

ORANGE WATER AND SEWER AUTHORITY

PUBLIC HEARINGS AND MEETING OF THE BOARD OF DIRECTORS

JUNE 12, 2008

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held Public Hearings and a regular Business Meeting on Thursday, June 12, 2008, at 7:00 PM, in OWASA's Community Room.

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

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

Others present: Carolyn Elfland, Associate Vice-Chancellor for Campus Services, UNC; Meg Holton, Water, Wastewater, and Stormwater Manager, UNC; Ray DuBose, Director of Energy Services, UNC; Ben Poulson, Associate Director of Energy Services, UNC; Devan Clark; Joe Paterniti; John Schmidt; Dan Williams; Adam Klein, Chamber of Commerce; Chris Culbreth; Peg Parker; Frank Rexford, President of the Highland Woods Association; John Carter; Will Johnson; Beth Velliquette, Chapel Hill Herald; Lex and Ann Alexander; Anil Goyal; Maureen Blouin; Rosemarie Wenzel; Elliot Baron; Ross Leadbetter; Gary Richman; Tom Stoffel; Anthony Carey, Siena Hotel; Hillel Abrams; and John Hill.

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

MOTIONS ACTED UPON

1. Gene Pease made a motion to elect the following officers for corporate year 2008-2009: Randolph (Randy) M. Kabrick, P.E., Chair; Gordon Merklein, Vice Chair; and Braxton Foushee, Secretary. The motion was seconded by Fred Battle and carried by unanimous vote.

2. William Stott moved to close the concurrent Public Hearings on the draft Operations and Maintenance Budget; draft Capital Improvements Program Budget; and the proposed Adjustments to Rates, Fees and Charges. The motion was seconded by Alan Rimer, and carried by unanimous vote.

3. Alan Rimer made a motion to approve the Minutes of the April 10, 2008 Board Meeting; the motion was seconded by William Stott and carried by unanimous vote.

4. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "Resolution Authorizing the Approval and Acceptance of a North Carolina Clean Water Management Trust Fund Grant." (Resolution so titled attached hereto and made a part of these minutes. Motion by Alan Rimer, second by William Stott, and carried by unanimous vote.)

ITEM ONE: ELECTION OF OFFICERS

Mac Clarke reported that the Nominating Committee proposes the following officers for corporate year 2008-2009:

Randolph M. Kabrick, P.E., Chair
Gordon Merklein, Vice Chair
Braxton Foushee, Secretary

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

Gene Pease moved to elect the officers proposed by the Nominating Committee for corporate year 2008-2009. Fred Battle seconded the motion and carried by unanimous vote. (Please see Motion No. 1 above.)

ITEM TWO: 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 MEETING

Gene Pease said that the Ad Hoc Planning Committee will meet in the OWASA Boardroom, immediately following the Board meeting tonight, to discuss strategic planning.

CANE CREEK RESERVOIR

Ed Kerwin said that the Cane Creek Reservoir will open for recreation only on Saturdays this year beginning on June 14, 2008. The Lake recreation season will end in mid-November.

ITEM THREE: PETITIONS AND REQUESTS FROM THE PUBLIC

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

ITEM FOUR: PUBLIC HEARINGS

Randy Kabrick opened the concurrent Public Hearings on the draft Operations and Maintenance (O&M) Budget, draft Capital Improvements Program (CIP) Budget, and the proposed adjustments to Rates, Fees and Charges.

Ed Kerwin started the presentation noting the schedule and process OWASA uses to determine rates adjustments which are operating costs, capital costs, annual debt payment, and water sales.

How \$1 of FY 2006 revenue is spent:

Net operating expenditures (\$18.4 million)	\$0.55
Debt service (\$9.5 million)	\$0.28
Capital spending (\$5.9 million)	\$0.17

He said a significant rate increase is being considered due to the current exceptional drought, which resulted in significantly reduced water sales (projected sales for next fiscal year are 13% lower than previously forecasted); a slow construction economy, resulting in a 40% lower projection of connection fee revenue; and increases in chemical, energy, and health insurance costs. Mr. Kerwin said that OWASA has also been proactive in reducing spending. Staff will cut operating expenses this year by \$1.3 million and has frozen 12 vacant positions. Other actions include reducing operations, maintenance and repair costs by approximately \$1 million for next fiscal year; and reducing the five-year CIP 66% compared to the previous five-year total.

