

ORANGE WATER AND SEWER AUTHORITY
ANNUAL MEETING OF THE BOARD OF DIRECTORS

SEPTEMBER 23, 2010

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held their Annual Meeting on Thursday, September 23, 2010, at 7:00 P.M., at Chapel Hill Town Hall.

Directors present: Gordon Merklein, Chair; Alan Rimer, P.E., Vice Chair; Braxton Foushee, Secretary; Fred Battle; Michael A. (Mac) Clarke; Joyce C. Preslar; and William Stott. Directors absent: Randy Kabrick, P.E., and Amy Witsil, P.E.

OWASA staff: Ed Kerwin; Mason Crum; Stephanie Glasgow; Ed Holland; Heidi Lamay; Andrea Orbich; Kevin Ray; and Robert Epting, Esq., Epting and Hackney.

Others present: Eddie Burke and Scott Anderson of Cherry, Bekaert & Holland, LLP; Ben Poulson, Associate Director of Energy Services and Meg Holton, Water, Wastewater, and Stormwater Manager of the University of North Carolina at Chapel Hill; Lauren Hollowell, UNC Journalism Student; and John Young, Chapel Hill resident.

There being a quorum present, Chair Gordon Merklein called the meeting to order.

MOTIONS ACTED UPON

1. Alan Rimer made a motion to approve the Minutes of the August 26, 2010, Meeting of the Board of Directors; the motion was seconded by Braxton Foushee and unanimously approved.

2. Alan Rimer made a motion to approve the Minutes of the September 9, 2010, Closed Session of the Board of Directors for the purpose of discussing a personnel matter; the motion was seconded by Braxton Foushee and unanimously approved.

3. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "Resolution Reappointing Robert Epting as General Counsel to the Orange Water and Sewer Authority." (Resolution so titled attached hereto and made a part of these minutes. Motion by Braxton Foushee, it was seconded by Joy Preslar, and unanimously approved.)

4. Braxton Foushee made a motion that the Orange Water and Sewer Authority Board of Directors go into Closed Session for the purpose of discussing a personnel matter. The motion was seconded by Mac Clarke and unanimously approved.

ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Gordon Merklein 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 MEETING

Mac Clarke said the Finance Committee met on Tuesday, September 21, 2010 to receive an update on the bond refunding and to review OWASA's Capital Improvements Program. Mr. Clarke noted that OWASA realized a net present value savings of 11.5 percent on the 2001 Bonds and 4.5 percent on the 2004 Bonds.

RETHINKING WATER: CAROLINA AS A CASE STUDY

Mac Clarke announced that Sally Hoyt, Stormwater Systems Engineer for Energy Services at UNC, will make a presentation on "Rethinking Water: Carolina as a Case Study" at the Friday Center on September 30, 2010 at 7:00 P.M.

COMMUNITY MEETING

Mason Crum announced that OWASA will conduct a Community Meeting on September 29, 2010, at 7:00 P.M., in the OWASA Community Room to discuss the replacement of the sanitary sewer main that runs along Umstead Drive and Bolin Creek from Martin Luther King Jr. Boulevard to Estes Drive Extension. Construction is expected to begin in early 2011 and may take approximately a year to complete.

ITEM TWO: PUBLIC PETITIONS AND REQUESTS

Mr. John Young petitioned the Board for a bill adjustment related to a leak in his irrigation system due to circumstances beyond his control.

The Board referred Mr. Young's petition to staff for discussion and recommendations at a future Board meeting.

ITEM THREE: BOARD PETITIONS AND REQUESTS

Gordon Merklein asked for petitions from the Board; there were none.

ITEM FOUR: STAFF PETITIONS AND REQUESTS

Gordon Merklein asked for petitions from the staff; there were none.

ITEM FIVE: PRESENTATION OF ANNUAL REPORT

Ed Kerwin provided an overview of OWASA in Fiscal Year (FY) 2010. He began the presentation by indicating it was necessary to increase rates last FY to sustain operation and ensure reliable and high quality water and sewer services, today and into the future. He stated that OWASA understands and shares customers' concerns about rate increases and staff will continue working to increase operating efficiency and reduce costs. Mr. Kerwin noted that the FY 2010 budget reflected \$1.7 million cost reduction measures including the elimination of 12 positions; freezing 7 positions; and temporarily deferring some preventive maintenance activities while staying in full compliance with Federal and State drinking water and treated wastewater standards.

Mr. Kerwin said the purpose of the Long-Range Water Supply Plan (WSP) adopted on April 8, 2010 is to determine the strategies that will ensure a safe, reliable, cost-effective, and sustainable water supply to meet our customers' needs through 2060. This plan provides a positive and sustainable future due to significant demand reductions achieved by our customers. The Cane Creek Reservoir, University Lake and Quarry Reservoir supplies can meet expected needs over the next 50 years under most supply and demand conditions with far less capital investment than previously anticipated.

Key features of the WSP are sustained conservation ethic by OWASA's customers; UNC's use of reclaimed water; collaboration with neighboring utilities to ensure we have reliable and cost-effective access to OWASA's Jordan Lake water supply; and having the expanded Quarry Reservoir in service around 2035.

The Mason Farm Wastewater Treatment Plant (WWTP) Capacity Study was conducted in FY 2010 to evaluate the hydraulic (flow) and treatment capacity of the Mason Farm WWTP and identify ways to optimize plant processes. This study is nearing completion and although field work is still underway to validate computer modeling, preliminary results are very promising. Key preliminary findings include: treatment process improvements will save money and meet the Jordan Lake rules regarding nitrogen removal; OWASA will not need another major capacity expansion at the WWTP until after 2030; and therefore more than \$60 million of previously planned WWTP improvements can be deferred.

