



COUNTY OF VANCE, NORTH CAROLINA

122 YOUNG STREET, SUITE B
HENDERSON, NORTH CAROLINA 27536

JORDAN McMILLEN
COUNTY MANAGER
(252) 738 - 2002

KELLY H. GRISSOM
CLERK TO BOARD
(252) 738 - 2003

NOTICE OF SPECIAL CALLED MEETING

To: Carolyn Faines
Yolanda Feimster
Thomas S. Hester, Jr.
Leo Kelly, Jr.
Archie B. Taylor, Jr.
Gordon Wilder

From: Kelly H. Grissom, Clerk to the Board *KG*

Date: May 23, 2017

Re: **Special Called Meeting**

This memorandum will serve as notice that Chairman Dan Brummitt has called a special meeting for Thursday, May 25, 2017 at 5:00 p.m. in the Commissioners' Conference Room, Vance County Administration Building, 122 Young Street, Henderson, NC. The purpose of the meeting is to:

1. Approve Water District Multi-Year Funding Plan
2. Other items as necessary

* The board will hold a budget work session immediately following the special meeting.

c: Chairman Dan Brummitt

Vance County Water District Multi-Year Financial Plan

Current Financial Condition and Progress Made

The Vance County Water District board members recognize the ultimate solution to self-sufficiency is through the addition of customers to the system. The board is aware that newer water systems typically take several years to break-even as customer bases are developed. An example of this is one of our neighboring counties, Franklin County, where the water system took over 10 years to break even and is now repaying the original loan back to the County. For the Vance County system, the projection is to break even in year 10 or in fiscal year 2024. In the interim, Vance County is loaning funds to the water district to cover debt service payments for this relatively new water system.

The Vance County Water District is a new system that is just over 3 years old and has made tremendous progress since bringing the first phase of the system online in late 2013 and bringing the second phase online in the spring of 2015. The system had 620 committed customers in FY14-15, doubled this to 1,178 in FY15-16, and is currently at 1,229 committed customers as of May 2017. It is important to note that the 1,229 committed customers include 828 active water users with an average bill of \$59 per month (proposed to increase to \$63 per month July 1, 2017), and 447 availability customers who have signed up, but have not hooked into the system. As a result of this growth the system's operating revenue surpassed the operating expenses in FY16-17. The financial condition of the system is improving each year and recently the district received a \$1,000,000 grant from USDA to construct phase 3 in late 2018/early 2019 which will add an additional 80 committed customers.

The system continues to take measures to reduce expenditures, increase active customer participation, and raise usage rates to obtain additional revenue. Through these measures, the recommended budget for FY17-18 includes a reduction of the general fund appropriation from \$501,000 to \$396,967 and this is expected to decrease in future years. The projected rate for FY18 would be within the top few rates in the state, and the board recognizes the importance of minimizing rate increases in the future to provide a balance between affordable rates and the system's need for new customers. The water board has discussed and is prepared to use incentives over the next few years to convert availability customers to active users and to add 100 customers per year once phase 3 is complete. During the County's annual retreat in January, 2017 the board discussed options if the adequate customers are not added to the system over this time period. These options included usage rate increases which will be incorporated for FY17-18, evaluating the system's operational expenses which will result in savings in FY17-18, as well as potential revenue generating mechanisms such as availability charges and/or a water district tax. It is recognized that the water system has the potential to positively impact economic development which may also help the system in the future and/or open up additional funding mechanisms.

Continued Progress towards Reaching Self-Sustainability

➤ **FY2017 – 18**

- Reduce the general fund contribution from \$501,000 to \$396,967 through a multifaceted approach of increasing the usage rate (\$9.14 to \$10.33 per 1,000 gallons), reducing expenditures by \$23,698, and realizing the number of increased customers since July 1, 2016.
- Complete construction of phase 3

➤ **FY2018 – 2019**

- Add 100 customers due to completion of phase 3 and natural growth - 80 of these are already signed up and committed to phase 3 once complete = \$75,600 impact

