

ANNUAL BUDGET

Fiscal Year 2014

Orange Water and Sewer Authority

Carrboro - Chapel Hill, North Carolina



A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.



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TABLE OF CONTENTS

Table of Contents.....	i
Governmental Finance Officers Association (GFOA) Award for Distinguished Budget Presentation	ii
Budget Message.....	iii
 Section I Orange Water and Sewer Authority Overview	
Orange Water and Sewer Authority Mission Statement.....	1
Orange Water and Sewer Authority Board of Directors.....	2
Orange Water and Sewer Authority Management Team.....	3
Budget Preparation and Calendar for FY 2014.....	4
Appropriations for FY 2014 (Statement of Income, Expense and Debt Service).....	6
Fund Balance Statements.....	8
Funds Flow Statement	13
Planned Operating Expenditures	14
Planned Capital Equipment Expenditures	17
Debt Service for Fiscal Years 2014-2033.....	18
Capital Improvements Program Budget	19
Rehabilitation/Replacement Projects (In-house)	22
Capital Improvements Program, Five-year Overview for FY 2014-2018	23
 Section II Overview of OWASA Departments	
Orange Water and Sewer Authority Staff / Department Structure	24
Office of Executive Director	25
Customer Service	27
Engineering and Planning	29
Human Resources	31
Finance	33
Information Technology	35
Water Supply and Treatment	37
Water Distribution	39
Wastewater Treatment	41
Sewer Collection	43
 Section III Supplemental Information	
Budget Resolution and Ordinance	45
Personnel Authorizations by Department	51
10-Year Historical Performance	54
Miscellaneous Statistical Data.....	60
Service Area	61
Chapel Hill Statistical Data	64
Financial Management Policy	67
Glossary.....	72



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Orange Water & Sewer Authority
North Carolina**

For the Fiscal Year Beginning

July 1, 2012

Christopher P. Morrell

President

Jeffrey R. Egan

Executive Director

BUDGET MESSAGE

**To the
Board of Directors**

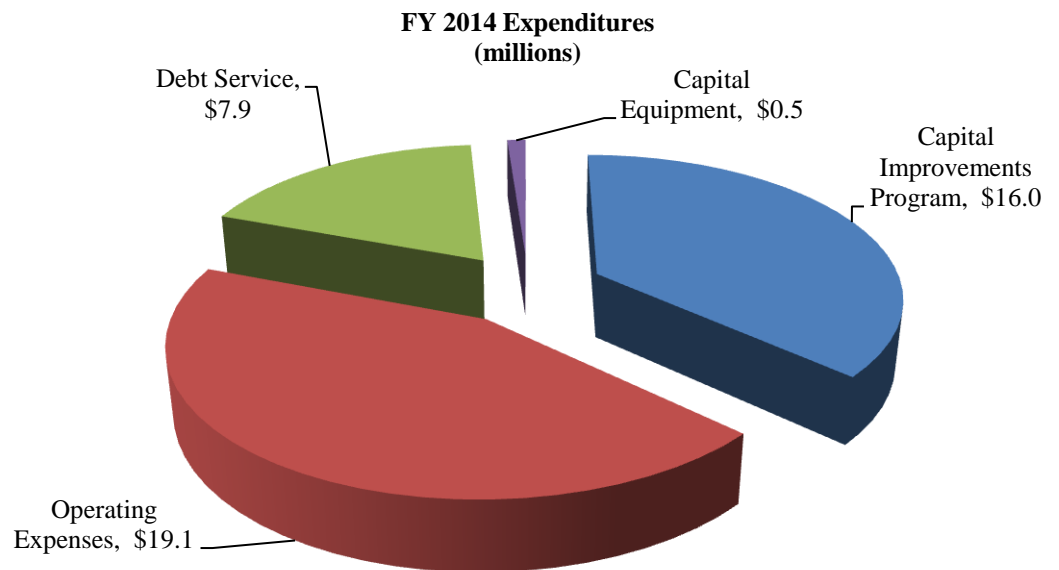
The Annual Budget for the fiscal year beginning July 1, 2013 and ending June 30, 2014 has been prepared in accordance with OWASA's *Financial Management Policy*, our *Amended and Restated Bond Order* adopted on September 13, 2001, and *The Local Government Budget and Fiscal Control Act*.

The primary drivers of this budget include the capital improvements project needs identified in OWASA's five-year Capital Improvements Program (CIP); projected potable and reclaimed water demands; operating expenses required to sustain service levels; debt obligations; and reserve funding.

Projected operating revenues reflect no increase in monthly rates. This was made possible by prior year rate increases, the stabilization of water sales, cost reduction efforts and reserve levels.

The operating expense budget is about one percent less than the Fiscal Year (FY) 2013 budget. Consistent with our strategic objectives, the FY 2014 operating budget meets the needs and priorities of the organization. However, it has few provisions for contingencies.

The budget consists of projected revenues and other receipts of \$37 million, capital project costs of \$16 million, operating expenses of \$19.1 million, debt service payments of \$7.9 million, and capital equipment purchases of \$525,000.



**Highlights of the
Budget**

Key elements of this budget include:

- No increases in monthly water and sewer rates.
- Continuation of the seasonal water conservation rate structure for all customers other than individually-metered residential and irrigation-only customers. Under the seasonal water conservation rates, the water commodity charge will remain \$7.91 per thousand gallons of water consumed during the warmer peak water demand months of May through September 2014. The water commodity charge for the cooler, lower demand months of October 2013 through April 2014 will remain \$4.16 per thousand gallons.
- Continuation of the five-tiered increasing block water rate structure for individually-metered residential customers. The block rate structure is designed under cost-of-service principles to promote water conservation by lessening the cost recovery burden on low

volume water users and allocating a portion of cost recovery to high volume customers.

	<u>Volume of Use In Gallons</u>	<u>Rate per 1,000 Gallons</u>
Block 1	1,000 to 2,000	\$2.63
Block 2	3,000 to 5,000	\$6.39
Block 3	6,000 to 10,000	\$7.83
Block 4	11,000 to 15,000	\$10.94
Block 5	All use 16,000 and up	\$19.79

For an individually-metered residential customer using 4,000 gallons of water per month, the monthly water and sewer bill remains \$70.66.

- An annual operating budget of \$19.1 million, reflecting a decrease of 1% from the FY 2013 budget. The FY 2014 budget includes funding for 129 personnel positions, down from 130.5 in FY 2013. One Assistant Lake Warden position is unfunded for FY 2013 and one funded full-time Administrative Assistant position has been replaced by a part-time Administrative Assistant position.
- The Board of Directors has not made a decision about employee compensation for FY 2014. However, the FY 2014 Budget includes funds for a merit increase of 2.5% of current-year salaries and wages. If approved, merit increases for individual employees will be determined through OWASA’s performance evaluation process. If funded, merit increases typically take effect in November of each year.
- Capital improvement spending of \$16 million for FY 2014, as identified in the five-year CIP. Approximately 80% of capital spending is planned for water and sewer system rehabilitation and replacement projects.
- New debt in the form of a no-interest loan from the North Carolina Department of Environment and Natural Resources is anticipated to be issued in FY 2014. Proceeds from the loan will be used to fund aeration and mixing system energy efficiency improvements at the Mason Farm Wastewater Treatment Plant. All other capital improvements will be funded through cash.

Strategic Planning

OWASA’s Strategic Plan establishes the key goals and objectives for the next three to five years. It guides the organization’s work and funding priorities. Highlights of the plan and related accomplishments are summarized below.

Goal	Accomplishments
Secure Financial Stability and Sustainability	<ul style="list-style-type: none"> • Met all financial objectives of Financial Management Policy except affordability. Our affordability measure is 1.7% versus the goal of 1.5%. • Improved operational efficiencies by resequencing meter reading routes, integrating customer account data into our Graphic Information System, and implementing mobile solutions to provide data to field personnel. • Secured a \$6 million no interest loan from the State of North Carolina for a construction project at the Mason Farm Wastewater Treatment Plant: a net present value savings of about \$1 million versus conventional borrowing. • Completed a study of our rate structure that resulted in recommendations that are still being considered.

Goal	Accomplishments
Resource Management and Infrastructure Sustainability	<ul style="list-style-type: none"> • Enhanced the Mason Farm Wastewater Treatment Plant’s capability to withstand destructive weather events. • Completed marking all OWASA-owned rural properties to resolve and prevent encroachment and conservation easement protection. • Made significant progress on our project to implement an asset management program for our vertical assets including performing a needs assessment and developing an implementation plan, improving data integrity, hiring a Maintenance Coordinator, developing a standardized method for assessing risk, and creating a standardized approach to prioritizing capital projects for vertical assets. • Awarded a contract to construct and install energy-efficient blowers and mixers at the Mason Farm Wastewater Treatment Plant: allowing us to reduce energy costs by as much as 20% and positioning us to meet pending state standards for further limiting nitrogen levels in wastewater. • Applied for and received approval for changing our allocation of Jordan Lake from Level II (reserves the allocation future use) to Level I (for entities having the intent to begin withdrawing water within five years): a key step towards enhancing the redundancy and resiliency of our water supply. Our plan is to use our Jordan Lake allocation as “insurance” during severe droughts or operational emergencies. • Obtained Board of Directors approval of our Drought Response Operating Protocol which documents the procedures and criteria that OWASA will use in making water supply and demand management decisions during droughts.
Knowledge Management and Workforce Sustainability	<ul style="list-style-type: none"> • Made substantial improvements to the accuracy and usefulness of our Geographic Information System. • Developed formal succession plans for key employees and increased reliance on standard operating procedures to ensure compliance with governing policies and improve understanding of processes and procedures. • Institutionalized “after action reviews” to document processes that function well and address those that do not. • Completed an employee classification and compensation study and implemented its recommendations. • Implemented a voluntary program designed to provide in-depth exposure to the roles each OWASA work group performs; participants gain knowledge about the organization and are better prepared to serve customers and other employees.
Enhance Customer Satisfaction	<ul style="list-style-type: none"> • Adopted a budget that included no increase in monthly water and sewer rates. • Completed a customer satisfaction survey and developed an action plan to address opportunities for improvement. • Upgraded our customer newsletter (The Blue Thumb). • Developed and began implementing an outreach and education program.

OWASA’s Budget Process

The budget for OWASA’s operating services and capital projects is developed in accord with:

- OWASA’s *Mission Statement*. The Board’s adopted *Mission and Values Statement* establishes priorities for serving the community. These priorities focus on service excellence, environmental responsibility, employee development and well-being, fiscal and operational efficiencies, relationships with local governments and sustainable operations. These priorities must be met within the constraints set by various statutory, regulatory and contractual obligations and agreements.
- OWASA’s *Strategic Plan* which identifies the organization’s high-priority goals and objectives.
- OWASA’s *Financial Management Policy*, a guide to strategic financial planning, related policy decisions, and measurements of financial performance.
- A regularly updated water and sewer master plan, which includes reports and analyses of system needs.
- North Carolina General Statute Chapter 159: *The Local Government Budget and Fiscal Control Act*.
- A 15-year financial plan that takes into account economic assumptions, growth trends, operating and capital project costs, desired ratio of net income to debt service, projected water sales, growth in customer accounts, inflation factors, and the cost of borrowing.
- Strategic issues and policies as identified by the Board of Directors and staff.
- The five-year Capital Improvements Program.

The annual budget process begins early in each fiscal year and concludes with the adoption of an annual budget in June. Throughout the process, OWASA staff works closely with the Board’s Finance Committee in developing and refining information to submit to the Board of Directors.

Public hearings on the proposed budget, CIP and the schedule of rates and fees were held at the OWASA Board of Directors’ regular meeting on May 23, 2013, and the budgets and rate adjustments were adopted by the Board on June 13, 2013.

In accord with State law, the adopted budget may be amended at any time to reflect changes in services, projects and costs. Such amendments can be made in any form by the Board of Directors’ action, but the budget must remain balanced. A budget is considered balanced when the sum of net revenues and appropriated fund balance is equal to appropriations. In the State of North Carolina, the minimum legal budgetary level of control is at the departmental level. In addition to the departmental information presented in this document, compliance at this level is disclosed in OWASA’s Comprehensive Annual Financial Report.

Priorities and Assumptions

Legal/Regulatory Assumptions

Federal, State, Local and Judicial

- OWASA must prepare and adopt a balanced budget in accord with the North Carolina Budget and Fiscal Control Act.

- Statutes governing purchasing and contracting require the development of and adherence to a Minority and Women-Owned Business Enterprise Program in soliciting and accepting bids for certain construction work.
- OWASA's primary source of income is customer rates and fees. The OWASA Board has sole authority to set and revise rates, fees and other charges for services. Rates, fees and charges are not subject to supervision or regulation by any bureau, board, commission or other agency of the State or by any political subdivision (N.C. General Statute 162A-9). Rates, fees and charges shall be set so that revenues, together with any other available funds, shall be sufficient at all times to pay (1) the cost of maintaining, repairing and operating the water and sewer systems including reserves for such purposes, and (2) all of the principal and interest on bonds (N.C. General Statute 162A-9).
- Fees are applicable throughout the service area, and fees and charges may vary by customer class when discernable cost factors can be attributed to the varying classes.
- The Governmental Accounting Standards Board requires that the cost of post-employment benefits be recognized and recorded in OWASA's annual financial statements.

Intergovernmental Sale and Purchase Agreements

Agreements of Sale and Purchase with the University of North Carolina at Chapel Hill (UNC) and the Towns of Chapel Hill and Carrboro state:

- OWASA shall charge reasonable rates, based on cost of service, to all classes of users, serving all users within each class impartially and without unjust discrimination, with no differential in rates based on the location of a customer.
- OWASA shall operate the water and sewer system at the lowest rates possible consistent with its obligation to provide proper and efficient service.
- OWASA will furnish, for as long as UNC shall desire, potable water, meeting acceptable purity standards, in such quantity as may be required to meet UNC's needs.
- UNC will purchase all its potable water requirements from OWASA unless OWASA is unable to supply sufficient water.
- UNC will be provided, now and hereafter, reliable and adequate sewer services to meet its needs.
- If five-year cumulative rate revisions exceed 20%, UNC may request that a rate study be performed by a qualified consultant and its results shared.
- OWASA agrees to meet the reasonable water and sewer needs of the Towns of Carrboro and Chapel Hill.

Additionally, Chapel Hill, Carrboro and Orange County have adopted local water conservation ordinances as recommended by OWASA. The requirements of those ordinances have short and long-term demand and revenue implications.

Bond Order (Series 2001 as amended and restated)

- Interest earnings on bond proceeds and related accounts are included in the debt service ratio calculation.
- OWASA shall not provide free service, and shall charge all users including public bodies based on established rates, except for water used in fire protection, washing and flushing streets and testing water lines. The cost of these public benefit uses is recovered from all customers.
- The Bond Order requires a minimum debt service coverage ratio of 1.2. OWASA's

Financial Management Policy sets the desired performance target as 2.0.

- In order to issue new debt, rate adjustments in any fiscal year must be sufficient to provide for debt service payments in the immediately succeeding fiscal year.

Organizational Assumptions

Financial Goals and Objectives

- OWASA's *Financial Management Policy* requires maintaining a Working Capital Reserve balance at least equal to the greater of four months of the annual Operating Expense Budget or 20% of the total estimated cost of capital improvements projects identified for the succeeding three years.
 - Four months of estimated operating costs based on the FY 2014 budget is \$6.4 million.
 - 20% of planned capital improvements for FY 2015 through FY 2017 equals \$8.5 million.
 - The General Fund ending balance for FY 2014 is projected to be \$22.4 million.
- The *Financial Management Policy* calls for funding a Capital Improvements Reserve fund and a Rate/Revenue Stabilization Reserve fund. The FY 2014 Budget provides funding of \$650,000 and the projected year-end balances for the Capital Improvements Reserve fund and Rate/Revenue Stabilization Reserve fund are \$2,000,000 and \$1,250,000, respectively.
- The *Financial Management Policy* specifies at least 30% cash funding of capital improvements. Our five year financial plan reflects 60% cash funding of capital projects during fiscal years 2014 through 2018.

The debt service coverage ratio for FY 2014 is projected to be 2.25, and OWASA's financial plan indicates the following subsequent annual rate increases may be required in order to meet our financial obligations and maintain our financial measurement goals:

	<u>Projected Rate Increases</u>	
FY 2015	3% Water	3% Sewer
FY 2016	3% Water	3% Sewer

These projected rate adjustments are preliminary and will be further analyzed as part of each subsequent year's budgeting process.

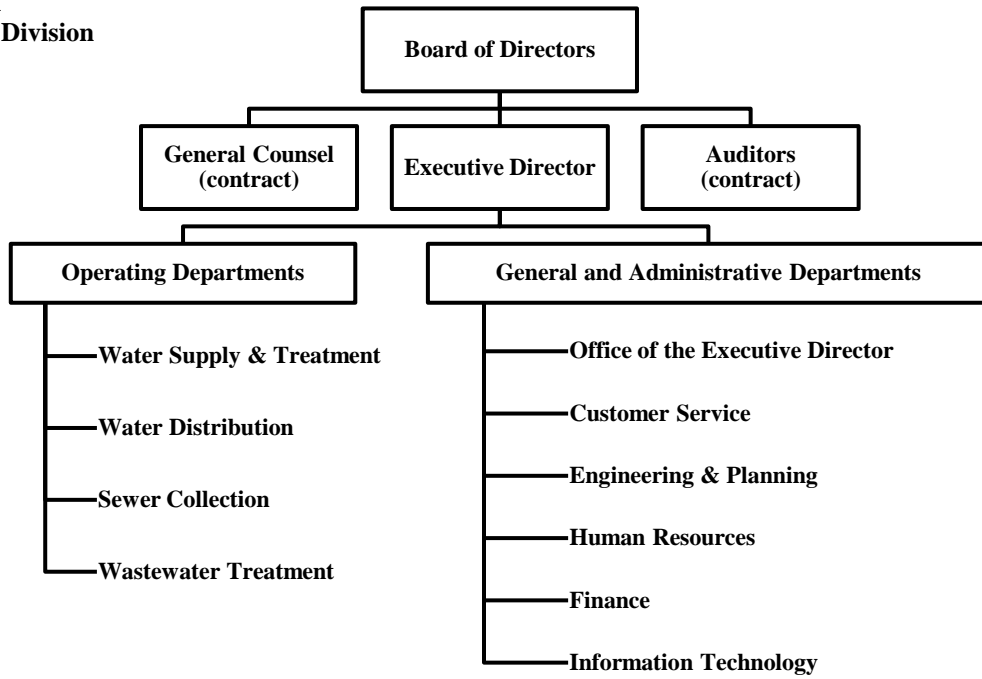
Customer Demand and Service Levels

The following projections are based on historical trends.

- FY 2014 projections for potable water demand and new connections are affected by several factors including:
 - Potable water and reclaimed water (RCW) sales in FY 2014 are expected to be approximately the same as FY 2013.
 - Estimated RCW use during FY 2014 is 0.81 million gallons per day (MGD).
 - Average daily potable water demand in FY 2014 is projected to be approximately 6.2 MGD.
- Based on the development plans in OWASA's service area, we expect to install 140 new meter equivalents for the year.

- A construction cost inflation rate of 5.0% is assumed for FY 2014 and beyond.

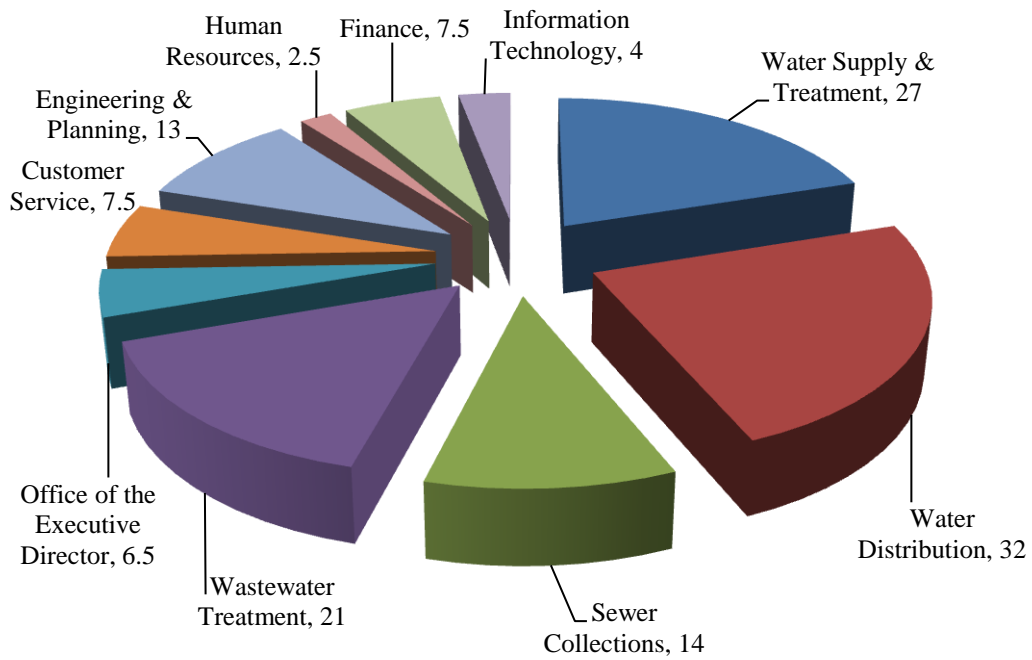
Organization Overview by Division



Staffing Summary

The OWASA Board has authorized a total of 135 positions; 129 are funded for FY 2014. Authorized staffing levels (full-time equivalents) are allocated by department as follows:

Number of Authorized Positions by Department



Summarized Annual Operating Income and Expenses (Revenue Fund)

Description	Resources	Expenses	Balance
Total Operating Revenue	\$36,149,732		
Operating Expenses			
Net Expenses, General and Administrative		\$6,036,587	
Net Expenses, Operating		<u>13,054,565</u>	
Net Total Operating Expenses		19,091,152	
Net Operating Income			\$17,058,580
Availability Fees and Interest Earned		666,880	
Total Net Income			17,725,460
Total Debt Service		7,885,325	
Debt Coverage Ratio			2.25

Summarized Annual Capital/Non-operating Income and Expenses (General Fund)

Description	Resources	Expenses	Balance
General Fund Beginning Balance (7/1/13)			\$23,280,566
Transfer From Revenue	\$9,840,135		
Loan proceeds	5,761,245		
Funds Available for Expenditures			38,881,946
Total Estimated Capital Expenditures		(\$16,515,000)	
General Fund Ending Balance (6/30/2014)			<u>\$22,366,946</u>

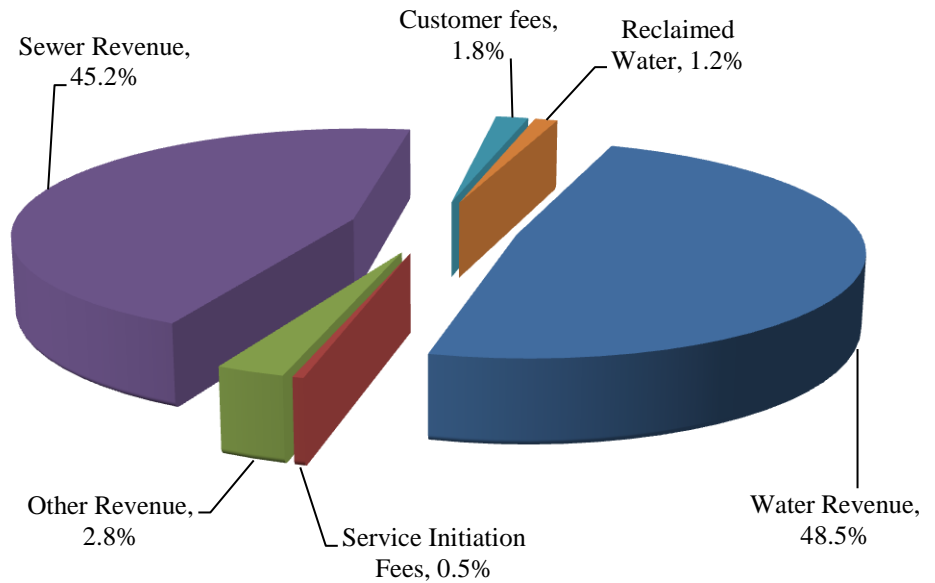
Revenue Summary

In providing essential public water, sewer and reclaimed water services to Carrboro, Chapel Hill and portions of southern Orange County and southwest Durham County, OWASA incurs substantial operating and capital costs. OWASA operates as a nonprofit enterprise fund and has no legislative authority to levy taxes nor does it receive tax revenues from local governments. Ongoing water, sewer and reclaimed water operations and capital improvements are financed almost entirely through customer fees and charges with occasional grants from state or federal governments. OWASA establishes rates sufficient to generate revenue to meet operating costs, pay debt service, and provide at least 30 % cash funding for the CIP. Rates and fees are periodically adjusted in response to resource needs as determined in OWASA's financial planning process.

