



ORANGE WATER AND SEWER AUTHORITY

Quality Service Since 1977

AGENDA **MEETING OF THE OWASA BOARD OF DIRECTORS** **THURSDAY, FEBRUARY 22, 2007, 7:00 P.M.** **CHAPEL HILL TOWN HALL**

In compliance with the "Americans with Disabilities Act," interpreter services are available with five days prior notice. If you need this assistance, please call the Clerk to the Board at 537-4217 or aorbich@owasa.org.

7:00 PM

Announcements

1. Announcements by the Chair
 - A. Any Board member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time.
2. Announcements by Board Members
3. Announcements by Staff
 - A. Sustainable Landscaping Workshops in March 2007 (Greg Feller)
 - B. Change to Disinfection of Drinking Water with Chlorine instead of Chloramines in the month of March (John Greene)
 - C. Happy 30th Anniversary OWASA (Ed Kerwin)

7:20 PM

Petitions and Requests

1. Public
2. Board
3. Staff

CONSENT AGENDA

7:25 PM

Information and Reports

1. [Annual Report on Recreation at University Lake and the Cane Creek Reservoir \(John Greene\)](#)
2. [Quarterly Report on Water Consumption, Water and Sewer Extensions and Connections \(Kevin Ray\)](#)

Minutes (Andrea Orbich)

3. [Approval of Minutes of the January 25, 2007 Meeting of the Board of Directors](#)

REGULAR AGENDA

Information and Reports

7:30 PM

4. [Quarterly Financial Report and Analysis \(Kevin Ray\)](#)

Discussion

7:40 PM

5. [Rate Study Work Session \(Gordon Merklein\)](#)

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Kenneth Loflin

DATE: February 15, 2007

SUBJECT: 2006 Annual Recreation Report for University Lake
and Cane Creek Reservoir

Opening Day

Cane Creek Reservoir and University Lake both opened for the 2006 recreation season on Saturday, March 25, 2006. Opening day was once again proclaimed “Lightning Brown Day at the Lakes”, continuing the tradition from previous years. “Lightning Brown Day at the Lakes” was created by action of the OWASA Board of Directors in honor of Mr. Lightning Brown, a former member of the OWASA Board of Directors and well know community activist. Each year on the opening day, boat rental and lake user fees are waived at both facilities in recognition of Mr. Brown’s service to the community.

Opening day 2006 recorded 39 visitors to University Lake while Cane Creek recorded 107 visitors for a combined total of 146 visitors. This represents a 38% decline in visitors when compared to the 2005 season which welcomed 235 visitors on the first day of the new season. A total of 71 boats were issued to this year’s visitors and an estimated \$1,004 in lake use and boat rental fees were waived.

Operating Schedule

The lakes are open for recreation from the first Saturday after the first day of spring through the second Sunday in November. During the 2006 season, University Lake was open Friday through Monday from 6:30 AM to 6:00 PM during the months of March, April, September, October and November. A trial program to extend the operating hours at University Lake from dawn until dusk during the months of May through August was implemented during the 2006 season. Cane Creek Reservoir was open Thursday through Saturday from 6:30 AM to 6:00 PM and on Sunday from 1:00 PM to 6:00 PM.

As previously noted, and in accordance with a Board approved one year trial period, the operating hours at University Lake were extended from dusk until dawn beginning in May and continuing through August. This resulted in the lake being open from approximately 6:30 AM until 8:30 PM Friday through Monday. The actual opening and closing times varied slightly based on the amount of available daylight.

During this four month trial period, there were 3,050 visitors to University Lake, with 15.3% of the total visitors remaining at the lake after the normal 6:00 PM closing time. While 465 (15.3%) of the total visitors remained at the lake after the normal closing time, only 70 visitors or 2.3% arrived at University Lake after 6:00 PM. Based on the information collected, the extended operating hours did not appear to increase the overall attendance at University Lake but basically resulted in people that had arrived earlier in the day staying later in the evening.

The May through August trial period required the lakes to be staffed and operate an additional 132 hours and resulted in an additional operating cost of approximately \$2,277. The amount of revenue generated from visitors that came to the lake before 6:30 AM or after 5:00 PM was \$944.

During an October 12, 2006 discussion on the user demand and cost associated with the extended hours at University Lake, the Board agreed not to take any formal action to continue or abandon the expanded hours of operation for recreation at the reservoir but to revisit this issue at a later date.

User Fees

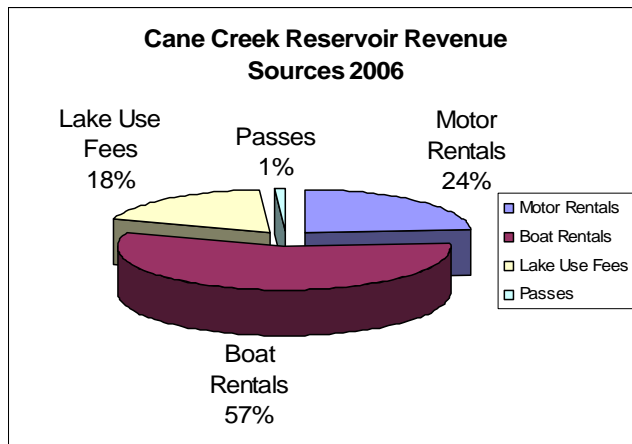
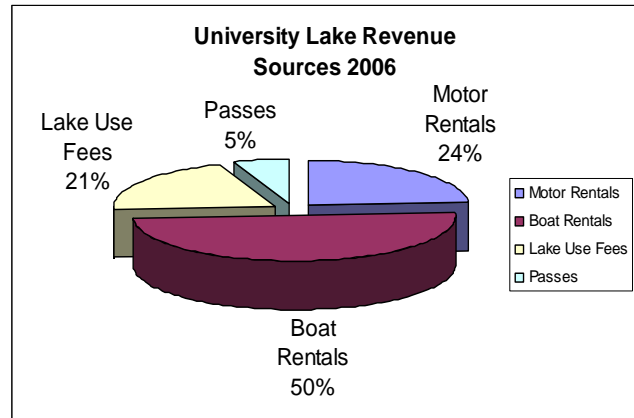
With the rate revisions approved by the Board effective October 1, 2005, lake visitors during the 2006 season saw an approximate 6.25% increase in lake user and boat rental fees. These fees remained unchanged until September 30, 2006 when the lake fees were again increased by approximately 6.25%. The table below shows the rates and fees for the 2006 and 2007 seasons.

Lake Use Fees

		2006 Fees (10/1/2005-9/30/2006)	2007 Fees (10/1/2006-9/30/2007)
Boat Rental	Orange County Resident	\$ 6.50	\$ 7.00
	Non-county Resident	\$11.00	\$11.50
<hr/>			
Motor Rental	Orange County Resident	\$12.75	\$13.50
	Non-county Resident	\$18.00	\$19.00
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Lake Use Fees	Orange County Resident	\$ 2.75	\$ 3.00
	Non-county Resident	\$ 4.25	\$ 4.50
	Senior or Child	\$ 1.25	\$ 1.25

Revenues

University Lake generated \$28,351 in total revenue during the 2006 season. This is a 2.2% decrease from the 2005 season, in which \$28,990 in total revenue was generated. Usage of University Lake during the 2006 season totaled 5,353 visitors, a 3.5% decrease over the 5,546 visitors from the 2005 season. Revenues generated per visitor during 2006 totaled \$5.33 as compared to \$5.22 in 2005.

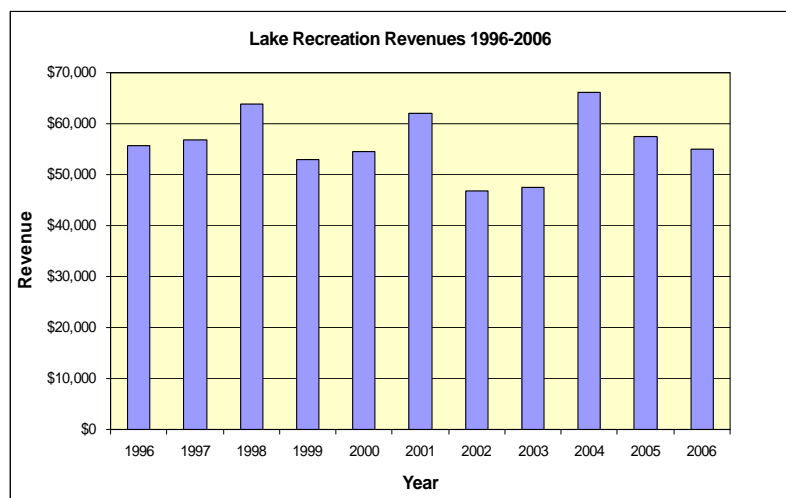


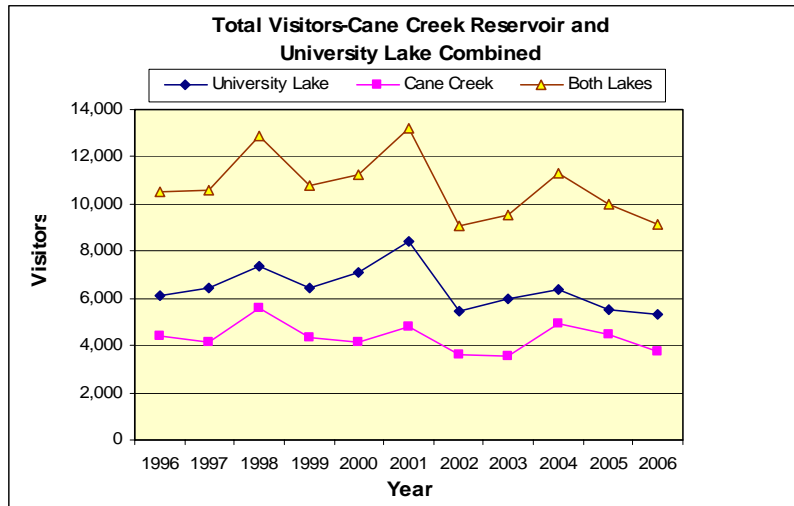
Cane Creek collected \$26,752 in total revenue, a 6% decrease over the \$28,496 from the 2005 season. Cane Creek received 3,771 visitors, 15% less than the 4,438 visitors received in 2005. Revenues generated per lake visitor in 2006 was \$7.09, a 11% increase from the \$6.37 generated per person in the 2005 season.