Operating and Maintenance Expenditures: \$18.4 million

Employee compensation:	54%
Chemicals:	12%
Maintenance:	12%
Utilities:	10%
Other:	4%
Professional services:	4%
Materials and supplies:	3%
Insurance:	1%

Allocations of the FY 2008-2012 CIP:

Renewal and replacement:	76%
System enhancement:	15%
Growth:	9%

Mr. Kerwin said that water sales were predictable prior to the drought of 2001-2002. While water conservation by customers is positive change that will extend our water supply, conservation impacts revenue. Another impact is the reclaimed water system, which will be on-line next spring and will reduce water sales to the University by about 660,000 gallons per day.

Mr. Kerwin said that the general fund has been “spent down” since the late 1990s and OWASA was able to appropriately cash finance a portion of the \$175 million of capital improvements over the last 10 years. However, reduced water sales since 2002 and the recent decrease in new connections have caused the general fund reserve to drop to undesirable levels. The Board has committed to maintaining at least a four-month operating reserve. Two severe droughts in the last five years; volatile costs for energy, chemicals and employee health insurance; and last year’s fire at our water treatment plant have highlighted the importance of an adequate cash reserve to deal with the unexpected.

Mr. Kerwin said that OWASA’s current rates are competitive compared to other utilities in our region and OWASA will work to ensure our rates remain fair and competitive within our region. He also said that the Board and staff realize that a significant rate increase is being proposed when many of

customers are having a hard time paying for other essentials but that the rates must reflect the “true cost” of service.

Finally Mr. Kerwin said customers have commented that: “You asked me to conserve, I did, now you are punishing me with high rates.” Mr. Kerwin expressed appreciation and gratitude to all the customers who conserved – it is important. However, water conservation comes with a cost. A majority of OWASA’s operating costs are fixed and do not change with the volume of water treated.

Mr. Kabrick asked OWASA’s General Counsel to talk about OWASA’s true cost of service and debt service.

Robert Epting said that North Carolina General Statutes require water and sewer authorities to set their budgets to pay operating and capital costs and have a prudent reserve for future expenses. Covenants in the Purchase and Sale Agreements through which OWASA bought the water and sewer systems from the Towns of Carrboro and Chapel Hill and UNC require that rates be calculated on a “cost-of-service” basis. OWASA bond commitments also require that it collect revenues sufficient to pay the costs of service, along with a reasonable reserve for future needs, and that its net revenues must exceed its debt service requirements by a fixed percentage annually. In order to meet this commitment in a time of falling revenues caused by water conservation, the cost of the water sold must be increased, otherwise the OWASA system would be in violation of its duties under the General Statutes, the Purchase and Sales Agreements, and the Bond Orders securing its indebtedness.

Mr. Kabrick opened the concurrent Public Hearings on the draft O&M Budget, draft CIP, and the proposed adjustments to Rates, Fees and Charges.

Mr. Devin Clarke, Carrboro resident, said that the rate increases should not be implemented because many people live on fixed incomes. There are people who have lived in the community for many years, especially senior citizens, who do not have a large income and are no longer able to work. Everyone has added costs with the increases in taxes, health insurance, gas, food and prescriptions and the OWASA rate increase should not be implemented. Mr. Clark said the Board should revisit the proposed rate increase and consider in-house cutting.

Mr. John Schmidt, Chapel Hill resident, said he was shocked by the proposed 24% rate increase and would like more facts on alternatives. OWASA needs more water availability and the goal should be to provide water and not ration water to customers. He also said it is time to consider Jordan Lake’s availability as a water source and to look into pumping water back to Cane Creek from University Lake when University Lake is full. He opposed a 24% rate increase.

Mr. Dan Williams, Chapel Hill resident and retired OWASA employee, said that he is glad the Board is taking care of the employees and understands that customers have fixed incomes. He said he does not support the 24% rate increase, that the Mason Farm Wastewater Treatment Plant (WWTP) is much better following the upgrade and that the odor control improvements should be delayed and completed in increments.

Mr. Adam Klein, Vice President of Economic Development and Government Relations for the Chapel Hill-Carrboro Chamber of Commerce, said the 25% rate increase is too high and that local

businesses are also facing rapidly rising food and fuel costs while the economy is slowing. The higher rate increases along with the proposed surcharges are too large an increase for businesses. He proposed that the surcharges not be implemented until Stage Three and that OWASA consider staggering the rate increase over three years.

Mr. Ross Leadbetter, a local resident since 1961, said that the word service was translated into "authority" and now OWASA is operating on an "easy-come, easy-go" attitude towards money. He said that the amount of increase depends on one's point of view and the proposed 24% rate increase is horrendous.

Mr. Chris Culbreth, Chapel Hill resident, asked where \$50 million dollars would come from if we go to Jordan Lake as a water source and suggested that OWASA require sub-metering for new multi-family customers so that they will know how much water they use and they will pay for it.

Mr. Kabrick said that answers to several questions raised tonight are on OWASA's website.

