff will need to be considered as surface water plants can only run when a certified operator is on site. TWSA and WCU have begun "Mutual Aid" discussions to include cross training operators at both plants should the need to share staff ever arise.
- The prior approved part year / part time Customer Service slot has been eliminated from the structure.

Overall the recommended Personnel and Labor Burden actions contained in the Proposed FY 2019-20 Budget reflect an increase in of \$97,925.00 from prior year.

- FY 2018-19 - \$2,356,675.00 - 52.41 % of Approved Budget
- FY 2019-20 - \$2,454,600.00 – 50.30% of Proposed Budget

As per prior years, it is recommended that the adoption of the FY 2019-20 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 tends to grow 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. Actual impact on the Post-Employment Benefits line item is an increase of \$11,000.00 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 2019-20 from 7.83% of salary to 9.03% of salary, increasing costs to TWSA by \$20,015.00

Debt Service

As previously mentioned the Annual Debt Service Costs for this FY will run \$641,956.00, or +/- 13.15% of the Proposed FY 2019-20 Budget. It is to be noted that with 20 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 has reviewed this need and recommends that Reserve Floors be established and that any future transfers for rate stabilization come from appropriately earmarked reserves. The Proposed FY 2019-20 Budget includes a new "Designated Reserve" for rate stabilization.

Capital Projects

The following are included in the Proposed FY 2019-20 Budget:

TWSA 2019-20 BUDGET CIP PROJECTS REVENUES		
FUND ACCOUNT	FUNDING SOURCE	AMOUNT
HORSE PASTURE RIVER- FINAL	TWSA	505,800.00
LITTLE SAVANNAH GROWTH- WATER	TWSA	432,575.00
LITTLE SAVANNAH GROWTH- SEWER	TWSA	573,245.00
DILLSBORO WATER LINE REPL.	TWSA	25,000.00
TWSA- WCU WATER SYSTEM STUDY	NCDEQ-DWI	50,000.00
	WCU	375.00
	TWSA	375.00
RHODES COVE WATER PS REPL.	TWSA	108,675.00
WWTP 2- PHASE 2 REHABILITATION	NCDEQ-DWI	4,595,300.00
	TWSA	91,906.00
WTP PHASE 1 EXP. ADV PLAN	TWSA	25,000.00
		6,408,251.00

TWSA 1,762,576.00

- **Pending Projects-** Other currently unfunded but emerging projects include,
 - WWTP #2 Rehabilitation Phase 2- NCDEQ Grant / Loan
 - Cullowhee Creek Bridge Replacement & Monteith Gap Road Improvements- Project No. 17BP.14.R.212 - NCDOT Funding / TWSA Betterment

Operating Revenues-

The primary driver in looking at rates going forward continues to be the need to plan to be able to service the long term debt from operating revenues. In response to the previous guidance received from the TWSA Board and the Finance Committee we have taken steps to help mitigate the impacts of any proposed rate increases. System growth is projected at the rate of 1% for new customers and known growth projects already in progress. Growth is also reflected in interest earned and other fees based on historic collection rates. On the down side the revenues also reflect the loss of the \$79,840.00 in annual Contracted Services payments from Whittier Sanitary District. It does reflect the revenues from the Whittier System customers and the \$28,000.00 supplemental payment from Jackson County. These items are the source of a net \$129,611.00 in increased operating revenues. This operating revenue along with transfers from reserves for Proposed FY 2019-20 Budget capital expenditures yield 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 on current customers in their monthly bills for water and sewer services (System Improvement Charges).

TWSA Staff continues to recommend that this system be used going forward. On the upside this continues to generate revenues from new customers as has been the case since TWSA was created, thus continuing to treat all customers the same.

It is to be noted that the System Development Fees being collected were set below the ceiling allowed by State Law when adopted last FY. The costs to new customers under the System Development Fee process run +/- 60.2 to 62.3% of prior Impact Fees for residential developers and +/- 44.0 to 46.2% of prior Impact Fees for commercial developers.

A minor change to the SDF Fee tables is proposed, reducing the lowest meter tier. A 2.0% increase in System Improvement Charges is budgeted, reflecting the revised escalation rate used in the 20 Year CIP. The increase for a given customer will vary depending on their actual consumption and will be reflected in other documents provided.

Capital Revenues for the Proposed FY 2019-20 Budget are \$1,269,811.00, reflecting an increase of \$264,176.00 from FY 2018-19.

Capital Reserves

It is to be noted that in the Proposed FY 2019-20 Budget there is a significant increase in the amount of Capital Reserve funding appropriated for Designated Reserves, including the establishment of a new "Rate Stabilization Reserve Fund in the amount of \$342,765.00. This fund is intended to be earmarked for use in the future to stabilize the annual percentage of increase in rates as new debt service is taken on. This will allow the TWSA Board to smooth out needed rate increases over several budgets, supplemented by funds from this designed stabilization fund. It is to be further noted that these Designated Reserves are intended to be a tool to help TWSA meet future capital needs and also maintain the recommended reserve floors identified in June 2018. For FY 2019-20 these floors are:

- **Operating Reserve-** 70% of Current O&M Budget + \$600,000.00 for Catastrophic Loss = \$3,220,000 + \$600,000 = \$3,820,000.
- **Capital Reserve-** Cash Flow for ongoing projects + \$750,000.00 for Catastrophic Loss + Matching Grant Funds = \$1,500,000 + \$750,000 + 170,250 = \$2,420,250.

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. 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 Work Session Meeting on June 11, 2019.