

Special Meeting

Present: Mayor Terry M. Bellamy, Presiding; Vice-Mayor Diana Hollis Jones; Councilwoman Robin L. Cape; Councilman Jan B. Davis; Councilman Bryan E. Freeborn; Councilman R. Carl Mumpower (was excused from the meeting at 6:59 p.m.); Councilman Brownie W. Newman; City Manager Gary W. Jackson; City Attorney Robert W. Oast Jr.; and City Clerk Magdalen Burleson

Absent: None

Mayor Bellamy asked for a moment of silence to recognize the passing of Mrs. Coretta Scott King.

Mayor Bellamy announced that the purpose of this special meeting is to review the water system policies and begin discussing guidelines for the operating of the water system. Council will discuss policy areas including capital improvements, rates, growth and development, and other important issues linked to the water system; and to obtain citizen input on the water system and how it should be operated. The process will start, but not end, tonight. She urged citizens to contact Council via e-mail, fax, phone, meetings, etc. to voice their opinions. Council will also be discussing policy guidelines within the framework of the current state law, including Sullivan Acts I, II and III. Asheville has filed a lawsuit against the State of North Carolina because City Council believes that the State overstepped their constitutional authority. The State has bound Asheville with laws that do not apply to any city across this state. Council believes it is the City's right and obligation to challenge that constitutionality of those laws. In addition, those laws have a tremendous impact on Asheville citizens with a \$3.5 Million burden on our citizens. As the lawsuit moves forward, Council will involve the citizens in an open environment as to the status of the legal actions. City Council is open, willing, and looking forward to working with Buncombe County for a win/win approach to issues related to the water system. The type of policy decisions Council is considering tonight are principles that ensure the soundness of the system, and the healthy and affordable delivery of water, regardless of the lawsuit that is filed against the State or negotiations of Buncombe County.

City Manager Jackson reiterated Council's guiding principle being to provide reliable, safe and affordable water to all customers throughout the region. He explained the following policy areas which guidance is sought: capital investment; rate structure, growth & development, financial policy, and governance models.

City Manager Jackson supported Mayor Bellamy's statement in that the following Sullivan Acts considerations are not being discussed at this meter: water service as a condition of annexation; rate differentials (based on location or use); equity value of assets; inter-fund transfers/tax equity payments; regional Parks & Recreation Authority; or the Civic Center.

City Manager Jackson said the first policy area of capital investment. He explained that infrastructure reinvestment is needed to assure sustainability, noting that reinvestment is a critical need. He said the water system is well managed and financially stable. The funding for short- and long-term infrastructure needs must include compliance issues at the water plants. He used a chart, which showed \$57 Million needed over the next seven years.

He said that options presented to Council include (1) a capital improvements fee ("CIP fee") which would be dedicated specifically toward addressing that \$57 Million need; (2) an overall rate increase; or (3) revenue bonds for large projects. He reviewed with Council a chart on the impact of the CIP fee on current water bills for single-family residential, multi-family apartments; small businesses; commercial/hotels; and industrial (all depending on the meter

-2-

size). The increase for single-family residential customers, which make up 94% on the water system, with the CIP fee would be \$3.50 per month.

City staff's recommendation on how we should fund reinvestment to support Council's objective of assuring system sustainability would be to direct City staff to proceed with developing a plan to implement a CIP fee in the Fiscal Year 2006-07 budget; and to develop a public education campaign to launch between now and June 2006.

Another policy area needing guidance surrounds the rate structure. City Manager Jackson explained the following options for rate structures: declining block (which Asheville uses), uniform rate, flat rate minimum usage, and inclining block. Using a chart, he explained that the uniform rate is more widely used. He reviewed with Council a chart showing the current water bill vs. proposed water bill under the uniform rate. Residential customers currently pay \$39.84 bi-monthly and under the proposed uniform rate they would pay \$31.80 bi-monthly.

City staff's recommendation on what rate structure would result in Council's objective of achieving affordable and equity across customer classes would be to direct City staff to develop a plan for implementing a uniform rate structure where customers pay the same rate based on usage in the Fiscal Year 2006-07 budget; and to include a public education campaign to inform customers.

The policy guidance sought in the area of growth and development includes the water line extension policy. He said line extension policies can promote quality, compatible growth. The policy should include defining parameters for where lines are extended and what size lines are installed. It should also include a long-range master plan for water system growth. He explained the sustainable growth policy and how successful growth management takes a commitment to good planning and a commitment to high standards. He explained how economic development incentives can play a key role in growth and development.

City staff's recommendation on how can we structure policies to promote sustainable development independent of annexation would be to direct City staff to research and develop a Water Line Extension/Incentives Policy and Water Line Standards and Specifications consistent with the City's Smart Growth Policies in order to encourage sustainable development; and to schedule these documents for Committee review in March, 2006.

