

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

SEPTEMBER 28, 2006

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held their Annual Meeting on Thursday, September 28, 2006, at 7:00 P.M., in the Council Chamber at the Chapel Hill Town Hall.

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

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

Others present: Victor Blackburn and Brian Leden, McGladrey and Pullen; and Meg Holton, Water, Wastewater, and Stormwater Manager, UNC.

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

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MOTIONS ACTED UPON

1. Milton Heath made a motion to elect the following officers for corporate year 2006-07: Michael A. (Mac) Clarke, Chair; Randolph M. Kabrick, P.E., Vice Chair; and Gordon Merklein, Secretary. The motion was seconded by Penny Rich and carried by unanimous vote.

2. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution of Orange Water and Sewer Authority Declaring its Intention to Seek Reimbursement from the Proceeds of one or more Tax-exempt Financings for Certain Expenditures made and/or to be made in Connection with the Acquisition, Construction and/or Equipping of Certain Capital Improvements*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Penny Rich, seconded by Marge Anders Limbert, and carried by unanimous vote.)

3. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution Amending the Adopted Budget for Orange Water and Sewer Authority for Fiscal Year 2005-2006*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Penny Rich, seconded by Marge Anders Limbert, and carried by unanimous vote.)

4. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution Designating Available Funds for the Payment of Certain Costs of the Meetings of the Water Interceptor Upgrade and Rehabilitation Project*. (Resolution so titled attached hereto and made a

part of these minutes. Motion made by Milton Heath, seconded by Marge Anders Limbert, and carried by unanimous vote.)

5. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *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 made by Gordon Merklein, seconded by Fred Battle, and carried by unanimous vote.)

6. Penny Rich made a motion that the Board go into a Closed Session for the purpose of discussing a personnel matter. The motion was seconded by Randy Kabrick and carried by unanimous vote.

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#### 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.

##### NEW CARRBORO APPOINTEE

Mac Clarke said the Carrboro Board of Aldermen appointed William Stott as their new appointee. Mr. Stott will not be able to join the Board until October due to schedule conflicts.

##### STAFF

Mac Clarke announced that Ken Loflin has been selected as OWASA's new Water Supply and Treatment Manager.

##### RATING AGENCIES

Mac Clarke said that he and staff had met with the rating agencies of Moody's, Fitch, and Standard and Poor's. Mr. Clarke stated that these meetings went well and was hopeful OWASA would maintain its present high bond ratings.

Ed Kerwin thanked Mr. Clarke for his contribution to these meetings as well as assistance from Mr. Ray DuBose, Director of Energy Services, University of North Carolina at Chapel Hill.

##### COMMITTEE MEETING

Mac Clarke reported that the Natural Resources/Technical Systems Committee met before the Board meeting to continue the discussion of biosolids and water conservation practices. The Committee expects to report further to the OWASA Board in the next two to three months.

Penny Rich announced that immediately following the Board meeting, the Human Resources Committee will meet in the First Floor Conference at Chapel Hill Town Hall to discuss health and dental insurance.

#### COMMUNITY MEETING

Mac Clarke said that a Community Meeting was held on Wednesday, September 27, 2006, at 7:00 P.M. in the OWASA Community Room. The purpose of this meeting is to update neighbors and other stakeholders about the odor study at the Mason Farm Wastewater Treatment Plant and to receive comments from citizens.

#### ANNUAL RATE CHANGES

Greg Feller said that the new rates and fees which the Board adopted on June 8, 2006, will go into effect on October 1<sup>st</sup>.

#### FESTIFALL STREET FAIR

Greg Feller said the Town of Chapel Hill will hold its annual Festifall Street Fair on Sunday, October 8, 2006, from 1:00 P.M. until 6:00 P.M. on West Franklin Street.

#### BOLIN CREEK FESTIVAL

Greg Feller said that the Friends of Bolin Creek will sponsor their annual Bolin Creek Festival on Saturday, October 14, 2006, from 1:00 P.M. until 5:00 P.M. at Umstead Park in Chapel Hill and that OWASA staff will participate.

