

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

SEPTEMBER 24, 2009

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met for their annual meeting on Thursday, September 24, 2009, at 7:00 P.M., at the Chapel Hill Town Hall.

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

OWASA staff: Ed Kerwin; John Greene; Mason Crum; Patrick Davis; Greg Feller; Ed Holland; Andrea Orbich; Mark Powell; Dan Przybyl; 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; Madison Crum; Kate Dixon, Epting & Hackney; Lindsay Ruebens, UNC Journalism Student; and Scott Anderson and Eddie Burke, Cherry, Bekaert & Holland, LLP.

There being a quorum present, Vice Chair Gordon Merklein called the meeting to order.

MOTIONS ACTED UPON

1. Mac Clarke made a motion to adopt the Minutes of the September 10, 2009 Board of Directors' Closed Session for the purpose of discussing a human resource matter; the motion was seconded by Braxton Foushee and unanimously approved.

2. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "Resolution to Add a Second Network/Database Administrator Position in the Information Technology Department." (Resolution so titled attached hereto and made a part of these minutes. Motion by Braxton Foushee, second by Alan Rimer, and unanimously approved.)

3. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled "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 by Braxton Foushee, second by Fred Battle, and unanimously approved.)

4. Alan Rimer made a motion that the Board convene in a closed session for the purpose of discussing human resource matters; the motion was seconded by Mac Clarke and unanimously approved.

ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Gordon Merklein 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.

ANNOUNCEMENTS BY VICE CHAIR

Gordon Merklein updated the Board on the September 15, 2009 Finance Committee meeting and discussed preliminary recommendations from staff based on information received from the independent review of OWASA's accounting and financial management and reporting systems, including adding a second Network Database Administrator.

Mr. Merklein said that the Finance Committee will meet again on October 22, 2009 at 6:00 P.M. in the First Floor Conference Room at Chapel Hill Town Hall to review the quarterly financial report and discuss accounting and financial reporting system improvements and funding priorities.

ANNOUNCEMENTS BY STAFF

Robert Epting introduced Ms. Kate Dixon, a new legal associate with Epting and Hackney.

MEETING SUMMARIES

Ed Holland said that he attended the Orange County's Environmental Summit held on September 12, 2009 at new Botanical Garden Education Center in Chapel Hill. Mr. Holland was a member of an expert panel addressing Orange County's surface and groundwater issues. He gave a brief summary of OWASA's draft Long-Range Water Supply Plan update.

Mr. Holland reported that he presented the draft Long-Range Water Supply Plan update report to the Chapel Hill Town Council on September 14, 2009. Comments from Council members centered on the report's recommendation that OWASA should purchase water from neighboring utilities before declaring a Water Supply Shortage in the future. Council members acknowledged the financial logic of this recommendation, but expressed concern about the principle of purchasing water from others before our community makes further sacrifices. Staff thanked the Council for its feedback and noted that the OWASA Board would also consider the comments of Carrboro and Orange County elected officials, as well as customers and other stakeholders, before finalizing the Long-Range Water Supply Plan.

Mr. Holland also noted that he, Randy Kabrick, and Ed Kerwin attended a September 17, 2009 meeting convened by Orange County regarding the Jordan Lake Partnership. Also present were the Mayor Pro-Tem of Chapel Hill, the Mayor of Carrboro, Chair of the Orange County Board of Commissioners, and the Managers of Hillsborough, Carrboro, and Orange County. The

discussion focused on regional growth and water quality-related planning concerns, rather than on Jordan Lake allocations *per se*. OWASA staff answered questions about Jordan Lake and OWASA's participation in the Partnership, and provided information as requested from the elected officials. The consensus of this meeting was that the regional planning related issues should be pursued through the newly created Chatham-Orange Joint Planning Task Force and then followed up, if necessary, through the regional infrastructure planning task force that is being coordinated by the Triangle J Council of Governments.

WASTEWATER COLLECTION, TREATMENT AND RECYCLING ANNUAL REPORT

John Greene said that a Wastewater Collection, Treatment and Recycling brochure for fiscal year 2008 through 2009 has been distributed to the Board and OWASA customers. An update of one permit violation in January of 2009 has been made to the report and this update will go out to OWASA customers in October.

WATER REUSE ASSOCIATION 2009 INSTITUTION OF THE YEAR AWARD

Patrick Davis said that the University of North Carolina at Chapel Hill and OWASA received the 2009 Water Reuse Association's Institution of the Year Award on the outstanding institutional collaboration in developing the new water reuse system. The Water Reuse Association is a national non-profit organization dedicated to the advancement of the use of reclaimed water in a safe and environmentally sound manner.

FESTIFALL ARTS AND CRAFTS STREET FAIR

Greg Feller said OWASA will have a booth at the Annual Festifall Arts and Crafts Street Fair on Sunday, October 4, 2009, from 1:00 P.M. until 5:00 P.M. on West Franklin Street in Chapel Hill.

ITEM TWO: PETITIONS AND REQUESTS

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

ITEM THREE: PRESENTATION OF ANNUAL REPORT

Ed Kerwin stated that OWASA understands and shares customers' interests and concerns about rate increases over the past two years necessary to sustain OWASA's operation and ensure reliable and high quality water and sewer services today and into the future. The reasons for the rate increases are as follows:

- reduced consumption by our customers as well as the University's use of reclaimed water in place of drinking water for non-potable purposes;
- reduced revenue from new connections; and

- higher costs for chemicals and energy.