Regarding the financial policy, he reviewed with Council what policies we should establish to support sound financial management and best practices. With regard to policies for appropriate financial margins, City staff recommends Council direct staff to develop specific priorities for debt service coverage ratios and operating reserve levels; and to have staff bring recommendations to the Committee in March, 2006. With regard to policies for debt issuance, City staff recommends using debt financing for major improvement projects and pay-as-you-go funding for smaller repairs and refurbishment. Regarding policies for regular financial reporting, City staff recommends providing Council with enhanced detail on the Water Fund in the quarterly financial reporting report.

City Manager Jackson explained the governance models for the top 20 North Carolina water producers, those being 17 having municipal systems (Charlotte-Mecklenburg Utilities is operated by the City of Charlotte – largest in the state); 2 have a city council appointed commission; and one (in Orange County in Chapel Hill) has a regional water/sewer authority.

He reviewed with Council what governance model is most likely to support City Council's priorities. The more likely model is a municipal system with regional advisory board; or a new regional water and/or sewer authority with a major role for Asheville. The less likely model would

-3-

be a municipal system; or a new regional water and/or sewer authority with a minor role for Asheville.

The following individuals spoke on various water issues, some being, but are not limited to: what is the status of the CH2M Hill study done several years ago; system should be run like a regular business; money should be put aside for maintenance; a portion of the stormwater run-off money should be invested into the water system; water system needs to pay for itself; water bills are currently too high; additional fees or raising fees will cause a hardship on fixed income persons; there should be incentives for people who conserve; with the newest water treatment plan being 50% under-utilized, has anyone considered selling water to the surrounding municipalities; need for a true regional water authority; cost to repair pipes is high because of age of pipes; need for a sound and healthy water system; Asheville taxpayer has paid for entire water system; City receives no room tax and has to pay for all non-betterment costs; revenues are low and costs are high; elements should be reviewed from previous Council proposal; assess rates fairly for all; need a fair rate cap; get rid of the declining block rate structure; City should own it's own system; need to control growth; City needs a paradigm shift; make water fund a top priority; the MSD sewer system is a successful model; municipal system is a good model; hospitals would take a big hit, but they don't pay property taxes; encourage conservation by a water-saving rate structure, which will increase revenues for the City; option on bill to round up to the nearest dollar and that money go to a fund to help supplement low income residents; stop subsidizing commercial users; look at using wastewater to supply industrial users; develop and implement a comprehensive water program; consideration of a surcharge for homes that are above a certain elevation; need maintenance and repair of system and all revenues should be put back into fixing the system; wrong to use water in a political way (annexation); need to fix existing system before talking about extending the water lines; consider water as a basic service; every winter customers have water interruptions; how is serving people in the Black Mountain area more expensive since the large lines come from Black Mountain and Bee Tree area; will any written comments be available for public review; Asheville's finest hour was to terminate the water agreement; and will there be additional public hearings on this matter:

Mr. Fred English  
Mr. Bob Smith  
Mr. Walter Plaue

Ms. Hazel Fobes  
Ms. Leni Sitnick  
Mr. Steve Aceto  
Mr. Kevin Hogan  
Ms. Gracia O'Neill  
Mr. Sam O'Rourke  
Ms. Leah Karpen  
Mr. Colin Robertson  
Ms. Leslee Kulba

#### Capital Investment – Rate Structure

-  
During discussion, Water Resources Director David Hanks responded to various questions/comments from Council, some being, but are not limited to: is the CIP fee more or less progressive compared to a uniform rate structure; if we institute the CIP fee recommended by City staff, how much would that generate and would that adequately address our capital improvement needs on an annual basis or would we have to institute annual increases to meet future demands; would the revenue generated from this CIP fee adequately service debt on a bond for capital improvements; what percentage do most utilities use for bond debt vs. pay-as-you-go debt; has the City researched the basic rights to water base rate and how would that affect our overall revenue; if we had raised rates annually as recommended in the early 90's

-4-

Brown & Caldwell study, we would not be faced with this CIP fee; have we given thought to what effect the CIP fee would have on existing commercial accounts and the large water users from an economic standpoint; had we had a different rate structure during the drought, we wouldn't be in this position; need to look for ways to utilize water as an economic development tool to create jobs, but we tweak our rate structure without caution, we will place some of the eroding manufacturing jobs at risk; need to develop a rate structure that gives people some ability to control their water rate through utilization; has staff researched any pressure zone rate structures with a surcharge to higher elevation customers; creation of a policy, regardless of how the Sullivan Act process turns out, that the City will not divert money from the water system; have only water charges on our water bills and let MSD collect their own sewer charge; and does MSD reimburse the City for their sewer charges on our water bill.

City Manager Jackson said that he would investigate what the possibilities are about segregating the water and sewer charges.

Councilman Mumpower asked to be excused from the meeting due to illness. Prior to leaving, he said that it makes sense not to divert money from the water system, but the City taxpayers have paid for the water infrastructure, watersheds, and other components, and the reason why some of the money is diverted is because we own the assets. The City taxpayer continues to pay double the tax rate of the county water users and others. He could support keeping the diversion to a minimum or to limit it or to set some fair equitable payment for that ownership of the water asset. In addition, he hoped Council will enter, or attempt to enter, into open, public negotiations with Buncombe County and the State representatives on a near-term basis to see if we can work out a compromise that is fair to all parties.

