

OWASA IS WELL-POSITIONED FOR THE FUTURE

On June 9, 2011, the OWASA Board of Directors approved a 2% increase in monthly water and sewer charges that took effect on October 1, 2011.

The following explains the need and importance of this and previous rate increases and the initiatives we believe will help ensure that we successfully fulfill our mission today and into the future: “to provide our customers with high quality water and wastewater services through responsible, sustainable and creative stewardship of the resources and assets we manage.”

About OWASA

We are a community-owned, non-profit agency which provides water, wastewater (sewer) and reclaimed water services to the Carrboro-Chapel Hill community. Listed below are a few key facts about our operations:

- ◆ We provide services to about 80,000 people through more than 20,000 customer accounts.
- ◆ With water supplied by the Cane Creek, University Lake and Quarry reservoirs, we operate the Jones Ferry Road Water Treatment Plant, eight water storage tanks, and over 400 miles of pipe and will provide about 2.6 billion gallons of drinking water in Fiscal Year (FY) 2012 (which began on July 1).
- ◆ With over 330 miles of pipe and 21 pumping stations, we will collect, highly treat and recycle about 2.5 billion gallons of sewage in FY 2012 at the Mason Farm Wastewater Treatment Plant.
- ◆ We will provide the University of North Carolina at Chapel Hill about 300 million gallons of reclaimed water in FY 2012 for non-drinking purposes.
- ◆ We have standby power generators and emergency response plans in place to help ensure continuity of essential services during extended power outages.
- ◆ Our operations and projects are funded with fees and charges we receive in return for services to the community. We do not receive taxes, but occasionally receive grants for special projects.
- ◆ We have a workforce of about 125 trained and dedicated public employees who are essential for providing high quality and reliable services to our customers.

Our Budget and Rate-Setting Commitments and Responsibilities

We are committed to operating the water and sewer system at the lowest rates consistent with our obligation to provide proper and efficient services. We are required by law to have cost-of-service rates and we are prohibited from providing free services. We set our rates and fees to cover the cost for each of our services.

Need for the Rate Increase

The 2% rate increase effective October 1, 2011, is needed to provide sufficient revenue to pay our operating expenses (\$19.1 million); capital improvements (\$9.9 million); and debt payment obligations (\$8.8 million) for next fiscal year. Our operating budget for Fiscal Year 2012 is about 3% higher than last year mainly as a result of higher system maintenance costs.

Action to Reduce Expenses

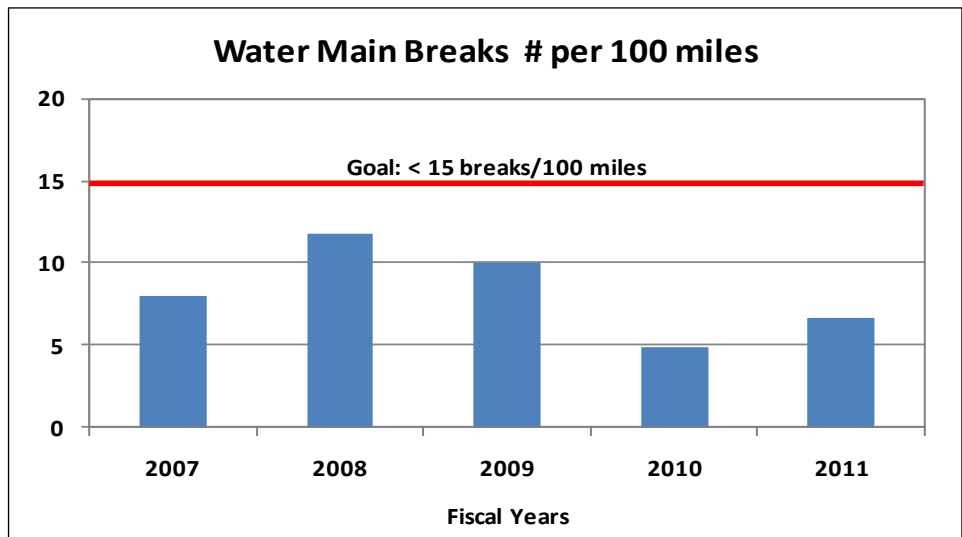
We continue to work hard to improve efficiencies and reduce costs throughout the organization. Over the last several years, we have reduced the workforce by 15% without reducing service quality. Reorganization, process improvement, greater use of technology, and a more highly trained and flexible workforce make this possible. We accept our ongoing responsibility for continuous improvements in all that we do and we are committed to making that happen.

High Quality Services

In May 2011, OWASA became only the ninth utility in the United States to receive the “Excellence in Water Treatment Award” from the Partnership for Safe Water.

The Partnership for Safe Water is a national volunteer initiative developed by the US Environmental Protection Agency and other water organizations. The Partnership represents water suppliers striving to provide their communities with drinking water quality that surpasses federal standards. The Excellence in Water Treatment Award is the highest level of performance that can be achieved in the Partnership program; it signifies optimized plant performance and our strong commitment to providing high quality drinking water to our customers.

The annual number of water service interruptions (water main breaks) over the last five years averaged 8.2 per 100 miles of pipe. According to a 2009 benchmarking study by the American Water Works Association, OWASA ranks in the top quartile for this measure of service reliability.



Main break rates in the top quarter of the water industry benchmark survey are an indicator of our distribution system integrity.

