

Tuesday – July 31, 2012 – 3:30 p.m.

Worksession

Present: Mayor Terry M. Bellamy, Presiding; Vice-Mayor Esther E. Manheimer; Councilman Cecil Bothwell (arrived in meeting at 4:25 p.m.); Councilman Jan B. Davis; Councilman Marc W. Hunt; Councilman Christopher A. Pelly; Councilman Gordon D. Smith; City Manager Gary W. Jackson; Assistant City Attorney Martha McGlohon; and City Clerk Magdalen Burleson

Absent: None

Water Resources Director Report

Water Resources Director Steve Shoaf said that the Water Resources Department continues to manage the water production and distribution system operations while maintaining the assets of the system. The FY 2013 budget: \$33,531,552 and they have 147 positions full-time positions. Their Capital Improvement project budget: \$7,438,564. The water system is operated to provide a valuable resource and protect public health at a reasonable cost to consumers

Regarding affordability (1) Affordable housing tap and meter fee rebates for new construction: \$74,140; (2) Water line infrastructure rebate for infill and affordable housing: \$22,409; (3) Leak adjustments for higher than normal water bills related to leaks: \$296,049; and (4) Water rates: No increase projected through FY 2014.

Regarding fiscal responsibility (1) Working with Finance to record existing and new fixed assets; (2) Working with Finance to close budgets for completed projects to release money for future projects; (3) Over 42,000 automated meter reading devices installed leading to better efficiency; (4) Improving asset management process to guide CIP planning; (5) CIP distribution projects intended to address system issues related to responsible operation; (6) CIP neighborhood projects address water line replacement in localized neighborhoods; (7) CIP water system master plan projects aimed at providing for current and future needs for operations and growth of the system; and (8) Internal emphasis on energy conservation and green solutions (ISO 14001).

Regarding the water transmission main evaluation (1) Primary conveyance bringing water from North Fork and Bee Tree WTPs to the City; (2) Evaluating almost 19 miles of pipe; (3) 36" steel pipe installed in early 1950's; (4) 24" cast iron pipe installed 80+ years ago; (5) Phase I complete (location, mapping, external evaluation, condition of visible features); and (6) Phase II proposed evaluation (internal and external).

North Fork Dam improvements (1) Continued evaluation of North Fork Dam; (2) Stability analysis indicates need for improvements to stabilize dam; (3) Storm event analysis indicates need for larger spillway and other improvements; (4) Repairs to existing raw water intake structures; and (5) Next phase is a geotechnical subsurface evaluation of proposed repairs/modifications.

Mayor Bellamy apologized to the Asheville Water Department employees in that this is not something City Council initiated or wants. We want them to feel secure in their future.

Mayor Bellamy noted our water system has a AA+ bond rating, the Water Department continues to maintain the certification of the ISO 140001 on energy conservation and green solutions, and most notably Mr. Shoaf was recently awarded the George Warren Fuller Award which is the highest award that can be given by a State Section of the NC American Waterworks and Water Environment Association. Her point in mentioning these outstanding accomplishments is that this legislation is not based on a badly run system. Our water system is run effectively and efficiently.

Mr. Shoaf responded to various questions/comments from Council, some being, but are not limited to: what is the technology for inspections inside the pipes; is the same system for inspecting water pipes the same as inspecting sewer pipes; confirmation that the water system is run on a "business as usual" basis while the MSD merger discussion is ongoing; addressed the leakage rate; and inventory of parts.

Update on the Metropolitan Sewerage District Water/Sewer Consolidation Impact Study

City Manager Jackson said that he invited Mr. Tom Hardy, Executive Director of MSD and/or their consultant, to present this update to Council; however, they declined.

Water Resources Director Steve Shoaf said that regarding the Water System – MSD Merger (1) Water System provides a significant City service; (2) Customer Service is already merged and produces a combined services statement; (3) Water Resources Department plans and implements on-going system improvements; (4) COA Water Resources collaborates with MSD regarding neighborhood projects (share capital project plans); (5) Phase I of MSD study to explore impacts to MSD rate payers if merged with COA Water; (6) Phase II of MSD study to explore impacts to MSD rate payers if merged with other systems with or without COA; (7) Timeline of MSD study - Phase I report – November 2012 and Phase II report – January 2013; and (8) Options that could be considered: (a) No merger occurs; (b) MSD absorbs the City of Asheville Water System; (c) The City of Asheville absorbs the MSD organization; (d) A new authority is formed to assume the functions of both MSD and the City's Water System; or (e) A regional solution involves all water and sewer providers in Buncombe and Henderson Counties.

