

# MSD

PLANNING  
COMMITTEE

## Metropolitan Sewerage District of Buncombe County, NC

**Agenda For: November 30, 2012**

**Meeting Time: Noon**

✓	Agenda Item	Presenter
	1. Call to Order	Al Root, Chair
	2. Consideration of Water/Sewer Consolidation Proposal	Tom Hartye, General Manager Scott Powell, Finance Director
	3. Other Business	Al Root, Chair
	4. Adjourn	Al Root, Chair
Date of next meeting: To Be Announced		

Committee Members:

- Al Root (Chair)
- Esther Manheimer
- Jon Creighton
- Max Haner
- Jerry VeHaun
- Bob Watts
- Bill Stanley
- Chris Pelly

# **Metropolitan Sewerage District of Buncombe County**

## **Planning Committee**

**COMMITTEE MEETING DATE: November 30, 2012**

**SUBMITTED BY:** Tom Hartye, General Manager

**SUBJECT:** Consideration of Water/Sewer Consolidation Proposal

### **BACKGROUND:**

The Metropolitan Sewerage / Water Committee issued a Final Report to the Legislative Research Committee of the North Carolina General Assembly containing recommendations to merge the City of Asheville Water system with the Metropolitan Sewerage District of Buncombe County (MSD). An additional recommendation is to consider how other interested water systems in the region may be merged with MSD as well.

The MSD Board of Directors voted to conduct a detailed impact study of the proposed merger/consolidation of the City of Asheville Water system and other systems with MSD and instructed staff to seek the services of a reputable national firm experienced in utility operations, management, budgeting and finance, and utility mergers. Potential legal, governance, valuation and compensation issues associated with a potential merger were beyond the scope of the consultant study.

Malcolm Pirnie/Arcadis is providing their report in two phases. The first phase is to evaluate the City of Asheville water system merger with MSD. The second phase will be to examine other MSD member agency water system mergers.

The Draft Report for Phase I found the following:

- There would be no impact on sewer rates from water/sewer consolidation. Current sewer rate projections and assumptions would remain the same as if there were no water/sewer consolidation.
- The operational impact of water/sewer consolidation would be positive. Operational efficiencies would result in reduced operating costs for the combined systems. The projected operational efficiencies can be achieved while retaining all of the present MSD employees and all of the present City of Asheville water employees and maintaining at least the current level of service.
- There would be no impact of water/sewer consolidation on MSD capital costs related to sewer. There would be some initial capital costs at the outset for facilities and equipment necessary to operate and maintain current service levels for the water system. There would be no negative impact to MSD from continuing the City's recent significantly increased projected capital expenditures related to water after water/sewer consolidation.

The MSD Board asked that Staff prepare a proposal in an effort to formulate a local solution to the LRC merger recommendation that includes a recommendation concerning compensation for assets along with the other items (assumptions) that have been previously discussed by the Planning Committee.

## **DISCUSSION:**

The LRC recommended a merger of the public water system with MSD, and a public transfer of all assets. The assets shall remain public. The recommended transfer of assets did not include compensation due to the fact that the water customer revenues originally paid for the assets. The assets and their value should remain with the customers.

The following proposal for the MSD Planning Committee to consider is an attempt to craft a local solution.

The proposal elements are as follows:

1. MSD to retain all current Water Department employees subject to the same MSD personnel policies applicable to current MSD employees.
2. MSD to assume and pay off all outstanding Water Capital Indebtedness which was \$71 Million as of June 2012.
3. MSD to fund the City's newly increased 10 year CIP of \$107 Million.
4. MSD to officially oppose privatization of assets and of operational control.
5. Water to be eligible for same MSD financial incentives and partnerships for new public and private development currently available for sewer.
6. The City of Asheville to retain title to Bee Tree and North Fork Reservoir watersheds less areas underlying water operation facilities.
  - A. MSD will lease for 99 years, the watershed properties from the City for the sole purpose of providing clean, safe drinking water. Compensation for this lease is included within the compensation for total capital assets.
  - B. MSD will operate, maintain and expand if necessary all water production facilities on the watershed properties. MSD to own property underlying water production facilities.
  - C. MSD will have operational control over watershed properties and maintain them in accordance with the 1996 Conservation Easement as may be amended by the City of Asheville.
7. Water System Asset Compensation:

### LRC Recommendation:

- A. Water Assets remain public.
- B. Water Customers already paid for assets.

- C. Assets and asset value stay with customers who paid for them. Customers should not pay for them twice.

MSD Compensation Proposal:

- A. Water Assets remain public.
- B. Water Customers to pay the City of Asheville the Book Value for all water assets. This figure of \$169 million will be adjusted for outstanding debt, developer contributed assets, and cash transfers to General Fund. This adjusted cost is estimated at \$57 million to be paid over 50 years.
- C. Merger savings are estimated to be positive, inclusive of this payment.

Since this is a public transfer, market value is not applicable, either the discounted cash flow method or the original cost (book value) are customarily used. Staff evaluated the discounted cash flow method which yielded negative values due to the amount of CIP (water system rehabilitation) that will be required. Therefore, the book value was used and adjusted for outstanding debt, developer contributed assets, and cash transfers from the Water Fund to the General Fund. It was assumed that the value of the Buncombe County assets along with grants and other public contributions stayed with the City.

Germane to the discussion of valuation and compensation is the condition of the underground assets (water pipes). The typical industry goal for rehabilitation/replacement of pipes is 1% per year. For the Asheville area public water system this would amount to approximately 85,000 feet per year. For the last 5 years the City rehab/replacement effort averaged approximately 34,000 feet per year. Prior to this period the footage was significantly less. For this reason, the cash transfers from the ratepayers to the General Fund at the City were deducted from the value of the system of pipes. Those transfers would have paid for an additional 30,000 feet per year, which, although less than 1%, would have helped retain the system condition level. In the next 10 years the rehab/replacement effort will ramp up to over 60,000 feet per year on average.

Staff will give a presentation of this proposal along with supporting information at the Planning Committee.