Overall a total of \$55,103 in revenue was generated from recreation activities at the two facilities. This is approximately 4% less than the \$57,487 generated during the 2005 season.

During 2006, the number of visitors at both the Cane Creek Reservoir and University Lake declined from the previous year however; the revenue generated per person increased from the previous year. The increase is due to the rate revisions and an increase in customers from outside Orange County, who pay a higher lake use and boat rental fee.

Overall attendance at both lakes has steadily declined since the 2004 season. During the 2004 season, the lakes saw a combined total of 11,302 visitors. In 2005, there were a total of 9,984 visitors and by 2006 this number dropped to 9,124. The 2006 attendance figure represents a 19% decline in attendance from the 2004 season. The increase in lake fees has helped to offset some of the revenue loss due to the declining attendance.





Demographics

Visitors to our recreation facilities during the 2006 season came from 29 different counties in North Carolina. Six visitors were from out of the country and 63 visitors were from out of state.

At University Lake, visitors came from 19 of the 100 North Carolina counties and accounted for 5,313 of the 5,353 visitors. The remaining 40 visitors were from out of the

country or from out of state. Orange County residents continue to makeup the majority of the visitors at University Lake (88.6%) followed by Durham County residents (4.5%) and Chatham County residents (2.4%).

Cane Creek Reservoir provided recreation for 3,742 visitors from 28 different counties. The remaining 29 visitors were from out of state. Although a much lower percentage than University Lake, Orange County residents were the majority of the visitors to Cane Creek Reservoir (44.6%) followed by Guilford County residents (14.3%), Alamance County residents (11.6%) and Robeson County residents (7.4%).

Season Passes

Four different categories of season passes are offered to lake patrons. The table below shows the fees for the different types of passes. A single boat pass is issued to only one person and includes the boat rental and lake use fee. The group pass is honored for up to four people including the person who is the holder of the pass. The same type of passes will be offered for the 2007 season however; there is an approved 6.25% increase in the fees of all new passes. Individuals have also expressed a desire to begin offering a lake users season pass.

Boat Pass Fees

Type of Pass	2006 Rates	2007 Rates
Single boat only	\$65.00	\$69.00
Single boat and motor	\$130.00	\$138.00
Group boat only	\$130.00	\$138.00
Group boat and motor	\$195.00	\$207.00

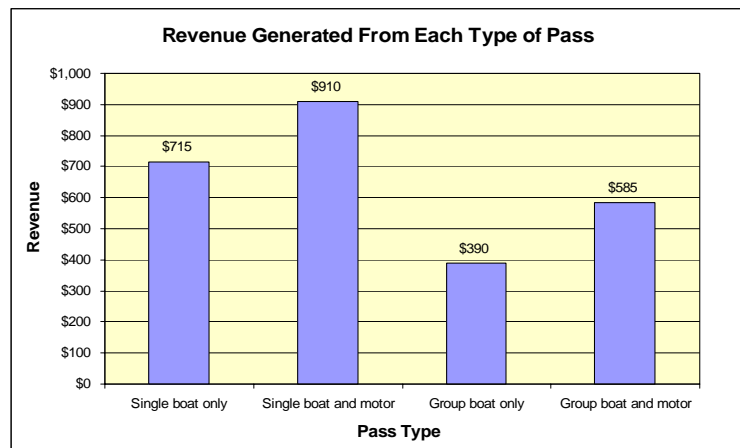
During the 2006 season, the most popular type of pass sold was the single boat only pass. A total of eleven passes were sold representing a 10% increase over the 2005 season. The

following table shows the number of each type of pass sold during the 2005 and 2006 lakes seasons.

Number of Passes Sold By Type

	2005	2006	Change (%)
Single boat only	10	11	10%
Single boat and motor	2	7	350%
Group boat only	4	3	-25%
Group boat and motor	3	3	--
TOTAL	19	24	26%

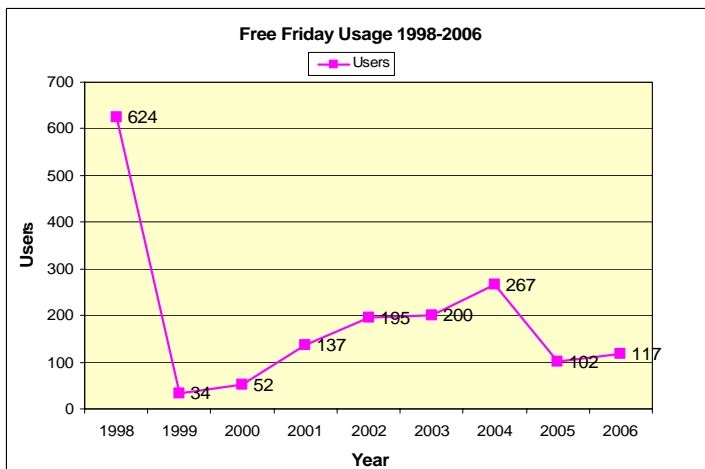
The seven single boat and motor passes issued generated \$910 in revenue. The group boat only pass generated the least amount of revenue at \$390.



The total 24 passes sold during the 2006 season represented a 26% improvement over the 19 passes sold during the 2005 season. Each of the 24 passes sold were used an average of 13 times. This is approximately the same usage rate noticed during the 2005 season.

Free Fridays

The summer of 1998 marked the first season in which OWASA offered a program entitled “Free Fridays at the Lakes”. This program was developed to promote customer awareness of the recreation opportunities offered at the lakes. During Free Fridays, OWASA customers are provided free access to either of the lakes and the use of a boat. In 2006, this program was offered every Friday from July 14th to August 18th. Presentation of a current OWASA water bill or proof of Orange County residency by renters is the only requirement to take advantage of the program and use the recreation facilities.



In 2006, a total of 117 residents participated in the Free Friday program, versus the 102 residents during the 2005

season. This represents a 15% increase in participation over the 2005 season however; participation is no where near the 1998 level of 624 visitors. At University Lake, 41 boat fees were waived and 9 boat fees were waived at Cane Creek Reservoir. Total lake use and boat rental fees waived during the 2006 Free Fridays program were approximately \$509 compared to \$409 during the 2005 program.

Expenses versus Revenues

Exhibit A provides an overview of revenues collected from 1998 through the 2006 lake seasons. The lakes' staff completes a work allocation report each day. The report charges all work time to one of five categories which includes: maintenance, recreation activities, security, grounds, and office/other. A portion of each of the five categories is allocated to the cost to operate the two lakes as public recreation facilities. Exhibit B provides a comparison of the total annual expenses incurred to operate the lakes for raw water supply and recreation purposes. From past experience we know that the cost of providing recreation is about 48 percent of the total cost of operating the lakes. Utilizing these numbers, one is able to calculate the difference and determine the funds required to offset the difference between revenues generated and expenses incurred.

As shown in Exhibit B, expenses exceed revenues by \$102,205 in 2006. The ratio of the cost of providing services to revenues generated is also worth noting. The ratio was 2.85, indicating that expenses totaled \$2.85 for every \$1.00 in revenues generated. This is somewhat higher than the ratio during the 2005 season which was \$2.54. Staff will continue to investigate ways to reduce the cost of providing public recreation at the two lakes. Past efforts have included the purchase of more durable equipment, optimization of operating schedules to better reflect customer usage patterns and limiting the use of part time summer help. Labor remains the largest expense in the operation of both lakes.

Potential issues to consider

There are several issues that staff believes the Board should consider at a future meeting concerning the recreation activities provided at the reservoirs including the following:

- Declining attendance
- Status of expanded (dawn to dusk) operating hours
- Reducing expenses through a reduction in operating schedule
- Potential for additional revenue by expanding Sunday operating hours at the Cane Creek Reservoir
- Should the "Free Friday" program be continued?
- Point at which rate increases further impact attendance

I am available to address any questions the Board might have concerning this report or the lake operation.

