

ORANGE WATER AND SEWER AUTHORITY

PUBLIC HEARINGS AND MEETING OF THE BOARD OF DIRECTORS

MAY 26, 2011

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held public hearings and a business meeting on Thursday, May 26, 2011, at 7:00 P.M., at the Chapel Hill Town Hall, 405 Martin Luther King Jr Boulevard in Chapel Hill.

Directors present: Gordon Merklein, Chair; Braxton Foushee, Secretary; Fred Battle; Michael A. (Mac) Clarke; Joyce C. Preslar; William Stott; Amy Witsil; and John A. Young. Directors absent: Alan Rimer, Vice Chair.

OWASA staff: Ed Kerwin; John Greene; Donald Boggs; Mason Crum; Mary Darr; Patrick Davis; Greg Feller; Stephanie Glasgow; Ed Holland; Heidi Lamay; Kenneth Loflin; Dusty Martin; Andrea Orbich; Dan Przybyl; Kevin Ray; Stephen Winters; and Robert Epting, Esq., Epting and Hackney.

Others present: Ben Poulson, Associate Director of Energy Services, and Meg Holton, Water, Wastewater, and Stormwater Manager of the University of North Carolina at Chapel Hill; Chapel Hill residents Lewis D. Sanders, Heather Payne and Will Raymond.

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

MOTIONS ACTED UPON

1. Fred Battle moved to close the Concurrent Public Hearings on the Draft Annual Budget; Draft Capital Improvement Budget; and the proposed Adjustments to Rates, Fees and Charges. The motion was seconded by Braxton Foushee, and carried by unanimous vote.

2. Mac Clarke made a motion to approve the Minutes of the April 28, 2011 Board Meeting; the motion was seconded by William Stott, and carried by unanimous vote.

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.

MEETING UPDATES

Gordon Merklein said that on May 17, 2011, the Carrboro Board of Aldermen voted 7-0 to have their planning staff work with the planning staffs of the Town of Chapel Hill, OWASA, and UNC to discuss water supply projections as they relate to growth and planning between now and the availability of the Quarry to determine if there will be years of increased water constraint; and, if so, whether there are any land use planning strategies that could be considered to minimize the constraint. Additionally, Alderman Dan Coleman acknowledged that Carrboro received OWASA's May 13th letter and draft resolution requesting clarification to the Water and Sewer Management, Planning and Boundary Agreement (WSMPBA) but that he wasn't prepared to discuss it. He suggested that the Town Manager schedule it for discussion at a future meeting.

Chair Merklein said that on May 19, 2011 a meeting between Chapel Hill Town Council representatives and Chapel Hill appointees to the OWASA Board of Directors met and discussed the WSMPBA. It is anticipated that the Board will consider action on the draft resolution regarding WSMPBA and Jordan Lake at the Board's June 9, 2011 meeting.

COMMITTEE MEETINGS

Gordon Merklein said the Natural Resources/Technical Systems Committee will meet on Tuesday, June 7, 2011, at 8:00 A.M., in the OWASA Boardroom to discuss Orange County's Master Telecommunication Plan Map; water and sewer service availability in the Rogers Road community; and the Upper Neuse Clean Water Initiative.

Mac Clarke said the Nominating Committee met prior to the Board meeting tonight to discuss the nominees for the election of the Chair, Vice Chair and Secretary on June 9, 2011. The following Board members are the proposed officers for corporate year 2011-2012: Gordon Merklein, Chair; Alan Rimer, Vice Chair; and Braxton Foushee, Secretary. Mr. Clarke said that any other Board member who wishes to be considered for a position should inform a member of the Nominating Committee as soon as possible. Dates of service for new officers will be July 1, 2011 through June 30, 2012.

William Stott said the Community Outreach Committee will meet on Wednesday, June 2, 2011 at 8:30 A.M. to discuss staff's proposed draft Charge for the Committee and draft Goal Statements and Objectives for Outreach and Education. A final proposal will be brought to the Board at a future meeting.

ITEM TWO: PETITIONS AND REQUESTS FROM PUBLIC

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

ITEM THREE: CONCURRENT PUBLIC HEARINGS ON THE DRAFT ANNUAL BUDGET, DRAFT CAPITAL IMPROVEMENT BUDGET AND PROPOSED ADJUSTMENTS TO RATES, FEES AND CHARGES

Gordon Merklein opened the concurrent Public Hearings on the Draft Annual Budget, Draft Capital Improvements Program (CIP), and the proposed adjustments to Rates, Fees and Charges.

Ed Kerwin began the staff presentation by saying that informing and soliciting feedback from our customers is an important part of OWASA's annual budget and rate-setting process. Comments received electronically are provided to the Board and OWASA welcomes feedback from customers tonight. OWASA is a public, non-profit agency and a community-owned utility. Essential water, wastewater and reclaimed water services are provided to the Carrboro and Chapel Hill community. The University of North Carolina at Chapel Hill (UNC) is OWASA's largest customer and the Chapel Hill-Carrboro City Schools are the second largest. OWASA staff maintains over 700 miles of water and sewer pipes and the Jones Ferry Road Water Treatment Plant and the Mason Farm Wastewater Treatment Plant.

Mr. Kerwin said that it is OWASA's Mission and responsibility to operate at the lowest rates possible while providing high quality, reliable and sustainable water and sewer services. Over the last three years it was necessary to increase rates primarily as a result of significantly reduced demand. This year, a more modest rate increase of 2% is proposed. Following the public hearing, the Board will discuss the feedback and provide final guidance to staff if necessary.