OWASA's gross receipts, with minor exception, are restricted by bond indenture. All revenues except grants, reimbursements and assessments must be deposited to the credit of the Revenue Fund. Monies in the Revenue Fund are pledged to the repayment of outstanding debt and must be expended first for current expenses and then debt service. Any funds remaining after current expenses and debt payments may be transferred to the General Fund and may be used for any lawful purpose: generally for capital improvements and reserves.

The majority of OWASA's revenues are generated by the sale of drinking water and the collection and treatment of wastewater, and related services. Fees for water and sewer services include charges for service initiation, line tapping, meter installation, monthly service charges and a commodity charge for each 1,000 gallons of water used or wastewater processed. For accounts other than individually-metered residential customers and irrigation-only customers, a higher water commodity charge applies during the peak consumption season from May through September and a lower commodity rate applies from October through April. This seasonal approach has been successful in reducing customer demand, peak-day demand in particular. As depicted in the following graph, in FY 2014, 48.5% of total budgeted revenue is anticipated from water services while wastewater services are expected to generate 45.2%. Service availability (new connection) fees, the sale of reclaimed water, plan review and construction observation fees, grants, assessments, rents, royalty, administrative fees and interest income contribute the remaining 6.3% of total projected revenues.

FY 2014 Sources of Revenue



Commodity fees for individually-metered residential accounts are billed under an increasing block rate structure. The block rate structure is designed to fairly allocate the true cost of service among low volume and high demand water customers, thereby further promoting water conservation.

OWASA collects fees for delivery of reclaimed water services through a reclaimed water utility that became operational in April of 2009. The system primarily serves UNC for non-potable purposes such as irrigation and cooling tower make-up water on campus.

OWASA's primary revenue-generating fees are summarized below.

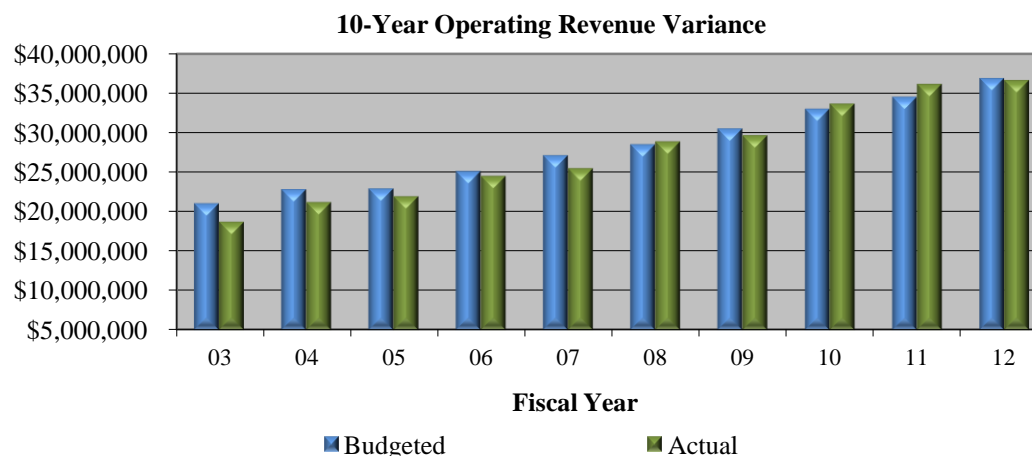
Fixed monthly Charge	Calculated to recover costs related to certain direct and indirect customer service efforts, meter and lateral maintenance, and capital costs associated with supplying potable and reclaimed water to, and collecting sewage from a customer's property. Charges are based on meter size.
Commodity charge	Calculated to recover the remaining direct and indirect costs of water supply and treatment, water distribution, sewage collection and treatment, general administration, and water and sewer capital costs not recovered by the monthly service charge. This charge is applicable to all water, sewer and reclaimed water accounts based on meter readings in thousand gallon increments of water use.
Water and sewer availability fees	Calculated to recover a portion of the capital costs of providing water and sewer system capacity. The availability fee applies to each new connection to a potable or reclaimed water main or sewer main, regardless of who may have paid for the installation of the main to which the connection is to be made. For the purpose of availability fees, customer accounts are divided into four categories: (1) single-family residential, (2) multi-family, individually-metered residential, (3) non-residential (including multi-family master-metered apartment complexes and all commercial, UNC, and institutional accounts) and (4) RCW service to UNC and non-UNC customers. The use of these categories is justified by their distinct patterns of water and sewer consumption.

Service initiation fees	The purpose of this charge is to defray the labor and administrative costs associated with establishing a water, sewer or reclaimed water account. This includes establishing service and account records for billing. The fee is applicable to all accounts requiring work to set a meter, reconnect service or read a meter.
Tapping fees	This charge is for making a tap into a water main and/or a sewer main or manhole. The charge recovers the cost for time and equipment plus an allowance for overhead.
Service installation	This charge is to recover costs of installing a service connection from a water or reclaimed water main to the curb or property line and setting a meter.
Plan review and construction observation fees	This charge is to recover the cost of reviewing plans for the extension of water and sewer facilities, and for field observation of the installation of these facilities. The plan review and construction observation fees apply to all extensions of the public water and/or sewer system regardless of the party which undertakes the improvements. The fees apply separately to water and sewer main extensions.

A key assumption in developing the budget is the amount of expected growth. Revenue projections are calculated combining this assumption with the number of customer accounts, and applying the various rates to the assumed demand levels. The growth projection for FY 2014 is approximately 140 “meter equivalent” residential units. Empirical data indicate little change in proportionate demand between our customer classes. However, over the last decade, weather patterns including two droughts, conservation block rate pricing, and UNC’s use of reclaimed water led to a dramatic decrease in demand by all classes.

Operating revenue In addition to recovering the cost of operations, rates and fees must be set at a level sufficient to fund future capital improvements costs and debt. Debt is issued to spread capital costs to future customers who will benefit from infrastructure improvements that have long useful lives.

The following graph summarizes the historical trend of OWASA’s primary revenue stream compared to our budget for those revenues.

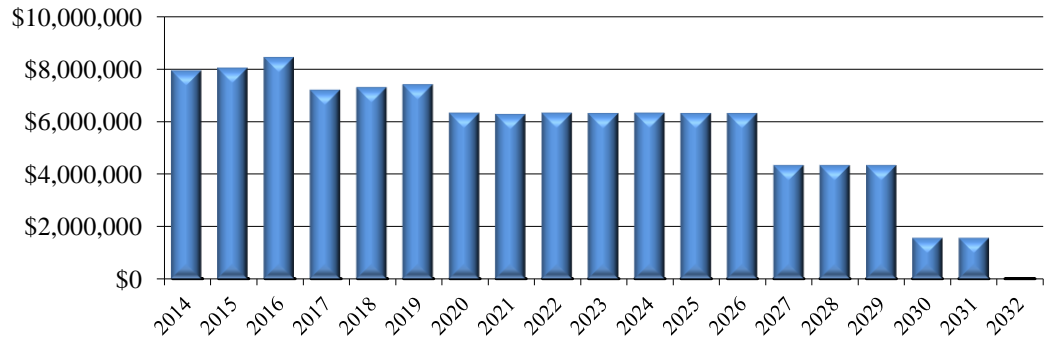


Debt and Debt Policy

Revenue Bonds have been used to finance a significant portion of OWASA's capital improvements. The remainder has been funded with annual revenues, grants and fund balance.

Outstanding debt is \$83.8 million as of June 30, 2013. The debt outstanding for each bond issue is: Series 2001 - \$0.8 million, Series 2003 refunding issue - \$4.0 million, Series 2004A and 2004B - \$22.7 million, Series 2005 refunding bonds - \$16.2 million, Series 2006 - \$19.3 million, and Series 2010 refunding bonds - \$20.8. Principal and interest payments will be approximately \$7.9 million in FY 2014. The graph of debt service payments below reflects future annual debt service for these outstanding issues. Because OWASA issues revenue bonds, there is no statutory limit on the amount of debt.

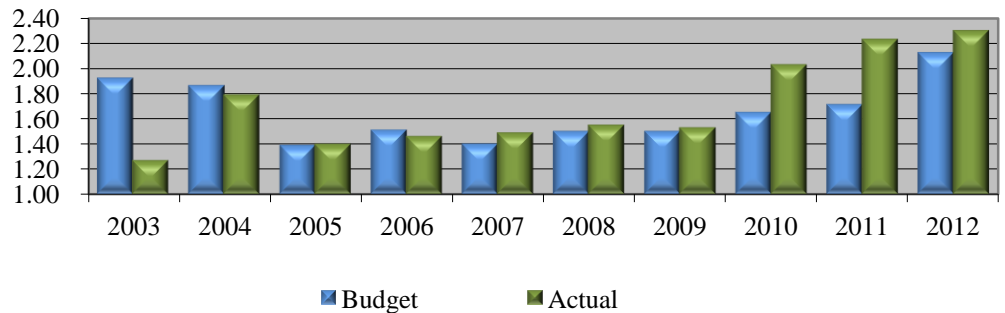
Annual Debt Service (Existing Debt) FY 2014-2032



The ratio of net income to debt payments is an important measure of OWASA's financial performance. OWASA's Bond Order sets the minimum required debt coverage ratio at 1.2. The OWASA Board of Directors has set a goal of 2.0.

As mentioned above, new debt in the form of a no-interest loan from the North Carolina Department of Environment and Natural Resources is anticipated to be issued in FY 2014.

10 Year Debt Service Coverage Ratio - Budget to Actual

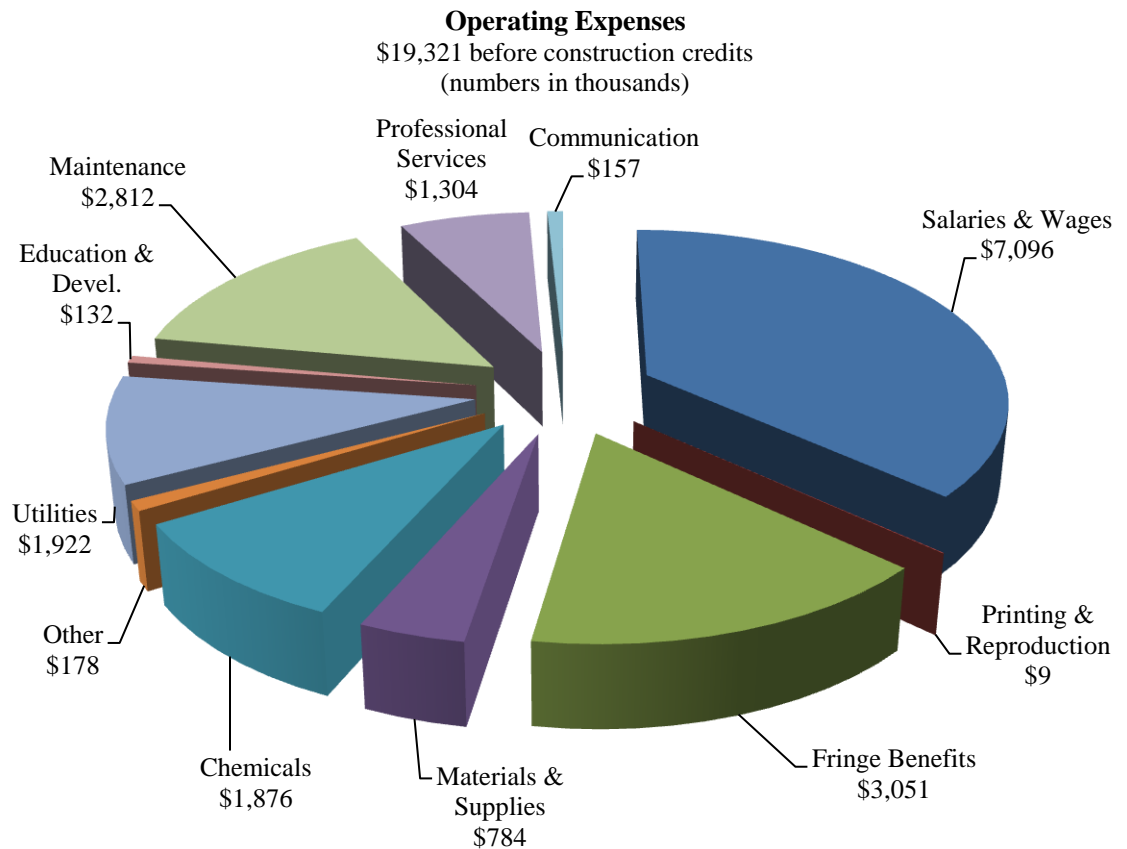


**Planned
Operating
Expenses
Summary**

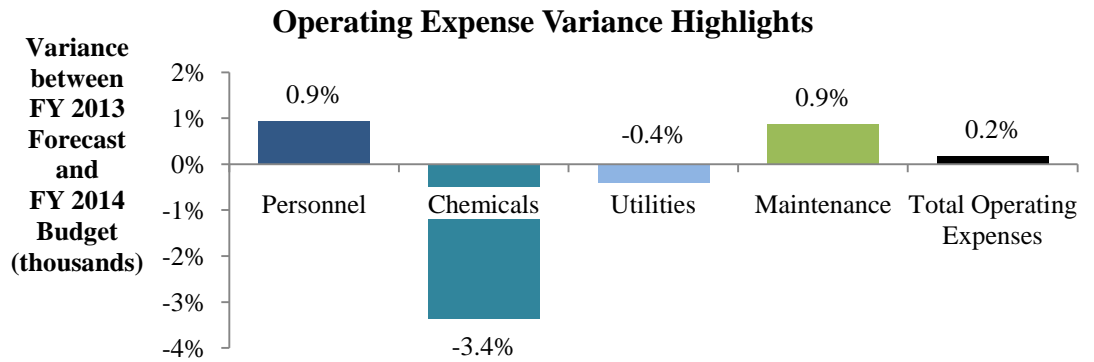
The chart below shows the planned operating expenses for FY 2014. The graph illustrates the relative proportions of the total costs by each category of expense.

**Orange Water and Sewer Authority
Expenditure by Division/by Category
Fiscal Year 2014**

	General and Administrative	Operating Departments	Total Budget
Salaries & Wages	\$2,997,631	\$4,097,672	\$7,095,303
Fringe Benefits	1,236,104	1,814,424	3,050,529
Materials & Supplies	184,869	599,192	784,061
Chemicals	-	1,876,230	1,876,230
Utilities	174,652	1,747,777	1,922,429
Maintenance	298,600	2,513,729	2,812,329
Professional Services	895,224	408,500	1,303,724
Communication	141,881	15,300	157,181
Printing & Reproduction	7,175	2,300	9,475
Education & Development	77,060	54,640	131,700
Other	<u>124,589</u>	<u>53,550</u>	<u>178,139</u>
Total	<u>\$6,137,785</u>	<u>\$13,183,315</u>	<u>\$19,321,100</u>
Construction Credits	(101,198)	(128,750)	(229,948)
Total After Construction Credits	<u>\$6,036,587</u>	<u>\$13,054,565</u>	<u>\$19,091,152</u>



The chart below highlights Operating Expenses that represent some of the more significant variances between the FY 2014 Budget and FY 2013 forecast.



Personnel

The budget for Personnel costs, which includes fringes, taxes, etc, is approximately 1% higher than the amount forecasted for FY 2013. The FY 2014 budget includes funding for one and a half fewer positions than the prior year but also includes an increase of about 6.5% in health insurance costs.

Chemicals

The FY 2014 budget includes a decrease in the cost for chemicals of about 3%. The decrease is due to a reduction in the amount of certain chemicals used in our processes.

Utilities

We are expecting a price increase in energy costs of about 4.5% but a reduction in the amount of energy used.

Maintenance

The FY 2014 budget is about 1% higher than the forecast for FY 2013 and is based on an analysis of prior year costs and expected maintenance and repair needs for FY 2014.

Total Operating Expenses

The budget for total Operating Expenses is slightly more than the FY 2013 forecast and about 1% less than the FY 2013 budget.

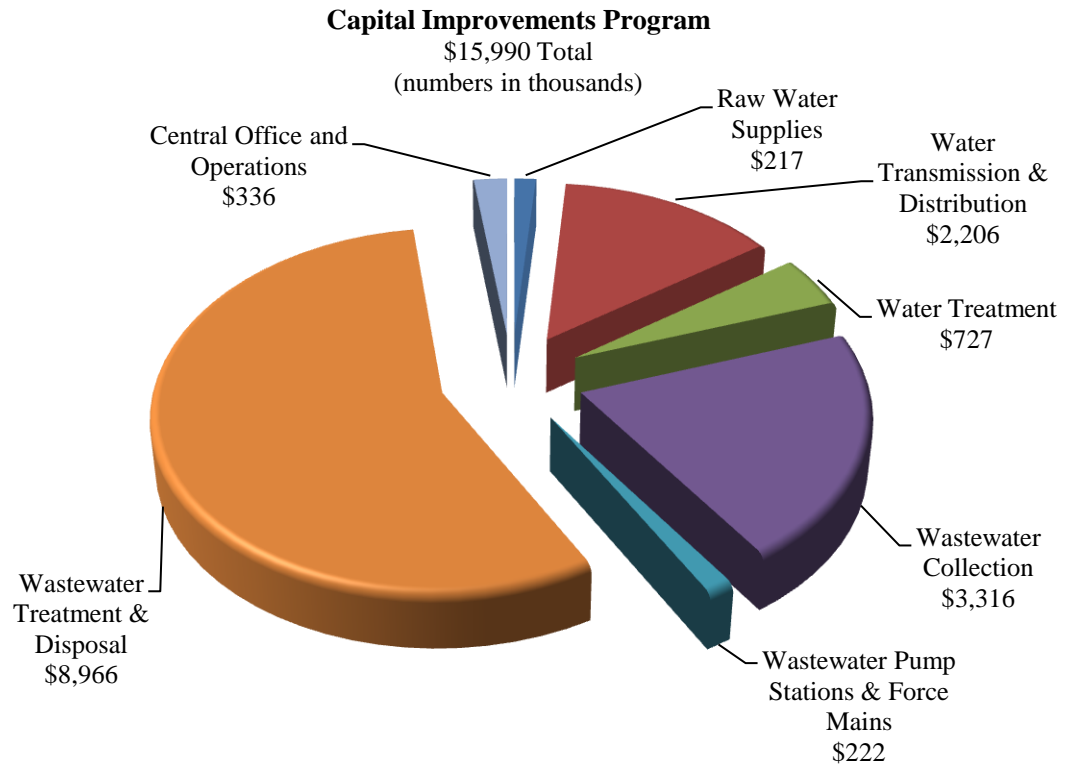
Capital Equipment

Each year OWASA replaces capital equipment items that have exceeded their useful lives and purchases equipment to meet operational needs. Purchases planned for FY 2014 total \$525,000 (see schedule on page 17).

Capital Improvements Program Summary

Capital improvements are necessary to renew, replace and improve infrastructure and to provide safe, reliable, high-quality water, sewer and reclaimed water services to current and future customers. Capital expenditures are recorded as capital assets and are depreciated over the economic useful lives of the assets.

A five-year planning period is used to develop the CIP. Only the first year of the CIP is included in each fiscal year's budget ordinance. For FY 2014, capital improvements projects total \$16 million, as shown below.



**Strategic
Issues and
Policies**

OWASA must maintain a budget that continues to ensure high-quality and reliable services to our customers while minimizing rate increases.

Significant budget issues include:

1. Potable water sales in FY 2014 are expected to be 6.2 MGD which is approximately the same as projected for FY 2013. UNC's use of reclaimed water (RCW) to meet certain non-potable needs on the campus is expected to be approximately 0.81 MGD.
2. FY 2013 forecast for new construction and system growth is less than budgeted. The budget for new connections for FY 2014 is less than the forecast for FY 2013 and less than the number of actual new connections we have experienced over the last several years.
3. The existing seasonal and increasing block rate fee structures will remain in place for FY 2014. We have seen a decline in demand of about 14% since the inception of the block rate structure in 2007 and an overall total demand reduction of 30% since the seasonal structure was put into place in 2002.
4. The CIP budget for FY 2014 is adequate to meet the needs of OWASA's customers today and in the future.
5. Although general inflation remains low, prices for specific products vital to the treatment of water and wastewater have proven to be volatile. Chemical and energy costs are particularly subject to price fluctuations.
6. OWASA is required to record its annual expected post-employment benefit costs. Actuarially determined costs associated with providing this employee benefit range from about \$600,000 to \$900,000 per year, depending on contributions and interest rates.
7. The required employer contribution to the Local Government Employees Retirement System has increased from 6.74% to 7.07% for FY 2014.

Conclusion

The organization's strategic plan and the financial management objectives set forth in OWASA's *Financial Management Policy* help us remain focused on mission-critical services, greater operational efficiency, accurate and sustainable asset management and capital improvements priorities, and opportunities for further permanent reductions in operating expenses. We must accomplish this while balancing service levels with operating risks associated with different levels of service.

This budget reflects OWASA's continuing commitment to maintain, replace and renew water and sewer system components to ensure high-quality and reliable services to our customers.

We believe the FY 2014 Budget reflects the OWASA Board of Directors' guidance and priorities, provides the appropriate level of funding for strategic initiatives, is responsive to community needs, and meets OWASA's contractual responsibilities and regulatory requirements.



Ed Kerwin
Executive Director



Stephen Winters, CPA
Director of Finance and Customer Service

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SECTION I

ORANGE WATER AND SEWER AUTHORITY OVERVIEW

Orange Water and Sewer Authority Board of Directors Mission Statement 1

Orange Water and Sewer Authority Board of Directors 2

Orange Water and Sewer Authority Management Team 3

Budget Preparation and Calendar for FY 2014 4

Appropriations for FY 2014 (Statement of Income, Expense and Debt Service) 6

Fund Balance Statements 8

Funds Flow Statement 13

Planned Operating Expenditures 14

Planned Capital Equipment Expenditures 17

Debt Service for Fiscal Years 2014-2033 18

Capital Improvements Program Budget 19

Rehabilitation/Replacement Projects (In-house) 22

Capital Improvements Program, Five-year Overview for FY 2014-2018 23

ORANGE WATER AND SEWER AUTHORITY MISSION STATEMENT

OWASA will provide our customers with high-quality water and wastewater services through responsible, sustainable, and creative stewardship of the resources and assets we manage. We will do this with a productive, empowered, talented, and diverse work force, which strives for excellence.

OUR VALUES

- **Quality Drinking Water**
We will provide the highest quality drinking water for our customers through proactive and sustainable watershed management, and the effective and reliable operations and maintenance of the water supply, treatment, and distribution system.
- **Environmental Responsibility**
We will protect the environment through the effective and reliable operation and maintenance of the wastewater collection, treatment, and recycling systems. We will manage our resources and assets in an environmentally responsible manner, maintaining or exceeding any regulatory requirements or mandates.
- **Excellence in Customer Service**
We are dedicated to excellence in serving customers in all aspects of our business services. We will be leaders in keeping our customers informed and will provide them meaningful opportunities to participate in decisions that are important to the community.
- **Employees**
We value our employees as our most important resource and we will provide them competitive compensation and benefits, and maintain a safe and rewarding work environment. We will promote diversity and equal opportunity for development and advancement for all employees.
- **Efficiency and Value**
We will perform all services in a financially sound and responsible manner with sufficient revenues to properly operate and fully maintain the water and wastewater system. As OWASA relies solely on user fees, we will continue to be guided by cost-of-service principles with regards to our rates, fees, and charges, and operate the water and sewer system at the lowest rates consistent with our obligation to provide proper and efficient services, now and in the future. We remain committed to continuous improvement in all of our services and will provide high value to our customers.
- **Sustainability**
We will proactively plan, construct, operate, maintain, and finance the water and wastewater system in a manner consistent with the principles of environmental, social and economic sustainability. We will work hard to meet the needs of our current and future customers, community, and environment without compromising the ability of future generations to meet their needs. We will strive to make the highest and best use of our local water resources and we will adopt practices which encourage conservation of water, energy, and other natural resources.
- **Local Government Compatibility**
We will manage our responsibilities in a manner consistent and compatible with the adopted growth management policies and land use plans of the Town of Carrboro, the Town of Chapel Hill, and Orange County. We will maintain open and positive communications with our local governments. We will also maintain open and positive communications with neighboring water utilities and cooperate in regional initiatives where appropriate and consistent with OWASA's commitment to its member governments.
- **Innovation and Creativity**
We will seek innovation and creativity in accomplishing our mission and enhancing our services. We will invest in ongoing research and development for new and improved ways to accomplish our mission.