Kenneth Loflin
Manager of Water Supply and Treatment

Exhibit A

Total Revenues from Lakes Operations

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Boat Rentals	\$ 33,674	\$ 28,105	\$ 29,105	\$ 33,159	\$ 23,928	\$ 26,771	\$ 36,868	\$ 31,599	\$ 29,905
Lake Use Fees	\$ 1,740	\$ 9,563	\$ 9,508	\$ 11,430	\$ 8,377	\$ 8,327	\$ 12,594	\$ 11,007	\$ 10,461
Electric Motor Rentals	\$ 14,262	\$ 11,700	\$ 12,928	\$ 14,776	\$ 12,166	\$ 11,455	\$ 5,199	\$ 13,021	\$ 12,777
Lakes Use Passes	\$ 3,000	\$ 2,350	\$ 2,500	\$ 2,500	\$ 2,000	\$ 750	\$ 1,440	\$ 1,860	\$ 1,950
Paddle & Pontoon Boat	\$ 765	\$ 762	\$ 4	\$ -	\$ 5	\$ 59	\$ -	\$ -	\$ 10
Sundries	\$ 477	\$ 390	\$ 410	\$ 142	\$ 348	\$ 195	\$ 98	\$ -	\$ -
TOTALS:	\$ 53,918	\$ 52,915	\$ 54,455	\$ 62,007	\$ 46,824	\$ 47,557	\$ 56,199	\$ 57,487	\$ 55,103

Exhibit B

Annual Expenses for Lakes Operations 2006 Season

	Total Lakes Operating Costs	Recreation Expenses
Full Time Employee Salaries	\$ 144,209	\$ 69,220
Fringe Benefits	\$ 46,147	\$ 22,151
Part Time Employee Salaries	\$ 42,103	\$ 42,103
Utilities	\$ 11,431	\$ 5,487
Materials and Supplies	\$ 15,212	\$ 7,302
Maintenance of Facilities	\$ 8,810	\$ 4,229
Annual Amortization of equipment	\$ 6,000	\$ 6,000
Miscellaneous Expenses	\$ 1,701	\$ 816
Totals	\$ 275,613	\$ 157,308
Deficit Funded From the General Fund		\$ 102,205
Cost Ratio -- Operating Cost/Revenues		2.85

MEMORANDUM

TO: Board of Directors
THROUGH: Ed Kerwin
FROM: Tammy Brown
DATE: February 16, 2007
SUBJECT: Quarterly Report on Consumption, Extensions and Connections

Purpose

This memorandum presents the quarterly report on consumption, extensions and connections for the period October, 2006 through December, 2006. It is provided per the Board of Directors' standing request for quarterly reporting on the following:

- (1) any persons located in unsewered areas who are allowed to connect to the water or sewer system under an unconventional arrangement and who therefore might not be included in a future assessment project;
- (2) *individual* connections that include main extensions greater than 100 feet;
- (3) all connections where fees *significantly exceed* typical costs for an individual lot;
- (4) a summary of *availability fee revenues received* for new water and sewer connections;
- (5) information on *UNC system demands and availability fees paid*; and
- (6) the ratio of gallons of water billed to gallons of water pumped to the distribution system.

1. Unconventional Service Connection Arrangements

There were none during the reporting period.

2. Individual Connections Requiring Main Extensions Greater Than 100 Feet

There were none during the reporting period.

3. Lot Connections Involving Significantly Higher Availability Fees Than Normal

There were none during the reporting period.

4. Availability Fee Revenues Earned for Water and Sewer Connections

Attachment #1 shows the number of new meters set and corresponding number of "5/8-inch meter equivalents" (meters larger than 5/8-inch in diameter are counted as the mathematical equivalent of 5/8-inch meters based on the ratio of the flow capacities) as well as the

availability revenues earned, by quarter, for the past two fiscal years and through the second quarter of Fiscal Year 2007. Attachment #2 compares the total fees paid by month for the past two fiscal years and through the second quarter of the current fiscal year.

Total availability fees earned through the second quarter of FY 2007 exceeded fees earned for the same period in the prior year. However, the number of new meters and total 5/8-inch meter equivalents (5/8" MEs) connected for the current fiscal year are about 50% and 24 percent lower, respectively, than for the same period in the prior year. The availability fee revenues increased because UNC began paying availability fees for new connections on the main campus beginning September, 2006 per an agreement between UNC and OWASA.

The total number of new meters (74) and new 5/8-inch MEs (254.5) set for the first half of the current fiscal year were the lowest for any first half year in the last twelve years. It is too early to determine if the recent reduction in meters set and meter equivalents is an indication of a longer-term reduction in our customer growth rate.

Plan review activity has remained relatively stable for the past several years and a number of new development projects are in the review and approval process or already under construction. However, we believe that in light of recent experience, it is appropriate to continue making conservative assumptions for budget development and long-term financial planning purposes.

The financial model under development as part of the rate study currently assumes that the annual number of new 5/8-inch meter equivalents set will gradually decline from 450 in FY 2007 to 375 by FY 2021.

5. UNC Demands and Availability Fees Paid

During the second quarter of FY 2007, water gallons billed to the University totaled approximately 190 million gallons, or 2.06 million gallons a day. That was nearly 29 percent of the total system demand, which is comparable to the same quarter for the prior year but higher than the annual average. Billed charges to UNC totaled about \$1.175 million, which was more than 22 percent of the total charges billed to our customers. This is comparable to the same quarter of the prior year.

During the second quarter of FY 2007, availability fee revenues earned from UNC totaled about \$35,000 which is only about 13 percent of the total availability fee revenues collected during the quarter.

6. Ratio of Water Gallons Billed to Gallons Pumped to Distribution System

From October through December 2006, the estimated ratio of water gallons billed to the volume of water pumped into our distribution system was 88%, which is slightly lower than our historical average but within the normal range of variance. The ratio for the first six months averages 91 percent. We closely monitor this important performance indicator to ensure there is not a long-term trend in decline of the ratio of water sold to water pumped to the system. Average day water sales have been running slightly below budget for the current year.

UNC SYSTEM DEMAND				
Period	\$ Billed	% of Total Sales	Gallons Billed (Water)	% of Total Demand
Oct – Dec 2006	\$1,239,002	22.3%	189.389 million	28.9%
Oct – Dec 2005	\$1,174,852	21.8%	195.518 million	28.1%

TOTAL SYSTEM - WATER GALLONS BILLED				
Period	Gallons Pumped	Gallons Billed	% Billed	% Unbilled
Oct – Dec 2006	743.371 million	655.601 million	88.1%	11.9%
Oct – Dec 2005	755.055 million	695.304 million	91.8%	8.2%

Alternatives for Future Reporting of This Information

Staff believes that the key information provided in this quarterly is, or can be, covered in other reports to the Board, including the quarterly financial report and the annual update of the Master Plan. For several years, there have been no unconventional service connection arrangements, no unusually long main extensions for individual lots, and no unusually high service availability fees paid for individual lots.

As an alternative approach, staff recommends that this quarterly report be discontinued and that the relevant information needed by the Board, such as water sold to water pumped ratios, and trends in availability fees paid and new meters set, be included in other regular reports that are provided to the Board.

Closing

The second quarter of FY 2007 saw a marked decrease in total availability fees paid, meters set, and 5/8-inch MEs set compared to the prior quarter, and the same quarter for the prior year. Growth in total water sales and meter equivalents remain well below historical trends. Our water sold to water pumped ratio of 88 percent for the quarter was slightly below our stated goal and industry benchmark of 90 percent but within the normal range of variance.

We will continue to monitor and report on these important indicators and trends, and incorporate this information in future demand and revenue projections.

We look forward to your questions, comments and suggestions concerning the report content and format.