Stephen Winters continued the presentation by indicating that if the Board approves the proposed rate increase for Fiscal Year (FY) 2012 on June 9, 2011, the new rates would go into effect on October 1, 2011 with the exception of the lake recreation fees, which would take effect in March, 2012. He stated that OWASA is required to charge customers the "cost-of-service" to provide water, sewer and reclaimed water services and that revenue comes almost exclusively from user fees. Budget and rate-setting strategies are focused on ensuring the long-term sustainability of the community's water and sewer systems.

Mr. Winters said OWASA's financial plan covers a 15-year period and is revisited annually as part of the rate-setting process. Planning elements include: results from engineering studies; projected operations and maintenance costs; expected revenue and customer water demand; etc. Based on an analysis of trends in customers' demand for water, the projection of revenue for FY 2012 is higher than had been forecast at this time last year.

Mr. Winters said that due to the cumulative result of the past several years of cost reduction efforts plus the projected increase in revenue and customer demand for FY 2012, planning indicates a 2% increase is sufficient to meet OWASA's financial obligations (an 8.75% rate increase was predicted a year ago). Some of the cost reduction efforts include: a decrease in the number of personnel by 1.5 for FY 2012 and 14% since 2004; the elimination of numerous manual processes; the implementation of on-line customer service and electronic billing; a reduction of wastewater treatment plant operating costs through optimization efforts; and a decrease of approximately \$60 million in future planned capital improvement expenditures.

OWASA has established financial performance targets intended to keep the organization financially sustainable. The proposed 2% rate increase provides the revenue necessary to meet these goals. Mr. Winters said that this year's CIP is better informed due to the completion of several in-depth engineering studies of OWASA's plants and distribution and collection systems. These studies have helped fine tune and prioritize improvements to those systems. Most of OWASA's planned capital improvement expenditures are to rehabilitate and replace existing assets rather than increase capacity.

Mr. Winters stated that long-term planning indicates that OWASA is sustainable and that water resources will meet expected demand for the next 50 years under most circumstances. The treatment plants will not have to be expanded for at least 20 years. Although preliminary, annual rate increases over the next four years are projected to range from 2% to 3%. Staff will continue to work hard to reduce costs without compromising OWASA's ability to deliver high quality and dependable water and sewer services.

Mr. Merklein opened the concurrent Public Hearings for public comments.

Lewis Sanders, a Chapel Hill resident for 17 years, said he supports the proposed 2% rate increase but he has concerns about the current rate structure. Mr. Sanders suggested that the method used to calculate sewer charges does not accurately account for water used outdoors during the summer months by single family residential customers (water that does not flow to the wastewater treatment plant). Mr. Sanders suggested that a more equitable approach is to use a customer's winter water consumption as the baseline for summer sewer charges. Mr. Sanders requested that the Board consider alternatives to the current rate structure as it relates to sewer charges.

Heather Payne, a Chapel Hill resident, said that residential customers experienced unreasonable rate increases over the past three years and she feels that these increases correspond with the start of UNC's use of reclaimed water and the corresponding decrease in their use of drinking water. Ms. Payne requested that the Board reject the proposed budget and instead develop a budget that retains current residential rates for two years with any necessary increase in rates coming from institutional customers.

Ben Poulson, Associate Director of Energy Services with UNC, said that OWASA provides critical water and sewer services to UNC and UNC Hospitals. Without OWASA's services, UNC and UNC Hospitals would not be able to operate their teaching, research, health care, residential and administrative facilities. UNC supports the 2% proposed rate increase. He also expressed UNC's appreciation for the cost saving measures OWASA has implemented in response to the current economic climate conditions. Mr. Poulson expressed gratitude to the OWASA Board for their leadership and appreciation for the working relationship with OWASA staff.

Mr. Merklein thanked the speakers for their comments and requested a motion to close the public hearings.

Fred Battle made a motion to close the concurrent Public Hearings on the draft Annual Budget, CIP and proposed rates, fees and charges; the motion was seconded by Braxton Foushee, and carried by unanimous vote. Please see Motion No. 1 above.

Mr. Merklein then opened the discussion up to the Board for comments.

Braxton Foushee said that in the April 18, 2011 Human Resources Committee meeting, the Committee discussed employee compensation for FY 2012 and, after careful consideration, the HR Committee recommends that the Board consider an average merit pay increase between 2.0 and 2.5 percent.

Mr. Merklein said that Chapel Hill Town Council member, Jim Ward, expressed concern that OWASA's pay increase was more than the Town proposed.

Mac Clarke said that while OWASA's proposed increase is not a one-time payment like the Town's, it is in line with what the Town is considering and that he preferred the increase in salary for employees. Mr. Clarke also stated that this year's budget process has gone well and he thanked the staff for a job well done.

ITEM FOUR: SEMIANNUAL STATUS REPORT FOR VARIOUS CAPITAL IMPROVEMENT PROJECTS, INCLUDING SEMIANNUAL REPORT ON COMMUNICATIONS PLANS FOR CAPITAL PROJECTS

The Board received this item as an information item.

ITEM FIVE: MINUTES

Mac Clarke made a motion to approve the Minutes of the April 28, 2011, Board Meeting of the Board of Directors; the motion was seconded by William Stott and carried by unanimous vote. Please see Motion No. 2 above.

ITEM SIX: PRESENTATION ON VARIOUS CAPITAL IMPROVEMENT PROJECTS

The Board received this presentation as information.

There being no further business to come before the Board, the meeting was adjourned at 8:15 P.M.