

ORANGE WATER AND SEWER AUTHORITY

PUBLIC HEARINGS AND MEETING OF THE BOARD OF DIRECTORS

MAY 28, 2009

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held Public Hearings and a regular Business Meeting on Thursday, May 28, 2009, at 7:00 PM in the Chapel Hill Town Hall.

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

OWASA staff: Ed Kerwin; John Greene; Mason Crum; Gwen Burston; Patrick Davis; Greg Feller; Ed Holland; Heidi Lamay; Rachel Monschein; Andrea Orlich; Kevin Ray; and Robert Epting, Epting and Hackney.

Others present: Highland Woods residents: Ann Alexander, Helen Ludwig, Alice Neebe, Paul Neebe, Frank Rexford, Gary Richman, and Peg Parker. William Johnson; Craig Mathews; Michael Griffith; Sharon Hartwell; Hank Rodenburg; Bruce Boehmke; Terri Tyson; Paul Urban; Geoffrey Daniel Geist; Pinky DuBose; Tom Stoffel; Jim Ward, Mayor pro tem, Town of Chapel Hill; Tai Ayanakoya. University of North Carolina at Chapel Hill: Ray DuBose, Director of Energy Services; Meg Holton, Water, Wastewater, and Stormwater Manager; and Ben Poulson, Associate Director of Energy Services.

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

MOTIONS ACTED UPON

1. Braxton Foushee 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 Mac Clarke, and carried by unanimous vote.

2. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "Resolution Designating Depositories, Establishing Accounts, and Designating Signatories for Accounts of Orange Water and Sewer Authority." (Resolution so titled attached hereto and made a part of these minutes. Motion by Mac Clarke, second by Alan Rimer, and unanimously approved.)

3. Mac Clarke made a motion to approve the Minutes of the April 23, 2009 Board Meeting; the motion was seconded by Alan Rimer, and carried by unanimous vote.

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.

FRED BATTLE

Randy Kabrick said the Orange County Board of County Commissioners reappointed Fred Battle to the OWASA Board by on May 19, 2009.

COMMITTEE MEETINGS

Gordon Merklein said that the Finance Committee met on May 26, 2009 to discuss matters related to the Budgets and Rates for Fiscal Year 2010 and received comments from the public.

Alan Rimer said that the Natural Resources Technical Systems Committee will meet on June 1, 2009 at 4:30 P.M. in the OWASA Boardroom to discuss biosolids and the Long-Range Water Supply Plan.

WATER QUALITY REPORT CARD

Rachel Monschein reported that OWASA has met the standards under the Federal Safe Drinking Water Act and related State rules for drinking water. OWASA's report includes information about where OWASA water comes from, how it is treated and a summary of our test results. Last year we provided 2.8 billion gallons of drinking water to the Carrboro-Chapel Hill community and tested the drinking water for more than 150 contaminants. The 2008 water quality report card was mailed to our customers this spring and posted to OWASA's website, www.owasa.org.

ITEM TWO: PETITIONS AND REQUESTS

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

ITEM THREE: CONCURRENT PUBLIC HEARINGS ON THE DRAFT OPERATIONS AND MAINTENANCE BUDGET; DRAFT CAPITAL IMPROVEMENTS PROGRAM BUDGET; AND PROPOSED ADJUSTMENTS TO RATES, FEES AND CHARGES

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

Gordon Merklein, OWASA's Finance Committee Chair, started the presentation by describing OWASA's budget process and rate setting requirements. OWASA is a public, non-profit special purpose government supported by user fees and cost-of-service rates to meet requirements for our Sale and Purchase agreements and Bond Order. Rate adjustments are determined by projecting sales and expenses over a 15-year period. Water sales for OWASA have been down and are projected to be 19 percent lower than 10 years ago, although we have 15 percent more customers. Projected new service connections in Fiscal Year 2009-10 (FY 2010) are also 72 percent lower than the average for the last 10 years.

Mr. Merklein noted that during the past 10 years, OWASA invested \$220 million to renew and replace aging infrastructure as well as upgrade the Mason Farm Wastewater Treatment Plant (WWTP) and the Jones Ferry Road Water Treatment Plant. The proposed FY 2010 CIP has been reduced significantly to \$5.7 million.