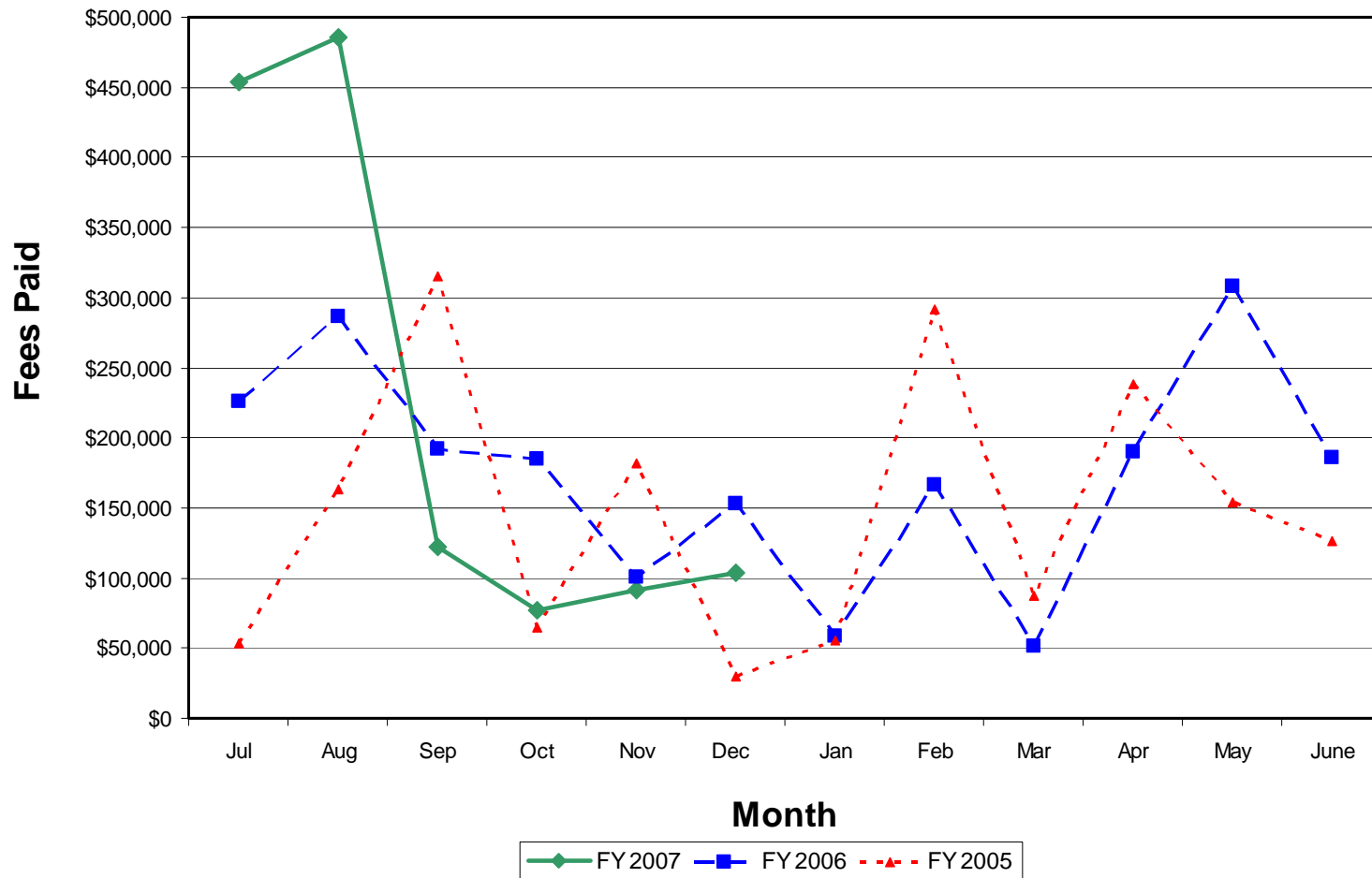
Tammy Brown, Customer Service Manager

Attachments

**ORANGE WATER AND SEWER AUTHORITY
FEES PAID FOR WATER AND SEWER CONNECTIONS
FOR FISCAL YEAR 2006 AND THE SECOND QUARTER OF FISCAL YEAR 2007 (Ending 12/31/06)**

Month/ Year	Availability Fees Revenues			Revenues 1 Year Ago	% Change from Prior Year	New Meters Actually Set		
	Water	Sewer	Total			#	5/8-Inch Equiv.	
FISCAL YEAR 2006								
Q1 FY 06	July 05	\$116,622	\$109,035	\$225,657	\$53,660	320.53%	28	53
	Aug 05	\$151,588	\$134,587	\$286,175	\$163,282	75.26%	47	146
	Sept 05	\$93,099	\$98,699	\$191,798	\$315,493	-39.21%	23	40.5
	Quarter	\$361,309	\$342,321	\$703,630	\$532,435	32.15%	98	239.5
Q2 FY 06	Oct 05	\$86,174	\$98,667	\$184,841	\$65,194	183.52%	12	33
	Nov 05	\$46,151	\$54,805	\$100,956	\$181,982	-44.52%	32	45.5
	Dec 05	\$80,329	\$73,150	\$153,479	\$29,431	421.49%	7	14
	Quarter	\$212,654	\$226,622	\$439,276	\$276,607	58.81%	51	92.5
Q3 FY 06	Jan 06	\$39,012	\$19,382	\$58,394	\$55,668	4.90%	7	8.5
	Feb 06	\$76,801	\$89,055	\$165,856	\$291,974	-43.19%	16	36
	Mar 06	\$35,897	\$15,437	\$51,334	\$86,820	-40.87%	10	31
	Quarter	\$151,710	\$123,874	\$275,584	\$434,462	-36.57%	33	75.5
Q4 FY 06	April 06	\$89,411	\$100,578	\$189,989	\$238,513	-20.34%	18	32
	May 06	\$151,231	\$156,536	\$307,767	\$154,389	99.35%	15	42
	June 06	\$113,606	\$72,654	\$186,260	\$126,449	47.30%	17	25
	Quarter	\$354,248	\$329,768	\$684,016	\$519,351	31.71%	50	99
FY 06 Totals	\$1,079,921	\$1,022,585	\$2,102,506	\$1,762,855	19.27%	232	506.5	
FISCAL YEAR 2007								
Q1 FY 07	July 06	\$210,577	\$243,015	\$453,592	\$225,657	101.01%	29	104
	Aug 06	\$182,318	\$303,699	\$486,017	\$286,175	69.83%	6	13
	Sept 06	\$74,977	\$47,649	\$122,626	\$191,798	-36.07%	12	71.5
	Quarter	\$467,872	\$594,363	\$1,062,235	\$703,630	50.96%	47	188.5
Q2 FY 07	Oct 06	\$31,574	\$45,616	\$77,190	\$122,806	-37.14%	9	13
	Nov 06	\$55,128	\$36,088	\$91,216	\$127,304	-28.35%	12	47
	Dec 06	\$44,939	\$58,710	\$103,649	\$162,359	-36.16%	6	6
	Quarter	\$131,641	\$140,414	\$272,055	\$412,469	-34.04%	27	66

OWASA Water and Sewer Availability Fees Revenues: Fiscal Years 2005 and 2006 and through Second Quarter of Fiscal Year 2007



DRAFT

ITEM 3

ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

JANUARY 25, 2007

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held a regular Business Meeting on Thursday, January 25, 2007, at 7:00 P.M., in Council Chambers at Chapel Hill Town Hall.

Directors present: Michael A. (Mac) Clarke, Chair; Randy Kabrick, P.E., Vice Chair; Fred Battle; Marge Anders Limbert; Penny Rich; Laura Sandvik; and William R. Stott, III. Directors absent: Milton S. Heath, Jr.; and Gordon Merklein, Secretary.

OWASA staff: Ed Kerwin, John Greene, Gwen Burston, Mason Crum, Patrick Davis, Greg Feller, Ed Holland, Andrea Orbich, Kevin Ray and Paula Thomas; and Robert Epting, Esquire, Epting and Hackney.

Others present: Meg Holton, Water, Wastewater, and Stormwater Manager, UNC; and Chris Moran, Director, Inter Faith Council.

There being a quorum present, Chair Mac Clarke called the meeting to order.

MOTIONS ACTED UPON

1. Marge Anders Limbert moved to adopt the minutes of the December 14, 2006, Meeting of the Board of Directors. The motion was seconded by Penny Rich, and carried by unanimous vote.

2. Fred Battle made a motion that the Board convene in a closed session for the purpose of discussing land acquisition. The motion was seconded by William Stott and carried by unanimous vote.

ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Mac Clarke said any Board Member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time. There were none.

COMMITTEE MEETINGS

Penny Rich said the Ad Hoc Art Committee will meet on Thursday, February 8, 2007, at 6:00 P.M. in the OWASA Boardroom to discuss next steps for the atrium art project.

Randy Kabrick said the Natural Resources/Technical System Committee met and reviewed an outline of the draft long-term biosolids plan prepared by staff; progress is being made.

LEADERSHIP ADVISORY COMMITTEE

Randy Kabrick said the Leadership Advisory Committee (LAC) for Carolina North met on January 18, 2007 and will provide the Final Report to University Chancellor James Moeser in the coming weeks.

ITEM TWO: PETITIONS AND REQUESTS FROM THE PUBLIC, THE BOARD AND STAFF

Mac Clarke asked for petitions and requests from the public, the Board and staff. There were none.

ITEM THREE: PROGRESS REPORT ON NORTH CAROLINA CLEAN WATER MANAGEMENT TRUST FUND GRANTS

The Board received the progress report on North Carolina Clean Water Management Trust Fund (CWMTF) grants as an information item and thanked Ed Holland for his work.

Randy Kabrick noted that there was a recent study by the Legislature to consider combining the CWMTF with the Ecological Enhancement Program.

ITEM FOUR: MERIT PAY DISTRIBUTION REPORT

The Board received the merit pay distribution report as an information item.

ITEM FIVE: VISION CARE PLAN PROGRAM

The Board received the vision care plan program as an information item.

ITEM SIX: SEMI-ANNUAL CONTRACTOR AND CONSULTANT PERFORMANCE REPORT

The Board received the semi-annual Contractor and Consultant Performance Report as an information item.

ITEM SEVEN: MINUTES

Marge Anders Limbert moved to adopt the minutes of the December 14, 2006, Meeting of the Board of Directors. The motion was seconded by Penny Rich, and carried by unanimous vote. Please see Motion No. 1 above.

ITEM EIGHT: PROPOSED REFINEMENTS TO THE ORANGE WATER AND SEWER AUTHORITY (OWASA) POLICY FOR ADJUSTMENT OF CUSTOMER ACCOUNTS FOR EMERGENCY SITUATIONS INVOLVING LOSS OF METERED WATER

Kevin Ray provided a summary on the staff proposed refinements to OWASA's Policy for Adjustment of Customers Account for Emergency Situations Involving Loss of Metered Water (Emergency Water Loss).

Marge Anders Limbert asked what percent of adjustments are over \$3,000 and whether the owner or renter pays for OWASA service to non-owner occupied locations. She said that if the renter pays the water bill, the proposed policy does not have incentives for the owner to correct water loss problems.

Mr. Ray said he does not have the number of adjustments over \$3,000 but would provide that information to the Board.

Randy Kabrick said that OWASA owns the water system to the meter and that after the meter, the customer is responsible for paying the bill. He said he does not think the proposal is a good policy.

Fred Battle said that because an owner can be out of town and have a water pipe break due to cold weather or the like, there should be an exception for this type of instance.