Mr. Kerwin said that OWASA will do its best to answer all of the questions.

Mr. Gary Richman, Highland Woods resident, said that the integrity of this process and OWASA are very important and it is just as important to keep a commitment that was made in accord with the Town's Special Use Permit for the WWTP upgrade.

Mr. Frank Rexford, Highland Woods resident and President of the homeowners association, said that he supports OWASA's continued progress to eliminate odor at the Mason Farm WWTP. OWASA agreed to eliminate odor per the SUP and should keep its commitment to the community.

Mr. Will Johnson, Chapel Hill resident, thanked staff for the presentation and said that there seemed to be a capital problem and not an operating cost problem. He said the Board should review capital spending, which seems to be out-of-control.

Mr. Ben Poulson, UNC's Associate Director of Energy Services, said OWASA provides critical water and sewer services to UNC and UNC Hospitals. This year UNC has worked with OWASA on water conservation and although UNC has added square footage since 2000, water consumption remains below pre-2002 drought levels and projections are that the water consumption will remain below UNC's peak year. Additional water conservation measures include the development of a Water Supply Emergency Plan that identifies critical facilities and water needs; as well as the Water Reclamation and Reuse Project, which will reduce demand on the potable water system and postpone or eliminate the need for costly new infrastructure that would have to be paid for by all customers in the future.

Mr. Poulson said UNC has concerns regarding the proposed 24% rate increase because UNC is also facing significant increases in energy costs. UNC has made significant investments in water conservation and feels that OWASA should be prudent with rate increases. Because OWASA provides critical services to UNC and UNC Hospitals, OWASA service needs to be reliable and UNC does not believe that repairs and maintenance or preventive maintenance programs should be postponed. UNC also believes that OWASA should build its operating reserve to the four month desired level.

In closing, Mr. Poulson said that UNC truly appreciates the quality services that OWASA provides and UNC will continue to work with OWASA on many fronts.

Mr. Kabrick said that on behalf of the Board, OWASA appreciates the work UNC has done especially as it pertains to the reclaimed water project.

Mr. Anil Goyal, a resident of Chapel Hill, said that he is not employed and that OWASA should watch consumption for a few months and then decide whether raising rates is necessary. Regarding the debt service issue, he said perhaps the Board may consider refinancing. He would like to understand the impact of reclaimed water use. He requested the Board reconsider the 24% rate increase – it is too steep in a short period of time.

Mr. Tom Stoffel, Carrboro resident, asked whether the rate increase would be “across the board” for all customers and that the rate increase is staggering. He suggested that water use will not be low for long and that this slump is temporary. He said regardless of the rate increase that is implemented and once the reservoirs fill and construction starts up again, OWASA should roll some money back to the customers and stimulate demand.

Mr. Anthony Carey, General Manager of the Siena Hotel, said his hotel is committed to conservation but that this rate increase is staggering. Mr. Carey said that his customers have a choice in which hotel to stay, but he does not have a water choice. He is concerned about the water rate surcharge impact if there are several months of a Stage One Water Shortage next year and wants the Board to reconsider when surcharges are implemented.

Mr. Elliot Baron, Chapel Hill resident, said he has lost trees and multiple plants during the drought. While customers are cutting back on water use, the water bills are going up. He asked where the water is coming from for new construction and said he did not believe that OWASA has enough water for growth. He also said he read in the Daily Tar Heel that students flush toilets several times because they do not realize that the water used for flushing is not clear. The 39% drop in connection fees needs to be addressed and growth is not paying for growth.

Mr. Hillel Abrams, Chapel Hill resident, asked what OWASA can do to not be dependent on growth. He said when he reviewed OWASA’s on-line information regarding operating expenses, he was surprised to see that OWASA is filling a Finance Manager position and expressed concern about OWASA’s cost of operation. Mr. Abrams said that rate increases such as OWASA’s mean that people will not stay in Chapel Hill.

Mr. Kabrick requested staff to follow up with questions raised in the public hearing.

William Stott made a motion to close the concurrent Public Hearings on the O&M Budget, CIP and proposed rates, fees and charges; the motion was seconded by Alan Rimer, and carried by unanimous vote. Please see Motion No. 2 above.

Mr. Kabrick said that this country has historically underpaid the true cost of water and he is proud of OWASA’s cost of service rate basis. OWASA is not out of water and the organization is not subsidized by taxes.

Gene Pease said growth does pay for growth. OWASA does not control growth in the area; the Town Council is the forum to control growth. OWASA's obligation is to deliver water to the growth planned.

