

ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

APRIL 24, 2008

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met in regular session on Thursday, April 24, 2008, at 7:00 P.M., at the Chapel Hill Town Hall.

Directors present: Randolph M. Kabrick, P.E., Chair; Gordon Merklein, Vice Chair; Braxton Foushee, Secretary; Fred Battle; Michael A. (Mac) Clarke; Marge Anders Limbert; Gene Pease; and William R. Stott. Directors absent: Alan Rimer.

OWASA staff: Ed Kerwin; John Greene; Mason Crum; Patrick Davis; Greg Feller; Thurman Green; Ed Holland; Andrea Orbich; Kevin Ray; and Robert Epting, Esq., Epting and Hackney.

Others present: Ben Poulson, Associate Director of Energy Services, and Meg Holton, Water, Wastewater, and Stormwater Manager, University of North Carolina at Chapel Hill; and Joe Paterniti, Jacobs Carter Burgess.

There being a quorum present, Chair Randy Kabrick called the meeting to order.

MOTIONS ACTED UPON

1. Mac Clarke made a motion to approve the Minutes of the February 28, 2008 Board Meeting; the motion was seconded by Gene Pease, and carried by vote of seven to one with Braxton Foushee opposed.

2. Mac Clarke made a motion to approve the Minutes of the March 13, 2008 Special Meeting of the Board; the motion was seconded by Gene Pease and carried by vote of seven to one with Braxton Foushee opposed.

3. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "Resolution Awarding audit Contract to Cherry, Bekaert & Holland, LLP and Authorizing Chair of the Board of Directors and the Finance Office to Execute said Contract." (Resolution so titled attached hereto and made a part of these minutes. Motion by Mac Clarke, second by Gene Pease, and carried by vote of seven to one with Braxton Foushee opposed.)

4. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "Resolution Adopting the Preliminary Annual Budget for Orange Water and Sewer Authority for Fiscal Year July 1, 2008 through June 30, 2009. (Resolution so titled

attached hereto and made a part of these minutes. Motion by Braxton Foushee, second by Fred Battle, and carried by unanimous vote.)

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ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Randy Kabrick 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

Gordon Merklein said the that Board's Budget and Financial Planning Committee will meet on Monday, April 28, 2008 at 5:00 PM to discuss rate issues for Fiscal Year 2009.

CARRBORO COMMUNITY DAY

Greg Feller announced that OWASA will participate in the Carrboro Day event on Sunday, May 4, 2008 at Carrboro Town Hall from 1:00 to 7:00 PM.

EARTH DAY

Greg Feller said that OWASA will participate in the Earth Day celebration on Saturday, April 26, 2008, at the Wallace Parking Deck in downtown Chapel Hill.

ANNUAL EASEMENT MOWING

Thurman Green announced that OWASA will begin its annual easement mowing and clearing to help prevent wastewater overflows.

ITEM TWO: PETITIONS AND REQUESTS

Randy Kabrick asked for petitions and requests from the public, the Board and staff; there were none.

ITEM THREE: MINUTES

Mac Clarke made a motion to approve the Minutes of the February 28, 2008 Board Meeting; the motion was seconded by Gene Pease, and carried by vote of seven to one with Braxton Foushee opposed. See Motion No. 1 above.

Mac Clarke made a motion to approve the Minutes of the March 13, 2008 Special Meeting of the Board; the motion was seconded by Gene Pease and carried by vote of seven to one with Braxton Foushee opposed. See Motion No. 2 above.

ITEM FOUR: RESOLUTION AWARDING AUDIT CONTRACT TO CHERRY, BEKAERT & HOLLAND, LLP AND AUTHORIZING CHAIR OF THE BOARD OF DIRECTORS AND THE FINANCE OFFICER TO EXECUTE SAID CONTRACT

Mac Clarke made a motion adopt the resolution; the motion was seconded by Gene Pease and carried by vote of seven to one with Braxton Foushee opposed. Please see Motion No. 3 above.

ITEM FIVE: WATER SUPPLY AND DEMAND UPDATE

The Board received this report as an information item.

ITEM SIX: MONTHLY REPORT OF DROUGHT IMPACT ON REVENUES, COSTS AND DEBT SERVICE

The Board received this report as an information item.

