FREQUENTLY ASKED QUESTIONS ABOUT THE ASHEVILLE WATER SYSTEM

I. Does Asheville's regional water system require higher rates to customers outside the City?

NO. The law requires just the opposite. Customers inside and outside the City pay the same rates. The Sullivan Acts ensure that. The City of Asheville has no desire to pursue legislation or policies that result in inequitable treatment to rate-payers who live outside the city limit.

II. Does Asheville take $3 million a year out of the enterprise fund to subsidize the City's general fund?

NO. Similar to other City departments, the Water Fund pays for expenditures associated with shared central support services, otherwise known as overhead costs (e.g. human resources, financial management, information technology, legal services). The City utilizes the services of a third-party to annually prepare a cost allocation plan (CAP) to identify indirect central service costs, determine a reasonable basis for allocating those costs to operating activities, and then calculate the costs to be allocated to each operating department. This process follows generally accepted accounting principles.

The water utility consists of more than 140 employees and provides water to more than 125,000 people. The City's water system is comprised of 3 water treatment plants (WTPs), 40 pump stations, 32 ground storage tanks, and approximately 1,660 miles of pipe. An enterprise of this size certainly requires functions covering financial management and billing, payroll, purchasing, fleet maintenance, human resource management, and other related central services. The table below shows Asheville's indirect cost allocation compared to other cities in North Carolina. Asheville's cost allocation for central services related to water are in line with other water utilities'.

Utility	Year	Transfer	Operating Expenses	Transfer as a % of OE
Asheville	2012	$ 2,349,404	$ 18,351,872	12.80%
Cary	2012	5,326,178	38,245,284	13.93%
Charlotte	2011	9,424,014	100,592,389	9.37%
Durham	2010	5,797,679	54,183,477	10.70%
Raleigh	2012	13,270,843	96,862,398	13.70%

III. Are most water meters outside the City, even though most usage is inside the City?

NO. 56% of the system's 56,900 meters are inside the City, and a majority of the consumption is inside the City.

IV. Does the City of Asheville withdraw $3 million a year from the water receipts that can be used for sidewalks and roads that are affected by water system improvements?

NO. While the Sullivan Act allows the City to use up to 5% of water revenues for infrastructure improvements associated with waterline projects, the City uses much less for these purposes. To date, the amount the city has spent from water transfers is $140,000. Money that is budgeted but not spent is returned to the fund.

V. Does the City use these funds for more than infrastructure affected by water improvements?

NO. The City uses the funds strictly as allowed by the 2009 amendment to the Sullivan Act.

Proposed legislation, HB252 (Asheville Transfers), passed the House 74-40 on April 3. The proposed bill would take away the city's ability to use water revenues to fund future street and sidewalk projects related to waterline repair. The Sullivan Acts currently provide the city the legal right to make such infrastructure investments.

While the proposed bill aims to take away the city's ability to use water revenues to fund these types of related infrastructure improvements, it does contain language that provides funding for street and sidewalk improvements currently planned which further legitimizes the city's historic use of these funds.

VI. Did the City of Asheville use revenue from the Asheville/Buncombe Water Authority to subsidize its general fund?

NO. The City of Asheville, Buncombe County and the Asheville/Buncombe Water Authority maintained interlocal agreements during the years of 1982 – 2005. While these agreements mainly covered the operating and governance structure of the Authority, they also called for the City and County to be paid a percentage of gross water revenues annually, 5.0% and 2.5% respectively. Known to some as the "Asheville-Buncombe Compromise", these transfers were a regulatory solution for the inability of the Asheville/Buncombe Water Authority to charge differential water rates. Audits of

available records (1991 – 2005) show that City transfers were in accordance with the agreements[1].

VII. Does the City of Asheville intend to pursue policies to "double, triple and possibly quadruple increases" in water rates (Metropolitan Sewerage/Water System Committee 2012)?

NO. The City understands that sound economic development depends on predictable policy and accountable government. In our region, water customers know that rates and policies will be the same across the service area, inside the City and out, and that they can work with elected officials to ensure stability of policy and service.

