

ORANGE WATER AND SEWER AUTHORITY

PUBLIC HEARINGS AND MEETING OF THE BOARD OF DIRECTORS

MAY 24, 2012

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held Public Hearings and a business meeting on Thursday, May 24, 2012, at 7:00 P.M. in the Council Chambers at the Chapel Hill Town Hall.

Directors present: Gordon Merklein, Chair; Alan Rimer, Vice Chair; Amy Witsil, Secretary; Fred Battle; Terri Buckner; Will Raymond; Dana Stidham; and John A. Young. Director absent: William Stott.

OWASA staff: Ed Kerwin; John Greene; Mason Crum; Stuart Carson; Patrick Davis; Greg Feller; Stephanie Glasgow; Ed Holland; Heidi Lamay; Andrea Orbich; Kevin Ray; Kelly Satterfield; Stephen Winters; and Robert Epting, Esq., Epting and Hackney.

Others present: Mac Clarke, Chapel Hill resident; Ben Poulson, Associate Director of Energy Services, and Meg Holton, Water, Wastewater, and Stormwater Manager of the University of North Carolina at Chapel Hill.

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

MOTIONS ACTED UPON

1. Will Raymond made a motion to close the concurrent Public Hearings on the draft Annual Budget, Capital Improvements Program and proposed Schedule of Rates, Fees and Charges; the motion was seconded by Alan Rimer, and carried by unanimous vote.

2. Fred Battle made a motion to waive the Lake Use Fee in the proposed Schedule of Rates, Fees and Charges to be effective October 1, 2012, for Orange County residents/OWASA customers 65+ years of age; the motion was seconded by Terri Buckner, and carried by unanimous vote.

3. Fred Battle made a motion to approve the Minutes of the April 26, 2012 Board meeting; the motion was seconded by Terri Buckner and carried by unanimous vote.

4. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the resolution titled, Resolution Authorizing Orange Water and Sewer Authority's Executive Director to Apply for a Loan from the State of North Carolina. (Resolution so titled, attached hereto and made a part of these minutes. Motion by Alan Rimer, second by Fred Battle and carried by unanimous vote.)

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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.

AMY WITSIL

Gordon Merklein said Amy Witsil was reappointed by the Chapel Hill Town Council to the OWASA Board of Directors for another term beginning July 1, 2012.

NOMINATING COMMITTEE

Gordon Merklein said the Nominating Committee met prior to the Board meeting to discuss recommending nominees for Chair, Vice Chair and Secretary. If there is interest from other Board members, please inform a member of the Nominating Committee as soon as possible. The election of new officers will occur at the Board of Directors' meeting on June 14, 2012. Dates of service for new officers will be July 1, 2012 through June 30, 2013.

PUBLIC RALLY

Will Raymond said that on Tuesday, June 5, 2012, at 10:00 A.M., the Clean Water Alliance of North Carolina has scheduled a Frack-Free North Carolina Lobby Day where interested people will walk from Marbles Kids Museum to the NC State Legislative Building in Raleigh to voice opposition to fracking.

ITEM TWO: PETITIONS AND REQUESTS

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 IMPROVEMENTS 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. OWASA is pleased to recommend no change in monthly water and sewer rates for next fiscal

year. Some fees, such as our service availability fee for new connections, are proposed to increase effective October 1, 2012.

Mr. Kerwin said that OWASA is a public, non-profit agency and a community-owned utility. Essential water, sewer (wastewater) and reclaimed water services are provided to the Carrboro and Chapel Hill community. Primary sources of water supply are University Lake and the Cane Creek Reservoir. The Quarry Reservoir is an essential part of OWASA's long-range plan and Jordan Lake provides essential drought insurance, now and in the future. Drinking water is delivered to customers through about 400 miles of pipe. Wastewater is collected with about 335 miles of piping and 21 pumping stations, and delivered to the Mason Farm Wastewater Treatment Plant in Chapel Hill.

Mr. Kerwin said OWASA's service population is about 80,000 and there are about 21,000 customer accounts. The proposed budgets and rates have been developed to ensure we meet commitments to our customers to be a national leader in drinking water quality and wastewater management; to provide excellent customer service; to continuously improve efficiency and effectiveness of our services; and to reduce costs where we can.

Mr. Kerwin said an essential responsibility is to maintain the infrastructure necessary to ensure high quality and reliable services for our customers. OWASA is increasing community outreach and education efforts as well as actively seeking, receiving and understanding customer feedback as an essential part of our continuous improvement culture.