ORANGE WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS

CHAIR

Alan Rimer, P.E.
200 Overlake Drive
Chapel Hill, NC 27516
Appointed by Chapel Hill; Term Expires 6/30/13

VICE CHAIR

John Young
204 W Barbee Chapel Road
Chapel Hill, NC 27517
Appointed by Chapel Hill; Term Expires 6/30/13

SECRETARY

Amy Witsil
115 Woodshire Lane
Chapel Hill, NC 27514
Appointed by Chapel Hill; Term Expires 6/30/15

MEMBERS

Terri Buckner
306 Yorktown Drive
Chapel Hill, NC 27516
Appointed by Orange County; Term Expires 6/30/14

Stephen Dear
207 Wyndham Drive
Chapel Hill, NC 27516
Appointed by Carrboro; Term Expires 6/30/15

Michael Hughes, P.E.
8112 Orange Grove Road
Chapel Hill, NC 27516
Appointed by Orange County; Term Expires 6/30/15

Gordon Merklein
504 Highgrove Drive
Chapel Hill, NC 27516
Appointed by Chapel Hill; Term Expires 6/30/13

Dana Raborn
205 Gary Road
Carrboro, NC 27510
Appointed by Carrboro; Term Expires 6/30/14

Will Raymond
209 Mt. Bolus Road
Chapel Hill, NC 27514
Appointed by Chapel Hill; Term Expires 6/30/14

ORANGE WATER AND SEWER AUTHORITY
MANAGEMENT TEAM

Stuart Carson, P.E., Engineering Manager (Capital Projects)
Mason Crum, P.E., Director of Engineering and Planning
Patrick K. Davis, Sustainability Manager
Greg Feller, Public Affairs Administrator
Stephanie Glasgow, M.E.S.H., P.H.R., Director of Human Resources and Safety
Thurman Green, Water Distribution and Wastewater Collection Systems Manager
John Greene, P.E., General Manager of Operations
Ed Kerwin, Executive Director
John Kiviniemi, Wastewater Treatment and Biosolids Recycling Manager
Heidi Lamay, Finance and Customer Service Manager
Kenneth Loflin, Water Supply and Treatment Manager
Andrea Orbich, Executive Assistant
Dan Przybyl, Director of Information Technology
Kevin M. Ray, Finance and Procurement Manager
Ruth Rouse, A.I.C.P., Planning and Development Manager
Todd Spencer, P.E., Engineering Manager (System Development)
Stephen Winters, CPA, Director of Finance and Customer Service

GENERAL COUNSEL

Robert Epting, Esquire
Epting and Hackney, Attorneys at Law

BUDGET PREPARATION AND CALENDAR FOR FY 2014

OWASA's budget process begins in the fall of each year. Many key elements are prescribed in the *Financial Management Policy* and major milestones are published in a budget calendar. The operating expense and capital improvements program budgets are prepared by the staff with guidance and review by the Board of Directors.

OWASA maintains its financial records and presents its financial reports as an *enterprise fund* and uses the *accrual method* for financial reporting. The annual budget is prepared using the *modified accrual method*. The primary differences between the two accounting methods are shown below.

Transaction Type	Financial Reporting (Accrual)	Budgetary (Modified Accrual)
Depreciation expense	<i>Included</i> as an expense	<i>Excluded</i> as an expense
Principal portion of debt payments	<i>Excluded</i> as an expense	<i>Included</i> as an expense
Vacation accrual expense	<i>Included</i> as an expense	<i>Excluded</i> as an expense
Assessment income	Recognized in year assessed	Recognized in year collected

The budget development process begins with preparation of line-item budget requests by each of OWASA's departments and includes estimates for any new initiatives or cost reduction strategies. A 15-year financial plan is used to develop alternatives including possible rate adjustments and debt financing arrangements to achieve full cost recovery and meet OWASA's financial obligations. The following calendar reflects the timeframe for the preparation of this budget.

FY 2014 Budget Calendar

December 27, 2012	Distribute templates for the preparation of operating expense appropriations, capital equipment requests and departmental budget narratives.
January 24, 2013	Finance Committee Meeting – review 2 nd quarter financial report and discuss strategic issues, planning assumptions and budget process calendar.
January 24, 2013	Board of Directors Meeting – presentation of 2 nd quarter financial report and strategic issues, planning assumptions and budget process calendar.
January 25, 2013	Submission of Capital Equipment Request Forms, Budget Narratives and Departmental Operating Budget Requests to Budget Officer.
February 28, 2013	Board of Directors and Finance Committee Meetings – discussion of <i>Draft Annual Budget</i> and staff recommendation of rate adjustment.
March 28, 2013	Board of Directors and Finance Committee Meetings – discussion of <i>Draft Annual Budget</i> and staff recommendation of rate adjustment.
April 19, 2013	Deliver <i>Draft Annual Budget</i> to the Board of Directors.
April 24, 2013	Finance Committee Meeting – discussion of the <i>Draft Annual Budget</i> and rate adjustment
April 25, 2013	Board of Directors Meeting – discussion of the <i>Draft Annual Budget</i> and rate adjustment.
May 23, 2013	Board of Directors Meeting – Public Hearing on the <i>Draft Final Annual Budget, Capital Improvements Budget</i> and Public Hearing on the proposed adjustments to rates, fees, and charges.
June 7, 2012	Deliver <i>Annual Budget</i> to the Board of Directors.
June 13, 2012	Board of Directors Meeting – adoption of <i>FY 2014 Annual Budget</i> and adoption of <i>Schedule of Rates, Fees and Other Charges</i> .
July 2013	Distribution of <i>FY 2014 Annual Budget</i> .

STATEMENT OF INCOME, EXPENSE AND DEBT SERVICE (OPERATING)

	FY 2012 Actual	FY 2013 Budget	FY 2013 Forecast	FY 2013 Forecast to FY 2013 Budget	FY 2014 Budget	FY 2014 Budget to FY 2013 Forecast
Operating Revenue						
Water	\$18,110,549	\$18,246,301	\$17,835,948	-2.25%	\$17,859,444	0.13%
Sewer	16,727,235	16,839,680	16,620,890	-1.30%	16,637,114	0.10%
Reclaimed Water	446,206	448,972	454,440	1.22%	458,816	0.96%
Service Initiation Fee	170,270	181,946	164,014	-9.86%	166,269	0.00%
Other	1,247,608	1,284,775	1,203,160	-6.35%	1,200,877	-0.19%
Refunds and Adjustments	<u>(176,638)</u>	<u>(210,395)</u>	<u>(183,474)</u>	-12.80%	<u>(172,788)</u>	-5.82%
Total Operating Revenue	<u>36,525,230</u>	<u>36,791,279</u>	<u>36,094,978</u>	-1.89%	<u>36,149,732</u>	0.15%
Operating Expense						
General and Administrative	5,701,150	5,714,757	5,749,775	0.61%	6,036,587	4.99%
Operations	<u>13,003,814</u>	<u>13,629,140</u>	<u>13,305,461</u>	-2.37%	<u>13,054,565</u>	-1.89%
Total Operating Expense	<u>18,704,964</u>	<u>19,343,897</u>	<u>19,055,236</u>	-1.49%	<u>19,091,152</u>	0.19%
Net Operating Income	17,820,266	17,447,382	17,039,742	-2.34%	17,058,580	0.11%
Non-operating Revenue						
Customer Fees	1,862,976	1,169,482	1,110,469	-5.05%	653,117	-41.19%
Interest	17,964	0	10,213		13,763	34.76%
Gain (Loss) on sale of assets	<u>(230,933)</u>	<u>-</u>	<u>2,200</u>		<u>-</u>	
Total Net Income	<u>19,470,273</u>	<u>18,616,864</u>	<u>18,162,624</u>	-2.44%	<u>17,725,460</u>	-2.41%
Debt Service						
Existing	8,591,940	8,235,375	8,215,375	-0.24%	7,885,325	-4.02%
New	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	
Total Debt Service	<u>8,591,940</u>	<u>8,235,375</u>	<u>8,215,375</u>	-0.24%	<u>7,885,325</u>	-4.02%
Net Income Less Debt Service	<u>\$10,878,333</u>	<u>\$10,381,489</u>	<u>\$9,947,249</u>	-4.18%	<u>\$9,840,135</u>	-1.08%
Debt Coverage Ratio	2.29	2.26	2.21		2.25	

This income statement discloses the source and application of OWASA's revenues and reflects the adequacy of operating revenues to meet the costs of operations and to satisfy debt service requirements. As presented in the Statement of Income and Expense (Capital/Non-Operating), excess revenues are available for transfer to the General Fund, the established funding mechanism for capital expenditures.

STATEMENT OF INCOME AND EXPENSE (CAPITAL/NON-OPERATING)

	FY 2012 Actual	FY 2013 Budget	FY 2013 Forecast	FY 2013 Forecast to FY 2013 Budget	FY 2014 Budget	FY 2014 Budget to FY 2013 Forecast
General Fund						
Resources						
Transfer From Revenue	\$10,878,333	\$10,381,489	\$9,947,249	-4.18%	\$9,840,135	-1.08%
Assessments	-	-	-		-	0.00%
Grants and Contributions	-	-	-		-	0.00%
Annual Income Available for Capital	10,878,333	10,381,489	9,947,249	-4.18%	9,840,135	-1.08%
Transfer from Construction Fund (Bond or Loan Proceeds)	-	-	-	0.00%	5,761,245	0.00%
Total Available for Capital	10,878,333	10,381,489	9,947,249	-4.18%	15,601,380	56.84%
Capital Expenditures						
Project Ordinances						
General Fund Contribution	10,506,570	11,076,000	8,528,520	-23.00%	10,228,755	87.49%
Funded by Bond or Loan Proceeds	-	-	-	0.00%	5,761,245	0.00%
Total Project Resolutions	10,506,570	11,076,000	8,528,520	-23.00%	15,990,000	87.49%
Capital Equipment	595,280	225,000	225,000	0.00%	525,000	133.33%
Total Capital Outlay	11,101,850	11,301,000	8,753,520	-22.54%	16,515,000	88.67%
Annual General Fund Balance	(\$223,517)	(\$919,511)	\$1,193,729	-229.82%	(\$913,620)	-176.53%
General Fund Beginning Balance		21,812,619	22,086,837	1.26%	23,280,566	5.40%
General Fund Ending Balance	21,812,618	20,893,108	23,280,566	11.43%	22,366,946	-3.92%
Project Funding	12,476,618	10,215,308	12,602,766	23.37%	10,607,146	-15.83%
Reserves						
Rate/Revenue Stabilization	750,000	1,000,000	1,000,000	0.00%	1,250,000	25.00%
Capital Improvements	1,200,000	1,600,000	1,600,000	0.00%	2,000,000	25.00%
Working Capital	7,386,000	8,077,800	8,077,800	0.00%	8,509,800	5.35%
Unallocated General Fund Balance	-	-	-		-	

FUND BALANCE STATEMENTS

CONSOLIDATED SUMMARY - INTRAGOVERNMENTAL SERVICE FUNDS

	Beginning Balance	Revenues	Expenditures	Ending Balance	Change in Balance
Revenue Fund	-	\$36,816,612	(\$36,816,612)	-	-
Bond Service Fund	0	7,885,325	(7,885,325)	0	-
General Fund	<u>23,280,566</u>	<u>15,601,380</u>	<u>(16,515,000)</u>	<u>22,366,946</u>	<u>(913,620)</u>
Total	<u>\$23,280,566</u>	<u>\$60,303,317</u>	<u>(\$61,216,937)</u>	<u>\$22,366,946</u>	<u>(\$913,620)</u>

OWASA's Fund Accounting Structure

The Budget Ordinance reflects inflows and outflows of economic resources that represent activities related to the General Fund. Other funds presented here are either required contractually or are sub-accounts of the General Fund. Because of the close relationship of these funds to the General Fund, the following Fund Statements are included as attachments to the Budget Ordinance and are adopted as such. All of these funds, unrestricted and restricted, are treated as a part of the General Fund in OWASA's audited financial statements.

In accordance with OWASA's Amended and Restated Bond Order, Series 2001, all revenues from the operation of the water and sewer system are deposited into the Revenue Fund with the exception of grants and assessment proceeds which are earmarked for other purposes. Revenues are first applied to the payment of current expenses and then to the repayment of outstanding debt. Any excess amounts above the cost of current operations and debt service are available for capital improvements and may be transferred, upon certification to the Trustee, to the General Fund. The Revenue Fund is administered by OWASA.

The Bond Service Fund is established by the Amended and Restated Bond Order, Series 2001 and serves as the mechanism for repaying the current portion of long-term debt. The Bond Order requires that the total of any principal and interest payments on long-term debt be transferred to the Bond Service Fund no later than 45 working days prior to the due date of such payments. This Fund is comprised of restricted assets and is administered by the Bond Trustee.

Establishment of the General Fund is required by statute and is administered by OWASA. Monies in the General Fund may be used for any lawful purpose and, in addition to bond proceeds, are OWASA's primary source to pay for capital improvements. Interest earnings in the General Fund are considered debt-pledged revenue and are to be transferred to the credit of the Revenue Fund. The Fund is projected to decrease by about \$914,000 as a result of a planned draw-down of reserves in FY 2014.

Financial Reserves

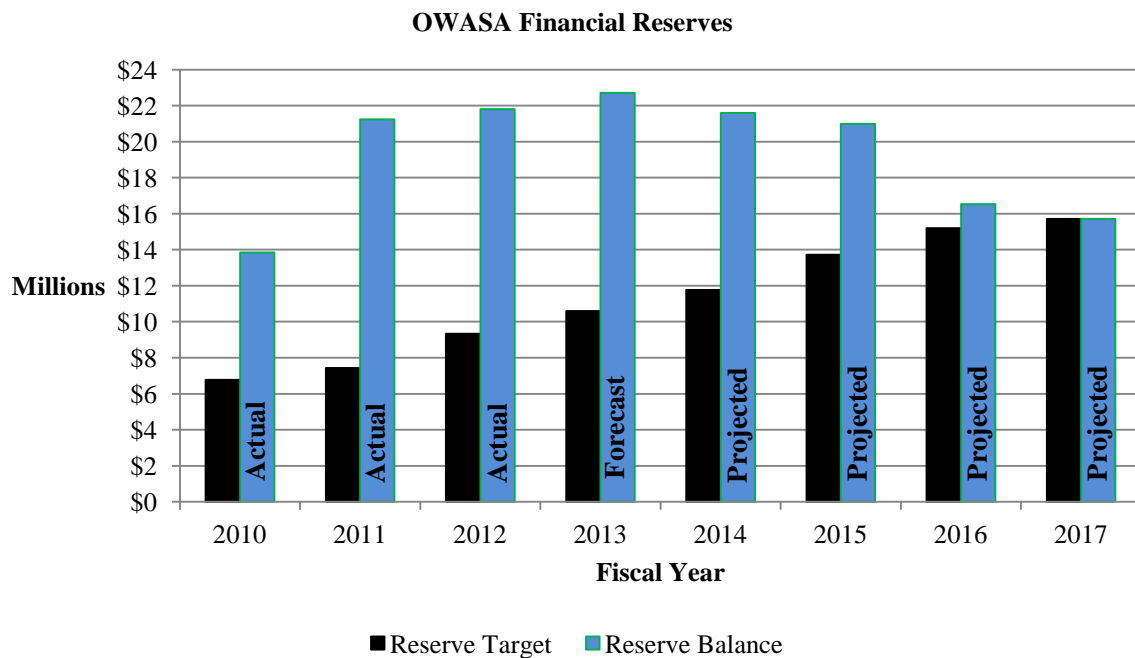
OWASA’s Financial Management Policy (see Section III) includes certain financial performance objectives which are intended to help management and other stakeholders monitor the organization’s financial condition. One of the objectives is to maintain adequate financial reserves and OWASA has established a minimum financial reserve target consisting of the following:

Working Capital Reserve – The greater of four months of Operating Expenses or 20% of the succeeding three years CIP budget.

Capital Improvements Reserve – At least 2% of depreciated capital assets. As of the end of FY 2013, 2% of depreciated capital assets was \$5.7 million. We are contributing \$400,000 per year to this reserve until the target is met. This fund was established in FY 2009 and is projected to have a balance of \$2 million at the end of FY 2014.

Rate/Revenue Stabilization – At least 5% of projected water and sewer revenue. 5% of FY 2014 water and sewer revenue is projected to be \$1.8 million. We are contributing \$250,000 per year to this reserve until the target is met. This fund was established in FY 2009 and is projected to have a balance of \$1.25 million at the end of FY 2014.

The graph below depicts the combined balance of the Working Capital, Capital Improvements and Rate/Revenue Stabilization Reserve funds compared to the target.



OWASA implemented significant rate increases in fiscal years 2007 through 2010. These increases were necessary to fund expenditures in those years as well as to be in a better position to meet projected future years’ funding requirements. Had these rate increases not occurred, it was projected that OWASA would have had to implement rate increases as high as 25% in subsequent years. Consistent with our plan, this strategy has resulted in a near-term excess of reserves over our minimum target that is expected to be drawn down over the next few years. Another result is that future rate increases are projected to be at or near the rate of inflation.

FUND BALANCE STATEMENTS

REVENUE FUND

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Fund Balance July 1, 2013			-
Receipts			
Operating Revenue			
Customer Billings	17,859,444	16,637,114	34,496,558
Reclaimed Water	458,816	-	458,816
Service Initiation Fee	83,135	83,134	166,269
Other	600,439	600,438	1,200,877
Refunds and Adjustments	(86,394)	(86,394)	(172,788)
Total Operating Revenue	18,915,440	17,234,292	36,149,732
Non-operating Revenue			
Customer Fees	316,014	337,103	653,117
Interest Income	6,882	6,881	13,763
Total Non-operating Revenue	322,896	343,984	666,880
Total Receipts	19,238,336	17,578,276	36,816,612
Expenditures			
Current Expense	(9,400,483)	(9,690,669)	(19,091,152)
Debt Service	(4,000,947)	(3,884,378)	(7,885,325)
Total Expenditures	(13,401,430)	(13,575,047)	(26,976,477)
Net Revenue			9,840,135
To General Fund			(9,840,135)
Fund Balance June 30, 2014			-
Change in Available Balance			-

FUND BALANCE STATEMENTS

BOND SERVICE FUND

Fund Balance July 1, 2013		-
Receipts		
Transfers from Revenue Fund	7,885,325	
Interest	<u> </u>	
Total Receipts		7,885,325
Expenditures		
Debt Service	<u>7,885,325</u>	
Total Expenditures		<u>(7,885,325)</u>
Fund Balance June 30, 2014		<u><u>-</u></u>
Change in Available Balance		-

FUND BALANCE STATEMENTS

GENERAL FUND

Fund Balance July 1, 2013		\$23,280,566
Receipts		
Transfer From Revenue fund	9,840,135	
Transfer From Construction Fund (Bond or Loan Proceeds)	5,761,245	
Interest	-	
Assessments	-	
Grants and contributions	-	
	<hr/>	
Total Receipts		<hr/> 15,601,380
Total Balance Before Expenditures		38,881,946
Expenditures		
Capital Equipment/Leases	525,000	
Project Resolutions	15,990,000	
Transfer to Revenue Fund	0	
	<hr/>	
Total Expenditures		<hr/> (16,515,000)
Fund Balance June 30, 2014		<hr/> <hr/> \$22,366,946
Allocation of Fund Balance June 30, 2014		
Project Funding	10,607,146	
Capital Reserves	11,759,800	
	<hr/>	
Total Allocation		<hr/> <hr/> \$22,366,946
Unallocated General Fund Balance June 30, 2014		<hr/> <hr/> -
Change in Available Balance		(\$913,620)

The Fund is projected to decrease by approximately \$914,000 as a result of a planned draw-down of reserves in FY 2014.

FUNDS FLOW STATEMENT

Revenue Fund

Operating Revenue	\$ 36,149,732	
Customer Fees	653,117	
Interest Income	<u>13,763</u>	
 Total Revenues		 36,816,612
 Operating and Maintenance Expense	 (19,091,152)	
Bond Service Fund (transfers to)	<u>(7,885,325)</u>	
 Total Expenditures		 <u>(26,976,477)</u>
 Excess operating revenue (to be transferred to the General Fund)		 9,840,135

General Fund

Beginning Balance July 1, 2013	23,280,566	
Transfer from Revenue Fund	9,840,135	
Assessments	-	
Grants and Contributions	<u>-</u>	
 Total General Fund Balance (available for allocation)		 33,120,701
 Construction Fund – Bond or Loan Proceeds		 5,761,245
 Total General Fund and Bond or Loan Proceeds		 38,881,946
 Project Resolutions	 15,990,000	
Capital Equipment and Leases	<u>525,000</u>	
 Total General Fund Expenditures		 16,515,000
 General Fund Ending Balance June 30, 2014		 <u>\$ 22,366,946</u>
 Project Resolutions	 10,607,146	
Reserves	<u>11,759,800</u>	
 Total Allocation of General Fund Balance		 <u>\$ 22,366,946</u>

PLANNED OPERATING EXPENDITURES

EXPENDITURES BY CATEGORY

Category	FY 12 Actual	FY13 Budget	FY13 Forecast	FY13 Forecast to FY13 Budget Variance	FY14 Budget	FY14 Budget to FY13 Forecast Variance
Personnel	\$9,872,420	\$10,242,833	\$10,051,397	-1.9%	\$10,145,832	0.9%
Chemicals	2,064,376	1,739,266	1,926,427	10.8%	1,876,230	-2.6%
Materials & Supplies	752,820	789,452	716,729	-9.2%	784,061	9.4%
Utilities	1,802,329	1,916,309	1,930,253	0.7%	1,922,429	-0.4%
Maintenance	2,714,284	2,990,071	2,787,668	-6.8%	2,812,329	0.9%
Professional Services	1,419,062	1,430,317	1,401,461	-2.0%	1,303,724	-7.0%
Communication	121,845	140,340	143,982	2.6%	157,181	9.2%
Printing & Reproduction	5,054	8,475	7,584	-10.5%	9,475	24.9%
Education and Development	110,719	131,715	116,600	-11.5%	131,700	13.0%
Other	180,401	142,188	193,154	35.8%	178,139	-7.8%
Total	19,043,310	19,530,966	19,275,255	-1.3%	19,321,100	0.2%
Construction Credits	(332,802)	(208,069)	(220,163)	5.8%	(229,948)	4.4%
Net Expense	\$18,710,508	\$19,322,897	\$19,055,092	-1.4%	\$19,091,152	0.2%

**EXPENDITURES BY DIVISION
FISCAL YEAR 2014**

	General and Administrative	Operating Departments	Total Budget
Personnel	\$4,233,735	\$5,912,096	\$10,145,831
Chemicals	-	1,876,230	1,876,230
Materials & Supplies	184,869	599,192	784,061
Utilities	174,652	1,747,777	1,922,429
Maintenance	298,600	2,513,729	2,812,329
Professional Services	895,224	408,500	1,303,724
Communication	141,881	15,300	157,181
Printing & Reproduction	7,175	2,300	9,475
Education and Development	77,060	54,640	131,700
Other	124,589	53,551	178,140
Total	\$6,137,785	\$13,183,315	\$19,321,100
Construction Credits	(101,198)	(128,750)	(229,948)
Net Expense	\$6,036,587	\$13,054,565	\$19,091,152

PLANNED OPERATING EXPENDITURES

GENERAL AND ADMINISTRATIVE

Category	FY 12 Actual	FY13 Budget	FY13 Forecast	FY13 Forecast to FY13 Budget Variance	FY14 Budget	FY14 Budget to FY13 Forecast Variance
Executive Director						
Personnel Costs	\$820,643	\$873,997	\$837,094	-4.2%	\$868,169	3.7%
Operating Expenditures	416,884	394,845	392,616	-0.6%	427,706	8.9%
Total Expenditures	1,237,527	1,268,842	1,229,710	-3.1%	1,295,875	5.4%
Customer Service						
Personnel Costs	442,946	456,535	457,470	0.2%	461,218	0.8%
Operating Expenditures	181,881	126,785	167,119	31.8%	156,800	-6.2%
Total Expenditures	624,828	583,320	624,590	7.1%	618,018	-1.1%
Engineering						
Personnel Costs	1,236,480	1,238,359	1,296,449	4.7%	1,251,541	-3.5%
Operating Expenditures	107,475	114,466	135,734	18.6%	217,712	60.4%
Total Expenditures	1,343,955	1,352,825	1,432,183	5.9%	1,469,253	2.6%
Human Resources						
Personnel Costs	413,819	446,864	433,416	-3.0%	532,394	22.8%
Operating Expenditures	132,498	84,487	84,493	0.0%	100,500	18.9%
Total Expenditures	546,316	531,351	517,909	-2.5%	632,894	22.2%
Finance						
Personnel Costs	675,631	694,919	691,540	-0.5%	714,480	3.3%
Operating Expenditures	385,894	367,557	360,497	-1.9%	347,800	-3.5%
Total Expenditures	1,061,525	1,062,476	1,052,037	-1.0%	1,062,280	1.0%
Information Technology						
Personnel Costs	366,298	387,047	387,058	0.0%	405,932	4.9%
Operating Expenditures	656,792	599,465	598,502	-0.2%	653,532	9.2%
Total Expenditures	1,023,090	986,512	985,560	-0.1%	1,059,464	7.5%
Total G&A						
	5,837,241	5,785,326	5,841,989	1.0%	6,137,785	5.1%
Construction Credit	(\$130,600)	(\$91,569)	(\$92,358)	0.9%	(\$101,198)	9.6%
Net Expense	\$5,706,641	\$5,693,757	\$5,749,631	1.0%	\$6,036,587	5.0%

