

DRAFT MINUTES

**STATE OF NORTH CAROLINA
COUNTY OF HENDERSON**

**CANE CREEK WATER & SEWER DISTRICT
JULY 16, 2008**

The Cane Creek Water & Sewer District Board met for a regular meeting at 9:00 a.m. in the Commissioner's Meeting Room of the Henderson County Historic Courthouse on Main Street, Hendersonville.

Present were: Chairman Bill Moyer, Vice-Chairman Charlie Messer, Commissioner Larry Young, Commissioner Chuck McGrady, Commissioner Mark Williams, County Manager Steve Wyatt, Assistant County Manager Selena Coffey, County Attorney Russell Burrell, and Clerk to the Board Elizabeth W. Corn.

Also present were: Deputy Clerk Terry Wilson, Engineering and Facility Services Director Marcus Jones, Soil and Water Conservation Director Jonathan Wallin, and Research/Budget Analyst Amy Brantley.

CALL TO ORDER

Chairman Moyer called the meeting to order.

Commissioner McGrady made the motion for the Board to convene as Cane Creek Water & Sewer District Board. All voted in favor and the motion carried.

CANE CREEK WATER AND SEWER DISTRICT (CCWSD) – Financial Issues

Marcus Jones addressed the Board, reminding them that at the previous Board 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.

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 systems. 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 CCWSD rates have not increased since 1998. While the increase in 1998 was significant, the cost of operating the system has triggered the need to increase rates. The 10-year cash flow

APPROVED:

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, 2009, 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 recommended a corresponding rate increase for the CCWSD sewer customers. A table comparing the current rates to the proposed rates is below:

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

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

Marcus Jones explained this is a pass-through revenue. The treatment charge is not reflecting on our budget as either a revenue or an expense. It is passed through straight to MSD and if we do not pass along the rate increase it will have to come out of CCWSD operating expenses and ultimately out of fund balance because it is not currently budgeted in the recently passed budget

for the Cane Creek Sewer District. He stated we're looking at a 3.1% increase in this particular charge but it's going to have a 4% increase on our revenue and that's because the particular treatment revenue is a pass through, the total dollar value of the treatment charge for the district is about \$1.2 - \$1.3 million. The revenues from our user fees is about \$1 million.

Discussion

The question was raised of why the people on that line pay more for sewer than anyone else in the county (currently). Marcus Jones explained that Cane Creek is a small system, less than 3,000 customers and it does not treat its own wastewater. We rely on MSD to treat our wastewater for us. These two reasons have a great effect on the possibilities of economy of scale. Steve Wyatt stated that we are at the mercy of MSD because we don't own our own treatment facility so we have that pass through cost. He stated that with utilities you look at per unit cost, the more units you have the more you're able to spread out your overhead. You're going to have a certain amount of fixed costs. We have approx. 3,000 accounts which is a very small utility system.

Following discussion, it was decided to take this issue to the Cane Creek Advisory Committee before the Board of Commissioners take any action. Commissioner Messer will call a Cane Creek Advisory Committee meeting to discuss this issue. The Board will wait until after consideration by the Advisory Committee to take action.

Adjourn

Commissioner McGrady made the motion to adjourn as the Cane Creek Water & Sewer District Board. All voted in favor and the motion carried.

Attest:

Elizabeth W. Corn, Clerk to the Board

William L. Moyer, Chairman