#### 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: ELECTION OF OFFICERS

Mac Clarke reported on behalf of the Nominating Committee that the Committee proposes the following slate of officers for corporate year 2006-2007:

Michael A. (Mac) Clarke, Chair  
Randolph M. Kabrick, P.E., Vice Chair  
Gordon Merklein, Secretary

Mac Clarke opened the floor for discussion. There was no discussion.

Milton Heath moved to elect the officers proposed by the Nominating Committee for corporate year 2006-07. Penny Rich seconded the motion and carried by unanimous vote. (Please see Motion No. 1 above.)

ITEM FOUR: PRESENTATION OF ANNUAL REPORT

Ed Kerwin summarized the following major OWASA initiatives and accomplishments in the fiscal year that ended on June 30, 2006.

- The signing of a contract with the University of North Carolina at Chapel Hill regarding construction, funding, ownership and operation of a reclaimed water system to be in use in Fiscal Year (FY) 2008-09.
- The Mason Farm Wastewater Treatment Plant improvements remain on schedule for substantial completion for the summer of 2007.
- The Rate Study which began in the spring of 2006 and is expected to be completed in the winter of 2006-07.
- The development of a long-term master plan to manage biosolids in ways that will be sustainable, environmentally responsible and cost-effective will be completed next year.

Judy Weller, OWASA's Accounting Manager, summarized the Comprehensive Annual Financial Report (CAFR). Ms. Weller indicated that the CAFR is still in draft form, that editorial changes may occur but the dollar amounts in the draft CAFR will not materially change. Ms. Weller stated that fiscal performance for FY 2005-06 was good.

Mr. Victor Blackburn, the independent auditor with McGladrey & Pullen, gave an unqualified opinion that the financial statements will fairly present OWASA's financial operations and position.

ITEM FIVE: MOUNTAINS-TO-SEA TRAIL – POTENTIAL ROUTES THROUGH ORANGE COUNTY

The Board accepted the report, Mountains-to-Sea Trail – Potential Routes through Orange County, as an information item.

ITEM SIX: RESOLUTION OF ORANGE WATER AND SEWER AUTHORITY  
DECLARING ITS INTENTION TO SEEK REIMBURSEMENT FROM THE  
PROCEEDS OF ONE OR MORE TAX-EXEMPT FINANCINGS FOR  
CERTAIN EXPENDITURES MADE AND/OR TO BE MADE IN  
CONNECTION WITH THE ACQUISITION, CONSTRUCTION AND/OR  
EQUIPPING OF CERTAIN CAPITAL IMPROVEMENTS

Penny Rich moved to adopt the resolution; the motion was seconded by Marge Anders Limbert, and carried by unanimous vote. (Please see Motion No. 2 above.)

ITEM SEVEN: RESOLUTION AMENDING THE ADOPTED BUDGET FOR ORANGE WATER AND SEWER AUTHORITY FOR FISCAL YEAR 2005-2006

Penny Rich moved to adopt the resolution; the motion was seconded by Marge Anders Limbert, and carried by unanimous vote. (Please see Motion No. 3 above.)

ITEM EIGHT: RESOLUTION DESIGNATING AVAILABLE FUNDS FOR THE PAYMENT OF CERTAIN COSTS OF THE MEETING OF THE WATER INTERCEPTOR UPGRADE AND REHABILITATION PROJECT

Milton Heath moved to adopt the resolution; the motion was seconded by Marge Anders Limbert, and carried by unanimous vote. (Please see Motion No. 4 above.)

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

On behalf of the Board, Penny Rich expressed appreciation and gratitude to Robert Epting for serving as OWASA's attorney.

Gordon Merklein moved to adopt the resolution; the motion was seconded by Fred Battle, and carried by unanimous vote. Please see Motion No. 5 above.

ITEM TEN: CLOSED SESSION

Penny Rich made a motion that the Board go into a Closed Session for the purpose of discussing a personnel matter. The motion was seconded by Randy Kabrick, and carried by unanimous vote. (Please see Motion No. 6 above.)