PLANNED OPERATING EXPENDITURES

OPERATING DEPARTMENTS

Category	FY 12 Actual	FY13 Budget	FY13 Forecast	FY13 Forecast to FY13 Budget Variance	FY14 Budget	FY14 Budget to FY13 Forecast Variance
Water Supply & Treatment						
Personnel Costs	\$1,766,483	\$1,773,457	\$1,707,301	-3.7%	\$1,677,898	-1.7%
Operating Expenditures	2,559,946	2,865,564	2,856,807	-0.3%	2,615,888	-8.4%
Total Expenditures	4,326,429	4,639,022	4,564,108	-1.6%	4,293,786	-5.9%
Water Distribution						
Personnel Costs	1,666,076	1,771,023	1,718,504	-3.0%	1,918,073	11.6%
Operating Expenditures	824,454	967,350	897,777	-7.2%	941,345	4.9%
Total Expenditures	2,490,530	2,738,373	2,616,281	-4.5%	2,859,418	9.3%
Wastewater Treatment						
Personnel Costs	1,737,762	1,816,618	1,755,231	-3.4%	1,740,430	-0.8%
Operating Expenditures	3,208,331	3,124,804	3,088,432	-1.2%	3,109,323	0.7%
Total Expenditures	4,946,093	4,941,422	4,843,663	-2.0%	4,849,753	0.1%
Sewer Collection						
Personnel Costs	746,283	784,013	767,333	-2.1%	575,695	-25.0%
Operating Expenditures	696,734	642,810	641,881	-0.1%	604,662	-5.8%
Total Expenditures	1,443,017	1,426,823	1,409,214	-1.2%	1,180,357	-16.2%
Total Operating Departments						
	13,206,069	13,745,640	13,433,266	-2.3%	13,183,315	-1.9%
Construction Credit	(202,201)	(116,500)	(127,805)	9.7%	(128,750)	0.7%
Net Expense	\$13,003,868	\$13,629,140	\$13,305,461	-2.4%	\$13,054,565	-1.9%

PLANNED CAPITAL EQUIPMENT EXPENDITURES

FISCAL YEAR 2014

Capital Equipment Summary

Telephone System and Call Center Software	\$70,000
Network Storage	55,000
Computer Tape Library	6,000
Computer Server	10,000
Security Camera System	30,000
Data Management System	68,000
Phosphate Analyzer	12,000
Vehicle	18,000
Valve Turner	31,000
Utility Truck	66,000
Nitrate Analyzer	20,000
Mixers	20,000
Power Monitoring System	50,000
Flow Meters	25,000
Boom Hoist	10,000
Pole Camera	17,000
Other	<u>17,000</u>
 Total	 <u>\$525,000</u>

Definition of Capital Equipment Expenditures

Expenditures budgeted to purchase or add to fixed assets with an estimated useful life greater than one year and costing \$5,000 or more

DEBT SERVICE FOR FISCAL YEARS 2014-2033

Schedule of Existing Long-term Bonds

	Issue Dates	Interest Rates (Coupon)	Outstanding at 06/30/13
Series 2001 Revenue Bonds	10/1/2001	3.5% to 5.0%	\$835,000
Series 2003 Revenue Refunding Bonds	4/9/2003	2.5% to 5.0%	3,990,000
Series 2004A Revenue Bonds	6/17/2004	3.0% to 5.25%	2,735,000
Series 2004B Revenue Bonds	6/17/2004	Variable	20,000,000
Series 2005 Revenue Refunding Bonds	6/9/2005	3.5% to 5.0%	16,235,000
Series 2006 Revenue Bonds	10/26/2006	3.5% to 4.5%	19,290,000
Series 2010 Revenue Refunding Bonds	9/30/2010	3.0% to 5.0%	20,760,000
Total Bonded Debt			<u>\$83,845,000</u>

Schedule of Existing and Potential Annual Debt Service

Fiscal Year Ending June 30	Existing Debt Service	Potential Debt Service (Estimated)	Total Existing and Potential Debt Service
2014	7,885,325	-	7,885,325
2015	7,988,875	-	7,988,875
2016	8,392,875	530,236	8,923,111
2017	7,150,175	530,236	7,680,411
2018	7,250,613	1,799,373	9,049,986
2019	7,364,838	1,799,373	9,164,211
2020	6,283,231	3,288,226	9,571,457
2021	6,241,925	3,288,226	9,530,151
2022	6,287,769	4,639,728	10,927,497
2023	6,276,444	4,639,728	10,916,172
2024	6,281,494	4,639,728	10,921,222
2025	6,276,344	4,639,728	10,916,072
2026	6,280,244	4,639,728	10,919,972
2027	4,313,450	4,639,728	8,953,178
2028	4,309,350	4,639,728	8,949,078
2029	4,303,450	4,639,728	8,943,178
2030	1,565,500	4,639,728	6,205,228
2031*	1,564,500	4,639,728	6,204,228
2032	-	4,639,728	4,639,728
2033	-	4,639,728	4,639,728
Total	<u>\$106,016,402</u>	<u>\$66,912,406</u>	<u>\$172,928,808</u>

* Year in which final payment on existing debt will be made.

Potential Debt

Based on OWASA's long-range financial plan, there is a potential need for bond financing of capital improvements in future years. The "potential debt service" shown above relates to this potential need.

CAPITAL IMPROVEMENTS PROGRAM BUDGET

Capital Improvements Program (CIP) expenditures are defined as those that pay for the addition, rehabilitation and replacement of OWASA-owned water, sewer and reclaimed water system infrastructure and other depreciable assets. In general, CIP projects are identified as those projects that exceed \$10,000 and provide a system component that has an expected service life of at least five years. The five-year CIP is reviewed and updated annually.

The FY 2014-2018 CIP annual totals are closely aligned with the amounts included in last year's financial plan for these same years. Differences from last year's budget include an increase in FY 2014 to reflect investments planned for FY 2013 that will not be expended until FY 2014 as well as the addition of several smaller projects identified by operations and maintenance staff.

This year's CIP reflects significant investment at the Mason Farm Wastewater Treatment Plant (WWTP) to cover and treat the air emanating from 10 of the 16 aeration basins and to achieve substantial increases in the energy efficiency and effectiveness of the plant's biological treatment process. The project will convert the coarse-bubble aeration system to a fine-bubble system and the existing jet-mixing pumps to mechanical (rotating) vertical mixers. Work on this project is underway and, thus, OWASA is well postured to meet its odor control obligations to the Town of Chapel Hill (per the Town Council's Special Use Permit requirements).

This year's CIP has been informed by OWASA's recent asset management program initiatives. Initial efforts have focused on improved management (including identification of future capital needs) of OWASA's vertical (above ground) assets. This aggressive asset management effort has provided important information and we expect that as we achieve a comprehensive asset management portfolio of both our above and below ground infrastructure that OWASA's capital plans will be better informed than at any point in its history.

More than 65% of the draft FY 2014 CIP budget is dedicated to a number of already awarded large projects including WWTP Odor Control/Aeration System Improvements, Heritage Hills Sewer Force Main Replacement, Friday Center Sewer Interceptor Replacement, and Cameron Avenue Water Main Replacement. As a result, there will be less discretionary (non-committed) funding in FY 2014 than is typically available.

The FY 2014-2018 CIP includes no funding for a regional water intake/treatment facility at Jordan Lake or investments that may be necessary to obtain improved (guaranteed) agreements with Durham and Cary for water purchases during extreme droughts or operational emergencies. It also contains no funding for additional biosolids management facilities, and it assumes that the regulatory environment for water treatment, wastewater treatment and biosolids recycling will remain substantially as it is today.

Despite an uncertain future, we are comfortable that this CIP leaves OWASA well-postured to remain the sustainable, responsible and environmentally focused organization that our community and other interested stakeholders expect.

The projects listed on the following pages have been identified for funding in FY 2014.

CAPITAL IMPROVEMENTS PROJECTS FUNDED IN FY 2014

Project Description	Amount	Impact on Annual Operating Expenses
<u>Raw Water Supplies</u>		
Annual payment to preserve OWASA's Level I Jordan Lake storage allocation.	\$5,000	\$0
Quarry Reservoir Development – Annual contribution to a no-fault well repair fund as required per a Special Use Permit.	15,000	0
Cane Creek Reservoir Dock Replacement.	135,000	0
Cane Creek Reservoir Dam Repairs – Replacement of caulking in spillway joints.	62,000	0
<u>Water Treatment Facilities</u>		
Water Treatment Plant Rehabilitation Projects including upgrades to Variable Frequency Drives for the flocculator, Motor Control Center upgrades, Chlorine Analyzer replacements and Heating Ventilation and Air Conditioning improvements in the chemical building.	240,000	0
Rehabilitation and Upgrades to the SuperPulsators	487,000	0
<u>Finished Water Pumping</u>		
Calvander Pump Station Improvements – Complete upgrade of the pump station to provide improved flexibility in the 740-foot pressure zone, including accommodations that will facilitate maintenance on the Nunn Mountain ground and elevated storage tanks.	60,000	0
<u>Water Transmission and Distribution</u>		
Water Main Road Improvement Projects – Various water main projects to be achieved in conjunction with planned Town or NC Department of Transportation road projects.	17,000	0
Water Line Rehabilitation/Replacement Projects – Replacement or rehabilitation of about one mile of water distribution lines.	802,000	0
Water Main Replacement – Replacement and abandonment of existing mains along Cameron Avenue.	548,000	0
Water Main Replacement – Replacement of water mains in South Estes Drive and Willow Drive.	726,000	0
Water Main Replacement – Evaluate opportunities to reduce customer impacts through further evaluation of the design for the replacement of water mains in Rosemary Street, Henderson Street and Hillsborough Street.	21,000	0
Purchase Distribution System Pressure Monitors.	32,000	0
<u>Wastewater Collection</u>		
Sanitary Sewer Condition Evaluation – Targeted evaluations of high priority gravity sewer assets to determine rehabilitation needs for sewer mains, manholes and laterals.	569,000	0
Sanitary Sewer Rehabilitation – Design and rehabilitation of deteriorated sewer mains and manholes.	329,000	0
Sewer Main Replacement – Construction of a replacement Friday Center interceptor that will provide adequate capacity and reduce inflow/infiltration, surcharge conditions and overflow potential.	1,657,000	0

Sewer Main Replacement – Design for replacement of the Bolinwood Interceptor.	114,000	0
Sewer Main Replacement – Design for replacement of the Little Creek Interceptor.	68,000	0
Replacement of Aerial Stream Crossings at Tom’s Creek and Morgan Creek.	579,000	0
<u>Wastewater Pump Stations and Force Mains</u>		
Heritage Hills Force Main Rehabilitation – Completion of the project to replace a deteriorated force main.	100,000	0
Force Main Condition Evaluation – Condition evaluation of high priority force mains to prioritize and assess the need for their rehabilitation.	58,000	0
Completion of project to rehabilitate the Oaks 3 pump station and replace the Tinkerbell pump station.	64,000	0
<u>Wastewater Treatment and Disposal</u>		
Mason Farm Wastewater Treatment Plant (WWTP) Flood Protection Enhancements – Construction of reinforcement for the flood protection berm and installation of stream bank scour protection along a portion of the berm adjacent to Morgan Creek.	135,000	0
Repairs and safety improvements to the Hypochlorite Facility.	400,000	0
Mason Farm WWTP Aeration System/Odor Improvements – Construction of upgrades to aeration system (conversion from coarse to fine-bubble aeration), blower replacements and piping modifications and the Phase III odor improvements, which will cover and treat air from 10 of 16 aeration basins. The purpose of this project is to reduce energy costs and meet our goal of eliminating objectionable offsite odors.	7,898,000	(200,000)
Comprehensive Coatings Program to extend life of critical process components.	139,000	0
Mason Farm WWTP Digesters – Replacement of the Digester No. 2 to Digester No. 1 Transfer Pump.	70,000	0
Initial Phase of a comprehensive study to evaluate and optimize solids treatment and recycling.	150,000	0
Replacement of the Polymer Feed System in the Gravity Belt Thickener (dewatering) Building.	174,000	0
<u>Central Office and Administration</u>		
Study to evaluate needed repairs and improvements to the Heating, Ventilation and Air Conditioning System in the Administrative Building.	36,000	0
Development of the Comprehensive Asset Management Plan. This includes evaluation of a replacement computerized maintenance management system and determining appropriate level of annual CIP and O&M investment in OWASA’s infrastructure.	300,000	0
Total Capital Improvements Projects Funded in FY 2014	\$15,990,000	(\$200,000)

REHABILITATION/REPLACEMENT PROJECTS (IN-HOUSE)

These projects are performed by OWASA staff to rehabilitate or replace portions of deteriorated water and sewer mains. These investments extend the useful life of these systems and are therefore recorded as capital expenditures.

The amount of capitalized labor, equipment and overhead costs for these in-house projects is credited to the appropriate departmental budget in the form of construction credits. Materials costs are charged directly to each project from an inventory account and are not included in the construction credit amount.

Total funds of \$5,462,000 for water and sewer main rehabilitation and replacement projects are reflected in the CIP. Of this amount, \$4,947,000 is expected to be completed by contractors and \$515,000 by OWASA's construction crew. Below is a list of rehabilitation projects scheduled to be completed by OWASA's construction crew in FY 2014.

In-house Rehabilitation / Replacement Projects FY 2014

Project Name	Size (in.)	Length (ft.)	Material	Equipment	Labor	Overhead	Total
Porthole Alley	2	404	\$14,945	\$2,700	\$4,050	\$5,306	\$27,000
Grey Bluff Trail	6	1,000	\$60,885	\$11,000	\$16,500	\$21,615	\$110,000
Kenmore Road	6	1,230	\$75,276	\$13,600	\$20,400	\$26,724	\$136,000
Brookside Drive	2	452	\$16,605	\$3,000	\$4,500	\$5,895	\$30,000
James Street - South	6	1,070	\$65,313	\$11,800	\$17,700	\$23,187	\$118,000
James Street - North	6	850	\$52,029	\$9,400	\$14,100	\$18,471	\$94,000
Totals		5,006	\$285,053	\$51,500	\$77,250	\$101,198	\$515,000

OWASA CAPITAL IMPROVEMENTS PROGRAM FIVE-YEAR OVERVIEW FOR FY 2014-2018¹

Project Category:	Annual Totals					5-Year Total
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2014-18
Raw Water Supply Sources	\$217,000	\$63,000	\$20,000	\$195,000	\$775,000	\$1,270,000
Raw Water Transmission	-	23,000	-	-	-	23,000
Water Treatment Facilities	727,000	54,000	29,000	2,144,000	2,251,000	5,205,000
Finished Water Pumping	60,000	-	-	-	-	60,000
Finished Water Storage	-	-	-	-	-	-
Water Transmission and Distribution	2,146,000	3,057,000	4,143,000	4,746,000	4,984,000	19,076,000
Wastewater Collection Lines	3,316,000	4,597,000	4,522,000	6,580,000	3,264,000	22,279,000
Wastewater Pump Stations	222,000	604,000	1,982,000	476,000	548,000	3,832,000
Wastewater Treatment and Disposal	8,966,000	1,613,000	3,018,000	4,076,000	4,588,000	22,261,000
Central Office and Operations	336,000	218,000	-	390,000	410,000	1,354,000
Reclaimed Water Facility Rehabilitation	-	-	-	-	-	-
FY 2014 - 2018 CIP Projection	\$15,990,000	\$10,229,000	\$13,714,000	\$18,607,000	\$16,820,000	\$75,360,000

¹ Budget amounts are escalated at 5% annually (with some exceptions)

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SECTION II

OVERVIEW OF OWASA DEPARTMENTS

Orange Water and Sewer Authority Staff/Department Structure24

General and Administrative Departments

Office of Executive Director25

Customer Service27

Engineering and Planning29

Human Resources31

Finance33

Information Technology35

Operating Departments

Water Supply and Treatment37

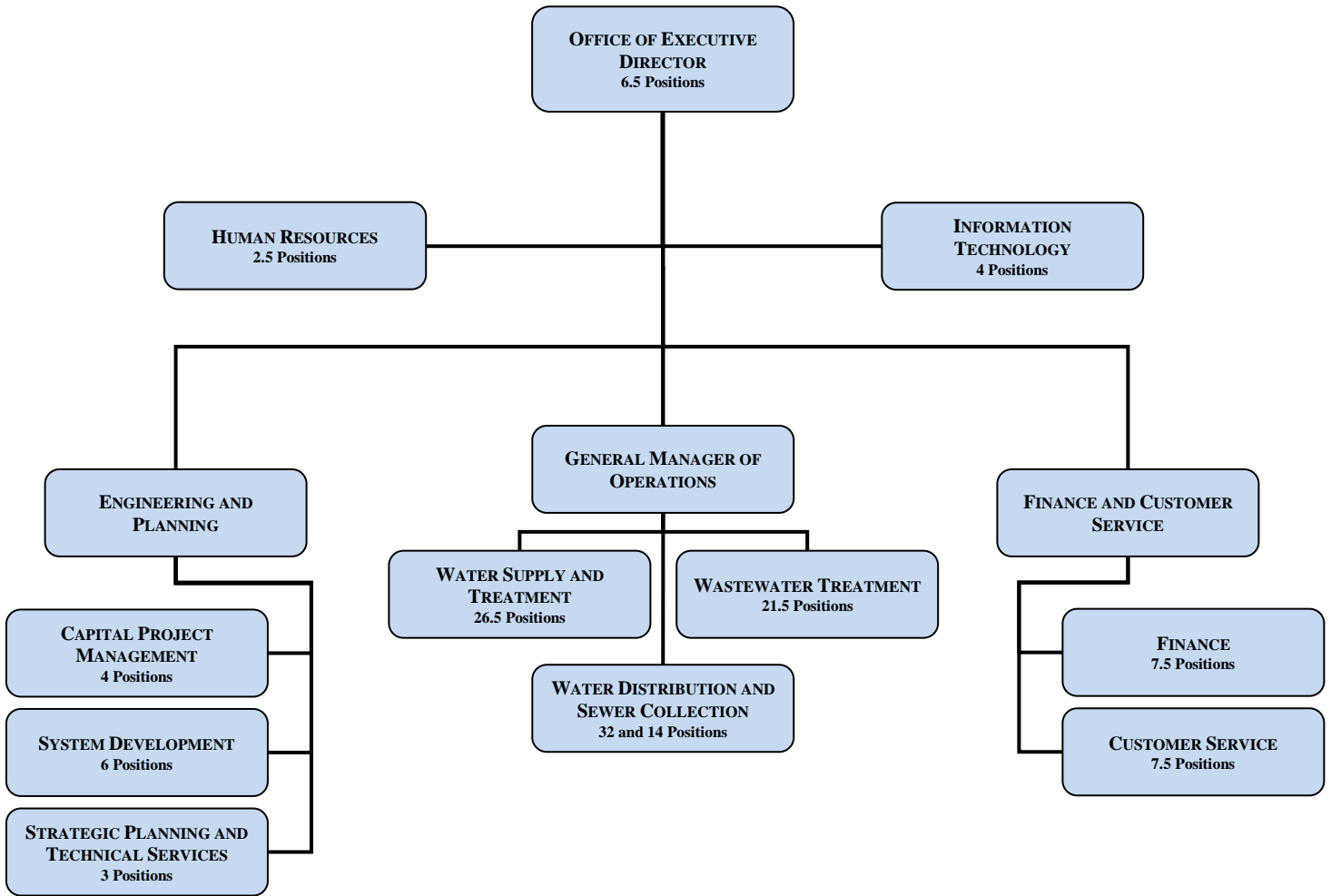
Water Distribution39

Wastewater Treatment41

Sewer Collection43

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ORANGE WATER AND SEWER AUTHORITY STAFF / DEPARTMENT STRUCTURE



OFFICE OF EXECUTIVE DIRECTOR

(General and Administrative)

MISSION

Administrative functions include the Board of Directors, Executive Director, and support personnel involved in the general management of OWASA.

The Board of Directors is responsible for managing and operating OWASA in accordance with authority derived from the North Carolina General Statutes, OWASA's Bond Order, OWASA's Bylaws, the 1977 Agreements of Sale and Purchase with The University of North Carolina at Chapel Hill, with the Town of Carrboro, and with the Town of Chapel Hill, and other legal and organizational documents. The Board sets the overall mission and policies of the organization, appoints the Executive Director, General Counsel, and auditors, and provides oversight and monitoring of OWASA's activities.

The Executive Director is the Chief Administrative Officer responsible for the overall management and supervision of OWASA's services. The Executive Director employs and organizes the staff, assigns responsibilities, and is responsible for carrying out the policies and directives of OWASA. A small support staff provides direct assistance to the Executive Director, including Public Affairs, and Administrative Support.

SUMMARY OF ACTIVITIES

- Provide leadership to ensure that the organization's overall mission is accomplished.
- Promote and maintain outstanding service and communications with OWASA's customers.
- Provide the Board of Directors timely support and information.
- Ensure that all water, wastewater and reclaimed water facilities and programs are operated in compliance with all applicable standards.
- Develop, implement, and maintain effective long-term financial, operational and environmental sustainability plans.
- Implement sound fiscal policies, budgets, and controls.
- Provide high-level technical and administrative direction and support for the sustainability and resource management activities throughout the organization.
- Maintain effective coordination, cooperation, and communication with local governments, The University of North Carolina at Chapel Hill, State and Federal agencies, and continue involvement in civic, professional, and community affairs activities.
- Promote continued innovation and creativity in providing services in a more effective, cost-efficient and sustainable manner.
- Promote training and development of all employees in order to improve OWASA's services.
- Motivate employees and encourage teamwork throughout the organization.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Make highest and best use of our local water resources and adopt practices that will conserve water, energy and other natural resources	Develop new resource management plans: <ul style="list-style-type: none">• Energy Management Plan• Water Use Efficiency and Conservation Plan
	Secure access to OWASA's Jordan Lake Water Supply Allocation	Continue key leadership role to achieve approval of: <ul style="list-style-type: none">• Agreements for transferring water transfers to and from neighboring water utilities
	Develop a comprehensive asset management plan	Develop new infrastructure management tools: <ul style="list-style-type: none">• Asset Renewal and Replacement Plan

OFFICE OF THE EXECUTIVE DIRECTOR

**Three-year Comparison
Fiscal Years 2012 - 2014**

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$619,645	\$676,107		\$649,371		\$678,098	
Fringe Benefits	<u>200,999</u>	<u>197,890</u>		<u>187,724</u>		<u>190,072</u>	
Total Personnel Costs	820,643	873,997	7%	837,094	-4%	868,169	4%
Other Operating Expense							
Materials and Supplies	4,126	7,400		3,992		12,125	
Utilities	54,304	58,900		55,997		62,200	
Maintenance	0	0		0		0	
Professional Services	318,446	263,600		259,356		278,600	
Communication	14,831	28,040		33,171		33,981	
Printing and Reproduction	74	875		377		875	
Education and Development	7,120	12,180		7,612		13,280	
Other	<u>17,983</u>	<u>23,850</u>		<u>32,110</u>		<u>26,645</u>	
Total Operating Expenditures	416,884	394,845	-5%	392,616	-1%	427,706	9%
Total Expenditures	<u>1,237,527</u>	<u>1,268,842</u>	3%	<u>1,229,710</u>	-3%	<u>1,295,875</u>	5%
Construction Credit	(130,600)	(91,569)		(92,358)		(101,198)	
Net Expense	<u>\$1,106,927</u>	<u>\$1,177,273</u>	6%	<u>\$1,137,353</u>	-3%	<u>\$1,194,677</u>	5%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	6	7	6.5

CUSTOMER SERVICE
(General and Administrative)

MISSION

The Customer Service Department is responsible for establishing and promoting quality service for OWASA customers. Areas of responsibility include greeting callers and visitors; billing and collecting water and sewer accounts, septage accounts, and special assessments; accounting for Accounts Receivable; investigating water theft; responding to inquiries and requests from customers and others; investigating special circumstances that might account for high consumption or billing irregularities; and support of other departments with analyses and information.