Mr. Kerwin noted that other key accomplishments include: the development of a Forest Stewardship Plan for Cane Creek mitigation lands; additional odor elimination improvements at the Mason Farm WWTP; and adoption of our Strategic Plan. Finally, he acknowledged and thanked the dedicated work by staff.

Kevin Ray presented FY 2010 financial information. Mr. Ray said that the Comprehensive Annual Financial Report (CAFR) is still in draft form and that editorial changes may occur, but no substantial change is expected. The CAFR is in draft form because OWASA is considered a component unit of the Town of Chapel Hill for financial reporting purposes, and OWASA's CAFR must include supplemental Town information which is not yet available.

Mr. Ray said that OWASA's operating revenues exceeded projections by approximately \$700,000 and when combined with non-operating revenues (primarily service availability fees)

the savings are about \$900,000 over projections. Operating expenses were \$1.8 million below the appropriations. This was due mainly to favorable price of chemicals and energy and OWASA cost reduction measures during the year. Additionally, about \$600,000 of savings were achieved in debt service due to low interest rates on variable rate bonds issued in 2004. Mr. Ray expanded on Mr. Clarke's comments concerning the bond refunding by stating market conditions were favorable.

Finally, Mr. Ray said that OWASA received an unqualified opinion from our auditor, Cherry, Bekaert & Holland, LLP, that the CAFR fairly presents OWASA finances for FY 2010. He said that the auditor's report includes one finding in relation to internal controls.

Mr. Eddie Burke, the independent auditor with Cherry, Bekaert & Holland, LLP, said OWASA received an unqualified opinion that the financial statements fairly present OWASA's financial operations and position and can be relied upon by third parties, citizens, underwriters and bond holders. He also said that his staff suggested several information technology related actions to improve internal control, but the recommendations are not findings related to the audit process.

Mac Clarke commented that next year he would like the Board's Finance Committee to review and possibly change the structure and development of next year's report.

ITEM SIX: MINUTES

Alan Rimer made a motion to approve the Minutes of the August 26, 2010, Meeting of the Board of Directors; the motion was seconded by Braxton Foushee and carried by unanimous vote. Please see Motion No. 1 above.

Alan Rimer made a motion to approve the Minutes of the September 9, 2010, Closed Session of the Board of Directors for the purpose of discussing a personnel matter; the motion was seconded by Braxton Foushee and carried by unanimous vote. Please see Motion No. 2 above.

ITEM SEVEN: RECOMMENDATIONS FOR REPORTING KEY PERFORMANCE MEASUREMENTS AND INDICATORS

The Board concurred that staff will discontinue the submittal of the *Semiannual Performance Measurement Report* and begin monthly distribution of the *Key Indicators and Performance Measurements* dashboard report to the Board as well as post it on the OWASA website for customers' information.

ITEM EIGHT: RESOLUTION REAPPOINTING ROBERT EPTING AS GENERAL COUNSEL TO THE ORANGE WATER AND SEWER AUTHORITY

Mac Clarke noted a typo in General Counsel's Engagement letter on page 2, second paragraph and the letter should read as amended; "...engaging our legal services on an operating year basis, that is, from October 1, 2010 through September 30, 2011..."

Braxton Foushee made a motion to approve the resolution as amended; the motion was seconded by Joy Preslar and carried by unanimous vote. Please see Motion No. 3 above.

ITEM NINE: CLOSED SESSION

Braxton Foushee made a motion that the Board convene in a closed session for the purpose of discussing a personnel matter; the motion was seconded by Mac Clarke and unanimously approved. Please see Motion No. 4 above.

There being no further business to come before the Board, the meeting was adjourned at 8:30 P.M.

Enclosures

**RESOLUTION REAPPOINTING ROBERT EPTING AS GENERAL COUNSEL
TO THE ORANGE WATER AND SEWER AUTHORITY**

WHEREAS, the Orange Water and Sewer Authority is a public, corporate entity organized and operated under the laws and statutes of the State of North Carolina and is engaged in the provision of public water, sewer and reclaimed services within its service area; and

WHEREAS, the Board of Directors of Orange Water and Sewer Authority finds that it is necessary and appropriate to provide for and obtain general legal counsel and services to assist in the establishment of policy and the administration and operations of the business and affairs of OWASA so that due regard may be given to the pertinent laws, regulations, and statutes; and

WHEREAS, Robert Epting has served as General Counsel to OWASA since October 1, 1984, and has rendered competent and appropriate legal services in that regard, and the Board of Directors wishes to continue his services as General Counsel;

**NOW, THEREFORE, BE IT RESOLVED BY THE OWASA BOARD OF
DIRECTORS:**

1. That Robert Epting of the firm of Epting and Hackney, Chapel Hill, N.C., is hereby reappointed General Counsel of Orange Water and Sewer Authority in accordance with the terms and conditions set out in his letter dated August 2, 2010 to the Executive Director.

2. That as General Counsel, Robert Epting will serve under the general direction of the Board of Directors and upon the request of the Executive Director, subject to his ultimate responsibility to the Board of Directors.

3. That this reappointment will be effective October 1, 2010, and shall continue, subject to annual review by the Board of Directors prior to the time of the Annual Meeting or until terminated by either the Board of Directors or Robert Epting, in accordance with the terms and conditions of the said letter dated August 2, 2010.

Adopted this 23rd day of September, 2010.