After each Council member spoke about their thoughts on capital investment and the rate structure and after a brief discussion, it was the majority of Council's direction to direct City staff to proceed with developing a plan to implement a CIP fee in the Fiscal Year 2006-07 budget; to develop a public education campaign to launch between now and June 2006; to further explore a plan for implementing a uniform rate structure where customers pay the same rate based on usage in the Fiscal Year 2006-07 budget and to include a public education campaign to inform customers; to further explore ways to address the component of people who conserve water, and the basic right to water issue; look at balancing the CIP fee regarding industry as it relates to jobs; research the cost of a surcharge for higher elevation customers and how that would be factored into the uniform rate; research a plan for transitioning the manufacturing sector; and provide additional research on a policy where 100% of the water funds are used to fix the water system.

City Manager Jackson said that he would report back to Council in March with a set of financial management criteria that will help guide in developing the next budget.

At 6:59 p.m., Councilman Freeborn moved to excuse Councilman Mumpower from the meeting due to illness. This motion was seconded by Councilman Davis and carried unanimously.

At 6:59 p.m. Mayor Bellamy announced a short recess.

## Growth and Development

- Councilman Mumpower cautioned City Council to be very careful about the language we use when we approach people outside our boundaries regarding infrastructure planning issues to create the kind of growth that Asheville believes is best.

After each Council member spoke about their thoughts on growth and development and after a brief discussion, it was the consensus of City Council to direct City staff to research and

-5-

develop a Water Line Extension/Incentives Policy and Water Line Standards and Specifications consistent with the City's Smart Growth Policies in order to encourage sustainable development.

## Financial Policy

After a brief discussion, it was the consensus of Council to direct City staff to develop an educational program surrounding the City's financial policy, to include, but not be limited to: fund balance information, how the enterprise funds work, bonds, etc. Vice-Mayor Jones noted that the educational component on the stormwater fee should continue even though the City has implemented that fee. Councilman Freeborn felt that our government channel is an excellent tool to be used in educating the public.

It was the consensus of Council to direct City staff to use debt financing for major improvement projects and pay-as-you-go funding for smaller repairs and refurbishment.

It was the consensus of Council to direct City staff to provide Council with enhanced detail on the Water Fund in the quarterly financial reporting report.

## Governance

- Councilman Newman hoped Council would be open to looking at the municipal system, as well as the potential for a more regional form of governance, probably not scenarios that would include transfer of ownership of assets, but maybe regional forms of government that may include lease of assets and things like that.

Councilman Freeborn favored the municipal system with a regional advisory board. He felt we need to include a cross-section of users.

Vice-Mayor Jones was open to either the municipal system with a regional advisory board or a new regional water and/or sewer authority with a major role for Asheville, but she would like to be able to present options in a dialogue with the Buncombe County Commissioners and our State legislators.

Councilman Davis supported Vice-Mayor Jones' idea to sit down with the Buncombe County Commissioners and our State legislators, because it is important that they recognize the City of Asheville is part of Buncombe County and Buncombe County is part of the districts they represent. He explained why he felt the water system should remain a municipal system. However, he would also support a municipal system with a regional advisory board.

Councilwoman Cape also supported the municipal system. However, she liked the idea of a regional advisory board. She is not opposed to working towards an authority with a major role for Asheville, but would have to be some compelling reason for her to support that.

Councilman Newman said that when we talk about the water system as part of our discussions with Buncombe County, we should say that Council's first choice would be to run the system as a municipal system, but that we are also open to the possibility of having a regional water system. We also need to explore the costs and benefits of merging water and sewer and having an objective non-political process to study whether or not that makes sense.

There was a discussion how the City can disagree with the County on the water system, but still work them on other opportunities, such as the Civic Center, parks & recreation facilities, the HUB Project, etc.

-6-

In response to Mayor Bellamy, Vice-Mayor Jones explained the aspects of rates, governance and growth management that

she would be open to discuss during negotiations.

Vice-Mayor Jones and Councilman Newman felt it was important to meet with the Buncombe County Commissioners and State legislators to seek a fair, out-of-court settlement regarding the Sullivan Acts that all parties can live with. Councilman Newman suggested letting the County know that it is Council's preference to have a municipal run water system, but that we would be open to exploring ideas around regional water governance system with a major role for Asheville, respecting the fact that we own the assets and that we are the majority of the customers.

After each Council member spoke about their thoughts on the different governance models, City Manager Jackson said that he has a reading on where the Council is and how to represent their policy direction. In addition, those that we would negotiate with now have a better reading on what opportunities there might be to re-open discussions.

At 8:17 p.m., Mayor Bellamy adjourned the meeting.

---

CITY CLERK

---

MAYOR