Ms. Limbert suggested looking at other utilities' policies.

Ed Kerwin said that this issue is a policy matter for the Board, but that staff believes a policy like the proposal, or similar to it, is desirable. The Customer Service staff deals with people everyday who are truly deserving of a water loss adjustment, but we want discourage customers who have taken advantage of the present policy.

Penny Rich said she would not want to support irrigation type of adjustments.

Mr. Kabrick suggested OWASA offer free inspection of homes for potential water loss as part of promoting water conservation.

The Board agreed that staff would revise the policy for consideration at a future Board meeting to include: a lower maximum dollar limit for adjustments; to remove the language for unexplained water loss; to eliminate adjustments for irrigation systems; and to limit the adjustment for readily visible fixtures to one month.

ITEM NINE: CONCEPTUAL DRAFT STATEMENT OF OWASA'S SUSTAINABILITY GOAL AND OBJECTIVES AND PROPOSED ADMINISTRATIVE GUIDE FOR SUSTAINABLE PURCHASING AND CONTRACTING

Patrick Davis and Paula Thomas provided the Board a brief review of a conceptual draft Statement of OWASA's Sustainability Goal and Objectives and a proposed Administrative Guide for Sustainable Purchasing and Contracting.

Marge Anders Limbert thanked staff for their work on this exceptional report and provided three comments. Under *Social Performance, Our Employees*, it is suggested to add the word "diverse" to highly talented and skilled; *Economic Performance*, regarding pricing our services based on cost of services taking in to account life cycle costs, adding "and resource protection costs"; and finally, *The Challenge of Balancing Objectives*, add another bullet on the order of "incorporate true cost principles in our rate schedules."

Randy Kabrick said he appreciated the summary of OWASA's sustainability initiatives and OWASA's progress with the initiatives, and that it is important to consider the goals and objectives for each initiative. Mr. Kabrick also suggested staff consider pre-qualifying vendors or contractors.

The Board agreed that Ms. Thomas would electronically send the Conceptual Draft Statement of OWASA's Sustainability Goal and Objectives to the Board and each Board Member's comments would then be sent to Ms. Thomas with copies to all Board Members. When all comments have been received, this information will be provided the Board at a future meeting.

ITEM TEN: MARKETING AND FUNDRAISING FOR THE TASTE OF HOPE CUSTOMER ASSISTANCE PROGRAM

Penny Rich briefly summarized the marketing and fundraising for the Taste of Hope Customer Assistance Program to the Board.

Mr. Chris Moran, the Inter-Faith Council's Executive Director, thanked the Board for establishing the Taste of Hope program for the community. Mr. Moran encouraged the Board to continue the marketing and fundraising of this program. In 2006, the Inter-Faith Council reached about 2,000 households, but there are many more homes that need help. Mr. Moran stated that he and his staff are willing to go in the community to encourage donor participation in the Taste of Hope program.

Marge Anders Limbert suggested that the OWASA Board invite members of the Orange County Board of Commissioners, Carrboro Board of Aldermen and the Chapel Hill Town Council who are OWASA customers to sign up as donors and then issue press release stating what they have done and encourage other OWASA customers to enroll in the program.

Laura Sandvik suggested that OWASA have a check box on the bill that they can simply check and sign to enroll as donors

DRAFT

William Stott suggested adding Taste of Hope as a sustainability initiative under social performance.

The Board agreed to refer the marketing of Taste of Hope program to the Board's Ad Hoc Community Outreach Committee for discussion and consideration.

ITEM ELEVEN: DRAFT STATEMENT OF STRATEGIC ISSUES AND POLICIES AND
DRAFT PLANNING ASSUMPTIONS AND BACKGROUND
INFORMATION DOCUMENT FOR THE FY 2007-2008 BUDGET

The Board received an update on the Draft Statement of Strategic Issues and Policies and Draft Planning Assumptions and Background Information Document for the FY 2007-2008 budget as an information item.

ITEM TWELVE: VERBAL UPDATE ON THE CHAPEL HILL TOWN COUNCIL MEETING
ON JANUARY 22, 2007, REGARDING ODOR ELIMINATION AT THE
MASON FARM WASTEWATER TREATMENT PLANT (WWTP)

Mac Clarke told the Board that he and Ed Kerwin attended the Chapel Hill Town Council meeting on January 22, 2007. Mr. Clarke said he summarized OWASA's letter to Mr. Roger Stancil, Chapel Hill Town Manager, regarding OWASA's Odor Elimination Goal to the Council. Mr. Clarke said that Mr. Gary Richman, of the Highland Woods neighborhood, agreed with OWASA's proposal, that the Council was appreciative of the efforts of OWASA and the citizens at arriving at the preliminary parameters, and that the definition of odor elimination is a work in progress. OWASA was requested to update the Council by April 30 regarding the progress on the definition.

ITEM THIRTEEN: CLOSED SESSION

Fred Battle moved that the Board go into a Closed Session for the purpose of discussing land acquisition. The motion was seconded by William Stott and carried by unanimous vote. Please see Motion No. 2 above.

There being no further business to come before the Board, the meeting was adjourned at 8:45 P.M.

Respectfully submitted,

DRAFT

Andrea Orbich
Executive Assistant

Encs.

AGENDA ITEM

• **QUARTERLY FINANCIAL REPORT AND ANALYSIS**

BACKGROUND

- The Quarterly Financial Report presents financial information in both budgeting and accounting formats, or modified accrual and full accrual, respectively.
- Total operating revenues through the second quarter of Fiscal Year 2007 approximated \$13.8 million; one percent below projections.
- Service availability fees of \$1.3 million exceeded expectations and exceeded the previous year by \$191,000.
- Operational spending equaled 85% of appropriation.
- Capital improvements spending approximated 50% of projections.
- Debt service coverage exceeds 2.0 for the period.

PURPOSE

- The Quarterly Financial Report is provided to apprise the Board of Directors as to OWASA's financial position and trends on an ongoing basis.

ACTION NEEDED

- Board and staff discussion as appropriate.

February 16, 2007

MEMORANDUM

TO: Board of Directors
THROUGH: Ed Kerwin
FROM: Kevin M. Ray
DATE: February 16, 2007
SUBJECT: Quarterly Financial Report for the Quarter Ended December 31, 2006

Attached is OWASA's Quarterly Financial Report for the quarter ended December 31, 2006. The report is comprised of Statements of Revenues, Expenses and Change in Net Assets for, and through the quarter, a Statement of Net Assets as of December 31, 2006, and analyses of the Revenue Fund and General Fund activities.

BACKGROUND

The pro forma statements necessarily differ from the accompanying revenue and general fund analyses to reflect the differences in generally accepted accounting principles in financial reporting and the budgetary basis of accounting, or *full* accrual vs. *modified* accrual, respectively.

REVENUE FUND ANALYSIS

Analysis of the Revenue Fund indicates the following performance:

- Water demand for Fiscal Year (FY) 2007 was projected to average 8.14 million gallons per day (MGD). Actual sales volume approximated seasonally adjusted projections through the December 31, 2006, with total operating revenues within one percent of projections. Rate adjustments yielded total operating revenues through the second quarter of \$13.8 million. Operating receipts through the quarter exceeded receipts during the same period in the previous year by approximately \$625,000.

Operating Revenues (YTD)	Actual	Budget	Variance
Through 2nd Quarter FY 2007	\$13,823,245	\$13,932,723	(\$109,478)
Through 2nd Quarter FY 2006	\$13,198,365	\$12,875,946	\$322,419

- Service availability fees exceed projections by approximately 5.0%, and reflect an increase over the previous year by approximately \$191,000. Second quarter new connections, however, were substantially below the previous year.

Service Availability Fees (YTD)	Actual	Budget	Variance
Through 2nd Quarter FY 2007	\$1,334,292	\$1,269,253	\$65,039
Through 2nd Quarter FY 2006	\$1,142,906	\$1,196,606	\$53,700

- Department managers have once again held operational spending to a level well below appropriation. Total operating expenses of \$7.6 million are 14.5%, or \$1.3 million under budget.
- Fund performance lagged behind projections due to the unavailability of bond proceeds during the first quarter. Interest earnings have, and will continue to improve with the deposit of the Series 2006 bond proceeds.
- Actual debt payment requirements were \$865,000, or 18% less than budgeted through the second quarter. This welcome variance results from the savings that continue to accrue under the Series 2004B variable rate bonds, and because the estimated debt service for the year assumed a higher interest rate on the Series 2006 bonds than was achieved at the time of sale.

Average Variable Rate Oct. through Dec.:	Interest Expense	Cumulative Savings
3.59%	\$179,047	Prior Savings - \$1,086,273
Average Fixed Rate - 5.05%	\$251,644	2nd QTR. 2006-07 - \$72,597
		Remarketing/Liquidity Fees - (\$62,287)
		Total Life-to-Date Savings - \$1,096,583

- Reduced interest expense and operational savings yielded a debt service coverage ratio through the quarter of 2.07. The Annual Budget included a projected coverage of 1.40 for the full year.

GENERAL FUND ANALYSIS

The General Fund analysis reflects the definition of revenues per the Series 2001 Bond Order. Service availability and plan review fees appear in the Revenue Fund presentation, leaving only system appropriations, assessment receipts, grants and contributions as revenue sources not pledged to debt repayment.