ITEM SEVEN: VERBAL UPDATE ON HEALTH INSURANCE PROPOSALS REVIEWED BY THE HUMAN RESOURCES COMMITTEE ON APRIL 24, 2008

Marge Anders Limbert, Chair of the Human Resources Committee, said the Committee met prior to the Board meeting to discuss and review healthcare costs proposals. Ms. Limbert said the Committee recommends moving to Blue Cross Blue Shield (BCBS) for health insurance because they offered the lowest cost health insurance proposal for the coming year. Action will be requested by the full Board at the Board's May 8, 2008 meeting.

The Board concurred with the Committee's recommendation.

ITEM EIGHT: VERBAL REPORT FROM GORDON MERKLEIN, CHAIR OF THE BUDGET AND FINANCIAL PLANNING COMMITTEE

Gordon Merklein, Chair of the Budget and Financial Planning Committee, said the Committee is recommending a budget and Capital Improvements Program (CIP) that will require a potential rate increase of 12 percent in each of the next two years, primarily due to a decline in water sales and slowdown in new service connections. Water sales and service availability fee revenues have decreased 13 percent and 40 percent, respectively. Costs have increased and they include a 31 percent increase in healthcare as well as substantial increases in energy and chemical costs for water and wastewater treatment. Review of the draft CIP for the next five years shows a projected spending reduction of one-third compared to the prior five years. The projects remaining are non-discretionary and most are already under contract. The draft

Operations and Maintenance (O&M) Budget has been lowered by keeping the seven vacant positions unfilled, eliminating \$416,000 of priority funding needs identified by staff, and reducing the operating reserve from four to three months of operating costs.

However, if the budget were to include the original requested items in the CIP and O&M budgets, and maintained the four month operating reserve, the required rate increase would be about 24 percent.

To hold the proposed rate increase to 12 percent, the Committee and staff recommended that \$3.1 million of additional odor elimination improvements at the Mason Farm Wastewater Treatment Plant (WWTP) be deferred for three years. The Committee recognizes that this deferral may be controversial for the WWTP neighbors. Staff has contacted the neighbors and Mayors regarding this proposal and invited them to address the Board at the May 8, 2008 meeting. The proposed deferral will also be discussed with the Chapel Hill Town Council. Due to the complexity of the budget, CIP and rate-making preparations and deliberations, the public hearings previously scheduled for May 22, 2008 will be moved to June 12, 2008. Approval of the budget, CIP and new rates will be scheduled for June 26, 2008.

Mr. Merklein said that the rate increase, if approved, would be effective in October, 2008.

William Stott stated that odor elimination work has been ongoing at the WWTP and asked if goals have been met.

Ed Kerwin said that the \$7 million already invested in odor elimination improvements has significantly improved odor control performance at the WWTP; however, the additional improvements are needed to complete the odor elimination goal.

Braxton Foushee said \$3.1 million for odor elimination improvements was the only capital project of any significance that could be delayed, and the proposal was to delay the project for three years, not eliminate it altogether.

Mr. Merklein said the Committee and staff concurred that OWASA had to cut spending in order to propose a rate increase such as 12 percent.

Gene Pease said that the assumptions behind the budget are sound. The revenue side of the budget has to be conservative regarding usage; the staff and Committee have done a good job cutting the O&M budget while still maintaining core operations. He hoped the Town Council will allow the postponement of delaying the odor improvements in light of everything that needs to be considered.

Marge Anders Limbert said she was impressed with the Committee's work.

Fred Battle said he hoping for a 9.5 percent rate increase, but will support 12 percent.

Mac Clarke supported the Committee's recommendation and said he hopes the Town Council will support deferral of the additional odor elimination improvements and the proposed 12 percent rate increase, especially given the increase in prices of other commodities the community will have to endure.

Mr. Stott also supported the 12 percent rate increase and asked about the implications for OWASA's bond ratings.

Kevin Ray said that with the proposed rate increases and assuming the odor elimination project is deferred for three years, OWASA will not need to borrow money over the next three years, and a debt service coverage ratio of at least 1.5 would be achieved.

Randy Kabrick recognized the Budget and Financial Planning Committee as well as Braxton Foushee for their combined work on the budget.

The Board concurred with the Committee's recommendation.

ITEM NINE: RESOLUTION ADOPTING PRELIMINARY BUDGET FOR FISCAL YEAR
JULY 1, 2008 THROUGH JUNE 30, 2009

Braxton Foushee made a motion to adopt the resolution; the motion was seconded by Fred Battle and unanimously approved. Please see Motion No. 4 above.