The proposed FY 2010 O&M budget reflects \$1.7 million in cost reduction measures including: the permanent elimination of 12 positions with seven additional positions unfunded during the year; deferring for one year preventive maintenance programs such as root control and meter replacement; and reduced recreation to Saturday only at Cane Creek and Saturday/Sunday only at University Lake. The funding for repairs assumes "average" year conditions and reflects a substantial increase in chemical costs used in water and wastewater treatment. Mr. Merklein noted that without the increase in chemical costs, the draft operating budget would be six percent less than the current budget. Mr. Merklein noted that while this budget includes a two percent merit increase for OWASA employees, the Executive Director's recommendation to withdraw the eliminate the merit increase is supported by the OWASA Board. This was a difficult decision for the Board, however was necessary during these difficult financial times.

Mr. Merklein stated that the 15-Year Financial Model used to determine rate adjustments last year indicated that a 17 percent increase was needed for FY 2009 and FY 2010, and a 17 percent increase was adopted for FY 2009. In order to avoid so large of an increase in FY 2010, the Financial Committee recommends a 9.75 percent rate increase effective October 1, 2009 to fund essential operating and CIP needs only; reverse an unacceptable downward trends for general fund reserves and the ratio of debt payments to net revenue; and begin partial funding of two essential new reserve funds established by the Board in March, 2009 (Revenue Stabilization Fund and Capital Improvements Reserve Fund). A typical residential customer with water consumption of 5,000 gallons per month would see a \$6.68 increase in their water and sewer bill.

Looking ahead, rate increases through FY 2013 are expected to average 9.75 percent per year. Projected operating budgets for FYs 2011-2024 will be increased to restore preventive maintenance programs; fund operation of new odor elimination improvements and new expenses for compliance with Jordan Lake Rules in FY 2014; and begin funding long-term post-employment benefits. While the proposed CIP for FY 2011-2024 is lean, it is expected to be adequate.

Mr. Merklein said that OWASA will continue to work hard to reduce costs and fulfill our responsibilities to provide high quality and reliable services now and in the future.

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

Hank Rodenberg, Chapel Hill resident, said that no one likes rate increases and that he did not have a problem with the 9.75 percent increase. He said that the community needs to do more to conserve water and one way to conserve is to make rates more progressive. He suggested the Board leave the overall rate increase at 9.75 percent and include an increasing block rate structure for those who use a large amount of water. The pricing signal will drive the conservation efforts in Chapel Hill.

Bruce Boehmke, Chapel Hill resident, said he walks at University Lake and is against the reduced recreation hours at University Lake. He said the savings from reducing hours of recreation at the lakes equals about 80 cents per OWASA customer per year. He stated that University Lake is wonderful facility and strongly urged the Board to keep it open more days per week.

Paul Neebe, Highland Woods resident, stated his displeasure with delay of the odor elimination improvements at the Mason Farm WWTP. He said that when he became aware of OWASA's plan on April 18th, he e-mailed and telephoned the OWASA Board Members saying OWASA has promised odor elimination and delaying is a contradiction of that promise. He also stated he received one response from the Board. Mr. Neebe said this delay is frustrating and disappointing and leaves open the possibility of an even longer delay. He requested that the Board honor its commitments.

Terri Tyson, Chapel Hill resident, said she is a mother of triplets plus one and that her latest water bill was \$183. She said that because she lives with four teenagers in a household of six, conserving water is a challenge, however, they did conserve during the drought as OWASA requested. Now OWASA is punishing customers for conserving water by raising own rates. She said it is not fair to raise rates 9.75 percent when people are being laid off, or foregoing their raises. OWASA keeps raising rates whether there is rain or a drought and whether customers conserve or not. Where are the effective "checks and balances" for OWASA? She requested the Board show fairness and equity by making allowances for household size and relax the tiered rate approach. OWASA should serve the public instead of itself and not continue to raise rates. If rates must be raised, then hold them to the rate of inflation, not the full 9.75 percent.

Paul Urban, Chapel Hill resident, opposed the rate increase. He said it is excessive and that there should be a freeze on rate increases. Mr. Urban said that OWASA is sixth from the highest on the utility rate comparison by Triangle J Council of Governments and he hopes that in the future OWASA can move to sixth from the bottom, which will make OWASA a more friendly utility.

Jeffrey Daniels, Chapel Hill resident, said he heard positive comments regarding conservation and that OWASA can do more to conserve water. When conservation is increasing, it would seem that rates would go down, but rates continue to go up; a 17 percent increase in

2010 is not sustainable and that does not seem fair or reasonable when conservation is going up. Mr. Daniels suggested the OWASA Board hire a new consultant to redo the rates.