There being no further business to come before the Board, the meeting was adjourned at 7:40 P.M.

**RESOLUTION OF ORANGE WATER AND SEWER AUTHORITY DECLARING ITS INTENTION TO SEEK REIMBURSEMENT FROM THE PROCEEDS OF ONE OR MORE TAX-EXEMPT FINANCINGS FOR CERTAIN EXPENDITURES MADE AND/OR TO BE MADE IN CONNECTION WITH THE ACQUISITION, CONSTRUCTION AND/OR EQUIPPING OF CERTAIN CAPITAL IMPROVEMENTS**

**WHEREAS**, Orange Water and Sewer Authority (the “Issuer”) is a political subdivision of, and is organized and existing under the laws of the State of North Carolina; and

**WHEREAS**, the Issuer has paid, beginning no earlier than July 16, 2006, and will pay, on and after the date hereof, certain expenditures (the “Expenditures”) in connection with the acquisition, construction and/or equipping of various capital improvements projects (the “Project”), as more fully described in Exhibit A attached hereto; and

**WHEREAS**, the Board of Directors of the Issuer (the “Board”) has determined that those monies previously advanced no more than 60 days prior to the date hereof and to be advanced on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary to reimburse the Issuer for the Expenditures from the proceeds of one or more issues of tax-exempt bonds (the “Bonds”);

**NOW, THEREFORE, BE IT RESOLVED:**

1. That the Board of Directors hereby declares the Issuer’s intent to reimburse the Issuer with the proceeds of the Bonds for the Expenditures with respect to the Project made on and after July 16, 2006, which date is no more than 60 days prior to the date hereof. The Issuer reasonably expects on the date hereof that it will reimburse the Expenditures with the proceeds of the Bonds.

2. That each Expenditure was, and will be, either (a) of a type properly chargeable to capital account under general federal income tax principles, (b) a cost of issuance with respect to the Bonds, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the Issuer so long as such grant does not impose any obligation or condition, directly or indirectly, to repay any amount to or for the benefit of the Issuer.

3. That the maximum principal amount of the Bonds expected to be issued for the Project is \$30,000,000.

4. That the Issuer will make a reimbursement allocation, which is a written allocation by the Issuer that evidences the Issuer’s use of proceeds of the Bonds to reimburse an Expenditure, no later than 18 months after the later of the date on which the Expenditure is paid or the Project is placed in service or abandoned, but in no event more than three years after the date on which the Expenditure is paid. The Issuer recognizes that exceptions are available for certain “preliminary expenditures,” costs of issuance, certain *de minimis* amounts, expenditures by “small issuers” and expenditures for construction projects of at least five years.

5. That this resolution shall take effect immediately upon its passage.

Adopted this the 28th day of September, 2006.

**EXHIBIT A**

The project(s) for which the Expenditures have been and/or will be paid, and for which Orange Water and Sewer Authority has declared its intention to seek reimbursement from the proceeds of one or more tax-exempt financings is comprised of the following:

Meeting of the Waters Interceptor Expansion and Rehabilitation	\$ 4,698,000
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**RESOLUTION AMENDING THE ADOPTED BUDGET FOR ORANGE  
WATER AND SEWER AUTHORITY FISCAL YEAR 2005-2006**

**WHEREAS**, the Board of Directors adopted the Fiscal Year 2005-2006 Budget of Orange Water and Sewer Authority; and

**WHEREAS**, provisions of the North Carolina General Statute 159-15 provides the authority for the Board of Directors to amend the adopted budget; and

**WHEREAS**, the Operations Division exceeded its appropriation; and

**WHEREAS**, The General and Administrative Division spending resulted in an appropriation surplus;

**NOW, THEREFORE, BE IT RESOLVED:**

1. That pursuant to the provisions of North Carolina G.S. 159-15, the Official Budget of Orange Water and Sewer Authority for the Fiscal Year 2005-2006 is amended as shown in attachment A.

2. That the Executive Director is authorized and instructed to implement the revised budget as herein set forth.

Adopted this 28th day of September, 2006.