Stephen Winters continued the presentation by stating a key objective of OWASA's strategic plan is to secure financial stability for the long-term sustainability of the community's water and sewer systems. Budget and rate-setting assumptions must meet requirements of Sale and Purchase Agreements, OWASA's Bond Order, State law and our Financial Management Policy. OWASA's revenue comes from user fees (water and sewer bills and new service connection fees) and not taxes. We are required to charge customers the full cost of providing our water and sewer services.

Mr. Winters said that staff does not expect an increase in the volume of drinking water sales for FY 2013 and projected revenue is about \$38 million, of which \$19.3 million will go to the Operations and Maintenance budget. Another \$8.2 million will be spent on debt service payments and the budget currently does not include new borrowing. The CIP budget is projected to be \$11.1 million and reserves will decrease by about \$1 million. Over the next five years, the CIP is projected to spend about \$69 million: 75% on rehabilitation and replacement, 12% growth and 12% system enhancement. System enhancement includes two projects at the wastewater treatment plant (aeration system improvements and odor control improvement project). CIP investments in future years are projected to be steady.

Mr. Winters reiterated that staff proposes no rate increase for monthly rates. Service availability fees will increase 3.2% as well as other minor adjustments of fees and charges based on changes in the cost of providing services. Mr. Winters said rate adjustments over the next several years are projected to range from 2% to 3% increases. Long-term planning indicates

that OWASA is sustainable and that water resources will meet expected demand for the next 50 years under most circumstances. Currently, the treatment plants will not have to be expanded for at least 20 years. Staff will continue to work hard to reduce costs without compromising OWASA's ability to deliver high quality and dependable water and sewer services. Finally, Mr. Winters said that unlike water utilities across the United States, we believe we have made the investments necessary to keep the community's water and wastewater system reliable and sustainable. Many communities have not taken this approach and are facing significant capital investments in the future. As a result, their customers are not paying the true cost of maintaining a sustainable utility. We believe our budget and rates reflect the true cost of what is required to provide reliable and sustainably responsible water and wastewater services.

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

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 welcomes the proposed no increase in monthly water and sewer rates. He also expressed UNC's appreciation for the cost saving measures OWASA has implemented in response to economic conditions. Mr. Poulson expressed gratitude to the OWASA Board for their leadership and appreciation for the working relationship with OWASA staff.

Mr. Merklein thanked Mr. Poulson for his comments and requested a motion to close the public hearings.

Will Raymond made a motion to close the concurrent Public Hearings on the draft Annual Budget, CIP and proposed Schedule of Rates, Fees and Charges; the motion was seconded by Alan Rimer, and carried by unanimous vote. Please see Motion No. 1 above.

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

John Young requested staff give clearer explanations on terminology within the document, define fund targets, and provide more details on the Maintenance budget. Staff will follow up.

Fred Battle made a motion to waive the Lake Use Fee from the proposed Schedule of Rates, Fees and Charges to be effective October 1, 2012, for Orange County residents/OWASA customers 65+ years of age; the motion was seconded by Terri Buckner, and carried by unanimous vote. Please see Motion No. 2 above.

ITEM FOUR: MINUTES

Fred Battle made a motion to approve the Minutes of the April 26, 2012 Board meeting; the motion was seconded by Terri Buckner and carried by unanimous vote. Please see Motion No. 3 above.

ITEM FIVE: RESPONSE TO MR. MICHAEL LEE'S PETITION TO CONSIDER ALTERNATIVE RATE STRUCTURE FOR MASTER METERED RESIDENTIAL CUSTOMERS THAT REBILL THEIR RESIDENTS FOR WATER AND SEWER SERVICES

Stephen Winters stated that staff's recommendation is to not change OWASA's existing water rate structure for master-metered multi-family residential accounts that have private sub-metering and rebilling systems in place. Mr. Winters said that if increasing block water rates were charged for those accounts as Mr. Lee has proposed, such a rate structure change could have a significant impact on the water rates we charge to other customer classes. Mr. Winters also said another concern is that the North Carolina Utilities Commission (NCUC) staff has advised that the Commission would not require complexes with rebilling systems in place to pass-through increasing block water rates.

The Board requested that this issue be further evaluated during the ongoing rate study update.