Frank Rexford, Highland Woods resident, said he was disappointed about the delay in completing the elimination of odor at the WWTP. He said the Board promised to eliminate odor in 2004 and while a one year delay is not entirely unreasonable, the Board should keep their commitment. Mr. Rexford asked if OWASA received a certificate of completion from the Town of Chapel Hill for the Mason Farm WWTP.

Ray DuBose, Director of Energy Services with UNC, said that since the drought the University and community have reduced drinking water use. A ceremony was held on May 11, 2009, to celebrate the completion of the Reclaimed Water System project for the community of Chapel Hill, Carrboro and UNC as well as the State of North Carolina. The University began to use reclaimed water on April 7th at the Tomkins Chiller Plant and began using it at the South Chiller Plant on April 28th. The initial usage started after a meticulous commissioning period and Mr. DuBose expressed appreciation to OWASA staff for working with his staff to get everything right the first time. The University will begin the use of reclaimed water at the East Chiller Plant next week; and irrigate Kenan Stadium this summer. Phase II of the reclaimed water system is under construction to serve the Cobb and UNC Hospital chiller plants in the fall. Prior to the startup of the reclaimed water system, the potable water consumption at the University went down (25 percent decrease per square foot since 2003). Mr. DuBose said the University understands that the rates are what they are. The fact is that since the droughts, the University and the community has reduced water consumption and when consumption goes down, rates go up because fixed costs are still there. The University's budgets are being cut drastically and the University appreciates OWASA's cost saving measures.

Mr. Kabrick thanked the University for its conservation efforts and partnering with OWASA on reclaimed water.

Gary Richman, Highland Woods resident, said that this Board is not the same Board that committed to eliminate odor in 2004. He summarized OWASA's odor elimination progress to date and said that while the work is almost complete (Phase III is pending), there is still work to do. He said delaying Phase III odor elimination for one year is regrettable, and he requested a commitment from the Board that the delay of Phase III is only for one year.

William Johnson, Chapel Hill resident, said additional monitoring of the CIP is needed and may be the reason why the rates need to be increased. Better management of the CIP will reduce expenses.

Jim Ward, Chapel Hill Mayor pro tem, said that a one year deferral is understandable for odor elimination at the Mason Farm WWTP but the one year deferral should be coupled with a promise from the OWASA Board that it will be completed and not pushed out for another year. Pushing the odor elimination project out to the next five-year CIP is unacceptable. Mr. Ward said he requested the Chapel Hill Town Mayor and Manager add OWASA's Special Use Permit and a associated promise to eliminate odor at the Mason Farm WWTP to the agenda for the

Council's June 8th regular meeting; he further requested OWASA representatives attend the June 8th Council meeting and provide an update to the Council on this matter.

Mr. Kabrick said that the OWASA Board's intent is to delay the odor elimination project for one year only, however, if desired, OWASA will be present to update the Council.

Mr. Ward said this topic is important and that he would like to have the conversation with the Town Council and OWASA representatives on June 8th.

Braxton Foushee said that while the majority of the Board is in favor of odor elimination, he is not and he will not vote for this project.

Mr. Foushee made a motion to close the concurrent Public Hearings on the Operating Budget, CIP and proposed rates, fees and charges; the motion was seconded by Mac Clarke, and carried by unanimous vote. Please see Motion No. 1 above.

Mr. Merklein said it is important for everyone to recognize that OWASA cannot operate at a loss and a rate increase next year will be needed to make up for lost revenue. Mr. Merklein suggested that the public view the documentary by Penn State Public Broadcasting, "*Liquid Assets, the Story of our Water Infrastructure.*" The original investment made by this utility, like other utilities in the region, was subsidized by state and federal monies and such aid is no longer available. OWASA must invest in the CIP to maintain the assets we have.

Joy Preslar said that the Board and staff have worked many hours to keep costs down and she is pleased with the results.

Alan Rimer observed that people purchase bottled water and what it costs to purchase one or two bottles of water would purchase 500 gallons of OWASA water. He wondered how many customers who spoke about rates this evening purchase bottled water. Mr. Rimer said that now is the time to reinvest in infrastructure and cutting the CIP is unsustainable. OWASA spends its revenue in a responsible way and Mr. Rimer challenged customers to learn and understand how rates are developed.

Gene Pease said that this conversation on rates is a good example of why OWASA must do a better job of educating the public so that everyone understands how OWASA operates and develops rates.