SUMMARY OF ACTIVITIES

- Courteously greet all callers and visitors to OWASA, identifying their needs and providing service.
- Operate and maintain the customer billing system to produce accurate and timely bills.
- Collect payments and deposit revenues.
- Develop, interpret and administer OWASA policies relating to customer service and billing and collecting accounts.
- Provide reports and technical assistance to the organization regarding sales, collections, accounts and other customer service information.
- Develop the knowledge and skills of employees by providing training in computer software, telephone etiquette and workshops in customer service techniques.
- Enforce OWASA policies concerning customer service related matters.
- Oversee OWASA's participation in the North Carolina Debt Setoff Program.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Secure Financial Stability and Sustainability	Perform functional analyses to improve efficiencies and, where possible, reduce costs	Continue work on process improvement initiatives related to service orders, fee processing and service cutoffs
Enhance Customer Satisfaction	Implement improved online billing and account management features	Continue to promote use of online customer billing and account management
	Develop a plan to measure and monitor customer satisfaction	Provide support for surveying OWASA customers, evaluate survey results and develop and implement related action plans

CUSTOMER SERVICE

Three-year Budget Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$319,936	\$331,191		\$335,253		\$334,518	
Fringe Benefits	<u>123,011</u>	<u>125,344</u>		<u>122,218</u>		<u>126,700</u>	
Total Personnel Costs	442,946	456,535	3%	457,470	0%	461,218	-1%
Other Operating Expense							
Materials and Supplies	3,840	5,000		4,755		5,000	
Utilities	0	0		0		0	
Maintenance	970	1,000		1,000		1,000	
Professional Services	37,103	33,000		41,151		43,000	
Communication	76,250	80,000		80,000		80,000	
Printing and Reproduction	1,264	1,000		1,000		1,000	
Education and Development	4,260	6,785		6,360		6,800	
Other	<u>58,194</u>	<u>0</u>		<u>32,854</u>		<u>20,000</u>	
Total Operating Expenditures	181,881	126,785	-30%	167,119	32%	156,800	-4%
Total Expenditures	<u>624,828</u>	<u>583,320</u>	-7%	<u>624,590</u>	7%	<u>618,018</u>	-2%
Construction Credit	0	0				0	
Net Expense	<u>\$624,828</u>	<u>\$583,320</u>	-7%	<u>\$624,590</u>	7%	<u>\$618,018</u>	-2%

		<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Personnel Summary				
Positions		6.5	7.5	7.5
Key Performance Measurements				
Workload				
Customer accounts	N/A	20,606	20,916	20,968 ¹
Number of calls received	N/A	30,549	32,490	23,210 ¹
Effectiveness				
Percentage of bills issued on time	100	100	100	100 ¹
Average length of call (minutes)	<2	1.03	2.30	1.72 ¹
Abandoned or lost calls	<2%	<1%	<1%	<1% ¹

¹ Through 2nd quarter FY 2013

ENGINEERING AND PLANNING

(General and Administrative)

MISSION

The Engineering and Planning Department is responsible for three primary functions: Management of third party projects, which includes the review of construction plans and inspection of construction to ensure that water and sewer work accomplished by outside entities (private developers, etc.) is accomplished in accordance with OWASA's Standards and Specifications prior to OWASA taking ownership and assuming operations/maintenance responsibility for these systems; management of the Capital Improvement Program, which includes execution of design and construction for large-scale repair, renovation, replacement and upgrade projects as necessary to maintain the reliability and efficient operations of OWASA's water and sewer infrastructure; and Planning, which includes long-range and strategic master planning functions such as demand forecasting, land management and the use of various modeling tools that guide policy and capital investment decisions to ensure OWASA remains capable of meeting the community's current and future utility needs. Planning functions also include the ongoing management and improvement of OWASA's Geographic Information System (GIS) data, especially the location and attribute details of underground water, sewer, and reclaimed water infrastructure.

SUMMARY OF ACTIVITIES

- Review construction drawings and inspect construction work performed by third party entities.
- Provide regular updates and revisions of OWASA's standard engineering specifications and procedures.
- Maintain as-built and record drawings for all water and sewer utility work accomplished in the service area.
- Produce small-scale in-house designs, primarily for use by OWASA crews.
- Complete studies and modeling efforts to determine the engineering and economic feasibility of various approaches to the repair and upgrade of OWASA's infrastructure.
- Manage and direct consultant efforts for developing project designs and biddable contract documents and management of contract administrative requirements.
- Develop the five-year Capital Improvements Program.
- Maintain an updated Comprehensive Water and Sewer Master Plan that provides the overall framework for short and long-term water and wastewater facility improvement, expansion, replacement, and rehabilitation.
- Direct all land management issues including acquisition of necessary utility easements and efforts to protect OWASA watersheds.
- Provide engineering support for the operation and maintenance of water and wastewater facilities and infrastructure.
- Manage and maintain OWASA's GIS that integrates GIS technology with the many operating and business functions of the organization.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Secure access to OWASA's Jordon Lake Water Supply Allocation	Continue efforts to achieve: <ul style="list-style-type: none">• Retain current (approximate 5 MGD) storage allocation• Finalize revised or new agreements for transferring water to and from neighboring water utilities
	Eliminate objectionable offsite odors at the wastewater treatment plant	<ul style="list-style-type: none">• Take actions necessary to complete the (Phase III) Odor Control and Aeration System Improvements Project by end of calendar year 2014
Knowledge Management and Workforce Sustainability	Evaluate and implement opportunities to further leverage the value of the GIS platform	<ul style="list-style-type: none">• Continue field validation efforts to improve the accuracy of the information in OWASA's GIS• Improve integration with other data sources and improve access and ease of use for OWASA staff

ENGINEERING AND PLANNING

Three-year Budget Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$944,560	\$952,369		\$1,000,289		\$957,874	
Fringe Benefits	<u>291,920</u>	<u>285,990</u>		<u>296,159</u>		<u>293,667</u>	
Total Personnel Costs	1,236,480	1,238,359	0%	1,296,449	5%	1,251,541	-2%
Other Operating Expense							
Materials and Supplies	18,394	19,230		15,191		21,044	
Utilities	7,251	7,100		7,100		7,600	
Maintenance	1,600	2,000		2,000		2,000	
Professional Services	52,176	42,000		58,655		140,399	
Communication	264	400		400		400	
Printing and Reproduction	0	1,000		1,300		1,500	
Education and Development	12,507	27,525		21,525		29,675	
Other	<u>15,283</u>	<u>15,211</u>		<u>29,563</u>		<u>15,094</u>	
Total Operating Expenditures	107,475	114,466	7%	135,734	19%	217,712	-2%
Total Expenditures	<u>1,343,955</u>	<u>1,352,825</u>	1%	<u>1,432,183</u>	6%	<u>1,469,253</u>	-2%
Construction Credit	0	0				0	
Net Expense	<u>\$1,343,955</u>	<u>\$1,352,825</u>	1%	<u>\$1,432,183</u>	6%	<u>\$1,469,253</u>	-2%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	14	13	13

Key Performance Measurements	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Effectiveness				
Actual capital project expenditures as percentage of budget	>90	67%	107%	47% ¹
Average plan review time (working days)	<15	7.6	6.7	6.0 ¹
Capital projects communication plans effectiveness rating (scale of 1 to 5 with 5 the highest)	>4	3.7	4.2	3.8 ¹

¹ Through 3rd quarter FY 2013

HUMAN RESOURCES
(General and Administrative)

MISSION

The Human Resources Department is responsible for the management, creation and administration of Human Resources and Safety initiatives. This includes recruitment and selection of new hires; policy compliance and development; benefits administration; compensation and classification policies; employee discipline and rewards; worker's compensation; employee insurance management; and employee records management.

The Human Resources Department monitors changes in State and Federal Human Resource and Safety regulations and laws to assure the timely updates and compliance of OWASA's Human Resource and Safety policies and practices.

The Human Resources Department reviews and proposes revisions to employee benefits, classification and pay plans to assure that OWASA remains in a competitive compensation relationship with the labor market.

The role of the Department is to assure both management and employees that Human Resources matters are being handled both fairly, equitably, and without discrimination in accordance with good Human Resource practices and in compliance with applicable policies, regulations, and laws.

SUMMARY OF ACTIVITIES

- Promote responsive and courteous customer service in all activities.
- Administer the Compensation and Classification Plan for the organization and ensure the compensation and benefits package is competitive in the market place.
- Provide a safety program to enhance safety awareness, prevent worker injuries, and promote safe work practices. Manage the worker's compensation and return to work programs.
- Manage the recruitment and selection process to ensure capable candidates for vacant positions.
- Process employee benefit and insurance plans tasks in a timely and appropriate manner.
- Review employee training and development programs, especially related to enhancing competency for promotion.
- Review Human Resource policies and practices and make recommendations for revisions.
- Encourage uniformity and timeliness in processing of performance appraisals.
- Actively promote equal employment/affirmative action objectives.
- Promote good employee relations and a positive working environment.
- Promote the general well-being of the work force through counseling, special personal need assistance, and advice to employees and managers through available resources.
- Ensure that all job applicants are evaluated in accordance with the Americans with Disabilities Act.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Knowledge Management and Workforce Sustainability	Continue to evaluate and implement changes in compensation, benefits and development programs to attract and retain a diverse and high performing team	<ul style="list-style-type: none"> • Examine and monitor diversity in recruitment and hiring and development • Examine and monitor Classification and Compensation structure • Examine and monitor performance evaluation system • Promote a positive work culture and increase communication between employees and management
	Continue to prepare, update and monitor succession planning initiatives	<ul style="list-style-type: none"> • Keep updated succession plans and identify key positions and hard to fill vacancies • Incorporate tools for knowledge retention/management

HUMAN RESOURCES

Three-year Budget Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$160,638	\$163,476		\$181,513		\$181,607	
Fringe Benefits	<u>253,181</u>	<u>283,388</u>		<u>251,903</u>		<u>350,788</u>	
Total Personnel Costs	413,819	446,864	8%	433,416	-3%	532,394	-2%
Other Operating Expense							
Materials and Supplies	3,655	5,000		5,000		5,700	
Utilities	1,500	1,500		1,500		1,500	
Maintenance	0	0		0		0	
Professional Services	94,168	35,000		33,556		38,000	
Communication	12,422	13,500		13,956		23,500	
Printing and Reproduction	1,037	800		801		800	
Education and Development	2,477	5,000		5,000		6,000	
Other	<u>17,239</u>	<u>23,687</u>		<u>24,680</u>		<u>25,000</u>	
Total Operating Expenditures	132,498	84,487	-36%	84,493	0%	100,500	-2%
Total Expenditures	<u>546,316</u>	<u>531,351</u>	-3%	<u>517,909</u>	-3%	<u>632,894</u>	-2%
Construction Credit	0	0				0	
Net Expense	<u>\$546,316</u>	<u>\$531,351</u>	-3%	<u>\$517,909</u>	-3%	<u>\$632,894</u>	-2%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	2.5	2.5	2.5

Key Performance Measurements	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Effectiveness				
Vacancies as a percentage of total funded Positions				
	<8%	5.1%	8.1%	7.4% ¹
At fault EEOC complaints				
	0	0	0	0 ¹
Diversity percentages				
Racial				
	25%-30%	24%	23%	21% ¹
Gender				
	25%-30%	24%	22%	22% ¹
Number of injuries, illnesses or lost workdays compared to a common exposure base of 100 full-time workers				
	<3	3.9	5.4	5.36 ¹

¹ Through 2nd quarter FY 2013

FINANCE
(General and Administrative)

MISSION

The Finance Department is responsible for maintaining the fiscal affairs of OWASA in a professional manner and consistent with generally accepted accounting principles and statutory requirements. Areas of responsibility include accounts payable, accounts receivable, general ledger, asset records, cash investment, payroll, cost accounting, purchasing, budget development, revenue and expenditure forecasting, grants management, and financial reporting. The Finance Department is also responsible for oversight and coordination of studies of rates and fees, and the issuance of revenue bonds.

Data recorded and maintained by the Finance Department provides decision-support for the Board of Directors, Executive Director, and department managers.

SUMMARY OF ACTIVITIES

- Promote responsive and courteous customer service in all activities.
- Manage OWASA’s cash and investments to optimize return while maintaining adequate liquidity to meet expenditures in a timely manner.
- Process all invoices timely and accurately taking advantage of discounts for payments and maintaining effective relationships with vendors.
- Process biweekly payroll accurately and timely.
- Provide prompt and accurate management reports.
- Monitor budget performance.
- Develop budget for subsequent fiscal year.
- Maintain general ledger and related subsidiary ledgers.
- Maintain a reliable and timely cost accounting system.
- Administer the Financial Management Policy.
- Review adequacy of rates and fees to generate necessary revenues to support a fiscally sound organization.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Enhance Customer Satisfaction	Improve affordability where appropriate	<ul style="list-style-type: none"> • Strive to limit future annual rate increases to no more than the annual rate of inflation
		<ul style="list-style-type: none"> • Complete evaluation of possible modifications to the rate structure to address affordability, consistent with conservation and cost-of-service principles
Secure Financial Stability and Sustainability	Efficiently provide the financial information necessary to support management and operational decisions	<ul style="list-style-type: none"> • Enhance the relevancy and usefulness of financial information provided to OWASA’s management and Board of Directors
	Ensure OWASA is fiscally sound	<ul style="list-style-type: none"> • Evaluate the effectiveness of rates, fees and charges that support our goals of conservation, affordability, and cost-of-service including sustainable management of our assets
	Reduce costs and improve efficiency	<ul style="list-style-type: none"> • Conduct functional analyses and develop action plans for improvement • Re-engineer business processes and increase efficiency and effectiveness

FINANCE

Three-year Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$510,927	\$526,701		\$522,455		\$535,328	
Fringe Benefits	<u>164,703</u>	<u>168,218</u>		<u>169,085</u>		<u>179,152</u>	
Total Personnel Costs	675,631	694,919	3%	691,540	0%	714,480	-2%
Other Operating Expense							
Materials and Supplies	7,394	7,600		9,537		11,000	
Utilities	5,746	6,500		6,432		6,500	
Maintenance	(963)	0		0		0	
Professional Services	353,893	329,717		319,758		313,225	
Communication	2,535	4,000		4,080		4,000	
Printing and Reproduction	2,084	3,000		3,034		3,000	
Education and Development	15,325	11,700		12,290		4,250	
Other	<u>(120)</u>	<u>5,040</u>		<u>5,365</u>		<u>5,825</u>	
Total Operating Expenditures	385,894	367,557	-5%	360,497	-2%	347,800	-2%
Total Expenditures	<u>1,061,525</u>	<u>1,062,476</u>	0%	<u>1,052,037</u>	-1%	<u>1,062,280</u>	-2%
Construction Credit	0	0				0	
Net Expense	<u>\$1,061,525</u>	<u>\$1,062,476</u>	0%	<u>\$1,052,037</u>	-1%	<u>\$1,062,280</u>	-2%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	7.5	7.5	7.5

Key Performance Measurements	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Effectiveness				
Working Capital Reserve	\$8.1M (for FY13)	\$20M	\$20M	\$23M ¹
Debt service coverage ratio	2.0	2.23	2.29	2.4 ¹
Debt to asset value	≤50	30	30	28 ¹
Service affordability	1.5	1.8	1.8	1.7 ¹

¹ Through 3rd quarter FY 2013

INFORMATION TECHNOLOGY

(General and Administrative)

MISSION

The Information Technology (IT) Department is responsible for developing and supporting OWASA's computer, telecommunications, and office systems through high quality service to internal and external customers; improved coordination, productivity, and efficiency among OWASA departments and work groups; and reliable access to high quality information that supports decision-making at all levels of the organization.

SUMMARY OF ACTIVITIES

- Promote responsive and courteous customer service in all activities.
- IT functions are carried out through planning, procurement, installation, maintenance, and staff training in the following areas: Local Area Network (LAN) Management, office and business process automation, personal computing, data transmission, radio communication, telephone, voicemail, mobile phones, office equipment (fax, copiers, and printers).
- Develops, maintains, and implements, a long-range plan for the effective and efficient use of technology for information systems throughout the organization.
- IT serves as OWASA's clearinghouse for assessing organization-wide information service needs and priorities, and allocates or re-allocates technology resources accordingly through the acquisition, modification, and/or re-assignment of hardware and software, and through recommendations for staff training. IT establishes appropriate technology standards, specifications, security levels, and procedures for OWASA's information system.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Manage assets optimally through effective operation, maintenance, repair and replacement	<ul style="list-style-type: none">• Provide mobile computing solutions to enable access to Computerized Maintenance Management System (CMMS) data for operations staff• Expand wireless network coverage at both plants and at remote OWASA facilities• Leverage existing investment in current CMMS systems through implementation of best practices in Cityworks software
Enhance Customer Satisfaction	Enhance customer satisfaction on those opportunities identified in the 2012 Customer Satisfaction Survey	<ul style="list-style-type: none">• Add device specific formatting to the OWASA web site to accommodate the increased customer use of mobile devices
Knowledge Management and Workforce Sustainability	Evaluate and implement opportunities to further leverage the value of the Geographic Information System (GIS) platform	<ul style="list-style-type: none">• Improve integration with other data sources and improve access and ease of use for OWASA staff

INFORMATION TECHNOLOGY

Three-year Comparison Fiscal Years 2012 - 2014

	FY2012	FY 2013	FY13	FY 2013	FY13	FY 2014	FY14
	Actual	Budget	Budget to FY12 Actual	Forecast	Forecast to FY13 Budget	Budget	Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$280,526	\$295,502		\$299,105		\$310,206	
Fringe Benefits	<u>85,772</u>	<u>91,545</u>		<u>87,954</u>		<u>95,726</u>	
Total Personnel Costs	366,298	387,047	6%	387,058	0%	405,932	-2%
Other Operating Expense							
Materials and Supplies	155,918	135,440		132,915		130,000	
Utilities	83,741	88,920		94,087		96,852	
Maintenance	265,905	245,100		241,099		295,600	
Professional Services	114,833	96,000		89,999		82,000	
Communication	0	0		0		0	
Printing and Reproduction	0	0		0		0	
Education and Development	16,137	16,305		16,305		17,055	
Other	<u>20,258</u>	<u>17,700</u>		<u>24,098</u>		<u>32,025</u>	
Total Operating Expenditures	656,792	599,465	-9%	598,502	0%	653,532	-2%
Total Expenditures	<u>1,023,090</u>	<u>986,512</u>	-4%	<u>985,560</u>	0%	<u>1,059,464</u>	-2%
Construction Credit	0	0				0	
Net Expense	<u>\$1,023,090</u>	<u>\$986,512</u>	-4%	<u>\$985,560</u>	0%	<u>\$1,059,464</u>	-2%

Personnel Summary	FY 2012	FY 2013	FY 2014
Positions	4	4	4

WATER SUPPLY AND TREATMENT

(Operating)

MISSION

The Water Supply and Treatment Department is responsible for providing high-quality drinking water to OWASA customers. Departmental functions include operation and maintenance of three water supply reservoirs, public recreation facilities at two lakes, the Jones Ferry Road Water Treatment Plant, water treatment solids processing and recycling facilities, and five elevated storage tanks. The department also administers watershed protection programs.

SUMMARY OF ACTIVITIES

- Efficiently and effectively operate the water treatment, laboratory and maintenance programs in full compliance with all Federal and State regulations and requirements while providing high-quality drinking water to OWASA customers.
- Provide timely analytical monitoring data for process control and regulatory reporting.
- Maintain a computerized maintenance management program to facilitate work scheduling, track equipment history and reliability, and maintain a database of suppliers and parts for installed equipment to support asset management.
- Respond to weekend and after-hours water and sewer emergency calls from OWASA customers in a courteous and timely fashion and dispatch appropriate personnel to resolve customer problems.
- Provide responsive and courteous service to address water quality concerns from customers.
- Enhance customer awareness of watershed protection and water treatment by conducting facility tours and providing general information relating to water quality and treatment.
- Operate and maintain the recreational facilities at University Lake and Cane Creek Reservoir in a courteous and friendly manner.
- Continue strong emphasis on the development and training of employees to improve their knowledge, skills, and abilities, including professional certifications and safety requirements.
- Reinforce the teamwork approach required by department employees to accomplish the Department's objectives.
- Oversee and manage OWASA owned land and conservation easements in the University Lake and Cane Creek watersheds.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Implement asset management practices and tools to improve financial modeling and accurate operating cost predictions	<ul style="list-style-type: none">• Improve the operating and maintenance data collection, monitoring and reporting system
	Provide the highest water quality possible for our customers	<ul style="list-style-type: none">• Maintain Partnership for Safe Water Phase IV objectives to ensure quality of water

WATER SUPPLY AND TREATMENT

Three-year Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$1,254,320	\$1,259,326		\$1,230,961		\$1,182,018	
Fringe Benefits	<u>512,163</u>	<u>514,132</u>		<u>476,340</u>		<u>495,881</u>	
Total Personnel Costs	1,766,483	1,773,457	0%	1,707,301	-4%	1,677,898	-2%
Other Operating Expense							
Materials and Supplies	134,341	167,232		143,751		155,417	
Chemicals	1,009,833	877,472		1,017,122		957,296	
Utilities	354,748	374,429		362,920		383,369	
Maintenance	831,799	1,087,131		995,230		915,366	
Professional Services	197,070	326,500		308,175		171,750	
Communication	5,217	5,200		2,704		5,000	
Printing and Reproduction	0	0		0		0	
Education and Development	17,705	12,100		14,302		12,190	
Other	<u>9,233</u>	<u>15,500</u>		<u>12,603</u>		<u>15,500</u>	
Total Operating Expenditures	2,559,946	2,865,564	12%	2,856,807	0%	2,615,888	-2%
Total Expenditures	<u>4,326,429</u>	<u>4,639,022</u>	7%	<u>4,564,108</u>	-2%	<u>4,293,786</u>	-2%
Construction Credits	0	0				0	
Net Expense	<u>\$4,326,429</u>	<u>\$4,639,022</u>	7%	<u>\$4,564,108</u>	-2%	<u>\$4,293,786</u>	-2%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	25	25	26.5

Key Performance Measurements	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Workload				
Finished water pumped to the distribution system	N/A	2.8B	2.6B	1.8B ¹
Percent of solids removed from treatment process and recycled for beneficial use	100%	100%	100%	100% ¹
Effectiveness				
Primary drinking water standards noncompliances	0	0	0	0 ¹
Secondary drinking water standards noncompliances	0	0	0	0 ¹
Average finished water turbidity (NTU)	<0.1	0.05	0.03	0.04 ¹

¹ Through 3rd quarter FY 2013

WATER DISTRIBUTION

(Operating)

MISSION

The Water Distribution Department is responsible for maintaining the drinking water distribution system from the Water Treatment Plant to the meters at customers' premises with exception of the system's storage tanks and the distribution pipes. The Department also develops and implements efficient and effective measures for the maintenance and repair of all components of the water distribution infrastructure and is responsible for accurately and efficiently reading meters and replacing certain water mains to maintain the integrity and capacity of the system.

SUMMARY OF ACTIVITIES

- Provide responsive and courteous customer service in all activities.
- Conduct regular flushing of water mains to ensure water quality throughout the distribution system.
- Maintain ongoing valve and fire hydrant maintenance and repair programs to help ensure reliable operation of the distribution system.
- Accurately and efficiently read water meters to ensure correct consumption is billed to customers.
- Investigate distribution system for sources of unaccounted water (water pumped to system but not metered or billed).
- Administer a backflow prevention program to ensure water quality.
- Coordinate the repair and replacement of customer water meters.
- Maintain integrity of water distribution lines by continuing rehabilitation program.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Ensure reliability of water distribution infrastructure	• Implement valve exercise and maintenance program
		• Install 1,000 automated meter reading residential meters
Secure Financial Stability and Sustainability	Reduce costs and improve efficiency	• Ensure that meters are read accurately (with less than a 1% error rate) and on time.

WATER DISTRIBUTION

Three-year Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$1,122,364	\$1,215,975		\$1,191,408		\$1,304,814	
Fringe Benefits	<u>543,713</u>	<u>555,047</u>		<u>527,097</u>		<u>613,259</u>	
Total Personnel Costs	1,666,076	1,771,023	6%	1,718,504	-3%	1,918,073	-2%
Other Operating Expense							
Materials and Supplies	82,431	83,150		83,410		82,997	
Utilities	171,587	225,750		211,181		230,959	
Maintenance	543,808	633,500		578,677		601,940	
Professional Services	11,989	10,000		8,765		9,400	
Communication	1,133	500		1,400		500	
Printing and Reproduction	463	1,300		700		1,300	
Education and Development	10,730	10,650		10,644		10,650	
Other	<u>2,313</u>	<u>2,500</u>		<u>3,001</u>		<u>3,600</u>	
Total Operating Expenditures	824,454	967,350	17%	897,777	-7%	941,345	-2%
Total Expenditures	<u>2,490,530</u>	<u>2,738,373</u>	10%	<u>2,616,281</u>	-4%	<u>2,859,418</u>	-2%
Construction Credits	(193,804)	(116,500)		(116,286)		(128,750)	
Net Expense	<u>\$2,296,726</u>	<u>\$2,621,873</u>	14%	<u>\$2,499,995</u>	-5%	<u>\$2,730,668</u>	-2%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	32	30	32

Key Performance Measurements	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Workload				
Miles of finished water pipe maintained	N/A	391	391	379 ¹
Effectiveness				
Volume of water billed vs. volume Pumped to the system	>90%	91%	92%	92% ¹
Number of main breaks per 100 miles of pipe	<15	6	5	2 ¹

¹ Through 2nd quarter FY 2013

WASTEWATER TREATMENT

(Operating)

MISSION

The Mason Farm Wastewater Treatment Plant is responsible for reliably providing efficient and effective treatment of wastewater, reclaimed water and the resulting biosolids. The Department complies with various Local, State, and Federal regulations that pertain to all discharges from OWASA's facilities, plus the general operation requirements to meet all applicable standards. These include; National Pollutant Discharge Elimination System (NPDES) Permit, the Land Application Permit (WQ, Non-Discharge), the Storm Water Discharge Permit and Reclaimed Water Permit.

