ORANGE WATER AND SEWER AUTHORITY

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

MEETING SUMMARY
Finance Committee Meeting
November 15, 2012, 8:00 - 9:40 AM, OWASA Board Room

Committee Members: John Young (Chair), Terri Buckner, Amy Witsil

Other Board Members: Michael Hughes, Stephen Dear

Staff: Mason Crum, Pat Davis, Stephanie Glasgow, John Greene, Ed Kerwin, Heidi Lamay, Dan Przybyl, Kelly Satterfield, Stephen Winters

Public: Mike Burton and Erick van Malssen of Burton & Associates (consultants)

The purpose of the meeting was to continue the Committee's discussions about the ongoing rate study, review rate structure scenarios and staff's recommended rate structure changes, and determine which scenarios to present to the Board of Directors.

In previous rate study discussions, the Committee made the following decisions which were confirmed at the meeting on November 15:

- The cap on sewer charges for individually-metered residential customers will remain at 15,000 gallons per month.
- There will be no reduction in rates for irrigation-only accounts.
- There will be no changes to the drought surcharge rate structure.

In considering various alternative rate scenarios, the Committee reviewed information presented by staff and discussed the following topics:

Affordability

- Although our performance measure is based on average bills for individually-metered residential customers, affordability must be a consideration for all customers.
- We have chosen to use 1.5 as our affordability ratio target; this means that the average annual bill for OWASA water and sewer charges should not exceed 1.5% of the area's median household income.
- The Committee discussed whether we should change the formula we use for calculating the affordability ratio: specifically, whether we should use the median-use bill instead of the average-use bill to calculate the affordability ratio. No conclusion was reached.
- There is no industry-accepted standard for what a utility's affordability target should be. Many water utilities and benchmarking organizations use affordability thresholds of 2.0 or higher.
- Based on an average monthly use of 4,500 gallons, our current affordability ratio is 1.75.

Revenue Stability

- OWASA requires a certain amount of revenue each year in order to meet its financial obligations related to operating expenses, debt service and capital improvements expenditures. Our Bond Order and Financial Management Policy also stipulate certain revenue and net income requirements.
- Any rate structure changes that result in a reduction in overall revenue could lead to rate

increases in subsequent years.

Conservation

- OWASA's block rate structure for individually-metered residential customers and seasonal rate structure for non-residential customers provide a strong conservation signal to customers.
- Our community uses the same amount of water today that it used in 1992 even though the number of accounts OWASA serves has increased by 60% since that time.

Staff summarized the conclusions of the rate study as follows:

- While there is no standard or universally-accepted rate structure for water utilities, OWASA's rate structure is consistent with progressive approaches advocated by industry thought-leaders and utilities focused on conservation and maintaining a reliable and sustainable system.
- Making significant improvements in affordability for individually-metered single-family residential average-volume customers through rate structure changes increases the rates paid by other customers and puts more revenue at risk.
- The most effective way to address affordability is continued focus on keeping rate increases to a minimum through organizational cost-control efforts combined with strategies aimed at helping lower-income customers reduce their water and sewer bills.

A majority of the attending Board Members believe that rate structure design is one approach to address affordability and also recognize that cost-control and other strategies are important.

The following chart outlines the scenarios that were discussed at the meeting.

	Scenarios						
Rate structure modification	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Equalize revenue recovery from water and sewer monthly service charge at 20% for each	✓	✓		✓	✓	✓	✓
Separately calculate customer service component of monthly service charge	✓	✓	✓	✓	✓	✓	✓
Adopt American Water Works Association (AWWA) standard for scaling monthly service charges for larger meters	✓	✓	✓	✓	✓	✓	✓
Decrease commodity charge for first two rate-blocks by 3% each		✓					
Equalize revenue recovery from water and sewer monthly service charge at 15% for each			✓				
Change Block 1 to include 0-3k gallons Change Block 2 to include 4-6k gallons				✓			
Decrease commodity charge for first two rate-blocks to achieve 1.5% affordability ratio for individually-metered residential customers using an average of 4,500 gallons per month					✓		
Decrease commodity charge for first rate-block by 3%						✓	
Decrease commodity charge for first rate-block by 50%							✓

Staff recommended Scenario 1 to the Committee. Staff also recommended that we continue to address affordability through organization-wide cost-control efforts in order to limit future rate increases and to provide conservation and water-use efficiency education and outreach to lower-income customers.

While the Committee did not attempt to come to a consensus on a recommendation to the Board, members of the Committee expressed preferences for either making no rate structure changes or making the changes outlined in Scenarios 1, or making changes outlined in Scenario 6 but with modifications.

Next Steps

On January 24, 2013, staff will present the results of the rate study and the Finance Committee's discussions to the Board of Directors. Staff will prepare variations of Scenario 6 and provide additional information on the impact of the scenarios on typical non-residential customers.