The annual number of sewer over flows during the past five years has averaged 1.5 per 100 miles of pipe. Our Mason Farm Wastewater Treatment Plant fully complied with water quality requirements during the past year.

To view a monthly “dashboard” of all our key performance indicators, please [click here](#).

The Value of Water Conservation

Since 2002, OWASA customers have reduced water consumption by 25%. Conservation has been achieved by all customers: residences, businesses and institutional customers such as the local schools, the University and UNC Hospitals. Contributing to the conservation achievements, the University now uses highly treated reclaimed water from our Mason Farm Wastewater Treatment Plant rather than drinking water in cooling towers and for irrigation and toilet flushing at certain facilities. The reclaimed water system will meet about 12% of the community’s overall water demand in the coming year and the University continues to pay for all costs associated with the system.

Thanks largely to the significant achievements in conservation, our Cane Creek, University Lake and Quarry Reservoir supplies can meet our expected needs under most circumstances for the next 50 years. Additionally, the treatment capacity of our Jones Ferry Road Water Treatment Plant is expected to be sufficient for at least the next 20 years.

Assuming we are able to retain and gain access to our Jordan Lake water supply allocation by working cooperatively with our utility neighbors such as the City of Durham, Town of Cary, and Chatham County, our customers will not have to fund major investments in new water supply sources and increased treatment capacity. We expect the Jordan Lake supply to meet future needs during drought conditions or for other water supply uncertainties.

Conservation by OWASA customers extends the useful life of our water resources and reduces our community’s vulnerability to drought-induced shortages.

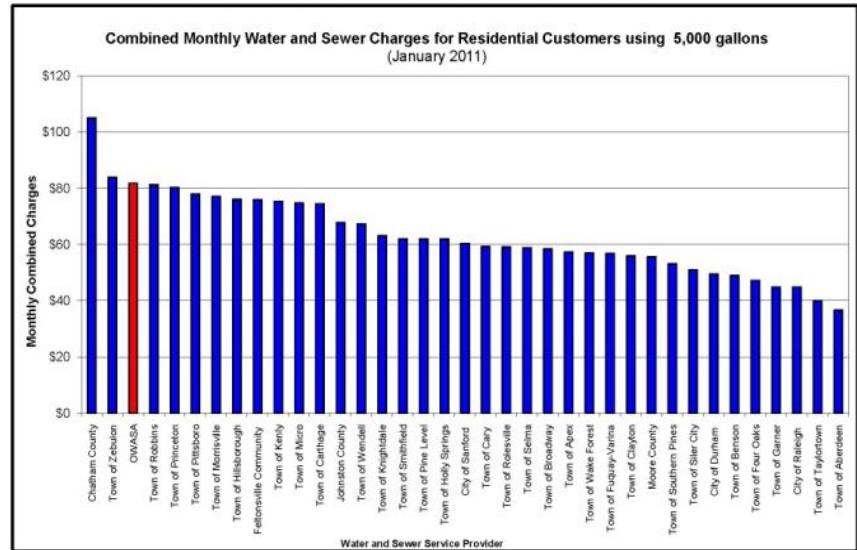
Sustaining Our Community’s Water Resource Assets

To ensure high quality and reliable services now and into the future, it is essential to properly maintain, rehabilitate and replace our treatment plants and aging infrastructure before they fail. Recent engineering studies confirmed that overall, thanks to proactive investments in our infrastructure, our plants and infrastructure are in good shape; and we have a well-informed capital improvement program and financial plan to keep it that way. We believe OWASA is ahead of the curve with respect to reinvesting what’s needed (about \$10-13 million annually) to sustainably maintain our community’s water and wastewater systems.

Future Rate Increases Expected to be Lower

While circumstances change from year to year, based on our long-term financial plan, we project future annual rate increases are likely to be in the 2-4% range.

Our rates are among the highest in the region, but we believe our rates reflect the costs necessary to operate and sustain our facilities for the long-term. We will continue to reduce costs where we can without compromising the health and safety of our current or future customers and our environment.



How You Can Help People In Need: Taste of Hope

OWASA’s voluntary donation program, “**Taste of Hope**,” provides assistance to help customers experiencing financial hardship pay their water bills. Through the program, a customer can choose to have a donation added to his or her monthly bill. Customer donations are deposited with the Inter-Faith Council for Social Service, which then provides financial assistance to people in need. Unfortunately, the need far exceeds the funds available through the program. If you would like to sign up or increase the amount you are currently donating, please give us a call (919-537-4343), send us an e-mail (customerservice@owasa.org) or visit the Taste of Hope page of our website (www.owasa.org).

Summary

In summary, we believe we are well-positioned for the future:

- ✓ We remain committed to providing high quality services.
- ✓ Future rate increases are expected to be in the range of 2-4% per year.
- ✓ We continue to work with our customers to ensure conservation remains a key element in our water supply future.
- ✓ Our diverse water supply portfolio improves our preparedness for the uncertainties of climate change.
- ✓ Our infrastructure is in good shape and we have a plan to keep it that way.
- ✓ We welcome your feedback and questions at any time; it is critically important to our ability to continuously improve.

We thank you for your continuing commitment to conserving our drinking water supplies. We also appreciate your understanding and recognition of the need to sustainably operate, maintain and finance the water and sewer system infrastructure which helps maintain our community’s public health and safety, economic vitality, and environment.