Mr. Kerwin said that staff has responded to these challenges over the past Fiscal Year (FY) by implementing cost reduction measures totaling \$1.7 million, including permanent elimination of 12 positions and a freeze on seven other vacant positions. Employees will not receive a merit increase this year, important preventive maintenance projects have been deferred, and OWASA reduced the Capital Improvement Program (CIP) over the next five years. Deferral of essential maintenance is unsustainable and some programs will need to be included in future CIP's to avoid costly emergency repairs.

Mr. Kerwin said that OWASA's financial model indicates that additional rate increases of about 10 percent will be necessary over the next several years. The OWASA Board and staff are committed to working hard to further reduce costs without jeopardizing the future viability of our systems and the reliability of essential services.

The following were accomplished during the past year:

- In April, 2009, UNC began using the reclaimed water (RCW) system rather than drinking water for their cooling towers at the chiller plants.
- In June, 2009, the Towns of Carrboro, Chapel Hill and Orange County adopted proposed changes in the water conservation standards for OWASA customers.
- OWASA continued to make significant progress toward our goal of eliminating off-site objectionable odors from our Mason Farm WWTP. Another significant phase of capital work remains to be done.
- Staff drafted an update of OWASA's 50-Year Water Supply Plan. A community meeting is scheduled for November 11, 2009, at 7:00 P.M. in the Council Chambers.

Kevin Ray said that the Comprehensive Annual Financial Report (CAFR) is still in draft form and that editorial changes may occur, but the dollar amounts in the draft CAFR will not substantially change. Mr. Ray said that in spite of the continuing lower operating revenues, staff has a better understanding of the reporting tool from which we take our historical water demand volume figures as well as the work staff has completed over the last six months in data queries that will allow us to study customer consumption patterns and will assist in better preparation of the budget. This work will help staff in matching our projections with the complexity of our rate structure.

In spite of the operating budget deficit, positive variances include operating and interest expense as well as service availability fees that make the bottom line about \$500,000 better than the budget projected at year end. OWASA's net assets increased this FY by over \$16 million because OWASA continues to pay for our infrastructure development with cash from operations as well as contributions from customers, primarily the University of North Carolina at Chapel, Hill in regards to the RCW system and other grants and developer contributions.

Mr. Ray said two significant enhancements to our reporting structure include the new Financial Management Policy and the independent review of OWASA's accounting and financial management and reporting systems.

Finally, Mr. Ray said that OWASA received an unqualified opinion from our auditor and he thanked his staff for their hard work and dedication over the past year.

The Board received the auditor's draft report.

Mr. Eddie Burke, the independent auditor with Cherry, Bekaert & Holland, LLP, said OWASA received an unqualified opinion that the financial statements fairly present OWASA's financial operations and position. He also said that while the following recommendations are not findings related to the audit process his staff suggested several information technology-related actions to improve internal control.

ITEM FOUR: MINUTES

Mac Clarke made a motion to adopt the Minutes of the September 10, 2009 Board of Directors Closed Session for the purpose of discussing a human resource matter; the motion was seconded by Braxton Foushee and unanimously approved. Please see Motion No. 1 above.

ITEM FIVE: RESOLUTION TO ADD A SECOND NETWORK/DATABASE ADMINISTRATOR POSITION IN THE INFORMATION TECHNOLOGY DEPARTMENT

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

ITEM SIX: UPDATE AND RECOMMENDATION FROM THE RAY PROPERTY TASK FORCE COMMITTEE MEETING

The Board concurred with the Ray Property Task Force's recommendation that a letter be sent to the Town of Carrboro to ask whether the Town is interested in this property and, if not, staff will pursue the sale of the property through an open, competitive process. Both Braxton Foushee and William Stott, Carrboro appointees, will follow up with the Town of Carrboro.

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

Braxton Foushee made a motion to adopt the resolution; the motion was seconded by Fred Battle and unanimously approved. Please see Motion No. 3 above.

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ITEM EIGHT: CLOSED SESSION

Alan Rimer made a motion that the Board convene in a closed session for the purpose of discussing human resource matters; the motion was seconded by Mac Clarke and unanimously approved. Please see Motion No. 4 above.

The meeting was adjourned at 9:20 P.M.

**RESOLUTION TO ADD A SECOND NETWORK/DATABASE ADMINISTRATOR
POSITION IN THE INFORMATION TECHNOLOGY DEPARTMENT**

WHEREAS, there is short- and long-term need for an additional Network/Database Administrator in the Information Technology Department to ensure that information management objectives are met as discussed in the recent report by the Municipal & Financial Services Group consulting firm;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Board of Directors of the Orange Water and Sewer Authority approves the addition of a second Network/Database Administrator position at Grade 25 with a salary range of \$54,338 – \$78,790.

2. That the authorization of this additional position shall be effective upon adoption of this resolution.

Adopted this 24th day of September 2009.

**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, sewer and reclaimed 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 25, 2009 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, 2009, 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 25, 2009.

Adopted this 24th day of September, 2009.

ORANGE WATER AND SEWER AUTHORITY
CLOSED SESSION OF THE BOARD OF DIRECTORS
SEPTEMBER 24, 2009

The Board of Directors of Orange Water and Sewer Authority met in Closed Session on Thursday, September 24, 2009, following the annual meeting of the Board of Directors.

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

Others present: Robert Epting, General Counsel; and Ed Kerwin, Executive Director.

ITEM ONE

The Board of Directors met in Closed Session for the purpose of evaluating the annual performance of OWASA's General Counsel for the current fiscal year.

No official action was taken at the meeting.

ITEM TWO

The Board of Directors met in Closed Session for the purpose of evaluating the annual performance of OWASA's Executive Director for the current fiscal year.

No official action was taken at the meeting.