

Salisbury, North Carolina  
September 29, 2005

## SPECIAL MEETING

**PRESENT:** Mayor Susan W. Kluttz, Presiding; Mayor Pro Tem, Paul B. Woodson, Jr.; Councilmen William (Bill) Burgin; William (Pete) Kennedy; and Mark N. Lewis; City Manager, David W. Treme; and City Clerk, Myra B. Heard.

**ABSENT:** City Attorney, F. Rivers Lawther.

Mayor Kluttz and members of City Council participated in a Salisbury-Rowan Utilities Client Communities luncheon with representatives from Granite Quarry, Rockwell, Spencer and Faith. Mayor Kluttz convened the meeting at 12:00 Noon and City Manager David Treme provided the invocation.

Mr. Matt Bernhardt, Assistant City Manager for Utilities, provided a presentation titled, "Building the Countywide Utility" and introduced members of the Salisbury-Rowan Utilities (SRU) Management Team: John Vest, Deputy Director for Administration; Jim Behmer, Utilities Engineering Manager; Randy Cauble, Plant Operations Manager; Carol Hamilton, Environment Services Manager; Larry Lyerly, Systems Maintenance Manager; Mike West, Finance Manager; Patrick Kemmerly, Planning Manager; and Jeff Jones, Senior Engineer. The Board of Directors is composed of Salisbury Mayor Susan W. Kluttz, Salisbury City Council, and the Salisbury City Manager.

Mr. Bernhardt noted that it is fitting for SRU to be speaking to the communities of Rowan County because:

- The predecessor to Salisbury-Rowan Utilities (The Salisbury Waterworks Company) was chartered in 1886 "to serve water to the citizens of Salisbury and Rowan County" – it is truly remarkable that after one hundred nineteen (119) years SRU is achieving its original purpose
- SRU represents a partnership of many of the local governments in Rowan County that recognizes that we are stronger together than separately

A recent major research project in the water and wastewater industry cited the following coming trends:

- Water quantity and quality problems are growing
- Public awareness/concerns are growing
- Regulation is expanding and increasing
- Water is becoming SIGNIFICANTLY more expensive
- Huge capital expenditures will be necessary
- Consolidation/regionalism is ongoing and growing
- Consumers are practicing more efficient use
- Technology is growing and advancing
- Consumer power is growing
- Partnerships – both public and private are growing

Mr. Bernhardt noted that specifically, "Utilities should consider regionalization and work to overcome natural political opposition to greater cooperation to spread the cost and benefits across a larger rate base. This opportunity is especially available to contiguous communities." He added that partnership plus economy-of-scale equals success.

Salisbury and Rowan County are being impacted by many/most of these trends right now – today, all of which impact the SRU budget and rates:

- Quantity: (Blessed by) the Yadkin River
- New Technology: Actiflo/Sodium Hypochlorite
- Consolidation: Salisbury-Rowan Utilities
- Consumer Power: Bottled Water/declining use
- Increasing regulations: See new permits
- Huge Capital Expenses: \$35 million in capital expansion
- Partnerships: County/communities/schools/developers
- Increasing cost: Recent rate increases

Salisbury-Rowan Utilities:

- Consolidation, diversification and expansion
- Follows current national industry trend towards regionalization due to rising costs and regulatory mandates
- Based on partnerships: Rowan County, Progress Energy, Granite Quarry, Rockwell, Spencer, East Spencer, and Faith
- Has greater efficiency without the duplication of costs characteristic of utility authorities/commissions
- Does not create an additional layer of government

Mr. Bernhardt stated that SRU is ninety-five (95) dedicated employees that operate and maintain:

- One (1) water treatment plant
- Three (3) wastewater treatment plants
- Eleven (11) water tanks
- Thirty-six (36) wastewater lift stations
- Eight (8) water pump stations
- Two (2) certified laboratories
- Over seventeen thousand (17,000) meters

All of which serves a population of more than forty-two thousand (42,000).

Mr. Bernhardt noted that SRU serves approximately one-third (1/3) of the population and about ten (10) percent of the area of Rowan County.

