

ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

FEBRUARY 12, 2009

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met in regular session on Thursday, February 12, 2009, at 7:00 P.M., in OWASA's Community Room.

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

OWASA staff: Ed Kerwin; John Greene; Mason Crum; Sandra Bradshaw; Gwen Burston; Stuart Carson; Mary Darr; Patrick Davis; Greg Feller; Damon Forney; Walter Gottschalk; Thurman Green; Ed Holland; Randy Horton; Johnny Johnson; Lisa Johnson; Heidi Lamay; Ken Loflin; Andrea Orbich; Dan Przybyl; Kevin Ray; Jane Showerman; and Robert Epting, Esq., Epting and Hackney.

Others present: Meg Holton, Water, Wastewater, and Stormwater Manager, University of North Carolina at Chapel Hill; and Dominic Ruiz-Esparza, UNC Journalism student.

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

MOTIONS ACTED UPON

1. Braxton Foushee made a motion to approve the Minutes of the January 8, 2009 Board Meeting; the motion was seconded by Gene Pease, 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.

JOINT MEETING

Ed Kerwin said that on Wednesday, February 25, 2009 at 7:30 P.M. the OWASA Board of Directors will hold a Joint Meeting with elected officials from Carrboro, Chapel Hill and Orange County to discuss OWASA's proposed changes in OWASA Water Conservation Standards. The meeting will be at the Southern Human Services Center in Chapel Hill.

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

Braxton Foushee made a motion to approve the Minutes of the January 8, 2009 Board Meeting; the motion was seconded by Gene Pease, and carried by unanimous vote. See Motion No. 1 above.

ITEM FOUR: VERBAL UPDATE ON THE NATURAL RESOURCES/TECHNICAL SYSTEMS (NRTS) COMMITTEE MEETING ON FEBRUARY 4, 2009 TO DISCUSS TIMBER MANAGEMENT ON OWASA-OWNED PROPERTY; LONG-RANGE WATER SUPPLY PLAN UPDATE; AND COMMITTEE PRIORITIES

Ed Holland reported that the NRTS Committee met on February 4, 2009 to discuss (1) the need for a timber management plan for OWASA-owned property and (2) a progress report on the Long-Range Water Supply Plan Update.

Alan Rimer noted that a timber management plan would provide guidance for sustainable forestry management on OWASA-owned properties.

ITEM FIVE: FISCAL YEAR (FY) 2010 BUDGET PREVIEW: A) VERBAL UPDATE ON THE FEBRUARY 12, 2009 FINANCE COMMITTEE MEETING TO REVIEW THE QUARTERLY FINANCIAL REPORT; COST REDUCTION MEASURES; AND THE PRELIMINARY REVIEW OF A ZERO PERCENT RATE INCREASE SCENARIO FOR FY 2010 B) OWASA MANAGERS WILL PRESENT INFORMATION ABOUT EXPECTED BUDGET IMPACTS FOR FY 2010

Gordon Merklein, Chair of the Finance Committee, updated the Board on the Finance Committee meeting before the Board meeting to review the Quarterly Financial Report for the quarter ended December 31, 2008; cost reduction measures suggested for FY 2010; and the zero percent rate increase scenario for FY 2010 and the implications for the budget. The Finance Committee will meet on Thursday, February 26, 2009, in the OWASA Boardroom to review the FY 2010 draft Operations and Maintenance (O&M) and Capital Improvements Program (CIP) budgets.

Mr. Merklein also said interviews were held with two consulting firms regarding the review of OWASA's financial reporting and management systems on Tuesday, February 10th. The Committee agreed that staff would negotiate a proposed scope of work with Municipal & Financial Services Group for consideration at the Board's March 12, 2009 meeting.

Ed Kerwin began the presentation by introducing staff. Mr. Kerwin said there are three key issues impacting our budgets and rates:

- 1) Water sales and new customer connections are down:
 - Projected FY 2010 water sales are 16 percent lower than FY 2001; and
 - Projected FY 2010 new connections are 72% lower than last 10 year average.
- 2) Our work load and responsibilities are up:
 - 3,100 new customer accounts added since FY 2001;
 - 66 new miles of water and sewer pipes since FY 2001;
 - 1,100 new pieces of equipment added since FY 2001; and
 - New reclaimed water system coming on line.
- 3) Approximately \$220 million was invested in essential capital improvements during the last 10 years.

Mason Crum, Director of Engineering and Planning, said that the FY 2010 projected annual drinking water sales are 6.7 million gallons per day (MGD). While this is good in the long-term for water conservation, in the short-term it presents financial challenges for the Board and staff.