Mr. Kabrick said that sustainability is balancing between the economic, social and environmental issues and paying the true cost of the goods you are buying and that is what OWASA is trying to accomplish.

Ed Kerwin confirmed with the Board that staff will present the same budgets and rates at the Board's June 11, 2009 meeting for approval except the deletion of the two percent merit increase for employees.

ITEM FOUR: RESOLUTION DESIGNATING DEPOSITORIES, ESTABLISHING
ACCOUNTS, AND DESIGNATING SIGNATORIES FOR ACCOUNTS OF
ORANGE WATER AND SEWER AUTHORITY

Mac Clarke made a motion adopt the resolution; the motion was seconded by Alan Rimer and unanimously approved. Please see Motion No. 2 above.

ITEM FIVE: MINUTES

Mac Clarke made a motion to approve the Minutes of the April 23, 2009 Board Meeting; the motion was seconded by Alan Rimer, and carried by unanimous vote. Please see Motion No. 3 above.

ITEM SIX: QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED MARCH
31, 2009

The Board received this report as an information item.

There being no further business to come before the Board, the meeting was adjourned at 8:25 P.M.

Enclosures

**RESOLUTION DESIGNATING DEPOSITORIES, ESTABLISHING
ACCOUNTS, AND DESIGNATING SIGNATORIES FOR ACCOUNTS OF
ORANGE WATER AND SEWER AUTHORITY**

WHEREAS, on August 28, 2008, the Board of Directors adopted Resolution Designating Depositories, Establishing Accounts, and Designating Signatories for Accounts of Orange Water and Sewer Authority; and

WHEREAS, the Piney Mountain Homeowners' Association has requested the Piney Mountain Capital Reserve Fund be deposited with the Self Help Credit Union of Durham, North Carolina; and

WHEREAS, a limited access Money Market account with the Self Help Credit Union will pay a beneficial rate of interest to the Piney Mountain Homeowners' Association; and

WHEREAS, placing this fund on deposit with Self Help Credit Union creates no appreciable administrative burden or cost;

NOW, THEREFORE, BE IT RESOLVED:

1. That the following depositories are hereby authorized and requested to honor and to charge to Orange Water and Sewer Authority, checks, drafts, and other orders for the payment of money drawn in the name of Orange Water and Sewer Authority against funds of Orange Water and Sewer Authority on deposit at the various depositories of Orange Water and Sewer Authority:

Bank of America
Branch Banking & Trust Company (BB&T)
Gateway Bank & Trust Company
Self Help Credit Union
Mechanics and Farmers Bank
Mellon Bank of New York Trust Company
North Carolina Capital Management Trust
Wachovia Bank and Trust Company

2. That the Finance Officer and Deputy Finance Officers are each authorized to open deposit, savings, checking, and investment accounts in the name of Orange Water and Sewer Authority and to endorse checks and orders for the payment of money and withdraw funds from Orange Water and Sewer Authority accounts on deposit with each of the banks designated herein, all for the benefit and use of Orange Water and Sewer Authority.

3. That the Executive Director and the Finance Manager are hereby individually designated as Deputy Finance Officers, all for the purposes and in accordance with the provisions of G.S. 159-25(a).

4. That the following Officers and Officials are designated as officials of Orange Water and Sewer Authority to countersign checks on behalf of Orange Water and Sewer Authority where two signatures are required pursuant to G.S. 159-25(b), to wit: the Executive Director, the Secretary to the Board, the General Manager of Operations, and the Finance Manager.
5. That the following Officers and Officials are authorized to sign checks on behalf of Orange Water and Sewer Authority where one signature is required, to wit: the Finance Officer, the Executive Director, the Secretary to the Board, and the Finance Manager.
6. That the Finance Officer, the Executive Director, the Secretary to the Board, the General Manager of Operations, and the Finance Manager, are authorized and empowered to execute signature cards and such other documents as may be required by the depositories to implement this resolution.
7. That in accordance with G.S. 159-25(b), two signatures shall be required on all checks except payroll drafts and transfers between accounts.
8. That the Treasurer be, and he hereby is, directed to furnish to the various depositories of Orange Water and Sewer Authority such number of copies of this resolution as the depositories may require.
9. That the use of digitally imprinted facsimile signatures is authorized for signing checks and drafts.
10. That all resolutions heretofore adopted designating depositories for funds of Orange Water and Sewer Authority and/or persons authorized to sign on OWASA's accounts are repealed.

Adopted this 28th day of May, 2009.