In a little more detail, the Metropolitan Sewerage District of Buncombe County advertised a request for proposals (RFP) to study the impact on MSD rate payers of a consolidation/merger of the City of Asheville water system and other water systems in Buncombe County with the Metropolitan Sewerage District. MSD compiled extensive background information for use by the consultants and made this available at the following link: <http://www.msdbc.org/waterstudy.php>

In response to that RFP, on July 18, 2012, the MSD Board of Directors approved the selection of Malcolm Pirnie/Arcadis to perform a detailed impact study. There will be a project "kick off" meeting with MSD and the consultant on August 1, 2012. Representatives from the City have been invited.

The project as described will consist of two phases. Phase I will be an "Evaluation of the potential merger of the City of Asheville Water System with MSD". The Phase I study results will be presented to the MSD Planning Committee in early November 2012 and to the full Board on November 14, 2012.

Phase II will be an "Evaluation of the potential merger of the Weaverville, Biltmore Forest, and Montreat systems with MSD both in conjunction with, and independent of Asheville". The Phase II study results will be presented to the MSD Planning Committee and the full Board in January 2013.

The City can anticipate additional financial and operational information requests from Malcolm Pirnie/Arcadis as these studies progress. In addition the City of Hendersonville is pursuing a study of potential impacts to their water system should they become involved in a regional merger.

There are several scenarios that could be considered:

- No merger occurs
- MSD absorbs the City of Asheville Water System
- The City of Asheville absorbs the MSD organization
- A new authority is formed to assume the functions of both MSD and the City's Water System
- A regional solution involves all water and sewer providers in Buncombe and Henderson Counties

This is an information item. Any action would be at the discretion of City Council.

City Manager Jackson said that the MSD study only does modeling of one scenario. It does not evaluate what would be the best governance model of that system. It also does not look at alternative service delivery models and does not analyze compensation issues. And, it does not provide for public input or public comment.

Overview of Staff Analysis of Merger Scenarios

Budget Director Tony McDowell said that the purpose of this staff report is to provide City Council with an overview of a scope of work staff is completing on the financial impact of a merged water and sewer utility, as contemplated by the Legislative Research Commission's Committee on Metropolitan Sewerage/Water System and MSD's internal study.

As City Council is aware, MSD is studying the impact of absorbing the municipal water system into its existing operations. The scope of that study does not include determining the financial or operational impacts the merger would have on the City of Asheville.

The overall purposes of the City's analysis will be to:

- Evaluate the financial impacts (operating and capital) of merging the two systems versus operating them separately;
- To analyze the financial efficiencies of consolidating systems under the City of Asheville's municipal structure versus consolidating them under the Metropolitan Sewerage District;
- To quantify any future cost avoidance that could be achieved by merging the sewer and water utilities under municipal operations and independent authority operations;
- To estimate the impacts on future user charge rates of consolidating systems; and
- To confirm the most appropriate calculation of the market value of the water system.

Staff anticipates developing a preliminary plan for utility staffing and proposed merged budgets as well as forecasts for financially merged utilities under municipal operations versus MSD operations.

The scope of staff's evaluation does not include an engineering analysis of water and sanitary sewer systems assets and facility needs. The City of Asheville has conducted extensive evaluation of water system assets and the need for new water utility facilities to meet future demands through its master planning process. Staff will review any similar existing studies completed by MSD in addition to its Capital Improvement Plan. At this point, staff is assuming capital improvement needs would not be impacted under a consolidated model. However, a review of both utilities' CIP will be conducted to verify this assumption.

Staff is proposing that the analysis be phased with initial efforts focused on the financial impact to the City of Asheville from a consolidation with MSD. Staff anticipates this first phase of the analysis to conclude in 30-60 days. Staff will prepare a report of the study methodology and findings for City Council review, which is intended to facilitate and inform City Council's policy considerations and possible negotiations. The analysis will require MSD and the City of Asheville to share information about our respective utility operations, which is already occurring through the MSD study process.

This staff analysis is consistent with City Council's strategic goal of operating the City of Asheville to the highest standards of fiscal responsibility.

Staff is conducting this analysis using internal resources and staff time. Consulting services and data validation may be provided by a third-party firm, Raftelis Financial Consultants. It is anticipated that any costs incurred will be absorbed within the City's existing operating budget.

Staff recommends proceeding with the analysis as outlined above. Staff will provide any interim updates on the process to the City Council Finance Committee. A final report and findings will be provided to the full City Council.

Mayor Bellamy asked that City Council receive a mid-way interim update on the process.

In response to Councilman Hunt, City Manager Jackson said that the modeling we would do on the alternative merger (to bring MSD under the City water system) would be a modeling of how savings might be accomplished under just one alternative scenario, but there are multiple scenarios that we are not in a position to develop, unless directed by City Council. There are a range of those, including an intergovernmental agreement, a separate utility district, etc.

