

CHARLOTTE-MECKLENBURG UTILITIES
ADVISORY COMMITTEE
MINUTES OF MEETING
December 19, 2013

The Charlotte-Mecklenburg Utilities Advisory Committee met Thursday, December 19, 2013, 2:30 pm at 4222 Westmont Drive, Charlotte, North Carolina.

Members Present: Jim Duke, Eric Sieckmann, Jim Merrifield, Frank McMahan, Ralph Messera, Pride Patton

Members Absent: Ron Charbonneau

Staff Present:	Barry Gullet	Director
	Kim Eagle	Deputy Director
	Chad Howell	Business Manager
	Steve Miller	Customer Service Division Manager
	Karen Whichard	Assistant to the Director
	Barry Shearin	Chief Engineer
	David Czerr	CIP Program Manager

Safety Minute

Preventing Christmas tree fires

Minutes

A motion was made by Jim Merrifield, and seconded by Jim Duke and Pride Patton, to approve the November 2013 minutes. Motion was approved.

Capital Investment Plan

- The City has changed the name of the Capital Investment Plan to be called the Community Investment Plan (CIP).
- CMUD's CIP is a work in progress. Nothing has been submitted yet.
- Would like to get the committee's feedback today on our thought process and on some decisions we need to make.
- Will talk about the big picture today – challenges regarding what to build, where to build it and how to pay for it.
- The CIP includes capital funding for anticipated projects for approximately the next five years.
- CMUD has some ongoing projects – rehabilitation of pipes, plants and water lines; new connections; water lines in streets; and resolving conflicts with other City projects.
- Also have some one-time projects that are more major projects – big pipeline replacement project and programs at Long Creek WWTP.
- Projected expenditures over the next five years are expected to total \$255.4 million.
- Not as easy as it was a few years to track trends. We try to be consistent in using the same population growth projections that everyone else uses.

- On page 4 of the handout, the Forecasting Capital Needs slide shows per capita water consumption.
- The blue line on the chart represents the 2007 projection for water use. A decrease is shown and that was driven by drought.
- The orange line on the chart shows what really happened. Per capita consumption did not go back up, it went down.
- If we assume consumption will increase as the population increases, we can design and build bigger pipes. If we assume consumption will continue to fall, we can design and build smaller pipes.
- We are trying to push these types of decisions out as much as possible to get more trend information and to make the best decision, but we don't want to wait too long to decide. The challenge will be to make the decision with a degree of confidence.
- It is easy to make a conservative estimate and oversize things, but there would be an issue with water quality, cost, etc. There would be a lot of ripple effect of these decisions throughout the community.
- Current financial modeling proposes using PAYGO to fully fund capital program after 2017.
- Previous financial modeling has been moving toward a blend of 60% debt and 40% PAYGO CIP funding and it is likely we will continue this approach instead of using full PAYGO funding. If we continue with the 60/40 split, this will have a positive effect on rates.
- There are three scenarios we need to consider in planning for the CIP based on different growth rates.
- The three scenarios are:
 - Slow growth timeline – need \$299 million in bonds spread out over five years
 - Moderate growth timeline - need \$329 million in bonds which could drive a higher rate increase
 - Rapid growth timeline – need \$444 million in bonds which could drive higher rate increases
- If we assume growth will be slow, we can push project schedules further out. If we assume rapid growth, we need to do more construction sooner and will have more cash invested. Even though we should expect more growth in the number of customers in a rapid growth scenario, it may not be enough to offset the increased investment in the short term.
- Connection and capacity fees from new customer connections are a big source of non-rate revenue.
- The connection fee revenue is offset by the costs of installing the service. The capacity fee is a system buy-in fee based on a formula and is a modest fee that applies to all new development is based on meter size.
- Sometime in the next few years we will likely need to revisit the rate and fee structure again. The current rate structure may not be sustainable as per capita water use continues to decline. We need to find a way to become less dependent on the revenue generated by Tier 4 usage and rates since it appears we may be near the elasticity point where higher rates actually produce less revenue.

