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**
John Young (Chair)
Terri Buckner
Michael Hughes
Heather Payne
Amy Witsil
Alan Rimer (*ex-officio*)

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: April 17, 2014

SUBJECT: Finance Committee Meeting – April 24, 2014

The Finance Committee will meet on Thursday, April 24, 2014, at 5:30 PM in the OWASA Boardroom. The agenda will be:

- Review and discuss the Financial Report for the nine month period ended March 31, 2014. (Report provided in the Board's April 24, 2014 Agenda packet.)

  Committee Action Requested: Receive and discuss the Financial Report.

- Discuss service affordability. (Information provided in Attachment 1.)

  Committee Action Requested: Review and discuss information and provide guidance to staff regarding next steps.

Stephen Winters, CPA
Director of Finance and Customer Service

Attachment
cc: Board of Directors
Ed Kerwin
Bob Epting

The purpose of this memo is to provide context and background for the Committee's discussion about service affordability.

Service Affordability Measure

A popular method used by the water and sewer industry to measure service affordability is to compare an organization's average annual water and sewer cost to the community's median household income (MHI).

As we have discussed, there is not industry-wide consensus as to what an appropriate target should be. We based our target of 1.5% on information promulgated by the American Water Works Association. However, some assert that water and sewer services are affordable if the combined average annual cost is no more than 2% of MHI: 1% for water and 1% for sewer.

Peer Organization Comparative Information

In research conducted by the University of North Carolina's Environmental Finance Center (EFC) for a recently completed Water Research Foundation Project, the EFC attempted to collect information about how water utilities measure service affordability; of the entities they worked with, the EFC did not find other utilities that have set an affordability measurement goal. Staff contacted peer water utilities in North Carolina with the same result.

While we have not been able to find peer organizations that have a service affordability policy or official measurement target, we have collected information about other North Carolina water utilities' performance regarding affordability. This information is summarized in Table 1 at the end of this memo.

Current Status of OWASA's Affordability Measure

As you know, our Financial Management Policy sets our service affordability target at 1.5%. In our financial reports, we have reported that our ratio is 1.68%, computed as follows:

- Average monthly use of 4,250 gallons or $73.88 per month
- MHI based on 2010 census data of $52,785

To calculate our affordability measure, we have used the MHI number our consultants used in our most recent rate model. Census data is now available for 2012 and we have updated the calculation in the March 31, 2014 Financial Report. The ratio using 2012 census data is 1.48%, computed as follows:

- Average monthly use of 4,250 gallons or $73.88 per month
- MHI based on 2012 census data of $59,793

Staff's Recommendation

There is not industry consensus about an affordability measurement target and there is a degree of ambiguity in calculating an organization's affordability measure. However, staff believes there is significant value in maintaining our current target of 1.5%. While 1.5% may be more aggressive than some would suggest, it is not uncommon and it serves the purpose of placing emphasis on affordability that matches the Board of Directors' and staff's interest in continuing to do what we can to deliver OWASA's services as inexpensively as possible while maintaining service levels.

Alternative Measurements

The method of measuring service affordability that we have adopted is the one mostly widely used throughout the industry. However, some OWASA Board members have expressed interest in using a different or perhaps an additional affordability measure. We anticipate that the Committee will discuss alternative measurement approaches at our meeting.

One idea that has been discussed is to compare OWASA's median annual service cost with the North Carolina state-wide median household income. Using this method, our service affordability measurement is 1.49 (based on median monthly use of 3,000 gallons and the North Carolina median household income of $46,450).

Comparison Information

Table 1 is provided simply for comparison purposes. The EFC's website includes a dashboard tool that allows one to analyze various aspects of North Carolina's water and sewer utilities including affordability. As you will notice, the EFC lists OWASA's affordability measure as 1.45%.

Table 1

Organization	Water/Sewer charges for 4,000 gals **	Affordability Measure **	Operating Revenue in millions *	Accounts	Days cash on hand (reserves) *
OWASA	70.66	1.45	36	21,000	403
Cape Fear Public Utility Authority	52.97	1.30	64	80,000	1,065
Chatham County	90.00	1.90	7	6,400	2,065
Durham	44.47	1.14	79	83,000	651
Fayetteville Publ Wrks Commission	41.87	1.14	71	68,000	221
Greensboro	32.31	0.92	90	100,000	275
Greenville Utilities Commission	48.05	1.69	34	34,000	157
Hillsboro	69.96	1.60	7	5,800	313
ONWASA	65.60	1.73	20	42,000	612
Pittsboro	75.76	2.27	3	1,750	550
Raleigh	44.17	1.00	170	177,000	452
Winston-Salem	30.74	0.89	77	118,000	512
Information from UNC Environmental Finance Center (EFC)					
* Information as of end of FY 2012					
** Based on 2011 data, the latest published by EFC					