Analysis of the General Fund indicates the following performance:

- The effect of the respective variances in Revenue Fund performance, primarily related to operational spending and lower than anticipated debt service requirements, resulted in a \$2.3 million contribution to the General Fund. This represents a bottom line surplus of \$1.8 million in cash originally anticipated to be available for capital spending through the first half of the year.

Contribution from Operations to General Fund (Available for Capital Spending)	
Through 2nd Quarter FY 2007	\$2,302,662
Through 2nd Quarter FY 2006	\$2,798,204

- Capital spending of approximately \$6.9 million approximates 50% of projections through the quarter. Construction at the Mason Farm Wastewater Treatment Plant and the Stone Quarry Pump Station comprised the majority of all capital spending.
- \$5.4 million in proceeds from the Series 2006 bonds were used to fund capital spending.

SUMMARY

From a current year budgetary viewpoint, performance during the first half of FY 2007 reflects a \$625,000 increase in operating revenue over the same period in the previous fiscal year. However, net of refunds and allowances, operating revenues fell short of projections by 1.2%. Service availability fees exceeded projections by \$65,000, and exceeded the previous year's receipts by \$191,000, but the number of connections decreased from the previous year.

Operational spending approximated 85% of FY 2007 appropriations as department managers continue to responsibly manage their respective appropriations. These savings combined with lower than anticipated debt service payments contributed to a contribution to the general fund of \$2.3 million to help pay the cost of capital improvements.

Capital improvement spending approximated 50% of planned expenditures by December 31. The Mason Farm Wastewater Treatment Plant improvements and expansion and the stone quarry pump station project accounted for approximately 70% of these capital expenditures, 100% of which has been funded, or will be funded, from bond proceeds. OWASA continues to enjoy significant interest savings under the variable debt approach with total savings, net of fees, of over one million dollars since June of 2004.

While this second quarter financial report reflects a better than expected bottom-line performance, it would be premature to draw inference as to fiscal performance for all of FY 2007. Staff will continue to provide financial performance reports to the Board of Directors on a quarterly basis in order to keep the Board apprised of ongoing fiscal position.

Kevin M. Ray
Director of Finance and Customer Service

ORANGE WATER AND SEWER AUTHORITY

QUARTERLY FINANCIAL REPORT

FOR THE QUARTER ENDED DECEMBER 31, 2006

ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2006

	December 31, 2006	June 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$6,733,549	\$7,417,100
Accounts Receivable:		
Trade (Net of Allowance for Uncollectable Accounts)	3,021,988	2,765,661
Interest	0	4,933
Other	310,075	819,324
Material and Supplies	846,215	609,485
Prepaid Expenses	644,909	271,007
Restricted Cash, Cash Equivalents, and Investments	<u>4,206,614</u>	<u>5,792,668</u>
TOTAL CURRENT ASSETS	<u>15,763,350</u>	<u>17,680,178</u>
NONCURRENT ASSETS		
Restricted Cash, Cash Equivalents, and Investments		
Cash and Cash Equivalents - OWASA	498,690	1,656,500
Cash and Cash Equivalents - Trustee	17,232,399	286,927
Investments	<u>0</u>	<u>0</u>
Total Restricted Cash, Cash Equivalents and Investments	17,731,089	1,943,427
Capital Assets, Net of Accumulated Depreciation	259,242,012	252,223,490
Patent, net of Accumulated Amortization	22,894	20,606
Unamortized Bond Expense, Net of Accumulated Amortization	<u>951,802</u>	<u>927,620</u>
TOTAL NONCURRENT ASSETS, NET	<u>\$277,947,797</u>	<u>\$255,115,143</u>
TOTAL ASSETS	<u>\$293,711,148</u>	<u>\$272,795,321</u>
LIABILITIES, CONTRIBUTIONS IN AID AND RETAINED EARNINGS		
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS)		
Trade and Construction Contracts Payable	2,279,317	4,179,249
Customer Deposits and Advances	985,694	423,180
Accrued Expenses	494,283	683,189
Current Portion of Capitalized Lease Obligations	0	0
Payable from Restricted Cash, Cash Equivalents and Investments		
Accrued Bond Interest	1,835,538	1,750,509
Current Portion of Bonds	0	<u>4,042,159</u>
TOTAL CURRENT LIABILITIES	<u>5,594,832</u>	<u>11,078,286</u>
LONG-TERM DEBT	115,198,733	92,365,723
TOTAL NONCURRENT LIABILITIES	<u>115,198,733</u>	<u>92,365,723</u>
TOTAL LIABILITIES	<u>120,793,565</u>	<u>103,444,009</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	161,693,781	160,813,755
Restricted for Debt Service and Future Capital Projects	4,434,565	1,925,585
Unrestricted	<u>6,789,237</u>	<u>6,611,972</u>
TOTAL NET ASSETS	<u>\$172,917,583</u>	<u>\$169,351,312</u>

ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For The Quarter Ended December 31,

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Water Revenue - Towns	\$2,249,960	\$2,203,719
Water Revenue - University	727,394	716,014
Water Tap Charge	14,867	19,753
TOTAL WATER REVENUE	2,992,221	2,939,486
Sewer Revenue - Towns	2,087,336	2,032,119
Sewer Revenue - University	509,732	456,899
Sewer Revenue - Piney Mountain	1,320	1,621
High Strength Waste Charge	17,683	20,937
Sewer Tap Charge	1,343	1,556
TOTAL SEWER REVENUE	2,617,414	2,513,132
Service Initiation	21,660	23,750
Rental Income	101,005	57,684
Fishing and Boating	5,921	7,303
Other	118,807	171,580
Refunds and Adjustments	(17,256)	(30,322)
TOTAL OPERATING REVENUE	5,839,772	5,682,613
OPERATING EXPENSES		
Water Supply and Treatment	506,260	537,717
Water Distribution	419,676	455,465
Sewer Collection	347,618	409,048
Sewer Treatment	599,764	735,853
General and Administrative	983,310	943,360
Customer Service	152,659	196,031
Maintenance	423,300	531,239
Laboratory	192,330	195,451
Depreciation	1,733,244	1,718,408
TOTAL OPERATING EXPENSE	5,358,161	5,722,572
NET OPERATING INCOME	481,611	(39,959)
NON-OPERATING INCOME (EXPENSE)		
Customer Fees	272,056	439,277
Interest Income	286,093	209,147
Other	(14,570)	(14,272)
Gain (Loss) in Fair Market Value of Investments	0	0
Interest Expense	(1,146,423)	(1,024,419)
Amortization of Bond Expense	(15,435)	(35,683)
TOTAL NON-OPERATING INCOME	(618,279)	(425,950)
INCOME (LOSS) BEFORE CONTRIBUTIONS	(136,668)	(465,909)
CAPITAL CONTRIBUTIONS		
Grants and Contributions	125,923	99,826
Contribution in Aid of Construction	<u>23,500</u>	<u>275,054</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>149,423</u>	<u>374,880</u>
INCREASE IN NET ASSETS	12,755	(91,029)
Net Assets:		
Beginning	<u>\$ 172,904,828</u>	<u>\$ 166,192,090</u>
Ending	<u>\$ 172,917,583</u>	<u>\$ 166,101,061</u>

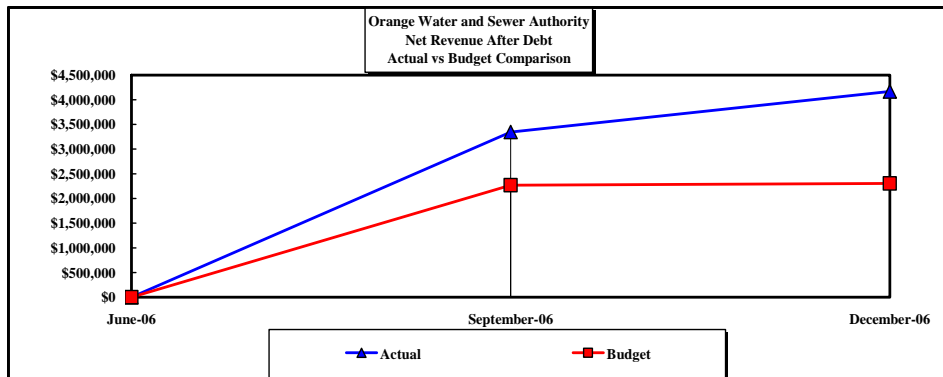
ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For The Six Months Ended December 31,