The City of Asheville has worked to ensure that residential and commercial water rates are fair and predictable. To that end, water rates are projected to increase by no more than 1.5% annually for residential, multi-family, small commercial and manufacturing customers. Annual rate increases are capped at 3.5% for large commercial customers.

VIII. Would the proposed forced transfer of Asheville's water system to a non-elected regional system board save the ratepayers $3 million a year?

NO. The City is working on developing shared functions with the Metropolitan Sewerage District that can lead to savings, if implemented over a timely fashion. However, the proposed forced transfer of the water system will cost the taxpayers of Asheville $33.8 million over the first 9 years.

It is also important to understand that placing the utility in the hands of an appointed board does not provide the same level of transparency and accountability as having oversight by elected officials that are easily identified in the city, county and region.

IX. Will consolidation of MSD and City of Asheville Water Utility save utility customers millions of dollars annually?

NO. True economies of scale are achieved with utility consolidation when there is an opportunity to share plants and treatment facilities. Since water and wastewater use different treatment systems, they cannot share plants. As a result, the only savings that come from the consolidation of water and wastewater are through sharing "central services" – Human Resources, Finance, Purchasing, IT Services, etc.

---

[1] City of Asheville, NC, Budget and Audit Documents, 1991 – 2005, 02 February 2013. http://bit.ly/WyGABG

If economies of scale and financial savings were the goals of consolidation, then the most cost efficient models would be to consolidate under the City of Asheville or Buncombe County. These organizations already provide central services to a wider range of services, making them more affordable for the taxpayer. The City of Asheville conducted a financial analysis that shows consolidation under MSD will cost city taxpayers $33 million over nine years while not providing significant cost savings to water rate payers.

Asheville and MSD already share some central services, like customer service and billing. Additional consolidation could be achieved without state legislation through interlocal agreements among the City, the County and MSD and other interested parties. Such an agreement would capitalize on shared services - such as purchasing, warehouses, fleet maintenance, employee benefits and information technology - while avoiding the high costs of a complete merger.

X. Does the City of Asheville have one of the highest leakage rates in the state? Does it waste approximately 30% of the water it pumps?

NO. The 30% figure more correctly represents the current non-revenue or unbilled portion of the water produced. It includes water that is used for water treatment, fire training, fire suppression, flushing for water quality and hydrant testing, inaccurate metering, and theft as well as leakage. The actual number for leakage is much lower than the 30 percent. The non-revenue uses of water are similar for other systems and are not a unique circumstance for the Asheville system and are not related to the expenditure of water revenues.

The mountainous terrain requires 39 independent pressure zones to avoid extreme (i.e., excessive or minimal) pressures. The current system supplies water to areas that range in elevation from 1,950 to 3,700 feet mean sea level (MSL). This system experiences unusually high pressures in some areas that contribute directly to water loss. Added to this is the system miles of pipe (over 1650 miles) that also contribute to the water loss. Our consulting engineers, Brown and Caldwell, have stated publically that our water loss is acceptable when the pressures and miles of pipe are considered. Based on the Infrastructure Leakage Index used to compare systems, Asheville compares favorably to other systems. There is a calculation for “unavoidable annual loss” and Asheville’s loss is reasonable. The economic benefit from aggressive leak reduction activities is marginal when compared to the cost of water production according to Brown and Caldwell.

XI. Hasn’t the City of Asheville allowed the system to fall into disarray?

NO. Asheville has invested more than $70 million in capital infrastructure since Fiscal Year 2005-2006, which is more than two and a half times than in the previous six years when the systems was governed under a regional water agreement. The City's financial forecast projects $125.9 million in system improvements over the next ten years.

XII. Hasn't the NC Treasurer's Office determined the City of Asheville will not be negatively impacted by the transfer of water assets and liabilities to the proposed Authority?

No opinion or finding of this fact by the North Carolina Treasurer's Office Local Government Commission has been provided to the City of Asheville. The statement seems to refer to what impact a forced transfer might have on the City's balance sheet by transferring assets and liabilities to another entity, thereby reducing the City's overall net assets, which is a different issue than the annual financial impact a forced transfer would have on city taxpayers.