ORANGE WATER AND SEWER AUTHORITY

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

MEMORANDUM

TO: **Finance Committee**
Mac Clarke (Chair)
Braxton Foushee
Alan Rimer
Amy Witsil
Gordon Merklein (*ex-officio*)

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: April 21, 2011

SUBJECT: **FINANCE COMMITTEE MEETING – APRIL 28, 2011**

The Finance Committee will meet on Thursday, April 28, 2011, at 5:30 p.m. in the First Floor Conference Room adjacent to the Council Chambers at the Chapel Hill Town Hall. The agenda will be:

- Review and discuss staff's proposal to reduce the period presented in the publicized planning and budget document for the OWASA Capital Improvement Program from 15 years to five years (information included herein – Attachment 1).

  Committee Action Requested: Assess the merit of staff's proposal and, if appropriate, have the Finance Committee Chair request that the Board of Directors approve the recommended change.

- Review and discuss staff's proposal to change certain charges listed in OWASA's Schedule of Rates, Fees, and Charges (information included herein – Attachment 2).

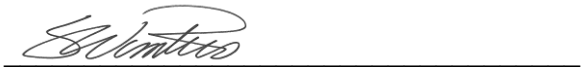
  Committee Action Requested: Discuss proposal and be prepared to make a recommendation when the Board of Directors considers approval of the Schedule of Rates, Fees, and Charges that will go into effect on October 1, 2011.

- Review and discuss a Resolution Amending the Adopted Annual Budget for an Additional Capital Equipment Expenditure for Orange Water and Sewer Authority for Fiscal Year 2011 (Information provided in Board's April 28, 2011 Agenda packet, Item 4).

  Committee Action Requested: Discuss resolution and related material and be prepared to make a recommendation to the Board of Directors.

- Review and discuss the Financial Report for the nine months ended March 31, 2011 (Report provided in Board's April 28, 2011 Agenda packet, Item 7).

  Committee Action Requested: Receive and discuss the Financial Report.



Stephen Winters, CPA
Director of Finance and Customer Service

cc: Board of Directors
Ed Kerwin
Bob Epting

Attachment 1

Proposal to Reduce the Period of the Publicized Planning and Budget Document for the Capital Improvement Program (CIP) from 15 Years to Five Years

Development of the Fiscal Year (FY) 2012 CIP has again highlighted that there is tremendous uncertainty in the second and third five-year portions in the current 15-year CIP format. We believe that the Board of Directors, staffs of area local governments and the general public would be better served if staff presented a more concise five-year plan and budget document. Furthermore, sensitivity analyses conducted with OWASA's Financial Model confirms that the level of CIP investment in the out-years (years six through 15) has little to no impact on near-term rate adjustments.

Staff believes this change will:

1. **Reduce investment of staff time in developing, presenting and publishing lengthy planning documents**, much of which is of little value except to OWASA staff. OWASA staff will continue to develop and maintain an internal 15-year CIP document. The 15-year CIP serves as a knowledge management tool so that as personnel turnover occurs there remains a single, consolidated document that provides a long-term roadmap for OWASA's CIP investment plans. It also serves as a financial planning tool that helps us forecast the need for future borrowing, etc. Staff intends to continue to update and validate the CIP each year as part of the overall annual budget process.

2. **More closely align OWASA CIP budget information with other budget and rate adjustment information** that is presented to the Board and others during the annual budget and rate-determination process.

3. **Provide other local governmental staffs with more definite information** that they can use to coordinate their CIP programs (such as street resurfacing, etc.).

4. **Allow the Board and others to focus attention on more definitive projects.** Over time, the priority, scope, and dates for starting and completing out-year projects are often modified due to studies, condition assessments, etc.

5. **Bring OWASA's CIP planning period into closer alignment with the timeframes used by other public agencies**. For instance Carrboro uses a five-year CIP, Orange County recently reduced their CIP budget timeframe from 10 to five years, Chapel Hill uses a 15-year CIP, UNC-CH and the State of North Carolina use a six-year program that is revised every other year, and Charlotte uses a five-year CIP.

Accordingly, beginning with the FY 2012 CIP (that will be published in the summer of calendar year 2011), staff recommends publishing a five-year CIP plan and budget to the public and Board.