Stephen Winters, CPA
Director of Finance & Customer Service

Attachment: 2013 Rate Study Impact Evaluation Chart

ORANGE WATER AND SEWER AUTHORITY: 2013 RATE STUDY IMPACT EVALUATION
COMPARISON OF CHANGES IN TOTAL ANNUAL CHARGES FOR VARIOUS CUSTOMERS UNDER ALTERNATIVE RATE SCENARIOS
(Charges Based on Actual Use Patterns and Volumes in FY 2012)

(Red-shaded cells indicate customers who would see an increase in their charges; Green-shaded cells indicate customers who would see a decrease)

			CURRENT RATES	SCENARIO 1		SCENARIO 2		SCENARIO 3		SCENARIO 4		SCENARIO 5		SCENARIO 6		SCENARIO 7	
	% Revenue Recovery in Base Facility Charges:		25% W / 19% S	20% W / 20% S		20% W / 20% S		15% W / 15% S		20% W / 20% S		20% W / 20% S		20% W / 20% S		20% W / 20% S	
	Customer Service Charge Included?			Yes		Yes		Yes		Yes		Yes		Yes		Yes	
	AWWA Meter Equivalency Ratios Included?			Yes		Yes		Yes		Yes		Yes		Yes		Yes	
	Block Rate Changes?			No Changes		Reduce B1 & B2 Rates 3% Recover thru Blocks 3-5		No Changes		B1: 0-3,000 B2: 3,001-6,000		Reduce B1 & B2 Rates 50% Recover thru Blocks 3-5		Reduce B1 Rate 3% Recover thru Blocks 3-5		Reduce B1 Rate 50% Recover thru Blocks 3-5	
			Annual Charges	Change in Annual Charges	% Change	Change in Annual Charges	% Change	Change in Annual Charges	% Change	Change in Annual Charegs	% Change	Change in Annual Charges	% Change	Change in Annual Charges	% Change	Change in Annual Charges	% Change
NON-RESIDENTIAL CUSTOMER IMPACTS	Chapel Hill Public Housing Authority Developments (Master-Metered Projects)		$126,879	$764	0.6%	$764	0.6%	$4,812	3.8%	$3,387	2.7%	$764	0.6%	$764	0.6%	$764	0.6%
	Chapel Hill-Carrboro City Schools (Includes All Accounts Including Irrigation Services)		$422,730	$4,960	1.2%	$4,960	1.2%	$13,914	3.3%	$14,747	3.5%	$4,960	1.2%	$4,960	1.2%	$4,960	1.2%
	Other Master-Metered Multi-Family Developments (Seven Complexes) See Note 1		$824,598	-$3,307	-0.4%	-$3,307	-0.4%	$38,223	4.6%	$14,743	1.8%	-$3,307	-0.4%	-$3,307	-0.4%	-$3,307	-0.4%
	Total For Sample Set of Low-Volume Users (7 Meter Sizes)		$56,382	$2,555	4.5%	$2,555	4.5%	-$2,104	-3.7%	$3,282	5.8%	$2,555	4.5%	$2,555	4.5%	$2,555	4.5%
	Total For Sample Set of Moderate-Volume Users (7 Meter Sizes)		$176,315	$1,083	0.6%	$1,083	0.6%	$5,082	2.9%	$4,614	2.6%	$1,083	0.6%	$1,083	0.6%	$1,083	0.6%
	Total For Sample Set of High-Volume Users (7 Meter Sizes)		$534,304	-$3,340	-0.6%	-$3,340	-0.6%	$26,497	5.0%	$8,539	1.6%	-$3,340	-0.6%	-$3,340	-0.6%	-$3,340	-0.6%
	8-Inch Metered Customer		$106,676	$1,681	1.6%	$1,681	1.6%	$2,946	2.8%	$3,751	3.5%	$1,681	1.6%	$1,681	1.6%	$1,681	1.6%
	4 Irrigation Accounts (With Different Meter Sizes)		$78,107	$495	0.6%	$495	0.6%	$3,867	5.0%	$2,538	3.2%	$495	0.6%	$495	0.6%	$495	0.6%
		# Customers															
INDIVIDUALLY-METERED RESIDENTIAL CUSTOMER IMPACTS	2,000 Gallons/Month	(3,170)	$539.04	-$8	-1.4%	-$12	-2.2%	-$57	-10.5%	-$4	-0.8%	-$41	-7.6%	-$12	-2.2%	-$41	-7.6%
	AVERAGE USE CUSTOMER - 4,500 Gallons/Month	(1,800)	$925.14	-$12	-1.3%	-$27	-2.9%	-$33	-3.5%	-$47	-5.1%	-$147	-15.9%	-$22	-2.3%	-$51	-5.5%
	6,000 Gallons/Month	(1,230)	$1,174.08	-$13	-1.1%	-$22	-1.9%	-$16	-1.4%	-$61	-5.2%	-$75	-6.4%	-$18	-1.6%	-$23	-2.0%
	9,000 Gallons/Month	(330)	$1,689.24	-$16	-1.0%	$2	0.1%	$18	1.1%	-$50	-3.0%	$203	12.0%	-$3	-0.2%	$67	4.0%
	12,000 Gallons/Month	(130)	$2,279.04	-$17	-0.7%	$36	1.6%	$61	2.7%	-$33	-1.4%	$557	24.5%	$20	0.9%	$185	8.1%
	15,000 Gallons/Month	(60)	$2,906.16	-$16	-0.6%	$75	2.6%	$108	3.7%	-$13	-0.4%	$951	32.7%	$47	1.6%	$316	10.9%
	20,000 Gallons/Month	(20)	$4,093.56	$22	0.5%	$229	5.6%	$237	5.8%	$83	2.0%	$2,172	53.1%	$162	4.0%	$747	18.2%
	SERVICE AFFORDABILITY RATIO (Based on Individually-Metered Residential Customer Billed for Average of 4,500 Gallons/Month)		1.75%	1.73%		1.70%		1.69%		1.66%		1.47%		1.71%		1.66%	

Note 1 Several of the master-metered residential customers sub-meter water use and re-bill their tenants. It is likely they would pass through any projected increases directly to their tenants.

November 14, 2012