SUMMARY OF ACTIVITIES

- Provide responsive and courteous customer service in all activities.
- Maintain plant, maintenance, and laboratory programs to ensure that all discharges are in compliance with their operating permits.
- Operate plant, laboratory and maintenance areas in compliance with all applicable State and Federal requirements.
- Eliminate offsite odors and provide prompt response to public inquires.
- Maintain all equipment necessary to provide reliable pumping of wastewater without spillage or overflow.
- Provide timely analytical monitoring data for process control and regulatory reporting.
- Maintain a computerized maintenance management program to facilitate work scheduling, track equipment history and reliability, and maintain a database of suppliers and parts for installed equipment to support asset management.
- Manage all programs in an environmentally and operationally sound manner.
- Provide training and professional development to employees to improve their knowledge, skills and abilities related to their work area including professional certifications and safety requirements.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Develop a comprehensive asset management plan	Continued support, development and implementation of asset management system including potential replacement of MP2 software
Secure Financial Stability and Sustainability	Perform functional analyses to improve efficiencies and, where possible, reduce costs	Continued optimization efforts for plant processes to reduce chemical and energy use
Knowledge Management and Workforce Sustainability	Improve employee compensation and development programs to attract and retain a diverse and high-performing team	Develop and implement employee cross training and furthered development of skill based compensation programs for operations and laboratory staff
		Develop a process control specialist in plant operations specifically focused on trend analysis and data management

WASTEWATER TREATMENT

Three-year Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$1,240,971	\$1,301,503		\$1,244,344		\$1,229,375	
Fringe Benefits	<u>496,790</u>	<u>515,115</u>		<u>510,887</u>		<u>511,055</u>	
Total Personnel Costs	1,737,762	1,816,618	5%	1,755,231	-3%	1,740,430	-2%
Other Operating Expense							
Materials and Supplies	265,741	275,400		249,462		306,850	
Chemicals	734,807	661,794		709,305		718,934	
Utilities	1,012,500	1,015,100		1,063,210		1,004,139	
Maintenance	901,139	827,840		745,105		801,301	
Professional Services	230,412	284,500		273,555		217,950	
Communication	8,356	8,000		7,625		9,100	
Printing and Reproduction	0	0		0		500	
Education and Development	16,457	17,670		15,519		20,000	
Other	<u>38,919</u>	<u>34,500</u>		<u>24,651</u>		<u>30,550</u>	
Total Operating Expenditures	3,208,331	3,124,804	-3%	3,088,432	-1%	3,109,323	-2%
Total Expenditures	<u>4,946,093</u>	<u>4,941,422</u>	0%	<u>4,843,663</u>	-2%	<u>4,849,753</u>	-2%
Construction Credits	0	0				0	
Net Expense	<u>\$4,946,093</u>	<u>\$4,941,422</u>	0%	<u>\$4,843,663</u>	-2%	<u>\$4,849,753</u>	-2%

		<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Personnel Summary				
Positions		23	23	21.5
Key Performance Measurements				
	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Workload				
Number of gallons of wastewater treated	N/A	2.7B	2.8B	1.4B ¹
Effectiveness				
Events of permit noncompliance	0	0	0	0 ¹
Wastewater overflows	0	0	0	0 ¹
Odor events	0	23	39	8 ¹

¹ Through 2nd quarter FY 2013

SEWER COLLECTION

(Operating)

MISSION

The Sewer Collection Department is responsible for maintaining the public sewer collection system extending from customer's private service lateral at the public sewer main to the Mason Farm Wastewater Treatment Plant. The Department uses precise and systematic approaches to minimize and prevent overflows of sewage to local creeks and streams. The Department also operates ongoing programs to clear and mow easements and inspect and clean sewer mains.

SUMMARY OF ACTIVITIES

- Promote responsive and courteous customer service in all activities.
- Manage an efficient and effective predictive, preventive, and corrective maintenance program for the wastewater collection infrastructure.
- Maintain an ongoing program to reduce inflow/infiltration into the sewer collections system.
- Regularly mow and clear easements and clean sewer mains.
- Maintain a computerized maintenance management program for all aspects of the Department's operation.
- Ensure proper employee training and development in new methods of maintenance of sewer lines and usage of related equipment. Enhance knowledge and skills of employees to increase proficiency through participation in education and training workshops and in-house programs.
- Administer grease monitoring program.

KEY FOCUS AREAS FOR FY 2014

Strategic Goal	Objective	FY 2014 Goal
Resource Management and Infrastructure Sustainability	Perform preventative maintenance on collection lines	• Inspect at least 10 miles of sewer lines with video equipment
		• Clean at least 20% of sewer system

SEWER COLLECTIONS

Three-year Comparison Fiscal Years 2012 - 2014

	FY2012 Actual	FY 2013 Budget	FY13 Budget to FY12 Actual	FY 2013 Forecast	FY13 Forecast Variance to FY13 Budget	FY 2014 Budget	FY14 Budget to FY13 Forecast
Personnel Costs							
Salaries and Wages	\$509,292	\$532,507		\$531,495		\$381,465	
Fringe Benefits	<u>236,991</u>	<u>251,506</u>		<u>235,838</u>		<u>194,230</u>	
Total Personnel Costs	746,283	784,013	5%	767,333	-2%	575,695	-2%
Other Operating Expense							
Materials and Supplies	48,143	54,000		53,843		53,929	
Chemicals	348,575	230,000		214,874		200,000	
Utilities	110,952	138,110		127,825		129,311	
Maintenance	170,027	193,500		224,558		195,122	
Professional Services	8,971	10,000		8,491		9,400	
Communication	836	700		647		700	
Printing and Reproduction	132	500		372		500	
Education and Development	8,001	11,800		7,044		11,800	
Other	<u>1,098</u>	<u>4,200</u>		<u>4,228</u>		<u>3,900</u>	
Total Operating Expenditures	696,734	642,810	-8%	641,881	0%	604,662	-2%
Total Expenditures	<u>1,443,017</u>	<u>1,426,823</u>	-1%	<u>1,409,214</u>	-1%	<u>1,180,357</u>	-2%
Construction Credits	(8,397)	0		(11,519)		0	
Net Expense	<u>\$1,434,620</u>	<u>\$1,426,823</u>	-1%	<u>\$1,397,695</u>	-2%	<u>\$1,180,357</u>	-2%

Personnel Summary	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Positions	15	16	14

Key Performance Measurements	<u>Goal</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Workload				
Miles of gravity wastewater collection piping maintained from the customers' service laterals to the Mason Farm Wastewater Treatment Plant	N/A	322	323	324
Effectiveness				
Number of reportable wastewater overflows	0	7	8	4 ¹
Total number of sewer blockages per 100 miles of sewer pipe		2.2	2.5	1.2 ¹

¹ Through 2nd quarter FY 2013

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Section III

SUPPLEMENTAL INFORMATION

Budget Resolution and Ordinance45

Personnel Authorizations by Department51

10-Year Historical Performance54

Miscellaneous Statistical Data60

Service Area61

Chapel Hill Statistical Data64

Financial Management Policy67

Glossary72

BUDGET RESOLUTION AND ORDINANCE

**RESOLUTION ADOPTING THE ANNUAL BUDGET FOR
ORANGE WATER AND SEWER AUTHORITY FOR THE FISCAL YEAR
JULY 1, 2013 THROUGH JUNE 30, 2014**

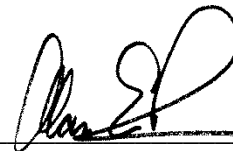
WHEREAS, Section 7.05 of the Bond Order and North Carolina G.S. Chapter 159 require that on or before the first day of July in each fiscal year the Authority will adopt a Budget for the ensuing fiscal year; and

WHEREAS, such budget is to include estimates of revenues of the water, sewer and reclaimed water systems, current Operations and Maintenance expenses, estimated Interest Income and Debt Service costs, and disbursements from the General Fund for Capital Improvements and Equipment purchases.

NOW, THEREFORE, BE IT RESOLVED:

1. That pursuant to the provisions of North Carolina G.S. Chapter 159-13 the attached pages marked 2 through 6 be, and they hereby are, adopted as the official Budget of Orange Water and Sewer Authority of the Fiscal Year beginning July 1, 2013 through June 30, 2014.
2. That the appropriations for departments, functions, and projects as shown in the attached budget for the respective purposes and in the respective amounts therein specified are hereby made.
3. That the Executive Director shall administer the budget, and is hereby authorized to expend the funds for the purposes set forth therein.

Adopted this 13th day of June, 2013.



Alan Rimer, Chair

ATTEST:



Amy Witsil, Secretary

BUDGET RESOLUTION AND ORDINANCE

**ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF INCOME, EXPENSE AND DEBT SERVICE
(OPERATING)**

	FY 2014
	<u>Annual Budget</u>
Operating Revenue	
Water	\$17,859,444
Sewer	16,637,114
Reclaimed Water	458,816
Service Initiation Fee	166,269
Other	1,200,877
Refunds and Adjustments	<u>(172,788)</u>
Total Operating Revenue	\$36,149,732
Operating Expense	
General and Administrative	6,036,587
Operations	<u>13,054,565</u>
Total Operating Expense	<u>19,091,152</u>
Net Operating Income	17,058,580
Non-operating Revenue	
Customer Fees	653,117
Interest	<u>13,763</u>
Total Net Income	<u><u>\$17,725,460</u></u>
Debt Service	
Existing	7,885,325
New	<u>0</u>
Total Debt Service	<u>7,885,325</u>
Net Income Less Debt Service	<u><u>\$9,840,135</u></u>
Debt Coverage Ratio	2.25

BUDGET RESOLUTION AND ORDINANCE

**ORANGE WATER AND SEWER AUTHORITY
STATEMENT OF INCOME AND EXPENSE
(CAPITAL/NON-OPERATING)**

		<u>FY 2014 Annual Budget</u>
General Fund		
Resources		
Transfer From Revenue	<u>\$9,840,135</u>	
Annual Income Available for Capital		9,840,135
Transfer from Construction Fund (Bond or Loan Proceeds)		<u>5,761,245</u>
Total Available for Capital		<u>15,601,380</u>
Capital Expenditures		
Project ordinances		
General Fund Contribution	10,228,755	
Funded by Bond or Loan Proceeds	<u>5,761,245</u>	
Total Project Resolutions		15,990,000
Capital Equipment		<u>525,000</u>
Total Capital Outlay		<u>16,515,000</u>
Annual General Fund Balance		(913,620)
General Fund Beginning Balance		<u>23,280,566</u>
General Fund Ending Balance		22,366,946
Project Funding	10,607,146	
Reserves		
Rate/Revenue Stabilization	1,250,000	
Capital Improvements	2,000,000	
Working Capital	<u>8,509,800</u>	<u>22,366,946</u>
Unallocated General Fund Balance		<u><u>-</u></u>

BUDGET RESOLUTION AND ORDINANCE

REVENUE FUND

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Fund Balance July 1, 2013			-
Receipts			
Operating Revenue			
Customer Billings	17,859,444	16,637,114	34,496,558
Reclaimed Water	458,816	-	458,816
Service Initiation Fee	83,135	83,134	166,269
Other	600,439	600,438	1,200,877
Refunds and Adjustments	(86,394)	(86,394)	(172,788)
Total Operating Revenue	18,915,440	17,234,292	36,149,732
Non-operating Revenue			
Customer Fees	316,014	337,103	653,117
Interest Income	6,882	6,881	13,763
Loss on sale of assets	0		0
Total Non-operating Revenue	322,896	343,984	666,880
Total Receipts	19,238,336	17,578,276	36,816,612
Expenditures			
Current Expense	(9,400,483)	(9,690,669)	(19,091,152)
Debt Service	(4,000,947)	(3,884,378)	(7,885,325)
Total Expenditures	(13,401,430)	(13,575,047)	(26,976,477)
Net Revenue			9,840,135
To General Fund			(9,840,135)
Fund Balance June 30, 2014			-
Change in Available Balance			-

BUDGET RESOLUTION AND ORDINANCE

BOND SERVICE FUND

Fund Balance July 1, 2013		-
Receipts		
Transfers from Revenue Fund	7,885,325	
Interest	<u> </u>	
Total Receipts		7,885,325
Expenditures		
Debt Service	<u>7,885,325</u>	
Total Expenditures		<u>(7,885,325)</u>
Fund Balance June 30, 2014		<u>-</u>
Change in Available Balance		<u><u>-</u></u>

BUDGET RESOLUTION AND ORDINANCE

GENERAL FUND

Fund Balance July 1, 2013		\$23,280,566
Receipts		
Transfer From Revenue fund	9,840,135	
Transfer From Construction Fund (Bond or Loan Proceeds)	5,761,245	
Interest	-	
Assessments	-	
Grants and contributions	-	
Total Receipts		<u>15,601,380</u>
Total Balance Before Expenditures		38,881,946
Expenditures		
Capital Equipment/Leases	525,000	
Project Resolutions	15,990,000	
Transfer to Revenue Fund	0	
Total Expenditures		<u>(16,515,000)</u>
Fund Balance June 30, 2014		<u><u>\$22,366,946</u></u>
Allocation of Fund Balance June 30, 2014		
Project Funding	10,607,146	
Capital Reserves	11,759,800	
Total Allocation		<u><u>\$22,366,946</u></u>
Unallocated General Fund Balance June 30, 2014		<u>-</u>
Change in Available Balance		<u><u>(\$913,620)</u></u>

PERSONNEL AUTHORIZATIONS BY DEPARTMENT

Office of the Executive Director	FY 2012	FY 2013	FY 2014
Executive Director	1	1	1
General Manager of Operations	1	1	1
Operations Engineer	1	1	1
Sustainability Manager	1	1	1
Executive Assistant	1	1	1
Public Affairs Administrator	1	1	1
Administrative Assistant	0	1	0.5
Totals	6	7	6.5

Customer Service

Customer Service Manager	1	0	0
Senior Customer Service Representative	1	1	1
Customer Service Representative	5	5	5
Clerk/Cashier	0	0	0
Administrative Assistant/Reception	0	1	1
Customer Service Specialist	0.5	0.5	0.5
Totals	7.5	7.5	7.5

Engineering and Planning

Director of Engineering and Planning	1	1	1
Director of Planning and Development	1	1	0
Planning and Development Manager	0	0	1
Engineering Manager	2	2	2
Utilities Engineer	2	2	2
GIS Coordinator	1	1	1
Construction Inspector	2	2	2
Engineering Associate	2	2	2
Engineering Technician	2	2	2
Administrative Assistant	1	0	0
Totals	14	13	13

Human Resources

Director of Human Resources and Safety	0	0	1
Human Resources and Safety Manager	1	1	0
Safety and Training Administrator	0	0	0
Human Resources Generalist	1	1	1
Administrative Assistant	0.5	0.5	0.5
Totals	2.5	2.5	2.5

PERSONNEL AUTHORIZATIONS BY DEPARTMENT

Finance	FY 2012	FY 2013	FY 2014
Director of Finance and Customer Service	0	1	1
Finance and Customer Service Manager	0	1	1
Finance and Procurement Manager	1	1	1
Finance Manager	2	0	0
Accounting Technician II	3	3	3
Financial Analyst	1	1	1
Administrative Assistant	0.5	0.5	0.5
Totals	7.5	7.5	7.5

Information Technology

Director of Information Technology	1	1	1
Network/Database Administrator	2	2	2
Information Services Technical Specialist	1	1	1
Totals	4	4	4

Water Supply and Treatment

Water Supply and Treatment Manager	1	1	1
Operations Supervisor	1	1	1
Treatment Plant Operator	7	7	7
Lake Warden	1	1	1
Senior Lake Warden	1	1	1
Assistant Lake Warden	2	2	2
Plant Maintenance Supervisor	1	1	1
Senior Maintenance Mechanic	2	2	0
Maintenance Coordinator	0	0	1
Maintenance Mechanic	4	4	6
Laboratory Supervisor	1	1	1
Laboratory Analyst	3	3	4
Administrative Assistant	1	1	0.5
Totals	25	25	26.5

Water Distribution

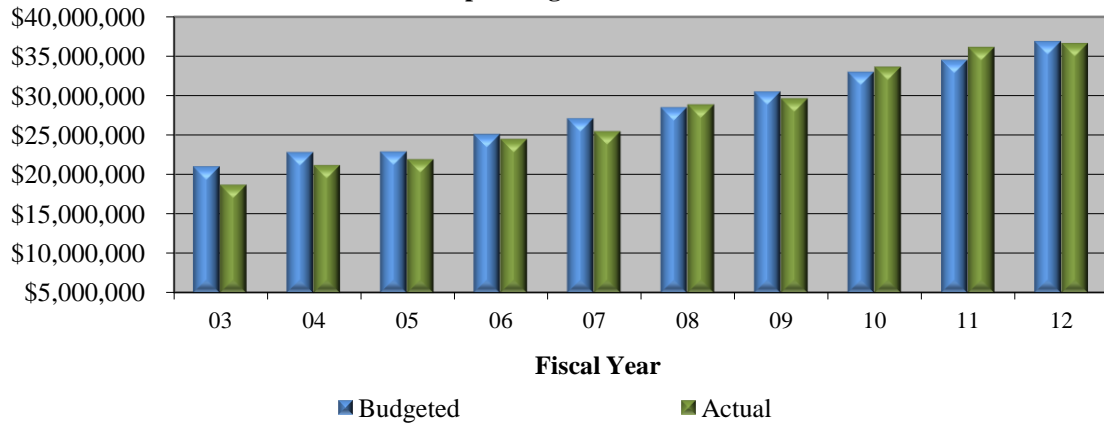
Distribution and Collections Systems Manager	1	1	1
Assistant Distribution & Collection System Manager	1	1	1
Crew Leader	3	3	3
Utility Mechanic III	3	2	3
Utility Mechanic I/II	22	21	22
Field Service Representative	1	1	0
Service Technician	1	1	0
Administrative Assistant	0	0	1
Warehouse-Cross Connection Coordinator	0	0	1
Totals	32	30	32

PERSONNEL AUTHORIZATIONS BY DEPARTMENT

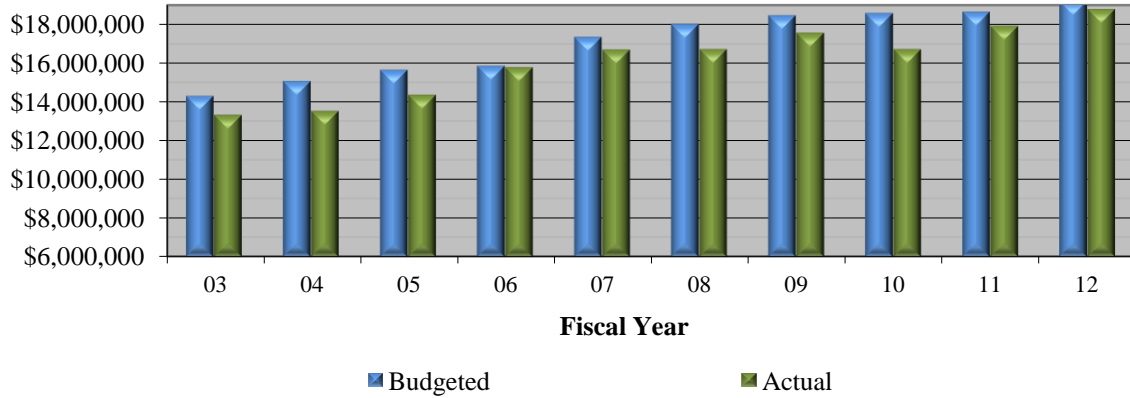
Wastewater Treatment	FY 2012	FY 2013	FY 2014
Wastewater Treatment and Biosolids Recycling Manager	1	1	1
Operations Supervisor	1	1	1
Treatment Plant Operator	7	7	7
Solids Handling Supervisor	1	1	1
Solids Handler	3	3	3
Plants Maintenance Manager	1	1	0
Plants Maintenance Supervisor	1	1	1
Senior Maintenance Mechanic	1	1	4
Instrumentation Control Technician	1	1	0
Maintenance Mechanic	2	2	0
Laboratory Supervisor	0	0	1
Laboratory Manager	1	1	0
Laboratory Analyst	3	3	2
Administrative Assistant	0	0	0.5
Totals	23	23	21.5
Sewer Collections			
Crew Leader	3	3	3
Utility Mechanic III	0	1	0
Utility Mechanic I/II	11	12	11
Administrative Assistant	1	0	0
Totals	15	16	14
Total Positions	<u>135.5</u>	<u>135.5</u>	<u>135</u>

10-YEAR HISTORICAL PERFORMANCE

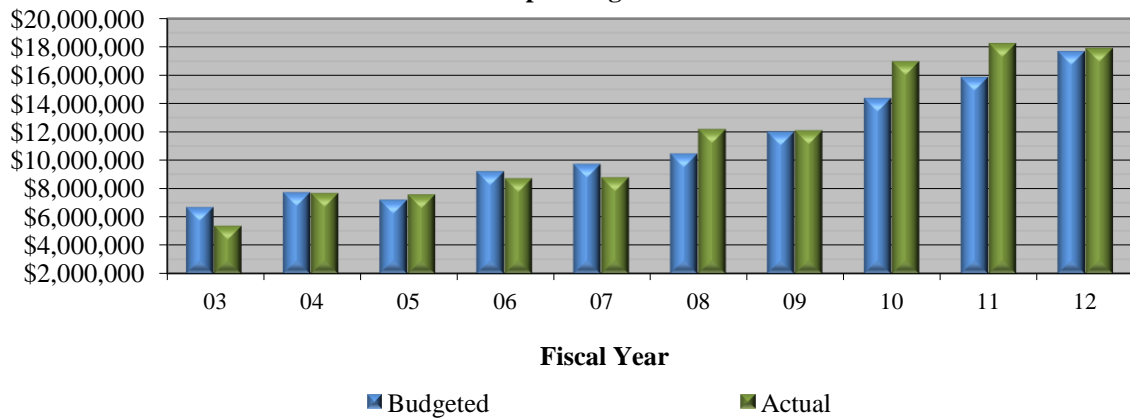
10-Year Operating Revenue Variance



10-Year Operating Expense Variance



10-Year Net Operating Income Variance



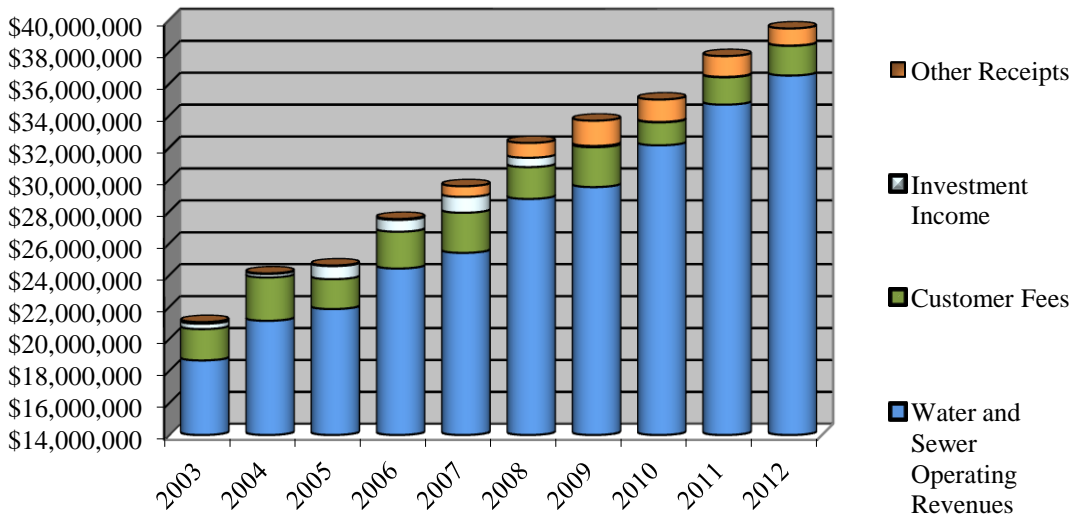
10-YEAR HISTORICAL PERFORMANCE

ORANGE WATER AND SEWER AUTHORITY

**Revenues By Source
Last 10 Fiscal Years**

Fiscal Year	Water and Sewer Operating Revenues	Customer Fees	Investment Income	Other Receipts	Total
2003	18,672,964	1,962,517	337,442	106,101	21,079,024
2004	21,156,492	2,716,555	211,708	44,588	24,129,343
2005	21,891,667	1,872,820	821,194	39,569	24,625,250
2006	24,431,382	2,308,651	742,010	58,846	27,540,889
2007	25,413,571	2,514,450	995,354	666,528	29,589,903
2008	28,794,093	1,995,415	584,031	929,369	32,302,908
2009	29,537,290	2,498,459	80,343	1,582,736	33,698,828
2010	32,153,848	1,436,564	29,169	1,404,924	35,024,505
2011	34,701,751	1,713,417	29,261	1,302,079	37,746,508
2012	36,525,230	1,862,976	17,964	1,070,970	39,477,140