Attachment 2

Recommendation to change certain charges listed in OWASA's Schedule of Rates, Fees, and Charges

Staff recommends making the following changes to OWASA's Schedule of Rates, Fees, and Charges:

1. Eliminate the "Record Change Charge"

   Current Policy States
   The purpose of this charge is to defray the administrative costs associated with the transfer of responsibility for an account from one customer to another. This does not require field work and is done at the request of the new customer. Record changes are conditional on the customer signing a statement assuming responsibility for the account balance, paying the record change charge, any delinquent amounts and any applicable security deposit.

   Charge amount: $10.00

   Explanation
   Customers often express resentment about being charged a fee to change the name on an account. The internal cost of making a name change on a customer account is fairly insignificant. We believe eliminating this fee will improve customer service in general and will not result in a financial hardship to the rest of OWASA's customer base. FY 2011 year-to-date revenue from this fee is approximately $2,000.

2. Eliminate the "Charge for Temporary Disconnection / Subsequent Reconnection at Customer's Request"

   Current Policy States
   The purpose of this charge is to recover the cost to temporarily disconnect and subsequently reconnect water service at the request of a customer. Such requests may result from an emergency condition or routine plumbing system maintenance need. The charge may be waived if the customer provides documentation that a master cutoff valve has been installed within thirty (30) days of the date of the temporary service disconnection. However, this charge will not be waived for any customer who had a master cutoff valve on the premises before the temporary service disconnection.

   Charge amount: $45.00 per event, during OWASA's normal business hours
   $80.00 per event, outside OWASA's normal business hours

Explanation
We estimate that we have fewer than 100 instances per year for which we charge this fee. Performing this service can be viewed as beneficial to OWASA's system and customer base by stopping the loss of water in an emergency situation. In these cases, the customer may be eligible for an Emergency Water Loss adjustment but will be charged for all metered water. Further, our recommendation is to add language that allows us to charge a fee in the event a customer requests service to be disconnected and reconnected more than once per incident.

3. Change our process for customer security deposits and the amount we collect for them

Current Policy States
OWASA may require security deposits from customers to ensure payment of the final bill. To offset administrative costs in handling these monies, no interest is paid on security deposits.

Security deposits shall be required on all accounts other than those in the name of (1) owners of single-family residential properties, whether detached or attached units, who can provide a satisfactory credit history or reference to OWASA, and (2) local, State and Federal governments or agencies thereof. Security deposits shall be required for accounts other than those in (1) and (2) above and shall be $50.00 for single-family residential customers. All security deposits must be paid at the time application for service is made and in advance of service initiation.

Any residential customer whose service has been disconnected for non-payment of billing charges twice within a six month period of time and who has not previously given a security deposit will be required to pay a $50.00 security deposit prior to reconnection of service.

Non-residential security deposits may be required and will be computed as two times the average monthly bill of the previous customer at the same location over the past calendar year. If there is no previous customer at the service location, the security deposit will be determined by OWASA based on the best information available, such as OWASA's experience with similar types, sizes, etc. of businesses.

Repeated disconnections will require additional security deposits until the customer has accumulated a security deposit balance, which will cover an average of three months' billing charges.

Security deposits may be refunded after the customer has established a satisfactory payment history for twelve (12) consecutive months. Otherwise, security deposits will be applied to the final bill when a customer's account is terminated.

Explanation
We refer significantly delinquent customer accounts to a third-party service provider for collection. Our service provider offers an online credit check service that we would like to incorporate into the process we use for establishing new accounts and collecting security deposits.

When a customer applies to open an account, we will be able run a credit check on the applicant and promptly return the results. The customer will be rated green, yellow or red or a safe credit risk, medium credit risk or high credit risk, respectively.

For single-family residential customers, we propose collecting security deposits from customers as follows:

Credit rating	Deposit Amount
Green	0
Yellow	$50
Red	$100

For non-residential customers, we propose collecting security deposits from customers as follows:

Credit rating	Deposit Amount
Green	None
Yellow	One times the average bill of the previous customer
Red	Two times the average bill of the previous customer

The benefits of this approach include:

- Improved customer experience by eliminating security deposits for creditworthy customers
- More closely aligning the amount of the security deposit collected with the risk of monetary loss
- Reduced administrative burden on Finance and Customer Service department staff by eliminating a significant number of customer accounts for which security deposits must be collected, deposited, accounted for, and refunded

We recommend retaining the language that allows us to refund a customer's security deposit after satisfactory payment history of 12 consecutive months.