Building the countywide utility based on the principles of:

- Equal service and treatment (one rate)
- Rate minimization (as low as possible)
- Regulatory compliance (goal: zero violations)
- Joint and master planning (we must work together)
- Teamwork, communication, partnerships
- Quality service (to the highest level possible)
- Capacity maintenance (always plan ahead)
- Protection of rights (to our water supply)

Rationale:

- Water and sewer does not flow best according to political boundaries
- Water and sewer is not a “carrot” for annexation (should be based on Smart Growth Principles and strategic planning)
- The logic of equal treatment is undeniable and successful regionalization requires equity as well as trust and communication
- Rising costs are chasing out smaller systems and “middlemen”
- Everyone is chasing “economy-of-scale”

A little history – 1996 – Granite Quarry had:

- Significant debt from sewer conveyance system project
- Significantly higher rates than Salisbury
- Moderate Inflow & Infiltration (I&I)
- Inadequate funding for system expansion or maintenance
- A “middle-man” role resulting in higher rates for its customers
- Limited capacity for growth
- Insufficient economy- of scale

2005 – Granite Quarry has:

- Same rates as Salisbury
- Minimal I&I
- Improved funding for growth
- SIGNIFICANT capacity
- Greater economy-of-scale
- GIS-mapped infrastructure
- Improved system (in quality, capability, and reliability)
- System fully compliant with all State and Federal regulations

1996 – Rockwell had:

- Significant debt from the elimination of an aging and non-compliant waste water treatment plant (WWTP) and sewer conveyance system project
- A limited-capacity for growth (potential moratoriums for both water and sewer)
- Significantly higher rates
- Significant Inflow & Infiltration

- Limited capacity for growth (potential moratoriums for both water and sewer)
- Insufficient economy-of-scale to spread cost and moderate rate increases

2005 – Rockwell has:

- Same rates as Salisbury
- Minimal I&I
- Improved funding for growth
- SIGNIFICANT water capacity
- Greater economy-of-scale
- GIS-mapped infrastructure
- Improved system (in quality, capability and reliability)
- Water supply line to replace limited well supply
- System fully compliant with all State and Federal regulations

1999 – Spencer had:

- Aged WWTP that could not meet new wastewater regulations
- Significantly higher rates
- Significant I&I
- Inadequate funding for system expansion or maintenance
- Significant debt
- Insufficient economy-of-scale

2005 – Spencer has:

- Same rates as Salisbury
- Minimal I&I
- Improved funding for growth
- SIGNIFICANT capacity
- Greater economy-of-scale
- GIS-mapped infrastructure
- Improved system (in quality, capability, and reliability)
- System fully compliant with all State and Federal regulations

1998-99 – Salisbury had:

- Lost almost thirty (30) percent of its total water system demand when Cone Mills, Frito-Lay, American & Efird, Reynolds Aluminum and other users all left/closed in an eighteen (18) month period
- Lost its “economy-of-scale”:
  - Which in turns led to several years of significant rate increases
  - Culminated in a \$3 million (projected) revenue shortfall in 2001 that led to cutbacks in positions and expenditures

Economy-of-Scale:

- When SRU instantly lost three (3) of its top customers, (Cone Mills, American and Efird, and Frito-Lay) in 1998-99, it lost sales of over one million three hundred fifteen thousand eight hundred (1,315,800) gallons per day
- Based on SRU’s average residential use of one hundred sixty-two (162) gallons per day (6.5 billing units/month), it would take eight thousand one hundred twenty-two (8,122) additional residences to make up the difference
- Growth has only been about eight hundred (800) additional residences (ten (10) percent of what SRU needs)
- Until this Utility regains that lost amount of use, it will continue to struggle in terms of revenue and rate increases

SRU Project Approach:

- SRU will only invest in projects based upon a careful calculation of payback (it cannot afford to do otherwise – this means for Salisbury projects too)
- SRU will seek to “leverage” project dollars through grants, partnerships with client communities, developers, etc.
- Needs must be prioritized:
  - Regulatory requirements or emergencies
  - Projects that benefit entire customer base
  - Projects that add customers in a cost-effective manner
- Projects must be carefully planned and “built-right” the first time – we cannot afford mistakes