**ORANGE WATER AND SEWER AUTHORITY  
FY2005-2006 ANNUAL BUDGET  
STATEMENT OF INCOME, EXPENSE AND DEBT SERVICE**

		FY 2006 <u>Annual Budget</u>	<u>Amendment</u>	FY 2006 <u>Amended Budget</u>
<b>Operating Revenue</b>				
Water	\$13,803,000			
Sewer	10,457,000			
Service Initiation Fee	125,000			
Other	<u>650,000</u>	<b>25,035,000</b>		<b>25,035,000</b>
<b>Operating Expense</b>				
General and Administrative	4,244,790		(350,000)	
Operations	<u>11,571,118</u>	<b><u>15,815,908</u></b>	<b><u>350,000</u></b>	<b><u>15,815,908</u></b>
<b>Net Operating Income</b>		<b>9,219,092</b>		<b>9,219,092</b>
<b>Non-operating Revenue</b>				
Customer Fees		<b>2,393,213</b>		<b>2,393,213</b>
Interest		<b><u>750,000</u></b>		<b><u>750,000</u></b>
<b>Total Net Income</b>		<b>12,362,305</b>		<b>12,362,305</b>
<b>Debt Service</b>				
Existing		<b>7,304,608</b>		<b>7,304,608</b>
New		<b><u>877,618</u></b>		<b><u>877,618</u></b>
<b>Total Debt Service</b>		<b><u>8,182,226</u></b>		<b><u>8,182,226</u></b>
<b>Net Income Less Debt Service</b>		<b><u>\$4,180,079</u></b>		<b><u>\$4,180,079</u></b>
<b>General Fund</b>				
Resources				
Transfer From Revenue	\$ 4,180,079			
Assessments	33,000			
Grants and Contributions	<u>285,000</u>			
<b>Annual Income Available for Capital</b>		<b>4,498,079</b>		<b>4,498,079</b>
Transfer from Construction Fund (Bond Proceeds)		<b><u>18,665,267</u></b>		<b><u>18,665,267</u></b>
<b>Total Available for Capital</b>		<b>23,163,346</b>		<b>23,163,346</b>
Capital Expenditures				
Project ordinances				
General Fund Contribution	13,031,733			
Funded by Bond Proceeds	<u>18,665,267</u>			
<b>Total Project Resolutions</b>		<b>31,697,000</b>		<b>31,697,000</b>
Capital Equipment		<b><u>199,000</u></b>		<b><u>199,000</u></b>
<b>Total Capital Outlay</b>		<b>31,896,000</b>		<b>31,896,000</b>
<b>Annual General Fund Balance</b>		<b>(8,732,654)</b>		<b>(8,732,654)</b>
<b>General Fund Beginning Balance</b>		<b>15,808,429</b>		<b>15,808,429</b>
<b>General Fund Ending Balance</b>		<b><u>7,075,775</u></b>		<b><u>7,075,775</u></b>
Project Funding				
Under Contract	2,990,480			
Future Years	131,318			
Operating Balance	<u>3,953,977</u>	<b><u>7,075,775</u></b>		<b><u>7,075,775</u></b>
<b>Unallocated General Fund Balance</b>		<b>\$0</b>		<b>\$0</b>
<b>Debt Coverage Ratio</b>		<b>1.51</b>		<b>1.51</b>

**RESOLUTION DESIGNATING AVAILABLE FUNDS FOR THE PAYMENT  
OF CERTAIN COSTS OF THE MEETING OF THE WATERS INTERCEPTOR  
UPGRADE AND REHABILITATION PROJECT**

**WHEREAS**, the Orange Water and Sewer Authority (“OWASA”), acting by and through its Board of Directors (the “Board”), is authorized by The State and Local Government Revenue Bond Act of North Carolina, Article 5 of Chapter 159 of the North Carolina General Statutes, as amended (the “Act”), and particularly Sections 159-83(a)(5) and 159-81(3)a and b thereof, to issue revenue bonds for the purpose of financing the cost of acquisition, construction, reconstruction, enlargement, equipping, extension, betterment or improvement of facilities for obtaining, conserving, treating and distributing water for domestic or industrial use, irrigation, sanitation, fire protection, or any other public or private use and the collection, treatment, purification or disposal of sewage; and