➤ **FY2019 – 2020, FY2020 – 2021, FY2021 – 2022**

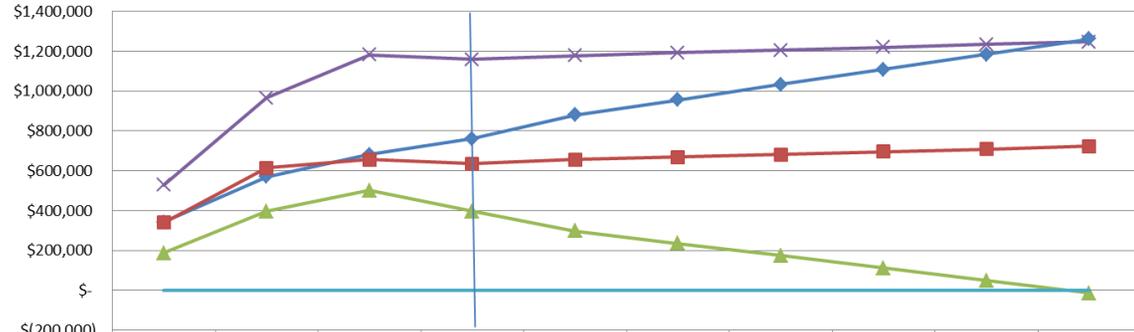
- Utilize existing funding received from tap fees to carry out incentive campaign to increase customer base. The campaign is expected to add 100 customers per year in FY2020, FY2021, and FY2022 = \$226,800
- The incentive campaign would also convert at least 100 of the 447 availability customers to active users by FY22 = \$39,600

➤ **OTHER NOTABLE ITEMS**

- The debt service reserve fee of \$52,000 will no longer be required in FY2024-2025.
- Due to the system's potential economic development impact, there may be potential of utilizing Article 44 sales tax proceeds or other funding mechanisms to close the gap in funding.
- If plan measurables are not being met or the deficit still exists, a water district tax would be an available option to bring the system to self-sufficiency. One cent tax on the water district = \$123,674.

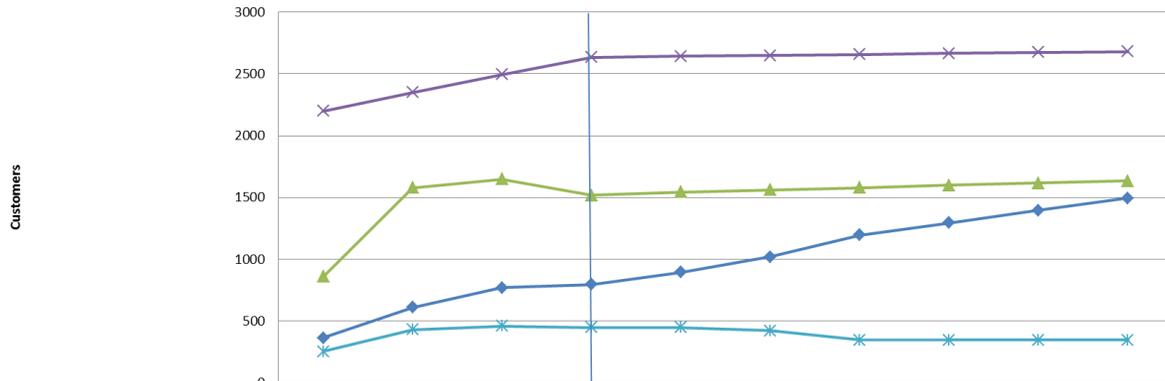
Water System Financial Analysis

Water Fund Revenues & Expenses



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Break Even Revenue	\$527,535	\$965,964	\$1,181,669	\$1,157,971	\$1,177,838	\$1,191,519	\$1,205,281	\$1,219,130	\$1,233,072	\$1,246,112
Total Operating Revenue	\$342,100	\$569,550	\$680,460	\$761,004	\$879,714	\$955,998	\$1,032,282	\$1,108,566	\$1,184,850	\$1,261,134
Total Operating Expenses	\$340,326	\$614,429	\$655,134	\$634,638	\$654,773	\$667,869	\$681,226	\$694,850	\$708,747	\$722,922
General Fund Contribution (Estimates)	\$185,435	\$396,413	\$501,209	\$396,967	\$298,124	\$235,520	\$172,999	\$110,564	\$48,222	\$(15,022)
Break-Even Customer Revenue/Month	\$70.91	\$68.33	\$80.06	\$77.70	\$73.14	\$68.86	\$65.14	\$61.87	\$58.99	\$56.37

Customer Projections



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
100 Percent participation	2200	2350	2494	2634	2642	2650	2658	2666	2674	2682
Breakeven Active Customer level	860	1580	1649	1518	1544	1562	1580	1598	1616	1634
Active Customer Projection 4/17	365	612	769	795	895	1020	1195	1295	1395	1495
Availability Customer Projection 4/17	255	430	461	447	447	422	347	347	347	347