Mr. Bernhardt referred to a chart of average monthly utility bill comparisons for SRU and other water systems in the region and pointed out that SRU is in the middle while communities that serve as “middle-men” were ranked high. He commented that a typical sixteen (16) ounce bottle of water

costs \$.99 and pointed out that at the SRU rate the same \$.99 will buy two hundred seventy three (273) gallons or two thousand one hundred eighty-six (2,186) bottles of SRU water.

Mr. Bernhardt reviewed other services SRU can provide:

- Project design and management
  - Conceptual planning for utility extensions
  - In-house design
  - Project delivery, on time, within budget and with highest quality
- Planning and GIS services
  - SRU gladly shares GIS data and mapping with other local governments at no cost
  - Contract services for municipal planning (to seize opportunities for both, SRU needs to know the municipalities needs and issues)
  - Assistance in applying “Smart Growth” principles to community
- Septic hauling and sampling/testing (wells, etc.)

Mr. Bernhardt commented on the SRU Extension Fund:

- Designed to reward:
  - Growth of SRU customer base (and municipalities’ tax base)
  - Smart growth and development within municipalities
  - Improvements or benefits to SRU system
- Performance based reimbursement of developer water and sewer costs up to fifty (50) percent (based upon certificates of occupancy issued)
- Competitive application process and ten (10) year terms
- Available throughout SRU service area in all client (owned-system) communities

Conclusions:

- Outlook still positive/on the right track:
  - Expanded water capacity
  - Diversification equals great security
  - Competitive in region
  - Ready for growth
  - Adjusting to trends
  - Learning to be more of a “business”
  - Just need time, growth and support
- Cautionary notes:
  - Economy-of-scale: yet to be fully regained (many residential meters equals one (1) large meter)
  - Capital project investments must be made/spent CAREFULLY
  - Wastewater issues forthcoming
    - “Nutrient limits”/Total Maximum Daily Load on Yadkin River
    - WWTP needs (2 old plants)

Mr. Bernhardt commented that the bottom line is every community (including Salisbury) that is represented by Salisbury-Rowan Utilities made a smart decision and is better off than they were previously (in terms of their water and wastewater systems and service, cost, and quality). He added that the countywide utility does work as long as everyone works together. He concluded by quoting the Salisbury Vision 2020 Plan, which states, “We see a high quality water supply system, sufficient for growth, well maintained, and financially self-supporting.” Mr. Bernhardt stated that SRU’s ultimate goal is to be the finest water and wastewater utility in the State of North Carolina and to have each of the communities SRU serves think of SRU as their utilities department.

City Manager David Treme then asked representatives from the client communities to state what they felt their interests or concerns were regarding SRU.

- Spencer
  - Projects evaluated the same as everyone else
  - Trust
  - Working relationships with outlying communities
  - Joint planning
- Rockwell
  - Communication
  - Routine contact
- Spencer
  - Fire hydrants
  - Strength in combined systems
  - Economic growth area – creative financing options

- I-85/US52 potential growth

Mr. Bernhardt indicated that SRU has discussed assigning a member of its management team to each of the client communities to attend their board meetings and be their one contact and communication source.

Mr. Treme noted that East Spencer and Faith are a little different in that they contract with SRU to operate their systems. Faith Mayor Gary Gardner stated that he felt they were in the beginning stages but he felt SRU would soon assume their sewer system and hopefully the water will follow.

Councilman Burgin commented that he was pleased the communities have joined SRU because they have helped Salisbury and he feels the system is far stronger as a partnership.

Mayor Klutz thanked everyone for attending the lunch meeting and noted that Council wanted to continue to improve its relationship with the municipalities and the County. She added that she felt this type of communication is important in order for SRU to do a good job.

The meeting was adjourned at 1:45 p.m. No action was taken by Council.

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Mayor

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City Clerk