- We are starting to further explore options related to our current availability fees and how they impact rates throughout the system. We don't plan to undertake a major rate methodology study at this point.
- The availability fee is based on recovering about 20% of debt service.
- Peaking factor changes in daily and seasonal usage are changing our operating costs and capital needs. There is uncertainty as to whether the recent trends will be sustained over time.
- Some water/sewer utilities and researchers are considering the feasibility of a rate structure similar to the methods electric companies use where costs are based on the time of day and the season of the year when the produce is used. One issue with this is that water billing and metering technology is not as advanced as electric service meters. Another option researchers are considering would be the "cell phone model" or a take or pay type structure. For example, a customer could agree to a fixed payment for using up to 1,000 gallons of water. If they only use 600 gallons, they still pay for 1,000. If they use 1,200, they pay a fee for going over. There are many potential issues to overcome in order to implement something like this.
- Any substantial change in rate methodology will need to be done slowly and carefully.
- For the last several years we've overprojected the amount of revenue we were going to earn from water and sewer sales. This is not the way it should be. We should be underestimating revenue and overestimating expenses. This situation has developed at least in part as a result of slower growth and reductions in per capita water use.
- Jim noted that the potential rate increases in the presentation seem high. Rates are being driven up each year largely by capital improvements. If inflation stays as it is, it is hard to justify utility rates going up that much (faster than inflation) each year.
- The replacement and rehab needs of the system are increasing as it is getting older. Things that were put in and paid for by developers or that had a grant attached to them for initial construction will have to be rehabilitated or replaced without funding assistance from others. This drives the rates up.

Financial Update

- Have reduced the gap between projected and actual revenues collected over the last few months. The dry fall season caused customers to use more water so we are getting closer to where we thought we would be.
- We are currently working on mid-year budget reviews with divisions which will be used to assist in the development of the FY2015 operating budget.
- Revenue and expenditure bottom line – both are under projections. The revenue budget is a concern although not a huge problem at this point.

Updates

- Current projects
 - The Steele Creek project is moving forward. We have acquired nearly all right-of-ways needed. We expect the project to be bid in Spring 2014.
 - We are being careful to match plant expansions to growth rates. We will get planning, permit and environmental work done up front and then put projects on hold until the need

develops. Having regulatory approvals in place can save years in the process and we will be ready to go when the need arises.

- Union County
 - Have been working with Union County for about a month. We found a lot of things that needed to be done and have helped to initiate repairs and changes to some of their core processes. They have been very cooperative.
 - One concern is that they are likely to have a permit violation for effluent phosphorus levels going out of their plants because compliance is based on a long-term rolling average which includes some high past values that occurred prior to CMUD involvement. We are doing all we can to avoid a violation or to keep the violation as small as we can. It will take some time to turn things around in this regard.
- Branding
 - CMUD has developed an action plan for further consideration.
 - Three key areas – name change, direct communication outreach and web/social media and customer call alerts are under consideration.
 - Working on potential new logos to take to the City Manager and then see where to go from there.
- Town Meetings
 - Barry Gullet has been making presentations to the Boards of surrounding towns. So far he has presented to Davidson, Mint Hill and Huntersville. Meetings are going well and he is scheduled to visit the other three towns in the next month.
 - He intends to also get out to other groups – economic development groups, civic groups, and the Charlotte Chamber.
 - Going forward, will try to visit the towns once a year unless there is a compelling reason to do this more often.
- Billing Cycle Realignment
 - Discussed this at last meeting which resulted in good feedback. Have come up with some other options and are developing them now. They appear to be better options largely because we incorporated suggestions from feedback we received from the Advisory Committee.
 - One objective is to be more transparent with customers and not require the customer to do anything.
 - The latest approach will advise the customer that we did an extra meter reading but that they will not receive an additional bill. The cost will be spread out over several monthly bills.
 - Doing a deeper evaluation of customer impacts. Next step will be to take a high level briefing to the City Manager on the proposal. Will then present to City Council and the community and plan for implementation about one year from now.

Adjourned at 3:48 pm

Mindy Levine