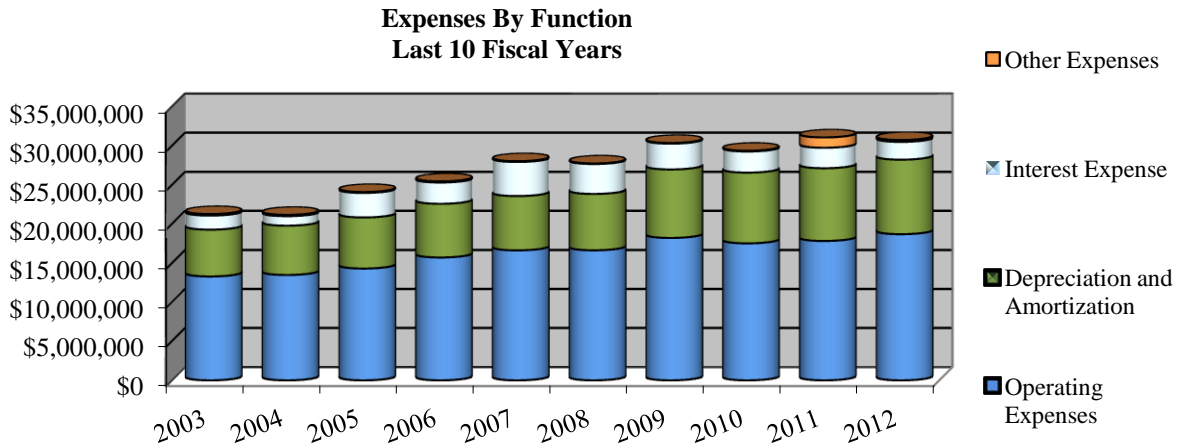
**Revenue By Source
Last 10 Fiscal Years**



10-YEAR HISTORICAL PERFORMANCE

**ORANGE WATER AND SEWER AUTHORITY
Expenses By Function
Last 10 Fiscal Years**

Fiscal Year	Operating Expenses	Depreciation and Amortization	Interest Expense	Other Expenses	Total
2003	13,293,397	5,995,331	1,799,578	192,634	21,280,940
2004	13,484,114	6,312,316	1,216,166	163,362	21,175,958
2005	14,309,139	6,538,782	3,140,164	115,063	24,103,148
2006	15,723,917	6,871,350	2,724,951	141,579	25,461,797
2007	16,635,917	6,950,774	4,361,911	96,898	28,045,500
2008	16,643,471	7,215,175	3,832,320	69,940	27,760,906
2009	18,225,142	8,765,924	3,305,193	83,338	30,379,597
2010	17,532,938	9,053,691	2,702,687	92,613	29,381,929
2011	17,836,397	9,310,159	2,623,208	1,320,156	31,089,920
2012	18,704,964	9,539,846	2,274,113	235,552	30,754,475

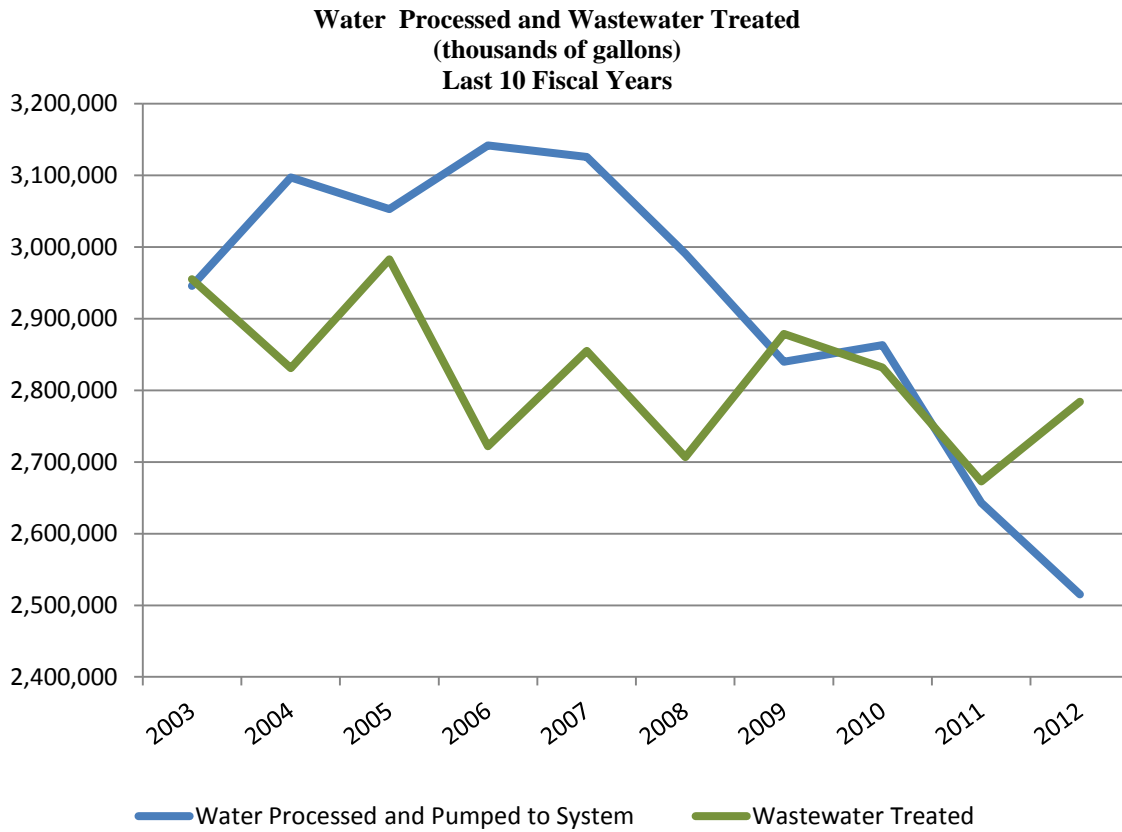


10-YEAR HISTORICAL PERFORMANCE

ORANGE WATER AND SEWER AUTHORITY

**Water Processed and Wastewater Treated
(thousands of gallons)
Last 10 Fiscal Years**

Fiscal Year	Water Processed and Pumped to System	Wastewater Treated
2003	2,946,000	2,955,000
2004	3,097,000	2,831,000
2005	3,053,000	2,983,000
2006	3,142,000	2,722,000
2007	3,126,000	2,855,000
2008	2,991,000	2,707,000
2009	2,840,000	2,879,000
2010	2,863,000	2,832,000
2011	2,643,000	2,673,000
2012	2,515,000	2,784,000



10-YEAR HISTORICAL PERFORMANCE

ORANGE WATER AND SEWER AUTHORITY

**Mason Farm Wastewater Treatment Plant
Plant Loading and Performance
Last 10 Years**

Fiscal Year	Average Daily Flow (million gallons)	Influent Measurements				Effluent Measurements			
		CBOD	TSS	NH3-N (Milligram per Liter)	TP	CBOD	TSS	NH3-N (Milligram per Liter)	TP
2003	8.1	170	292	22.0	6.9	4.2	6	1.1	0.5
2004	7.7	218	367	24.1	7.6	2.8	6	0.5	0.4
2005	8.0	197	332	24.5	7.7	3.2	7	0.5	0.4
2006	7.5	242	325	26.3	7.9	1.9	4	0.3	0.5
2007	7.8	222	257	26.0	9.4	1.2	2	0.6	0.5
2008	7.4	204	321	30.1	8.5	<2.0	1	0.4	0.4
2009	7.9	208	296	47.6	12.1	<2.0	0	0.1	0.3
2010	7.8	268	322	29.3	7.4	<2.0	0	0.1	0.4
2011	7.2	260	283	33.1	7.3	<2.0	0	0.0	0.4
2012	7.6	232	275	31.2	7.1	<2.0	0	0.0	0.3

Effluent Maximum Limits Set in NPDES Permit

Winter
(Nov. - March)

Summer
(April - Oct.)

CBOD5 (Carbonaceous Biochemical Oxygen Demand)

8 mg/l

4 mg/l

TSS (Total Suspended Solids)

30 mg/l

30 mg/l

NH3-N (Ammonia Nitrogen)

2.0 mg/l

1.0 mg/l

TP (Total Phosphorus - Mass Load Limit)

11,030 pounds per year

mg/l=Milligrams per Liter

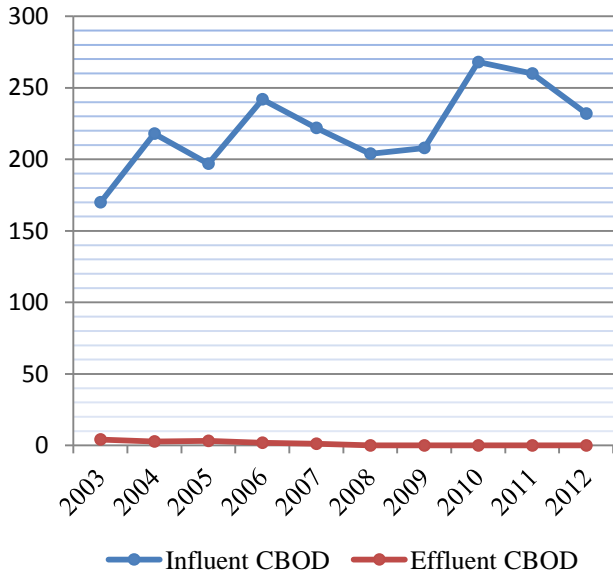
See graphs on next page.

10-YEAR HISTORICAL PERFORMANCE

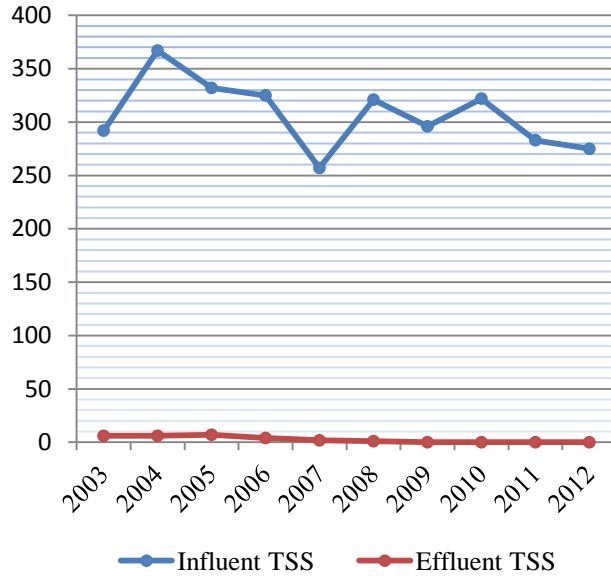
ORANGE WATER AND SEWER AUTHORITY

**Mason Farm Wastewater Treatment Plant
Plant Loading and Performance
Last 10 Years**

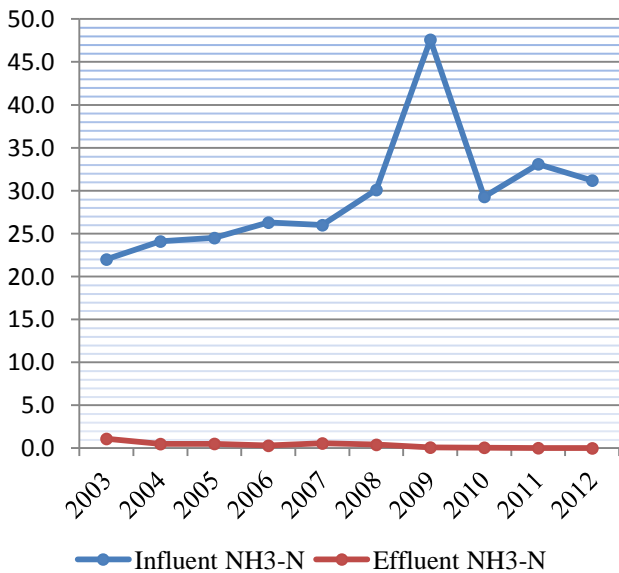
Carbonaceous Biochemical Oxygen Demand



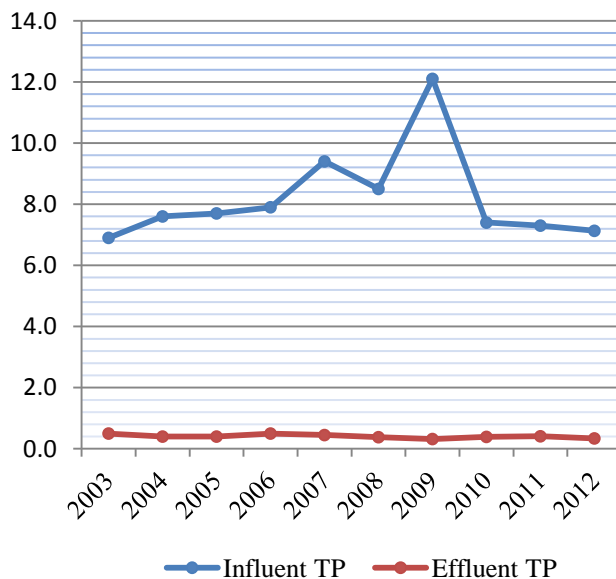
Total Suspended Solids (Milligrams per Liter)



Ammonia Nitrogen (Milligrams per Liter)



Total Phosphorus (Milligrams per Liter)



MISCELLANEOUS STATISTICAL DATA

**ORANGE WATER AND SEWER AUTHORITY
For the Fiscal Year Ended June 30, 2012**

Year Incorporated	1975
Size of Service Area:	
Square miles	31
Miles of Water Pipe (includes 16 miles of raw water and 3 miles of reclaimed water pipe)	400
Miles of Wastewater Collection Pipe (includes 14 miles of force main)	338
Customer Accounts	20,968
Full-time Equivalent Employees:	
Approved Positions	135
Budgeted Positions	129
Water Treatment Plant Capacity (millions of gallons per day (MGD)):	
Capacity	20.0
Production Average Day (July 2012 through March 2013)	6.7
Production Peak Day (July 2012 through March 2013)	9.6
Wastewater Treatment Plant Capacity (MGD):	
Capacity	14.5
Average Daily Flow (July 2012 through March 2013)	7.9
Number of Water Supply Resources	4
Total Capacity of Water Supply Resources (millions of gallons):	
Cane Creek Reservoir	3,000
University Lake	450
Quarry Reservoir	200
Jordan Lake Allocation (approximate MGD))	5 MGD

SERVICE AREA

General. OWASA provides water and sewer services to the residents, businesses and institutions in the Chapel Hill-Carrboro community and outlying areas. The term “service area” refers to the area presently being served and those proximate areas that may reasonably be served by extensions of the water and sewer system in the future (refer to back cover). The present service area lies almost wholly within Chapel Hill and Carrboro in Orange County; however, there are contiguous extensions of the water and sewer system into southwestern Durham County.

The developed portions of the service area are composed of the University of North Carolina at Chapel Hill (UNC) campus, UNC Hospitals, commercial downtown areas and shopping centers, and residential areas comprised of single family residences and apartment complexes. Most of the development in the service area to date has consisted of residential development, including single family residences, townhouses and condominiums and apartments, and related commercial development, including office buildings, shopping facilities, restaurants and motels. Industrial development in the service area is limited in extent and is generally light manufacturing in nature.

Relative Location and Features of the Service Area. The area served by OWASA’s water and sewer system is located predominantly within the southeastern portion of Orange County. Orange County is located in the north central part of the State. Originally formed in 1752, Orange County covers an area of approximately 400 square miles. There are four incorporated towns in Orange County. Hillsborough, the county seat, is located near the center of the County; Chapel Hill and Carrboro, adjoining communities which comprise the major urbanized area of Orange County, are located in the southeast corner of Orange County; and Mebane is located on the western boundary of Orange County. The remainder of Orange County is rural in nature and primarily agriculturally-oriented.

Located on a plateau approximately 500 feet above sea level, the Chapel Hill-Carrboro area is surrounded by gently rolling land. The climate is mild, with an average January temperature of approximately 41 degrees and an average temperature in July of approximately 79 degrees. The area receives an average of approximately 46 inches of rainfall per year.

The towns of Chapel Hill and Carrboro are located approximately 10 miles southwest of Durham and approximately 25 miles northwest of Raleigh. The regional transportation system connects the area with the major North Carolina population centers of Charlotte, Durham, Raleigh, Greensboro, Winston-Salem and Wilmington. U.S. and State Highways connect Chapel Hill-Carrboro with Durham, the Research Triangle Park (“RTP”), Raleigh and Raleigh-Durham International Airport. The region is served by Interstate 85 extending northeasterly from Durham to Petersburg, Virginia where it intersects Interstate 95, and southwesterly through Greensboro to Charlotte and Atlanta, Georgia. Interstate 40, which extends from Raleigh through Orange County, connects the region directly to both the Atlantic and Pacific coasts of the United States. Rail service is provided by a branch of the Norfolk-Southern Railroad which extends north from Carrboro to a connection with the railroad west of Durham. Amtrak passenger rail service is available in Durham. Commercial air service is provided by Raleigh-Durham International Airport, located 16 miles from Chapel Hill. The area is also served by Horace Williams Airport, which is owned and operated by UNC.

The Chapel Hill-Carrboro area comprises one portion of the metropolitan area which includes the City of Durham and the City of Raleigh and is commonly known as the “Research Triangle.” Major universities located in these communities include UNC, Duke University and North Carolina Central University in Durham and North Carolina State University in Raleigh. The proximity of these universities makes the RTP area suited for many types of academic research and advanced research-oriented industrial activities. There are numerous other colleges and universities in the area.

The dominant economic sectors in the Chapel Hill-Carrboro area are educational and medical services, including research activities, primarily through UNC and UNC Hospitals. The RTP, located 10 miles east of Chapel Hill, contains approximately 7,000 acres of land which has been reserved for research and research-oriented manufacturing. Since its inception in the 1950s, over 136 private and governmental organizations have located facilities in the RTP. According to the Research Triangle Foundation, the RTP represents a capital investment exceeding \$2.4 billion. The RTP is not served by OWASA; however, its impact on OWASA and the economy of the surrounding area is significant because of the companies and residents brought into the area directly and indirectly by the RTP.

Demographic Characteristics. The United States Department of Commerce, Bureau of the Census has recorded the populations of the Town of Chapel Hill, the Town of Carrboro and Orange County to be as follows:

<u>Year</u>	<u>Chapel Hill</u>	<u>Carrboro</u>	<u>Orange County</u>
1980	32,421	8,118	77,055
1990	38,711	12,134	93,622
2000	48,715	16,782	118,227
2010	57,233	19,891	132,951

The growth in population during this period reflects several factors, including the growth of student enrollment at UNC, increased economic activity in the area and the relocation of retirees attracted by the climate and amenities of the area.

Education. An important factor in the economy and growth characteristics of OWASA's service area and the immediately surrounding area is UNC. Fall enrollment at UNC is shown in the following table:

<u>Fall</u>	<u>UNC Enrollment</u>
2003	26,359
2004	26,878
2005	27,276
2006	27,538
2007	28,136
2008	28,567
2009	28,916
2010	29,390
2011	29,137
2012	29,278

UNC is among the most comprehensive educational institutions in the nation and belongs to the select group of research campuses that form the Association of American Universities. UNC offers 77 bachelor's, 109 master's, 66 doctorate and six professional degree programs through 14 schools and the College of Arts and Sciences, which are ranked among the top few in the nation.

Together, UNC's health-related schools form one of the nation's major academic medical centers. Among the specialized medical programs are the Health Services Research Center, the Hand Rehabilitation Center, the Child Development and Mental Retardation Institute and the North Carolina Jaycees Burn Center. The School of Government, Cancer Research, Environmental Studies, Urban Studies, Marine Sciences and Social Sciences conduct multi-disciplinary research and public service programs.

Employment. The North Carolina Employment Security Commission has estimated the percentage of unemployment in Orange County to be as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
January	4.1%	3.8%	3.2%	3.2%	3.4%	5.8%	7.1%	6.4%	6.2
February	3.8	3.9	3.6	3.3	3.6	6.5	7.1	6.3	6.2
March	3.8	3.5	3.1	3.0	3.2	6.1	6.8	6.1	5.9
April	3.8	3.7	3.0	2.9	3.2	6.0	6.4	5.9	5.7
May	4.1	3.8	3.3	3.1	4.0	6.9	6.5	6.2	6.2
June	4.5	4.4	3.8	3.7	4.5	7.3	6.9	7.3	7.1
July	4.1	4.4	3.9	3.6	4.8	7.4	6.9	7.2	7.2
August	3.9	4.1	3.6	3.3	4.3	7.2	6.7	7.5	6.6
September	3.0	3.2	3.0	3.0	4.0	6.6	5.9	6.8	5.7
October	3.4	3.3	3.0	3.1	4.0	6.5	5.7	6.2	5.9
November	3.9	3.6	3.2	3.1	4.7	6.6	6.0	5.8	5.8
December	3.6	3.2	2.9	3.0	4.4	6.6	5.9	6.1	5.9

UNC is the largest employer in Orange County. UNC Hospitals, a major medical research facility located adjacent to UNC, and Blue Cross and Blue Shield of North Carolina, both located in Chapel Hill, are the second and third largest employers, respectively. The following table lists the ten largest employers in Orange County:

<u>Company or Institution</u>	<u>Service or Product</u>	<u>Number of Employees</u>
UNC	University	16,308
UNC Healthcare System	Hospital	9,383
Chapel Hill/Carrboro City Schools	Education	2,203
Orange County Schools	Education	1,189
Orange County Government	Local Government	973
Town of Chapel Hill	Local Government	859
Blue Cross Blue Shield	Health/Medical Insurer	788
Triangle Physicians Network	Medical	537
AKG of America	Manufacturing	415
Harris Teeter	Grocery	409

Source: Orange County Economic Development Department (April 2013).

Retail Sales. Total retail sales in Orange County for the fiscal years ended June 30, 2002 through 2011 is shown in the following table:

<u>Fiscal Year</u>	<u>Total Retail Sales</u>	<u>Change from Previous Year (%)</u>
2002	\$1,256,005,000	3.3
2003	1,353,834,000	7.8
2004	1,375,934,000	1.6
2005	1,436,799,000	4.4
2006	907,564,000	(36.8)
2007	948,303,000	4.5
2008	971,592,000	2.5
2009	926,654,000	(4.6)
2010	984,599,000	6.3
2011	1,017,355,000	3.2

Source: Orange County Economic Development Department (April, 2013).

CHAPEL HILL STATISTICAL DATA

**Town of Chapel Hill
Property Tax Levies and Collections
Last 10 Fiscal Years**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Total Collections to Date			Outstanding Delinquent Taxes
		Amount	Percentage of Original Levy	Collections in Subsequent Years	Amount	Percentage of Adjusted Levy	
2003	23,067,472	22,919,205	99.36%	*	*	*	*
2004	23,775,375	23,653,530	99.49%	\$111,079	\$23,764,609	99.95%	*
2005	25,615,621	25,480,324	99.47%	110,800	25,591,124	99.90%	*
2006	27,718,753	27,578,410	99.49%	124,143	27,702,553	99.94%	*
2007	28,558,565	28,409,166	99.48%	111,769	28,520,935	99.87%	*
2008	30,412,485	30,240,782	99.44%	145,619	30,368,401	99.91%	115,177 (1)
2009	33,972,050	33,779,873	99.43%	139,190	33,918,874	99.84%	53,716
2010	35,119,150	34,836,717	99.20%	254,454	35,091,171	99.92%	27,979
2011	35,604,158	35,284,111	99.10%	258,936	35,543,047	99.83%	61,111
2012	35,887,926	35,604,067	99.21	-	35,604,067	99.21%	283,859

* Data not available. The Town contracts with the counties to maintain tax records and must rely on the information provided.

(1) Amount represents the cumulative delinquent taxes for years 2008 and prior.

CHAPEL HILL STATISTICAL DATA

**Town of Chapel Hill
Assessed Value and Actual Value of Taxable Property
Last 10 Fiscal Years**

Fiscal Year	Residential Property	Commercial Property	Combined Real Property	Personal Property	Public Service Companies	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Ratio of Assessed Value to Estimated Actual Value
					(2)		(3)	(4)	(5)
2003	*	*	3,688,289,625	415,023,471	63,868,306	4,167,181,402	0.553	4,725,767,070	88.18%
2004	*	*	3,791,842,402	455,906,761	57,587,809	4,305,336,972	0.553	5,139,473,525	83.77%
2005	*	*	3,918,233,860	482,128,300	57,774,008	4,458,136,168	0.575	4,664,298,146	95.58%
2006	(1) \$3,956,681,069	\$783,355,893	4,740,036,962	498,524,879	60,840,533	5,299,402,374	0.522	5,905,284,571	89.74%
2007	3,640,445,489	1,249,997,134	4,890,442,623	520,961,320	61,554,945	5,472,958,888	0.522	6,582,822,815	83.14%
2008	3,825,506,198	1,313,540,280	5,139,046,478	460,567,284	60,142,623	5,659,756,385	0.522	6,807,501,064	83.14%
2009	3,945,477,182	1,354,733,971	5,300,211,153	471,708,077	63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%
2010	(1) 4,855,643,567	1,667,252,143	6,522,895,710	455,030,840	67,647,776	7,045,574,326	0.494	7,141,991,207	98.65%
2011	5,133,443,183	1,762,638,471	6,896,081,654	452,486,487	62,491,249	7,411,059,390	0.494	7,477,610,120	99.11%
2012	*	*	6,730,528,993	471,001,413	63,232,013	7,264,762,419	0.049	7,200,106,033	99.11%

* The breakdown between residential and commercial property is not available for fiscal years prior to 2006 or for 2012.