Mr. Doug Bean, representing Raftelis Financial Consultants, said there are a host of models that other cities across the United States use. What is really interesting is that as you look at utility operations how critical the governance piece becomes in operating a system. It needs to be modeled for a particular situation. There are a host of those governance structures and they can certainly lay those out for Council.

Councilman Hunt questioned if the study conducted by MSD does not including examination of a governance structure, is there opportunity for us to include in our study the governance piece for the MSD-led model? Mr. Bean explained there are two pieces of governance – the legal structure of the way it is put together and the governing of those different models.

Mayor Bellamy felt we need to also look at House Bill 1009 and propose legislation for Asheville not to lose any of their seats on the MSD board.

It was the consensus of Council to have Mr. Bean put together an assessment of the two pieces of governing models and how they work and in which situations they work best in.

Mayor Bellamy also suggested a review of the two studies conducted by Henderson County on the Cane Creek Sewer/Water District to see what the impact would be on the Asheville ratepayers if portions of Henderson County are merged into the system.

Council Discussion and Policy Direction, Including Next Steps for Public and Intergovernmental Relations

Mayor Bellamy noted that on May 18, 2012, MSD wrote the City and asked us to participate in their process. Per Council direction, City staff invited our legislatures to a joint meeting and also invited all towns/cities, Buncombe County and municipal districts in the area who would be affected by a regional system to a meeting.

Vice-Mayor Manheimer felt that our invitation to the surrounding municipalities and County is an important first step for a fruitful review of our own. We also need to know how our voters feel about this situation. The City has an opportunity under the Statute to, by referendum on the November ballot, to ask our voters whether or not they would approve of a change in our water system that might be negotiated without legislative interference. This is an excellent opportunity for us to accurately gauge the sentiment of the citizenry of Asheville with regard to this information. We will need to know that information, along with more information, in order to have a fruitful discussion with MSD in compliance with the recommendations of the Legislative Study Commission.

When Councilman Bothwell asked if the referendum would be binding, Assistant City Attorney Martha McGlohon said that the City Attorney's Office is looking at the entire referendum issue. There are time limits associated with a referendum along with actions required by City Council.

Councilman Bothwell questioned if we can also have the County, if they are willing, to include all of the precincts that are served by the water system, not just residents of the City of Asheville.

Vice-Mayor Manheimer suggested Council ask staff to look into questions raised by Council and give them specific guidance as to what we need to do to be able to put this on the November ballot, should Council choose to do so.

Regarding a response to MSD regarding participating in their process, after discussion, it was the consensus of Council send a letter to MSD, under the Mayor's signature, that we are willing to be a part of their process but we are in the information gathering stage to help us understand what the best options are for Asheville and Asheville's ratepayers and need that information before we would be able to have a really meaningful discussion with them.

Mayor Bellamy read a portion of the May 18 letter from MSD as follows "MSD Board and staff are available to meet with representatives of the City to consider the Committee's recommendations and to discuss a process going forward. If the City is interested in meeting with MSD and staff to discuss these matters, please have Gary Jackson contact Mr. Hartye to arrange a meeting." We may respond that we would like meet and do further due diligence together - not just say we are willing to meet. She noted their letter doesn't say what our part in that process would be, especially since they have already hired a consultant. We will get our ad hoc committee (Vice-Mayor Manheimer and Councilman Davis) to work with City Manager Jackson on a meeting. Because Vice-Mayor Manheimer and Councilman Pelly are both MSD Board members (seated to represent the City), it was the consensus of Council that Councilman Davis be the point person to speak on behalf of City Council so as not to put Vice-Mayor Manheimer or Councilman Pelly in a difficult position.

Regarding the invitation to our legislation for a joint meeting regarding this legislation, after discussion and due to the fact that we have not received responses from Rep. Moffitt and Senator Apodaca, it was the consensus of Council to meet on the date that Rep. Keever, Senator Nesbitt and Rep. Fisher could meet and re-extend the invitation again to Rep. Moffitt and Senator Apodaca. The meeting date would be Monday, August 27, 2012, at 1:30 p.m. in the Banquet Hall of the U.S. Cellular Center.

Regarding the public engagement part of this process, it was the consensus of Council to have on the City's website a page with all available information; a standing item at every Council meeting for an update on the water/sewer merger study; a special meeting for the mid-way interim update on the water analysis process; issuance of a press release using all available social media; an insert in the next water bill; and for Council consideration of calling for a referendum on the August 14 agenda.

City Manager Jackson said that staff hopes to have completed the conservation easement over the watershed within the next 60-90 days. Additionally, we have reached an agreement with Henderson County to extend the timeframe of when the Bent Creek land would transfer to the City.

ADJOURNMENT:

Mayor Bellamy adjourned the meeting at 5:02 p.m.

CITY CLERK

MAYOR