Will Raymond requested that staff ask the NCUC to provide residents who are privately rebilled information about sub-metering and rebilling arrangements so that they know what to expect and what to do if they have questions.

ITEM SIX: PRESENTATION ON VARIOUS CAPITAL IMPROVEMENT PROJECTS

Terri Buckner requested staff include data on the anticipated energy savings or sustainability savings for each project as well as adding change orders and/or project amendments.

Will Raymond requested a timeline of each project in the CIP to better understand how the process works.

ITEM SEVEN: RESOLUTION AUTHORIZING ORANGE WATER AND SEWER AUTHORITY'S EXECUTIVE DIRECTOR TO APPLY FOR A LOAN FROM THE STATE OF NORTH CAROLINA

Alan Rimer made a motion to approve the resolution; the motion was seconded by Fred Battle and carried by unanimous vote. Please see Motion No. 4 above.

ITEM EIGHT: EXECUTIVE DIRECTOR WILL SUMMARIZE THE KEY ACTION ITEMS FROM THE BOARD MEETING AND NOTE SIGNIFICANT ITEMS FOR DISCUSSION AND/OR ACTION EXPECTED AT THE NEXT BOARD MEETING

Ed Kerwin summarized the meeting with the following action items:

- Staff will follow-up on the several Board suggestions that will improve the current draft Annual Budget and Capital Improvements Projects documents. Other suggestions will be implemented next year and others will involve additional discussion with various Board committees.
- Staff will provide the Board more details on the Fiscal Year 2013 Maintenance budget.
- Staff will update the proposed Schedule of Rates, Fees and Charges to waive Lake Use Fees in the proposed Schedule of Rates, Fees and Charges to be effective October 1, 2012, for Orange County residents/OWASA customers 65 years and older and OWASA customers.
- Staff will evaluate what information to include regarding anticipated energy savings or sustainability savings in the Capital Improvements Project.

There being no further business to come before the Board, the meeting was adjourned at 9:00 P.M.

Attachments

**RESOLUTION AUTHORIZING ORANGE WATER AND SEWER AUTHORITY'S
EXECUTIVE DIRECTOR TO APPLY FOR A LOAN FROM THE
STATE OF NORTH CAROLINA**

WHEREAS, The Federal Clean Water Act Amendments of 1987 and the North Carolina Clean Water Revolving Loan and Grant Act of 1987 have authorized the making of loans and grants to aid eligible units of government in financing the cost of construction of wastewater treatment works, and/or wastewater collection systems; and

WHEREAS, The Orange Water and Sewer Authority has need for and intends to make energy-efficient improvements to the aeration and mixing system at the Mason Farm Wastewater Treatment Plant; and

WHEREAS, The Orange Water and Sewer Authority intends to request state loan assistance for the project;

NOW, THEREFORE, BE IT RESOLVED:

1. That Orange Water and Sewer Authority will arrange financing for all remaining costs of the project, if approved for a State loan award.

2. That Orange Water and Sewer Authority will adopt and place into effect on or before completion of the project a schedule of fees and charges which will provide adequate funds for proper operation, maintenance, and administration of the system and repayment of the debt.

3. That Orange Water and Sewer Authority agrees to include in the loan agreement a provision authorizing the State Treasurer, upon failure of Orange Water and Sewer Authority to make scheduled repayment of the loan, to withhold from Orange Water and Sewer Authority any State funds that would otherwise be distributed to Orange Water and Sewer Authority in an amount sufficient to pay all sums then due and payable to the State as a repayment of the loan.

4. That Orange Water and Sewer Authority will provide for efficient operation and maintenance of the project on completion of construction thereof.

5. That Ed Kerwin, Orange Water and Sewer Authority's Executive Director, and successors so titled, is hereby authorized to execute and file an application on behalf of Orange Water and Sewer Authority with the State of North Carolina for a loan to aid in the construction of the project described above.

6. That Ed Kerwin, Orange Water and Sewer Authority's Executive Director, and successors so titled, is hereby authorized and directed to furnish such information as the appropriate State agency may request in connection with such application or the project: to make the assurances as contained above; and to execute such other documents as may be required in connection with the application.

7. That Orange Water and Sewer Authority has substantially complied or will substantially comply with all Federal, State, and local laws, rules, regulations, and ordinances applicable to the project and to Federal and State grants and loans pertaining thereto.

Adopted this 24th day of May, 2012.