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Water Revenue - Towns	\$5,906,237	\$5,538,778
Water Revenue - University	2,215,874	2,148,295
Water Tap Charge	<u>37,050</u>	<u>63,793</u>
TOTAL WATER REVENUE	8,159,161	7,750,866
Sewer Revenue - Towns	4,289,035	4,030,213
Sewer Revenue - University	1,000,503	860,499
Sewer Revenue - Piney Mountain	3,137	2,755
High Strength Waste Charge	33,201	38,636
Sewer Tap Charge	<u>3,142</u>	<u>11,995</u>
TOTAL SEWER REVENUE	5,329,018	4,944,098
Service Initiation	72,806	81,460
Rental Income	147,296	143,077
Fishing and Boating	24,557	26,617
Other	172,616	322,222
Refunds and Adjustments	<u>(33,713)</u>	<u>(69,974)</u>
TOTAL OPERATING REVENUE	13,871,741	13,198,366
OPERATING EXPENSES		
Water Supply and Treatment	1,186,540	1,186,341
Water Distribution	858,573	913,220
Sewer Collection	723,674	732,773
Sewer Treatment	1,200,053	1,435,848
General and Administrative	2,020,566	1,884,742
Customer Service	321,047	406,649
Maintenance	838,149	961,262
Laboratory	425,488	415,704
Depreciation	3,465,017	<u>3,432,607</u>
TOTAL OPERATING EXPENSE	11,039,107	11,369,146
NET OPERATING INCOME	2,832,634	1,829,220
NON-OPERATING INCOME (EXPENSE)		
Customer Fees	1,334,292	1,142,906
Interest Income	391,208	405,714
Other	16,380	(15,614)
Gain (Loss) in Fair Market Value of Investments	0	0
Interest Expense	(2,130,151)	(1,756,818)
Amortization of Bond Expense	<u>(50,830)</u>	<u>(71,365)</u>
TOTAL NON-OPERATING INCOME	(439,101)	(295,177)
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>\$2,393,533</u>	<u>\$1,534,043</u>
CAPITAL CONTRIBUTIONS		
Grants and Contributions	293,616	99,826
Contribution in Aid of Construction	<u>877,290</u>	<u>702,024</u>
TOTAL CAPITAL CONTRIBUTIONS	1,170,906	801,850
INCREASE IN NET ASSETS	<u>3,564,439</u>	<u>2,335,893</u>
Net Assets:		
Beginning	<u>\$ 169,353,144</u>	<u>\$ 163,765,168</u>
Ending	<u>\$ 172,917,583</u>	<u>\$ 166,101,061</u>

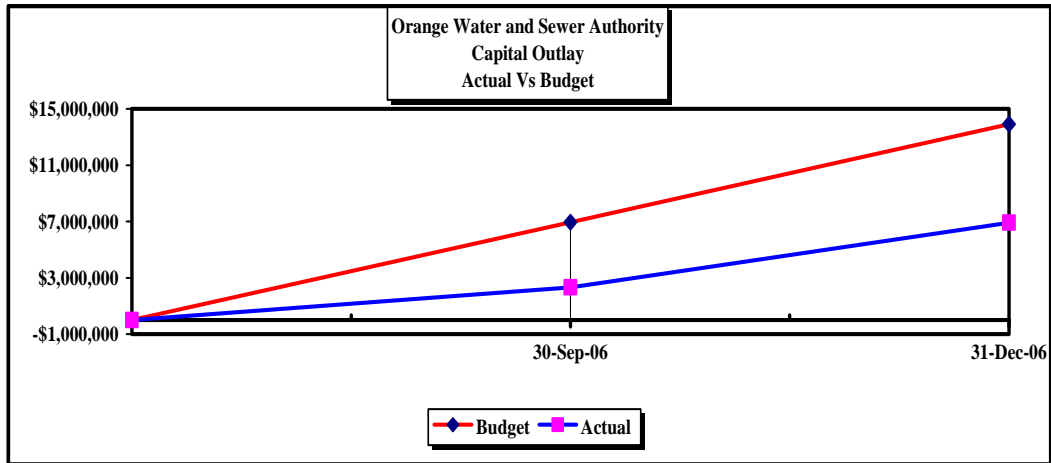
**ORANGE WATER AND SEWER AUTHORITY
NET REVENUE ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2006**

	Actual Through 12/31/06	Budgeted Through 12/31/06	Variance Over/ (Under)	
Operating Revenue:				
Water	\$8,159,162	\$ 8,144,166	14,996	
Sewer	\$5,329,019	\$ 5,433,607	(104,588)	
Less Refunds and Allowances	(33,713)	0		
Service Initiation Fees	72,806	72,500	306	
Other	<u>295,971</u>	<u>282,450</u>	<u>13,521</u>	
Total Operating Revenue	13,823,245	13,932,723	(109,478)	-0.79%
Nonoperating Income				
Customer Fees	1,334,292	1,269,253	65,039	
Other	<u>64,878</u>	<u>200,000</u>	<u>(135,122)</u>	-4.77%
Total Income	15,222,415	15,401,976	(179,561)	-1.17%
Operating Expense:				
G & A	2,020,566	2,325,276	(304,710)	
Customer Service	321,047	313,655	7,392	
Water Supply & Treatment	1,186,540	1,196,392	(9,852)	
Water Distribution	858,573	1,354,535	(495,962)	
Sewer Treatment	1,200,053	1,466,775	(266,722)	
Sewer Collection	723,674	791,081	(67,407)	
Maintenance	838,149	961,971	(123,822)	
Laboratory	425,488	451,129	(25,641)	
Total Operating Expense	<u>7,574,090</u>	<u>8,860,814</u>	<u>(1,286,724)</u>	-14.52%
Net Income	7,648,325	6,541,162	1,107,163	16.93%
Interest	<u>391,208</u>	<u>500,000</u>	<u>(108,792)</u>	-21.76%
Total Net Revenue	8,039,533	7,041,162	998,371	14.18%
Debt Service:	<u>3,873,151</u>	<u>4,738,500</u>	<u>(865,349)</u>	-18.26%
Net Revenue less Debt Service	\$ 4,166,382	\$ 2,302,662	\$ 1,863,720	80.94%



**ORANGE WATER AND SEWER AUTHORITY
GENERAL FUND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2006**

	Actual Through 12/31/06	Budgeted Through 12/31/06	Variance: Actual to Over/ Budget (Under)	
General Fund				
Available from Operations	\$4,166,382	\$2,302,662	1,863,720	80.94%
Assessments	1,802	13,500	(11,698)	
Grants & Contributions	<u>293,616</u>	<u>963,000</u>	<u>(669,384)</u>	
Annual Income Available for Capital Expenditures	4,461,800	3,279,162	1,182,638	
Bond Proceeds	<u>5,407,909</u>	<u>9,507,500</u>	<u>(4,099,591)</u>	
Total Available for Capital	9,869,709	12,786,662	(2,916,953)	-22.81%
Annual Capital Expenditures:				
Project Ordinances:				
General Fund Contribution	1,501,309	4,399,500	(2,898,191)	-65.88%
Costs Funded by Bond Proceeds	<u>5,407,909</u>	<u>9,507,500</u>	<u>(4,099,591)</u>	-43.12%
Total Project Spending	6,909,218	13,907,000	(6,997,782)	-50.32%
Capital Equipment	<u>40,990</u>	<u>63,000</u>	(22,010)	-34.94%
Total Capital Outlay	\$ <u>6,950,208</u>	\$ <u>13,970,000</u>	\$ (7,019,792)	-50.25%



AGENDA ITEM

- RATE STUDY WORK SESSION

PURPOSE

- To present and discuss rate study recommendations from the Budget and Financial Planning Committee, staff, and rate consultant.

BACKGROUND

- The Board of Directors has provided policy guidance regarding the ongoing rate study at work sessions held on June 15, 2006, September 7, 2006 and December 14, 2006.
- The Budget and Financial Planning Committee has held a series of meetings with staff and our rate study consultants from Burton & Associates to discuss and develop alternative water and sewer pricing structures and rate designs. The Committee met most recently on February 15, 2007 to review the study results and develop policy recommendations for consideration by the Board of Directors.
- The Committee's key recommendations include:
 - Rate increases in a given year should not exceed 9.5 percent.
 - Delay by one year the Board's stated intent to achieve a debt coverage ratio of 2.0 by Fiscal Year 2011.
 - Phase in the water and sewer cost reallocation over a five-year period.
 - Continue the seasonal rate structure for all non-residential customers.
 - Implement a new five-tiered increasing block conservation rate structure for the single-family and individually metered multi-family residential customer classes, effective October 1, 2007.
 - If the new increasing block rate structure is approved, also implement a 15,000 gallons "cap" on the volume of sewer gallons that will be billed to a single-family or individually-metered multi-family customer.
 - Maintain the current approach and methodology for calculating the fixed monthly charges for water and sewer service.
 - Apply the "Plant-in-Service" methodology for determining water and sewer availability fees, but do not phase in the increase in those charges over time.

RECOMMENDED ACTION

- Consider the rate study recommendations from the Budget and Financial Planning Committee, staff, and rate consultant and provide policy guidance to the staff and consultant.

February 22, 2007

MEMORANDUM

TO: Board of Directors

FROM: Ed Kerwin

DATE: February 16, 2007

SUBJECT: Rate Study Recommendations From the Budget and Financial Planning Committee, Staff, and Rate Consultant

PURPOSE

For consideration at the Board of Directors' Rate Study Work Session on February 22, 2007, this memorandum presents the Budget and Financial Planning Committee, staff and rate consultant recommendations regarding the ongoing rate study and future revisions to OWASA's water and sewer rates, fees and charges.

These recommendations reflect:

- the Board of Directors' policy guidance as summarized in the *Basis of the Rate Study Report* dated June 8, 2006 and reflected in the Board's resolution concerning Debt Service Coverage Ratios (DCRs) adopted on September 14, 2006;
- the Board of Directors' discussion and guidance during the June 15, 2006, September 7, 2006 and December 14, 2006 work sessions on the rate study; and
- extensive review and comments by the Budget and Financial Planning Committee during several hours of rate study discussion meetings held on May 24, 2006, August 30, 2006, November 9, 2006, November 15, 2006, December 14, 2006, and February 15, 2007.

Gordon Merklein, Chair of the Budget and Financial Planning Committee, will present these recommendations for your consideration at the Work Session. Representatives from Burton and Associates (B&A) will also be present to answer any questions about the recommendations and overall status of the rate study.