(1) Revaluation year.

(2) Public service companies' valuations are provided by the North Carolina Department of Revenue. These amounts include both real and personal property.

(3) Source is the North Carolina Department of Revenue final report of assessed valuations of NC Municipalities for the 2009/2010 fiscal year.

(4) Per \$100 of value. Includes taxes for general fund, debt service fund and transportation fund.

(5) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.

(6) Source is the Property Tax Division of the North Carolina Department of Revenue.

CHAPEL HILL STATISTICAL DATA

**Town of Chapel Hill
NC Demographic and Economic Statistics
Last 10 Fiscal Years**

Calendar Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income (3)	Median Age (3)	Education Level in Years of Schooling (4)	School Enrollment (4)	Unemployment Rate % (5)
2003	51,005	3,877,363	33,125	24.2	15.82	37,012	4.0
2004	51,485	3,902,027	33,211	24.2	15.82	37,587	3.0
2005	51,519	4,122,336	37,121	24.2	15.82	38,308	4.0
2006	52,397	4,667,922	38,629	24.2	15.82	35,260	3.9
2007	53,416	5,060,894	41,435	24.2	15.82	38,718	2.9
2008	54,903	5,060,894	41,435	24.2	15.82	39,864	3.1
2009	55,616	5,450,187	43,844	24.2	15.82	40,316	4.5
2010	56,778	5,976,341	47,063	25.6	15.82	39,428	5.6
2011	57,233	6,186,352	47,925	25.6	15.82	41,139	5.4
2012	57,757	6,268,886	46,713	25.6	15.82	41,059	5.6

- (1) Town of Chapel Hill Department of Planning, Office of State Budget and Management.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis. Data available for Orange County only. Most recent available census data.
- (3) U.S. Department of Commerce, most recent available census data.
- (4) Chapel Hill-Carrboro City Schools and The University of North Carolina at Chapel Hill.
- (5) N.C. Employment Security Commission, December 2012 data for Orange County.

FINANCIAL MANAGEMENT POLICY

ORANGE WATER AND SEWER AUTHORITY

SUMMARY

The purpose of this document is to describe a comprehensive and systematic approach to strategic financial planning, related policy decisions, and measurements of financial performance that collectively guide Orange Water and Sewer Authority (OWASA) in its ongoing efforts to provide its customers with high quality water, wastewater and reclaimed water services through responsible, sustainable and creative stewardship of the resources and assets it manages.

The following excerpt from OWASA's *Mission Statement* provides the framework for development of this approach and related policies.

- *Efficiency and Value - we will perform all services in a financially sound and responsible manner with sufficient revenues to properly operate and fully maintain the water and wastewater system. As OWASA relies solely on user fees, we will continue to be guided by cost-of-service principles with regards to our rates, fees, and charges, and operate the water and sewer system at the lowest rates consistent with our obligation to provide proper and efficient services, now and in the future. We remain committed to continuous improvement in all of our services and will provide high value to our customers.*
- *Sustainability - we will proactively plan, construct, operate, maintain, and finance the water and wastewater system in a manner consistent with the principles of environmental, social and economic sustainability.*

FINANCIAL PERFORMANCE OBJECTIVES		
Measurement	Objective	Section
Working Capital Reserves	The greater of 4 months of O&M budget or 20% of the succeeding 3 years of CIP budget	A.1
Capital Improvements Reserve Fund	Minimum fund balance target of 2% of annual depreciated capital costs	B.1
Debt Service Coverage Ratio	≥ 2.0	D.1
Debt Burden to Asset Value	$\leq 50\%$	D.2
Sufficiency of Revenues Above Debt Requirements	Annual Debt service shall not exceed 35% of annual gross revenues	D.3
Credit Ratings	Aa2 – Moody's; AA+ – Standard & Poor's; AA+ – Fitch	D.4
Cash Financing of Capital	Annual revenues and cash reserves shall provide not less than 30% of CIP funding	E.1
Rate/Revenue Stabilization Fund	Minimum fund balance target of 5% of projected water and sewer revenue	E.2
Service Affordability	Average annual residential bill divided by real median household income shall be $\leq 1.5\%$.	F.2

In recognition of the dynamic environment in which OWASA operates, the desired results of policy decisions identified in the Financial Management Policy may not always be achievable within short-term operating cycles. These policy decisions should be viewed as guidance for long-term sustainable fiscal performance, with success measured against the entire planning horizon rather than to individual reporting periods.

Although not necessarily explicitly expressed in this document, the Financial Management Policy recognizes OWASA's major legal requirements and obligations arising from State laws and regulations, contractual agreements with bondholders and other stakeholders and OWASA's Sale and Purchase Agreements under which the organization was formed. If not specifically addressed herein, adherence to such requirements is mandated elsewhere.

This document categorizes policy considerations for sound, sustainable financial policies into the categories of general financial; asset management; investment management; debt management; rates, fees and charges; customer care; and annual budgeting process.

SECTION A. GENERAL FINANCIAL POLICIES

- A.1. ***Working Capital Reserves:*** OWASA shall maintain a fund balance at a level to sufficiently provide cash flow for daily financial needs in addition to adequate reserves to counter revenue instability and unanticipated expenses. The budgeted minimum reserve balance shall be equal to the larger of the following: a) 33% (four months) of the Operations & Maintenance (O&M) Budget, or b) 20% of the total estimated cost of the Capital Improvements Program (CIP) identified for the succeeding three years.
- A.2. OWASA shall make conservative, but reasonable estimates of revenues and costs.
- A.3. To the extent practical, the cost of system expansion shall be recovered from parties responsible for the expansion (“growth should pay for growth”).
- A.4. If the Executive Director deems it necessary at any time to submit any Budget or other proposal to the Board that does not comply with the parameters set forth in this document, he/she shall seek specific approval from the Board for such a proposal.

SECTION B. ASSET MANAGEMENT POLICIES

- B.1. ***Capital Improvements Reserve Fund:*** OWASA shall maintain a Capital Improvements Reserve Fund with a minimum fund balance target of 2% of the annual depreciated capital costs. The Capital Improvements Reserve Fund shall be an unrestricted reserve that is a component of the General Fund balance. The purpose of this reserve fund is to: ensure more sustainable funding for rehabilitation and replacement of the water and sewer systems and capital equipment; cover major unplanned increases in capital project costs; pay for previously unplanned capital needs; and provide funding flexibility needed in the Annual Budget to adjust for CIP costs carry-over adjustments.
- B.2. The annual budget shall provide 100% funding for maintenance activities required to ensure the operational integrity and safety of facilities and facility components.
- B.3. OWASA shall use a comprehensive approach to properly maintain all capital facilities, equipment, vehicles, etc.
- B.4. An amortization schedule shall be established for each physical asset to reflect the reasonable useful life of the asset.
- B.5. The costs of this comprehensive maintenance and rehabilitation program shall be reflected in OWASA’s annual budget and five-year CIP budget.

SECTION C. INVESTMENT MANAGEMENT POLICIES

- C.1. Cash management and treasury activities shall be managed in a manner that reflects efficient use of interest rates and maximizes fund performance balanced against investment risk and cash flow needs.
- C.2. OWASA shall attempt to reduce investment risk and maximize return on investments by participating in a variety of authorized investment instruments and financial institutions.
- C.3. Investment of OWASA funds shall not expose the assets to undue or unreasonable risk.

SECTION D. DEBT MANAGEMENT POLICIES

- D.1. ***Debt Service Coverage Ratio:*** OWASA’s Bond Order requires a minimum annual required Debt Service Coverage Ratio of 1.2. The minimum annual debt service coverage ratio shall be 2.0; provided, however, that the minimum coverage ratio for any single year when severe weather anomalies or other unforeseen

circumstances occur which negatively impact revenues and/or expenses shall not be less than 1.5 during the Fiscal Year.

- D.2. ***Debt Burden to Asset Value:*** The comparison of outstanding debt to infrastructure value is a reasonable indicator of debt capacity. OWASA's debt to plant ratio (outstanding debt divided by the book value of fixed assets) shall not exceed 0.5 (50%).
- D.3. ***Sufficiency of Revenues above Debt Requirements:*** OWASA shall maintain debt service as a percent of revenue at or below 35% of revenues.
- D.4. ***Credit Ratings:*** OWASA shall maintain Credit Ratings of at least Aa2, AA+ and AA+ from Moody's, Standard & Poor's and Fitch, respectively.
- D.5. Debt issuance shall be limited to financing the costs of capital asset project planning and design, land acquisition, buildings, permanent structures, attached fixtures and equipment, and the cost of debt issuance and capital reserves as may be required by creditors.
- D.6. The repayment of debt shall be structured in such a manner that the repayment period does not exceed the expected useful life of the assets acquired with the debt proceeds.

SECTION E. RATES, FEES AND CHARGES POLICIES

- E.1. ***Cash Financing of Capital:*** Annual revenues and cash reserves shall provide not less than 30% of the funds required for OWASA's CIP.
- E.2. ***Rate/Revenue Stabilization Fund:*** OWASA shall maintain a Rate/Revenue Stabilization Fund with a minimum fund balance target of 5% of the projected water and sewer revenue for the applicable year. The Rate/Revenue Stabilization Fund shall be an unrestricted reserve that is a component of the General Fund balance. The purpose of this reserve fund is to provide sufficient funding for the cost of maintaining, repairing and operating the water, wastewater and reclaimed water systems during extended periods when expenditures are higher and/or revenues are lower than budgeted while offsetting the need for rate increases and spending changes during the fiscal year.
- E.3. OWASA shall maintain a system of rates, fees and charges that effectively recovers allocated costs to customers and customer classes in reasonable proportion to their differing service requirements and their responsibility for the costs incurred by the utility. Adherence to the cost-of-service principle (benefiting party pays) as mandated by the Sale and Purchase Agreements and Bond Order shall be a primary guiding philosophy.
- E.4. OWASA's rates, fees, and charges shall be reviewed on an annual basis, and adjusted as necessary, to ensure that rate and revenue levels are adequately funding OWASA's financial, capital and operational goals, objectives and requirements.
- E.5. Rates shall be sufficient to generate income necessary to meet OWASA's revenue requirements. Revenue recovery from rates shall ensure financial stability as measured by adequate fund balance, operating reserves, debt service ratio, specified reserves and other measures established by OWASA.
- E.6. Rates should provide incentives for cost-effective use of facilities, conservation of water and efficient use and reuse of water resources, including rate surcharges during periods of water shortage.
- E.7. When OWASA determines that a rate increase is required, OWASA will strive to have such an increase be no higher than the general rate of inflation. However, OWASA shall set rates so that revenues will be sufficient at all times to provide for the cost of maintaining, repairing and operating the water, wastewater and reclaimed water systems, to pay the principal and interest on all issued or assumed debt, and to ensure the organization remains fiscally sound and financially sustainable.

- E.8. Although at times, operational or fiscal constraints may necessitate more aggressive or accelerated rate adjustments, rate levels and structures should be implemented through gradual programmed implementation of rate adjustments if possible.
- E.9. OWASA shall consider using the services of a qualified independent consultant to conduct a comprehensive rate study at approximately five year intervals.

SECTION F. CUSTOMER CARE

- F.1. OWASA shall operate the water and sewer system at the lowest rates consistent with its obligation to provide proper and efficient services, now and in the future.
- F.2. *Service Affordability* is an important consideration for OWASA. The target for average annual residential water and sewer bill divided by real median household income is $\leq 1.5\%$.
- F.3. When setting rates and evaluating rate structures, OWASA will carefully consider the impact such rates and rate structures will have on low income customers, while ensuring that cost-of-service principles are met.
- F.4. OWASA endorses and will promote the Taste of Hope customer assistance program. Donations made to the program by OWASA customers shall be provided to the Inter-Faith Council to help customers in need to pay their OWASA bill.
- F.5. Customers, citizens, and elected officials shall be provided timely, clear and understandable information and opportunities for constructive citizen participation in OWASA's rate decisions.

SECTION G. ANNUAL BUDGETING PROCESS

The preparation of the following documents on an annual basis is a key component of OWASA's annual budgeting and rate setting process. Those documents followed by an asterisk (*) shall be presented for Board of Directors adoption.

Budget Calendar: The budget calendar shall include the proposed dates of all Board meetings and work sessions at which budget matters are to be discussed, and shall list the dates by which major budget tasks have been or are to be completed by staff.

Statement of Strategic Issues and Policies (SIP): The SIP shall identify the major issues, policies, and concerns that should be addressed in the upcoming annual budget and capital improvements deliberations.

Financial Planning Assumptions and Background Information Document: This document lists the major assumptions upon which the financial plans and budgets are to be based.

Five-Year CIP*: The CIP provides for the orderly repair and replacement of existing facilities, helps identify lead time for project planning, regulatory approvals, land acquisition, design, and construction, and provides a framework for strategically analyzing a wider range of acceptable alternatives, and for identifying, ranking, and executing projects.

15-Year Financial Planning Report: The planning report provides a long-term perspective for assessing the adequacy of rates and fees and the timing and amount of anticipated debt financing. It also provides a means of evaluating the economic feasibility of implementing the long range CIP.

Annual Budget*: The annual budget provides the appropriation necessary to operate during the ensuing fiscal year.

The specific process and timeline for completing key components of OWASA's annual budgeting and rate setting process will vary from year-to-year; however, the following table sets forth guidelines to which OWASA should generally adhere.

Task	Time Frame	Rationale
Review strategic issues, policies and economic assumptions	November/December	Staff, the Finance Committee and Board shall review strategic issues, policies, and economic assumptions that are expected to impact and the preparation of budgets (O&M and CIP) and rates. The identification of these key issues will help shape the annual budgeting process.
Capital Improvements Program Review	February/March	The CIP provides for the orderly repair and replacement of existing facilities, lead time for project planning, regulatory approvals, land acquisition, design and construction, a framework for strategically analyzing a wider range of acceptable alternatives, and a framework for identifying, ranking, and executing projects. The Finance Committee and Board will review and comment on the draft CIP.
Operations and Maintenance Budget Review	March/April	The O&M budget provides funding for properly operating and maintaining OWASA's services and programs. The Finance Committee and Board will review the draft O&M budget to include cost containment and / or efficiency opportunities that may impact the O&M and CIP budgets.
Financial Planning and Rate Review	April	Upon completion of CIP and O&M budgets, this information and other planning assumptions shall inform OWASA's 15-year financial plan. Staff will review the financial plan with the Board and recommend increases or decreases in rates.
Conduct Public Hearings	May	The OWASA Board shall hold public hearings on the draft O&M budget; CIP budget; and proposed rates, fees and charges for the coming year.
Adopt Budgets and Rates	June	The OWASA Board shall adopt the O&M budget, CIP budget and rate schedule for the coming year.

GLOSSARY

ACCRAUAL BASIS OF ACCOUNTING – A basis of accounting under which increases and decreases in economic resources are recognized as soon as the underlying event or transaction occurs. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

ALLOCATE - To set apart portions of budgeted expenditures which are specifically designated for special purposes.

ANNUAL BUDGET - A budget covering a single fiscal year (July 1 - June 30).

APPROPRIATION - A legal authorization to make expenditures and to incur obligations for specific purposes. An appropriation usually is limited in amount and the time it may be expended.

APPROPRIATION RESOLUTION - A resolution through which appropriations are given legal effect.

AUTHORITY – A public agency which performs a specified range of services that are usually financed from fees or service charges.

BALANCED BUDGET – A budget in which the sum of net revenues and appropriated fund balance is equal to appropriations.

BOND - A written promise to pay a specific amount of money with interest within a specific time period, usually long-term.

BUDGET - A financial plan containing projected expenditures and resources for a specified number of years.

BUDGET DOCUMENT - A formal document presented to the Board of Directors containing the organization's financial plan for a fiscal year. The budget document is divided into two major parts - the budget message and an operating budget. The operating budget section contains summaries of expenditures and resources. The budget document is presented in two phases, preliminary and final.

BUDGET MESSAGE – An overview of the proposed budget which discusses the major budget items and the organization's present and future financial condition.

BUDGETARY CONTROL - The control or management of a government or enterprise in accordance with an approved budget to keep expenditures within the limitations of available appropriations and available revenues.

CAPITAL IMPROVEMENT PROGRAM (CIP) - Capital projects that include construction, equipment purchases, major renovation of buildings, water and sewer lines, or other structures.

CAPITAL OUTLAYS - Expenditures budgeted to purchase or add to fixed assets with an estimated useful life greater than one year and costing \$5,000 or more.

CAPITAL PROJECT - A project expected to have a useful life of at least five years and an estimated total cost of \$10,000 or more. Capital projects include the construction, purchase, or major renovation of buildings, water and sewer lines, or other structures.

DEBT SERVICE - The payment of principal and interest on long-term debt.

DEBT SERVICE RATIO - A ratio that expresses the relationship of total net revenue to debt service.

DEFICIT - An excess of expenditures over revenues or expense over income.

ENTERPRISE FUND – An accounting entity for reporting financial activity where a fee is charged to external customers for goods and services. Reporting of activities through an enterprise fund is required when the reporting entity's debt is backed solely by fees, or if a legal or policy requirement exists to recover costs through fees.

FINANCIAL MANAGEMENT POLICY – A Board adopted policy document describing a comprehensive and systematic approach to strategic financial planning, related policy decisions, and measurements of financial performance.

FISCAL YEAR - A 12-month period (July 1 - June 30) to which the annual operating budget applies and at the end of which an assessment is made of the organization's financial condition and performance of its operations.

FUND - An accounting entity created to record the financial activity for a selected financial grouping. A fund is set up to carry out a special function or attain certain objectives in accordance with set laws and regulations.

FUND BALANCE - An amount of resources set aside within a fund to provide adequate cash flow and reserves.

FUND TYPE - Any one of seven categories into which all funds are classified in governmental accounting. The seven fund types include; general, special revenue, debt service, capital projects, enterprise, internal service, and trust and agency.

GENERAL FUND - A fund which provides for the accounting of all financial resources except those designated to other funds.

GRANTS - A contribution or gift in cash or other assets from another government to be used for a specified purpose.

LONG TERM DEBT - Debt with a maturity of more than one year after the date of issuance.

MGD - Millions of gallons per day. Used in measuring volume of water and wastewater flow. One (1) mgd = 1.5 cubic feet per second.

MODIFIED ACCRUAL BASIS OF ACCOUNTING - A basis of accounting under which increases and decreases in financial resources are recognized only to the extent that they reflect near-term inflows and outflows of cash. Revenues are recognized only if available to finance expenditures during the accounting period, and expenses are recognized when due and paid.

NONOPERATING EXPENSES - Expenses which are not directly related to the organization's primary activities.

NPDES - National Pollution Discharge Elimination System. Regulations that protect effluent receiving water (e.g. Morgan Creek) for swimming and fishing by limiting the amount of oxygen-consuming pollutants, primarily carbon and nitrogen, which can be discharged into the stream.

PUMP STATION - Structure containing pumps and accessory piping, valves and other mechanical and electrical equipment for pumping water, wastewater or other liquids. A pump station used to pump wastewater from a sewer main of lower elevation to a sewer main of higher elevation.

PURCHASE AND SALE AGREEMENT - An agreement between the State of North Carolina on behalf of the University of North Carolina and the Orange Water and Sewer Authority that conveyed the water and wastewater treatment facilities previously owned by UNC to OWASA as of February 15, 1977. Similar and separate agreements were also executed with the Towns of Chapel Hill and Carrboro.

OPERATING BUDGET - A budget that applies to all outlays other than capital outlays.

OPERATING EXPENSE - Expenses which are directly related to the organization's primary activities.

PERFORMANCE MEASURES - A unit produced as a result of the activities carried out by a program (i.e., miles of pipe inspected, feet of water and sewer lines rehabilitated).

PROGRAM BUDGET - A plan whereby expenditures are budgeted by programs of work and grouped into specific service areas.

PROGRAM PERFORMANCE MEASURE - An indicator that reflects how effectively and efficiently a program is being carried out.

PROGRAM OBJECTIVE - A specific statement about what is to be accomplished or achieved (result) for a particular program during the fiscal year.

RECLAIMED WATER - wastewater that has gone through advanced treatment, such as occurs at OWASA's Mason Farm Wastewater Treatment Plant (WWTP), so that the water can be recycled back into the natural environment or used for allowable non-drinking purposes.

RESERVE - An account designated for a portion of the fund balance which is to be used for a specific purpose (i.e. maintenance reserve).

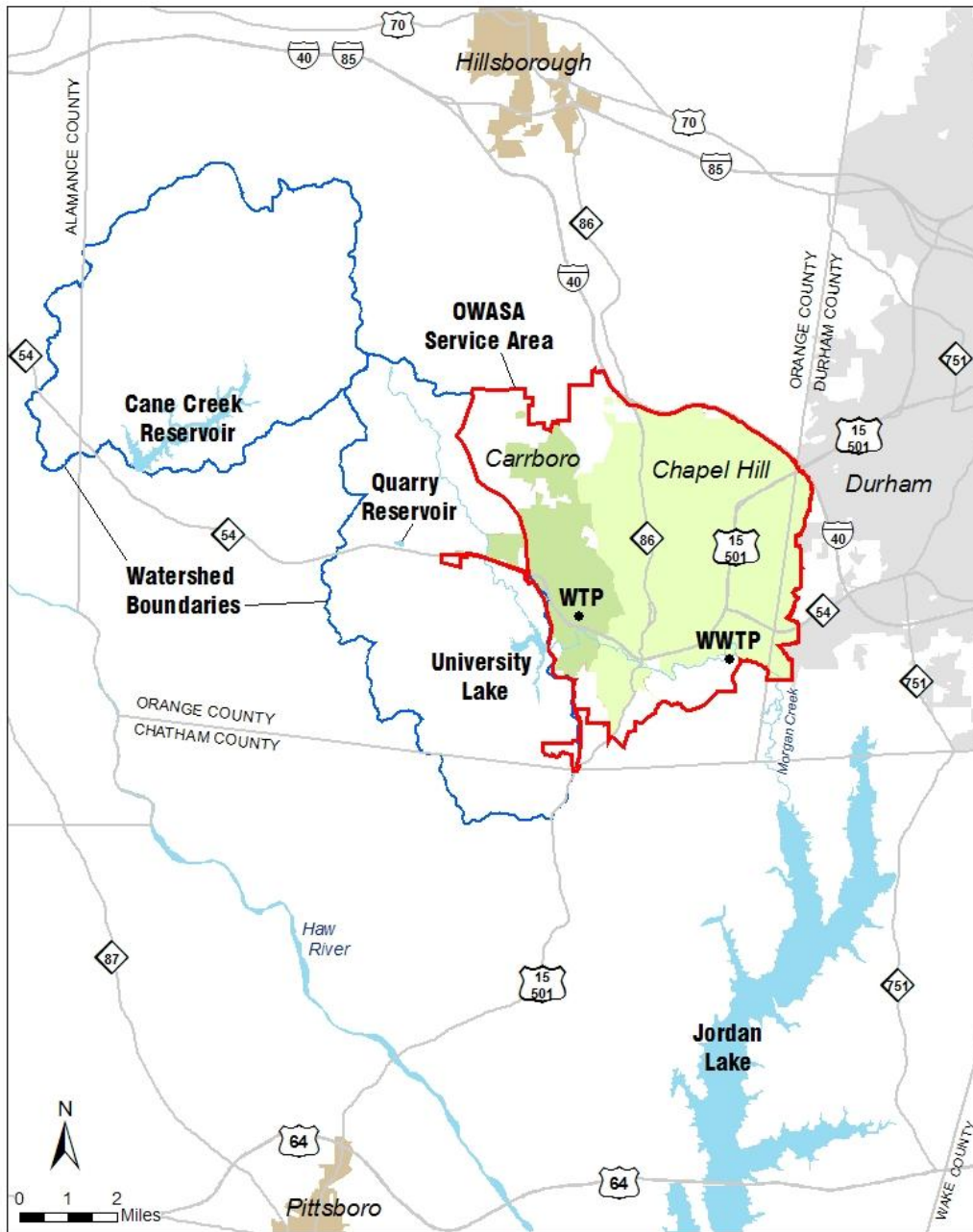
REVENUE BONDS – The primary method used by OWASA for long-term debt; they are repaid from user fees over the life of the assets. In general, these bonds have no claim on money derived from property taxes or special assessments.

REVENUES - Financial resources other than from bond issue proceeds.

SPECIAL ASSESSMENT - A levy on certain properties to defray part or all of the costs associated with improvements or services which will benefit those properties. For instance, a special assessment would be levied on property benefitting from the construction of water and sewer lines to serve a particular area.

SPECIAL REVENUE FUND - A fund used to account for the revenues from specific sources which are to be used for legally specified expenditures.

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ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.