Alan Rimer said he concurs with Mr. Kabrick and that staff should answer questions raised either by posting them on the website or in an e-mail. Mr. Rimer pointed out that water is a finite resource and must be conserved; OWASA rates are guided by costs-of-service; and OWASA must maintain its infrastructure through the CIP budget. He said that the Board has spent many hours on the proposed budgets and rates, and the Board is trying to do what is best and fair for customers.

William Stott reiterated Mr. Rimer's comments. Mr. Stott said he shares the concern about growth, and that OWASA should protect water – not growth. He said that the cost of business includes supporting staff, projects that include odor elimination, and maintaining infrastructure.

Braxton Foushee thanked the public for attending the Board meeting and said he agrees with 90% of the people who spoke against a 25% rate increase because he does not support a 25% rate increase.

Mac Clarke also thanked the public for attending meeting and said he appreciated the opinions, and encouraged the public to participate in OWASA Board meetings more frequently in the future. He said he supports the other Board Members' comments except Mr. Foushee's. He added that no one wants to implement a large rate increase; however, it is necessary for OWASA to seek a substantial increase this year. OWASA must meet its obligations to the community and the financial parameters which OWASA must comply with by law.

Marge Anders Limbert said that she appreciates all the comments from the public and Board Members and will make her decision at the Board's June 26th meeting.

Fred Battle said he understands the need for the rate increase and but also understands the concerns of the citizens. He will consider all the information and will be ready to vote on the rates at the June 26th meeting.

Mr. Kabrick thanked the public for their comments.

Mr. Williams asked whether there will be future rate increases.

Mr. Kabrick said that the Board cannot predict the future.

Mr. Stott said that the rates and budget are proposed for the 2008-09 fiscal year.

Mr. Culbreth asked how he can effectively send a comment to Town Council; and whether he should suggest sub-metering requirements for high density growth.

Mr. Kabrick said that growth does pay for growth and we are not going to run out of water.

Mr. Rimer said that Mr. Culbreth should suggest sub-metering as well as dual flush systems, low flow toilets and other water conservation saving devices.

ITEM FIVE: WATER SUPPLY AND DEMAND UPDATE

The Board received this report as an information item.

ITEM SIX: QUARTERLY REPORT ON ATTENDANCE AT BOARD OF DIRECTORS MEETINGS

The Board received this report as an information item.

ITEM SEVEN: MINUTES

Alan Rimer made a motion to approve the Minutes of the April 10, 2008 Board Meeting; the motion was seconded by William Stott, and carried by unanimous vote. Please see Motion No. 3 above.

ITEM EIGHT: RESOLUTION AUTHORIZING THE APPROVAL AND ACCEPTANCE OF A NORTH CAROLINA CLEAN WATER MANAGEMENT TRUST FUND GRANT

Alan Rimer made a motion to adopt the resolution; the motion was seconded by William Stott and carried by unanimous vote. Please see Motion No. 4 above.

There being no further business to come before the Board, the meeting was adjourned at 8:55 P.M.

Encls.

**RESOLUTION AUTHORIZING THE APPROVAL AND ACCEPTANCE OF A NORTH
CAROLINA CLEAN WATER MANAGEMENT TRUST FUND GRANT**

WHEREAS, this resolution authorizes the approval and acceptance of North Carolina Clean Water Management Trust Fund grant funds in the amount of up to \$1,189,000.00 as provided under Grant Agreement No. 2006B-027 (herein "Grant Agreement");

WHEREAS, on November 13, 2006, the North Carolina Clean Water Management Trust Fund (hereinafter "CWMTF") approved Orange Water and Sewer Authority's (hereinafter "OWASA") grant application to provide partial funding towards OWASA's acquisition of approximately seventy-three and one-half (73.5) acres located adjacent to Morgan Creek and University Lake and known as the Ray Family Property;

WHEREAS, OWASA is a qualified applicant as that term is defined in North Carolina General Statute's 13A-254(a);

WHEREAS, the OWASA Board of Directors (hereinafter "Board") recognizes the importance of the CWMTF and the purposes for which CWMTF is authorized by North Carolina General Statute's Chapter 113A, Article 18;

WHEREAS, the Board agrees to accept and to apply CWMTF funds in the amount of up to \$1,189,000.00 towards the purchase of aforementioned property;

WHEREAS, the Board agrees to maintain records documenting all expenditures made during the acquisition process;

WHEREAS, the Board agrees to abide and comply with the terms and conditions of the Grant Agreement;

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

1. That the Board authorizes Ed Kerwin, Executive Director and Robert L. Epting, General Counsel to OWASA, to act on behalf of OWASA and the Board to execute the Grant Agreement, and to take necessary action to undertake, direct, and complete approved grant documents and activities required by the aforesaid Grant Agreement.

Adopted this 12th day of June, 2008.