Following receipt of your feedback, staff and B&A will prepare additional information and analyses as needed and will work with the Budget and Financial Planning Committee to develop draft final recommendations and related calculations for our specific rates and fees.

As additional background information for the Work Session, you may wish to bring your copy of the memorandum and attachments that were provided for the Budget and Financial Planning Committee's meeting on February 15, 2007. Please let us know if you need another copy of those materials.

RECOMMENDATIONS

Recommendation #1: Rate Increases in a Given Year Should Not Exceed 9.5 Percent

In September, 2006 the Board generally concurred with a financial management strategy that would include annual rate increases of 9.5 percent, 8.0 percent, and 8.0 percent over the next three years. Based on a review of recent water use by our customers, staff recently prepared a revised set of demand projections that are lower than previously included in the rate study, and as a result, projected revenues are lower than previously forecast.

Although some adjustments to the planned rate adjustments may be needed, the Committee recommends that effective combined water and sewer rate increases not exceed 9.5 percent in any given year.

The Committee recognizes that rate increases substantially greater than 9.5 percent could be required in any given year(s) if major changes are required for our capital improvements plan, such as a requirement for near-term completion of significant additional odor control improvements at the Mason Farm Wastewater Treatment Plant.

Recommendation #2: Delay By One Year the Goal of Reaching a 2.0 Debt Coverage Ratio

On September 14, 2006 the Board of Directors adopted a resolution expressing its intent to achieve a debt service coverage ratio (DCR) of 2.0 not later than Fiscal Year 2011 and generally supported a financial plan and projected annual rate increases that would achieve that goal. All other factors being equal, the new demand projections and lower revenue forecast indicate that we may not achieve a DCR of 2.0 until Fiscal Year 2012, and additional borrowings may be needed sooner than previously forecast.

In consideration of the rate increases that would otherwise be required, the Committee recommends that the Board delay by one year the goal of returning to a DCR of 2.0.

The Committee considers this an acceptable strategy, as the financial plan would still provide for steady improvement in the DCR over the next five years. Also, if actual conditions prove to be better than currently forecast, a DCR of 2.0 still might be achieved by Fiscal Year 2011.

Recommendation #3: Five-Year Phase in of Water and Sewer Cost Reallocation

B&A's cost-of-service analysis has shown that a greater portion of our direct and indirect costs should be recovered from our sewer rates. About \$2.3 million in revenue requirements would

have to be shifted from water to sewer rates to achieve this reallocation of costs in the current fiscal year.

This would require an increase of about 22 percent in our sewer service and commodity charges, excluding any consideration of additional rate increases needed to keep pace with our financial needs.

The Committee, staff and B&A recommend that the necessary reallocation of costs from water to sewer be phased in over a five-year period due to the level of increase required, potential concerns over revenue stability, extent of other recommended changes to rate structure, and other factors.

Recommendation #4: Continue Seasonal Rate Structure for Non-Residential Customers

Two primary rate structure alternatives for non-residential customers have been extensively evaluated by B&A, staff, and the Committee: (a) the existing seasonal rate structure, and (b) a customer-specific, two-tiered increasing block rate structure for the master-metered multi-family class, non-residential customer classes, and all University accounts.

The Committee, staff and B&A recommend maintaining the current seasonal rate structure for non-residential customers for the following reasons:

- ✓ *B&A's analysis has shown that the seasonal rate structure implemented in May, 2002 has resulted in a substantial and sustained reduction in water use among all non-residential customer classes;*
- ✓ *The existing seasonal rate structure is well-accepted and easily understood by all customers, including the University; and*
- ✓ *A two-tiered block rate approach would not necessarily result in greater water conservation. It would require custom changes to our billing system software, increase administrative complexity, and be more difficult for customers to understand.*

Recommendation #5: Implement Increasing Block Rates for Residential Customers

The Committee, staff and B&A recommend that OWASA adopt a five-tiered increasing block conservation rate structure to send a stronger pricing signal to high-volume residential users and reduce the cost-of-service burden on low-volume water users. It is recommended that the new structure, along with other rate change recommendations, be effective on October 1, 2007. (Note: "Residential" customers include single-family residential customers and individually-metered multi-family residential customers.)

Immediately upon implementation of the five-tiered increasing block rates, some higher volume users may realize a reduction in their cost of water during the peak season and an increase in their cost of water during the non-peak season. Given this phenomenon, there could be an increase in overall water use immediately after implementation of this rate structure; however,

the inclining block rate structure should provide an effective pricing signal and conservation incentive and contain water use over time.

The recommendation to phase in the reallocation of costs from water to sewer over a five-year period (Recommendation #4) will partially offset the effect of tiered rates.

The principal advantage of the proposed increasing block rate structure is that it rewards wise water stewards by not raising the cost of essential domestic water use. The current seasonal rate structure applies the higher seasonal rates to not only high-volume water users, but to the low-volume users that are already conserving water as well.

Another advantage is that if future adjustments are necessary to send a stronger price signal to high volume users, it can be done within the proposed inclining block rate structure without affecting low-volume users; whereas, with the current seasonal rate structure it is not possible to send a stronger price signal to high-volume users without also affecting low-volume users who have little discretion to respond to a stronger price signal.

Recommendation #6: Implement a “Cap” on Sewer Use Billed for Residential Customers

Assuming that Recommendation #5 is supported by the Board, the Committee, staff and B&A also recommend that a 15,000 gallons a month sewer billing “cap” be implemented for the single-family residential and individually-metered multi-family residential customer classes.

We do not recommend establishing caps on sewer gallons billed for non-residential customer classes.

OWASA currently bills almost all customers for wastewater service based on 100 percent of the volume of water they use. Unless they have an irrigation and/or sewer-only meter, customers that use water for outdoor use are billed for wastewater service for all of that outdoor water use. As a result, they are charged for wastewater costs they did not cause us to incur.

Although this policy provides a stronger conservation pricing signal, some communities consider this approach inequitable and have implemented a cap on wastewater gallons billed for certain customers. This results in a reduced total number of gallons billed for sewer service, which in turn requires an increase in the sewer commodity rate to ensure adequate recovery of costs. Under a uniform block rate for sewer service, the sewer cap approach would increase the sewer commodity charges for low-volume single-family residential and individually-metered multi-family residential users. Generally, high-volume users would benefit from such a rate structure.

Recommendation #7: Maintain Current Approach to Monthly Service Charges

The Committee, staff and B&A recommend that we maintain the current approach and methodology for calculating the fixed monthly charges for water and sewer service.

Recommendation #8: Methodology for Determining Water and Sewer Availability Fees

The Committee, staff and B&A recommend that OWASA use the Plant-in-Service methodology for determining water and sewer availability fees. This methodology is considered the fairest of the three alternatives considered. It provides a reasonable method of including all eligible assets in the service availability fee calculation. It also avoids double-counting the asset value of original projects and their replacement by including all assets, even rehabilitation and replacement assets, and depreciating all assets.

Although the Board has the discretion to adopt service availability fees that recover a percentage of the full cost recovery fees, or to phase in increases to full cost recovery over a multi-year period, the Committee does not recommend phasing in the availability fee increase.

As a general practice, OWASA has increased availability fees on an annual basis by the same percentages as our monthly service and commodity charges. A more appropriate approach would be to implement an annual escalation policy for the service availability fees that would apply appropriate construction cost escalation factors for no more than five years, at which time service availability fees should be recalculated to ensure that fundamental changes in the underlying cost of capital assets are regularly accounted for in the fee. This would be a cost-effective way to keep the fee generally in line with escalating construction costs and would also provide a mechanism for periodically recalculating the fees to reflect changing capital requirements in response to regulatory requirements, growth, etc. That approach will be implemented if the Board concurs.

NEXT STEPS AND TIMETABLE FOR RATE STUDY

Following receipt of the Board's guidance on the recommendations and approaches presented in this memorandum, B&A and staff will finalize the cost-of-service calculations for all of the charges included in our schedule of rates and fees.

A meeting with the Budget and Financial Planning Committee, and a subsequent Board Work Session will be scheduled to discuss final results and recommendations. The dates for those meetings have not yet been set, but will depend on how soon the updated cost-of-service analyses can be finalized for those charges.

If adopted, the recommended changes to rate structure and the level of our rates and fees will affect all of our customers. The extent of the effect will depend on the type of customer and their respective level and pattern of use throughout the year. It is important that before making decisions to revise our rates and fees, we inform our customers of the potential changes and our financial requirements, receive their questions, comments and feedback regarding the recommendations and alternative approaches, and consider that feedback as we make our decisions. Once the Board has considered the recommendations in this report, staff will work with B&A and applicable Board subcommittee to draft a proposed public communications plan to support completion of the rate study and rate-making process.

We welcome your suggestions regarding the timetable, approach and methods for presenting the draft results and alternative rate design approaches to, and receiving feedback from the public.

The current expected date for completion of the draft report is the end of March, 2007. This will provide ample time to adopt and implement the new rates, fees and charges if the effective date for the rate changes is on or around October 1, 2007. The expected timetable for completion of the study would not affect preparation of the draft budget for Fiscal Year 2008, assuming the Board concurs with the previously-discussed rate increases projected to be needed for Fiscal Year 2008.

CLOSING

We look forward to your discussion and guidance at the February 22, 2007 Work Session. Please let us know if you have any questions or need additional information in advance of the meeting.

Ed Kerwin
Executive Director

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