Analysis of Data

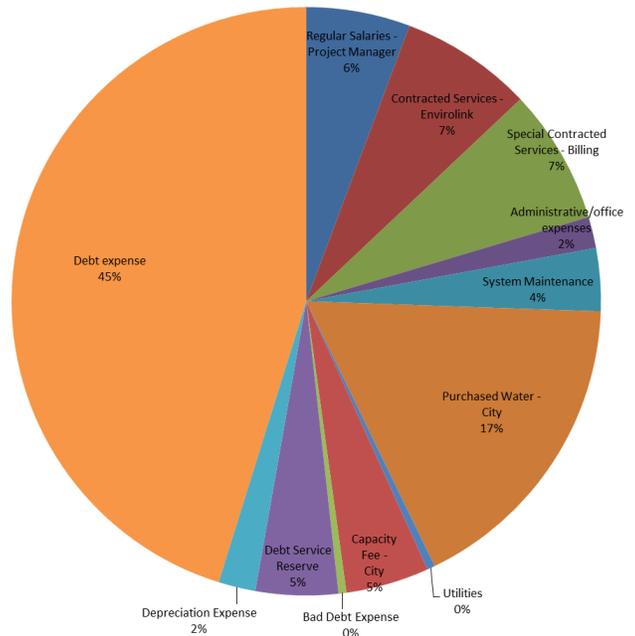
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
General Fund Contribution (Estimates)	\$ 185,435	\$ 396,413	\$ 501,209	\$ 396,967	\$ 298,124	\$ 235,520	\$ 172,999	\$ 110,564	\$ 48,222	\$ (15,022)
Break Even Revenue	\$ 527,535	\$ 965,964	\$ 1,181,669	\$ 1,157,971	\$ 1,177,838	\$ 1,191,519	\$ 1,205,281	\$ 1,219,130	\$ 1,233,072	\$ 1,246,112
Break-Even Customer Revenue/Month	\$ 70.91	\$ 68.33	\$ 80.06	\$ 77.70	\$ 73.14	\$ 68.86	\$ 65.14	\$ 61.87	\$ 58.99	\$ 56.37
Total Customer Projection Updated 4/2017	620	1178	1230	1242	1342	1442	1542	1642	1742	1842
Active Customer Projection 4/2017	365	612	769	795	895	1020	1195	1295	1395	1495
Availability Customer Projection 4/2017	255	430	461	447	447	422	347	347	347	347
Breakeven Active Customer level	860	1580	1649	1518	1544	1562	1580	1598	1616	1634
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Vance County Water District

Options for Addressing Water System Debt (May, 2017)

Reduction in Expenditures

- Review of Expenditures
 - Debt Repayment (\$33.06 of average bill)
 - 45% Debt Service (\$523,333)
 - 5% Debt Service Reserve (\$52,334)
 - 2% Depreciation Expense (\$23,576)
 - Operations and Maintenance (\$30.51 of avg. bill)
 - 17% Purchased Water (\$200,000)
 - 5% City Capacity Fee (\$52,875)
 - 7% Customer Billing (\$86,000)
 - 7% System Operations (\$84,000)
 - 6% Project Manager (\$66,000)
 - 4% Maintenance (\$40,000)
 - 2% Admin/Office Expense (\$19,853)
 - Less 1% - Utilities (\$5,000)
 - Less 1% - Bad Debt Expense (\$5,000)



Revenue Options:

- **Option 1 – Increased customers through incentives**
- **Option 2 – Availability charge for all properties w/ structures within 300 feet of waterline that are not connected (Total of 1,192 structures)**
 - Availability of water provides benefit and ability to lower homeowners insurance
 - Option encourages additional customers; difficulty in collections
 - **\$30.00 availability charge = \$300,000 in additional revenue**; Still short \$97,000 of breaking even (\$397,000 - \$ 300,000)
 (1,192 potential customers x \$30 x 12 months) = \$429,120 – \$ 128,736 (30% non- payment) = \$ 300,384
 - **\$50 availability/base fee needed to break even**
 (\$1,157,971/1,934 = 599 / 12) = new availability and base rate of \$50
- **Option 3 – Rate Adjustment to eliminate deficit**
 - To cover O&M cost and debt service the total average water bill would need to be **\$ 111/ mo.** per customer based on current customer count.
 (786 metered customers, 447 availability customers -133 non-pay customers = 1,100 paying customers)
 Bill Calculation: \$1,157,971 – \$113,040 = \$1,044,931/786 = \$1,329.43/12 = **\$111**
- **Option 4 – Combined Availability/Rate Increase (immediately or phased)**
 - \$30 availability charge = \$300,000 in revenue (encourages active users, creates additional revenue & receiving benefit of availability of water to property)
 - Rate Adjustment – would need increased to \$76 to cover deficit after availability charge.
 Bill Calculation: (1,157,971 - \$300,000 = \$857,971 – \$113,040 = \$744,931/786 = 947.75 / 12 = **\$78.97**)
- **Option 5 – Water District Tax (Tax all property owners in district)**
 - Water District Value = \$1.290 B; 1 cent tax = \$123,674;
 - **A 3.3 cent water tax is necessary to cover debt service;**
 - Equates to annual tax of \$50 for property value of \$100,000 (\$100,000 x .00033)