Mr. Crum stated that the projections for new water connections for residential and nonresidential development are conservative and show a minor upward slope. This slight increase comes from projections that development will involve more dense/multi-family connections and fewer single family residential connections.

Gene Pease said that while the projections are conservative, he suggested that staff may want to forecast even lower projections for a positive result.

Gordon Merklein said he is confident in the projections from staff.

Gwen Burston, Director of Human Resources, said the draft budget for FY 2010 includes an initial estimate of a 15 percent increase for health insurance. Blue Cross/Blue Shield (BC/BS) representatives reported that if OWASA's current claims experience continues, we can expect an increase of about five to eight percent. However, the latter projection is based on only six months' experience and the BC/BS representative could not make any guarantees.

Ms. Burston said that an increase in employee compensation is not in the draft FY 2010 budget, but that the Human Resources (HR) Committee will review this topic at a meeting in March.

Joy Preslar asked whether having no pay increase in the budget would mean a wage freeze.

Ms. Burston said that it is too early in the budget process to say and that the HR Committee will discuss this matter.

Johnny Johnson, Maintenance Manager, said that maintenance costs are increasing due to the plant upgrades and expansions, which have added 1,100 new pieces of equipment since 2001. He said that while we are able to meet our maintenance needs with the assistance from other

departments, as the system continues to grow and infrastructure ages, it will be necessary to add staff to properly maintain OWASA's level of service.

Ken Loflin, Water Supply and Treatment Manager, said that chemical costs at both plants have risen over the years, and the recent sharp increase is expected to put the plants over budget in chemical costs by \$650,000 in the current fiscal year. Mr. Loflin noted that he has contacted other water treatment facilities, both locally and nationally, to see how OWASA compares in chemical pricing and determined that our costs for chemicals are in line with others.

William Stott asked whether water treatment facilities could reduce costs by purchasing the chemicals as a region.

Ed Kerwin said that staff will communicate with our neighbors regarding this suggestion.

Mr. Loflin said that the normal recreation schedule is as follows:

- University Lake: Friday through Monday
- Cane Creek: Thursday through Saturday with a half day on Sunday beginning at 1:00 P.M.

In the 2008 recreation season, University Lake opened under the normal schedule. However, due to the drought, low water levels and access safety concerns, the Cane Creek Reservoir did not open until June 14 and it was open only on Saturdays and holidays.

The annual cost for recreation at the lakes is approximately \$116,000 each year.

As part of cost reductions, staff is suggesting the 2009 lake recreation days be as follows:

- University Lake: Saturday, Sunday and holidays
- Cane Creek: Saturdays and holidays

If the Board approves this change for 2009, there would be no need to hire summer part-time help and OWASA would save \$35,000. With the reduced schedule, the lake staff would be able to assist other departments with maintenance tasks in addition to performing the grounds maintenance and upkeep at the lakes. If the Board is willing to consider the above proposal, staff would publicize a future public meeting to receive the public's input.

Mr. Kabrick said lake hours should be considered later in the FY 2010 budget process.

Mr. Kerwin said that for the current fiscal year, staff will open as scheduled for four days at University Lake and Saturdays only at Cane Creek.

Thurman Green, Distribution and Collection Systems Manager, said that his department is responsible for preventive and corrective maintenance of 750 miles of water and sewer pipes. He said there are about 20,000 water meters in our system and staff is recommending changing the meter replacement program from a 15-year cycle to a 20-year cycle for a net savings of \$33,000. Staff is also decreasing the frequency of testing large meters for a net savings of

\$25,000. However, reduced testing could lead to more inaccurate readings and therefore affect revenues. The staff will evaluate the root control program for the sewer system in April. This program was deferred for the last two years.

Damon Forney, Wastewater Treatment and Biosolids Manger, said that his department is faced with two budget challenges. The first is the management of biosolids, which can be land-applied, dewatered, or kept in storage tanks. The cost to apply biosolids to farmland is about 50 percent less than dewatering. Due to wet weather, a higher percentage of the biosolids had to be dewatered which has increased operating costs beyond budget. The second budget challenge is the pending start-up of the new reclaimed water facility, which will require additional monitoring and will increase operating costs.

Mr. Stott asked whether there are options for selling dewatered biosolids and whether timber harvested from OWASA land could be used to make compost.

Mr. Kerwin said that before Mr. Forney joined the OWASA team, staff discussed preparing a long-term biosolids plan with evaluation of several disposal options. This plan has been delayed due to more pressing issues, but it is on the NRTS Committee's list of priorities.

On behalf of the Board, Mr. Kabrick thanked the staff for their hard work and encouraged all Board Members to attend the upcoming budget meetings.

There being no further business to come before the Board, the meeting was adjourned at 8:45 P.M.