**WHEREAS**, OWASA owns and operates facilities for the production, collection, treatment, transmission and distribution of water and the collection, transmission, treatment and disposal of sewage; and

**WHEREAS**, OWASA proposes to issue its Water and Sewer System Revenue Bonds, Series 2006 (the “Series 2006 Bonds”) for the purpose of providing funds, together with other available funds, to (i) pay the cost of acquiring certain real property for watershed protection and acquiring and constructing certain improvements to OWASA’s water and sewer system (collectively, the “2006 Additional Project”), (ii) provide a reserve for the Series 2006 Bonds by either funding such reserve or by purchasing a municipal bond debt service reserve fund policy, if in the opinion of OWASA at the time of the sale of the Series 2006 Bonds a reserve fund for the Series 2006 Bonds is warranted, and (iii) pay certain costs and expenses incurred in connection with the issuance of the Series 2006 Bonds; and

**WHEREAS**, OWASA proposes to issue the Series 2006 Bonds in an aggregate principal amount not to exceed \$30,000,000, the determination of the aggregate principal amount of the Series 2006 Bonds to be made at the time of the sale of the Series 2006 Bonds;

**WHEREAS**, OWASA proposes that the 2006 Additional Project include a capital project identified as the Meeting of the Waters interceptor upgrade and rehabilitation project (the “Meeting of the Waters Project”); and

**WHEREAS**, the Meeting of the Waters Project is in the current Capital Improvements Budget for OWASA’s water and sewer system; and

**WHEREAS**, OWASA currently estimates (i) that the Meeting of the Waters Project will cost \$4,698,000 and (ii) that the amount of proceeds from the Series 2006 Bonds available to pay the cost of the Meeting of the Waters Project will be \$3,574,000; and

**WHEREAS**, the Board of Directors deems it advisable and in the best interest of OWASA to designate available funds for the payment of any cost of constructing the Meeting of the Waters Project in excess of the Series 2006 Bond proceeds available therefor;

**NOW, THEREFORE, BE IT RESOLVED:**

1. A special account is hereby established and designated as the “Orange Water and Sewer Authority Capital Reserve Account – Meeting of the Waters Project” (the “Capital Reserve Account”). The Capital Reserve Account shall be held by OWASA or a depository selected by OWASA. Upon the issuance of the Series 2006 Bonds, OWASA shall deposit to the credit of the Capital Reserve Account from any available funds of OWASA the sum of \$1,123,778.

2. The money in the Capital Reserve Account shall be applied solely to the payment of the cost of constructing the Meeting of the Waters Project. OWASA may invest the amount on deposit to the credit of the Capital Reserve Account in accordance with the laws of the State of North Carolina and the investment policy of OWASA, as such laws and investment policy may be revised from time to time, and the earnings on any such investment shall be credited to the Capital Reserve Account.

3. In the event that the amount on deposit to the credit of the Capital Reserve Account, together with the amount of Series 2006 Bond proceeds available therefor, shall not be sufficient to pay the cost of completing the Meeting of the Waters Project, OWASA shall promptly deposit to the credit of the Capital Reserve Account such amount or amounts as shall be necessary to make up such insufficiency.

4. When the Meeting of the Waters Project shall have been completed, which fact shall be evidenced to the Local Government Commission of North Carolina by an Officer’s Certificate delivered to the Local Government Commission of North Carolina, any balance remaining in the Capital Reserve Account shall be transferred to the General Fund and the Capital Reserve Account may thereupon be closed.

5. The officers of OWASA are hereby authorized and directed to do all acts and things required of them to give effect to this Resolution.

6. This Resolution shall take effect immediately upon its passage.

Adopted this the 28th day of September, 2006.

**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 and sewer 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 14, 2006 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, 2006, 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 14, 2006.

Adopted this 28th day of September, 2006.