

REQUEST FOR BOARD ACTION
HENDERSON COUNTY
BOARD OF COMMISSIONERS
CANE CREEK WATER AND SEWER DISTRICT

MEETING DATE: July 16, 2008

SUBJECT: Cane Creek Water and Sewer District – Financial Issues

ATTACHMENTS: No

SUMMARY OF REQUEST:

At the previous meeting, the Board did not approve the increase in the treatment portion of CCWSD's rate to cover the increase in MSD's rate to treat the District's wastewater. In previous years, this increase has been routine; therefore, staff did not present details which highlight the significance of the increase to the District's Budget. The information from the previous meeting is repeated at the end of this summary and more specific details are in the following paragraphs.

CCWSD is an Enterprise Fund which means the revenue generated from the customers of the sewer system offset the expenses incurred from providing the service. There is no inflow or outflow from the General Fund, currently. While CCWSD is a healthy system at this time, it faces significant challenges in the future. It is a small system with less than 3,000 customers which limits "economy of scale" advantages of larger system. The District is not a water provider; traditionally, water is the "revenue generator" for utility systems. In addition, the District does not treat its wastewater "in-house" which further limits the "economy of scale." Lastly, the Capital Improvement Plan (CIP) developed in FY08, determined that in FY08 \$278,000 of Fund Balance was needed to offset operations and debt service. Fund Balance should be expended as a "rainy day fund" and for Capital Projects to expand the system, not for operations.

The increase in treatment costs from MSD of 3.1% for this budget year equate to a \$40,000 expense to the District. The current revenue budgeted from User Fees is \$1,051,390 (Treatment revenue and expenses are passed through to MSD and not shown in CCWSD's budget). Therefore the increase in treatment is 4% of the District revenues. If this increase in treatment costs is not reflected in CCWSD's current rate, the added expense will be offset by further reducing the District's fund balance.

The CCSWD rates have not increased since 1998. While the increase in 1998 was significant, the cost of operating the system have triggered the need to increase rates. The 10-year cash flow analysis from the District's FY08 CIP identifies a rate increase to be in next year's budget to avoid continued depletion of the Fund Balance. If MSD's current rate increase is not reflected in this year's rate as done in years past, next year's rate will need to be larger. The only other two options are to reduce expenditures or supplement the District inflows from the General Fund.

The District is currently and aggressively pursuing opportunities to reduce expenditures. For example, the District office has relocated to a County building this year to save \$25,000 in lease expense and staff has discontinued “take home” vehicle policy. Further reduction to account for the \$40,000 is not feasible. Regarding the option for inflows from the County’s General Fund, it would be difficult to appropriate County property tax revenue to help pay for the sewer service of 3,000 Citizens. This is what led to the 1998 rate increase. Prior to the increase, the District was receiving inflows from the General Fund and the increase made the District self sufficient.

The District staff has done an excellent job in maintaining the sewer system for 10 years without an increase in rates. However, next year’s budget will require a rate increase for the District’s User Fees. By not increasing the treatment rate this year, the resulting increase next year will be greater. Rate increases are an unfortunate reality of running a utility. Furthermore due to the challenges mentioned earlier, CCSWD rates should be expected to be slightly higher than the surrounding systems like Hendersonville Utilities and MSD. These systems are significantly larger and treat their own wastewater which significantly reduce their per customer operating costs.

The following information was provided during the previous meeting:

The wastewater collected by the Cane Creek Water and Sewer District (CCWSD) sewer system is treated by the Metropolitan Sewerage District (MSD). Effective July 1, 2008, the amount that MSD charges the CCWSD for wastewater treatment will increase from \$4.57 per 1,000 gallons to \$4.71 per 1,000 gallons (3.1% increase).

Staff recommends a corresponding rate increase for the CCWSD sewer customers. A table comparing the current rates to the proposed rates is located below:

	Current Monthly Rates (FY08)	Proposed Monthly Rates (FY09)
A. Minimum Charge / Month <i>(up to the first 4,500 gallons per month)</i>	\$16.42	\$16.42
B. Treatment Charge / Month <i>(from 0 gallons up)</i>	\$4.57 per 1,000 gallons	\$4.71 per 1,000 gallons
C. Overage Charge/Month <i>(all over 4,500 gallons per month)</i>	\$3.67 per 1,000 gallons	\$3.67 per 1,000 gallons

Note: For Total Monthly Charge add results of (B) and (C) to (A)

With the proposed increase, the monthly sewer bill for the average homeowner will increase by \$.63 (sixty three cents).

Analysis of Wastewater Rates for Fiscal Year 2009
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BOARD ACTION REQUESTED:

The Board is requested to discuss the Cane Creek Sewer District financial issues and provide direction to staff.

Suggested Motion:

No motion suggested.