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

Enclosures

RESOLUTION APPROVING AND AWARDING AUDIT CONTRACT TO CHERRY, BEKAERT & HOLLAND, LLP AND AUTHORIZING CHAIR OF THE BOARD OF DIRECTORS AND THE FINANCE OFFICER TO EXECUTE SAID CONTRACT

WHEREAS, Orange Water and Sewer Authority is required by the General Statutes of the State of North Carolina and the Series 2001 Bond Order to have its financial records audited at the termination of each fiscal year; and

WHEREAS, in February of 2008, the Authority solicited audit proposals based upon the established criteria recommended by the North Carolina Local Government Commission;

NOW, THEREFORE, BE IT RESOLVED:

1. That the contract between Orange Water and Sewer Authority and Cherry, Bekaert & Holland, LLP, Raleigh, N.C., for financial audit of the Fiscal Year Ending June 30, 2008, for base charges not to exceed \$32,000 is hereby approved subject to approval by the North Carolina Local Government Commission.

2. That the Chair of the OWASA Board of Directors and the Finance Officer are hereby authorized to execute such contract.

Adopted this 24th day of April, 2008

RESOLUTION ADOPTING A PRELIMINARY BUDGET FOR ORANGE WATER
AND SEWER AUTHORITY FOR THE FISCAL YEAR JULY 1, 2008 THROUGH
JUNE 30, 2009

WHEREAS, Orange Water and Sewer Authority historically has adopted a *Preliminary Annual Budget* prior to the first day in May in each fiscal year; and

WHEREAS, in the event that adoption of an Annual Budget is delayed until after July 1, 2008, the *Preliminary Annual Budget* fully satisfies the interim appropriation requirements of North Carolina General Statutes 159-16; and

WHEREAS, the *Preliminary Annual Budget* includes estimates of revenues of the water and sewer system, current operating and maintenance expenditures, estimated interest income and debt service costs, and disbursements from the General Fund for capital improvements and equipment purchases;

NOW, THEREFORE, BE IT RESOLVED:

1. That pursuant to the provisions of North Carolina General Statutes 159-13, the two attached pages be, and they hereby are, adopted as the *Preliminary Annual Budget* of Orange Water and Sewer Authority for Fiscal Year July 1, 2008 through June 30, 2009.
2. That the appropriations for divisions, functions, and projects as shown in the attached budget for the respective purposes and in the respective amounts therein specified are hereby made unless and until the Annual Budget is adopted.

Adopted this 24th day of April, 2008.

**ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF INCOME, EXPENSE AND DEBT SERVICE
(OPERATING)**

**FY 2009
Annual Budget**

Operating Revenue

Water	\$15,560,000
Sewer	12,730,000
Reclaimed Water	108,020
Service Initiation Fee	148,952
Other	1,261,724
Refunds and Adjustments	<u>(103,322)</u>

Total Operating Revenue **29,808,696**

Operating Expense

General and Administrative	5,360,296
Operations	<u>12,631,655</u>

Total Operating Expense **17,991,951**

Net Operating Income **11,816,745**

Non-operating Revenue

Customer Fees	1,965,415
Interest	<u>217,340</u>

Total Net Income **13,999,500**

Debt Service

Existing	9,465,326
New	<u>0</u>

Total Debt Service **9,465,326**

Net Income Less Debt Service **\$4,534,174**

Debt Coverage Ratio **1.48**

**ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF INCOME AND EXPENSE
(CAPITAL/NON-OPERATING)**

**FY 2009
Annual Budget**

General Fund

Resources

Transfer From Revenue	\$4,534,174
Assessments	3,000
Grants and Contributions	<u>7,084,706</u>

Annual Income Available for Capital **11,621,880**

Transfer from Construction Fund (Bond Proceeds) **0**

Total Available for Capital **11,621,880**

Capital Expenditures

Project ordinances	
General Fund Contribution	12,215,658
Funded by Bond Proceeds	<u>0</u>

Total Project Resolutions **12,215,658**

Capital Equipment **101,800**

Total Capital Outlay **12,317,458**

Annual General Fund Balance **(695,578)**

General Fund Beginning Balance **6,729,868**

General Fund Ending Balance **\$6,034,290**

Project Funding

Under Contract	1,580,303
Future Years	
Operating Balance	<u>4,453,987</u>

\$6,034,290

Unallocated General Fund Balance **\$0**