



# ORANGE WATER AND SEWER AUTHORITY

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

## **AGENDA** **MEETING OF THE OWASA BOARD OF DIRECTORS** **THURSDAY, MARCH 24, 2011, 7:00 P.M.** **CHAPEL HILL TOWN HALL**

In compliance with the "Americans with Disabilities Act," interpreter services are available with five days prior notice. If you need this assistance, please call the Clerk to the Board at 537-4217 or [aorbich@owasa.org](mailto:aorbich@owasa.org).

### **Administering Oath of Office to Town of Chapel Hill Appointee, John A. Young**

#### **Announcements**

1. Announcements by the Chair
  - A. Any Board member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time.
  - B. Update on Actions Taken Regarding the Water and Sewer Management, Planning and Boundary Agreement
2. Announcements by Board Members
  - A. Update on the March 24, 2011 Finance Committee Meeting (Mac Clarke)
3. Announcements by Staff
  - A. Recreation at the Lakes will begin on Saturday, March 26, 2011 (John Greene)

#### **Petitions and Requests**

1. Public
2. Board
3. Staff

#### **CONSENT AGENDA**

##### **Action**

1. Resolution Authorizing Executive Director to Renew Public Officials & Employees Liability Insurance for One Year Period for \$2,000,000 of Coverage with National Union Fire Insurance Company of Pittsburgh, PA (Kevin Ray)

#### **REGULAR AGENDA**

##### **Discussion**

2. Fiscal Year 2012 Budget and Potential Rate Adjustment Information (Stephen Winters)

**AGENDA ITEM**

- RESOLUTION AUTHORIZING EXECUTIVE DIRECTOR TO RENEW PUBLIC OFFICIALS & EMPLOYEES LIABILITY INSURANCE FOR A ONE-YEAR PERIOD FOR \$2,000,000 OF COVERAGE WITH NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA

**BACKGROUND**

- To mitigate the risk of legal liability of Board and staff members for actions taken while performing their official duties, OWASA carries Public Officials and Employees Liability Insurance.
- OWASA's current policy expires April 20, 2011.
- National Union Fire Insurance Company of Pittsburgh, PA, the current insurance provider, is offering the same protection limit as for FY 2011 of \$2,000,000 with no increase in the current-year premium of \$25,004.00.

**ACTION NEEDED**

- Renew the Public Officials and Employees Liability Insurance coverage with National Union Fire Insurance Company of Pittsburgh, PA prior to the expiration date of April 20, 2011 to maintain continuity of coverage.

**RECOMMENDATION**

- Award the renewal of the Public Officials and Employees Liability Insurance coverage to National Union Fire Insurance Company of Pittsburgh, PA for \$2,000,000 of coverage at an annual premium of \$25,004.00 for the period of April 20, 2011 through April 20, 2012.

March 24, 2011




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## MEMORANDUM

**TO:** Board of Directors

**THROUGH:** Ed Kerwin 

**FROM:** Kevin M. Ray

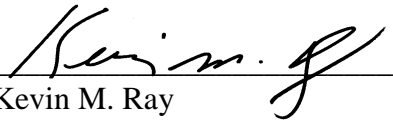
**DATE:** March 17, 2011

**SUBJECT:** Renewal of Public Officials Liability Insurance

Public officials liability and employment practice insurance provides protection for OWASA's officers and managers against claims arising from actions taken in their respective official capacities. OWASA's current public officials liability insurance coverage expires April 20, 2011. Following solicitation of competitive quotes for this coverage on OWASA's behalf by Dominick Huckabee Noblin and Trent, a local insurance agency, National Union Fire Insurance Company of Pittsburgh, PA agreed to renew the coverage with a policy limit of \$2,000,000 with a \$15,000 deductible for \$25,004.00; the same terms and premium as the current year.

Staff asked The North Carolina League of Municipalities Risk Management Services to review National Union Fire's terms of coverage and premium. The League underwriters responded that the coverage was consistent with industry standards, but The League could not offer competitive pricing for the coverage at this time.

Although under a "negative outlook" in the aftermath of the financial crises of 2008, AM Best continues to assign ratings of "A" (Excellent) to National Union Fire Insurance Company for financial strength; indicating a secure fiscal position, and "a" (Excellent) for its credit worthiness; reflecting investment grade status. Staff recommends the Board of Directors approve the renewal of our public officials' liability insurance with National Union Fire Insurance Company of Pittsburgh, PA at the limits and premium currently offered.

  
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Kevin M. Ray  
Finance and Procurement Manager

**RESOLUTION AUTHORIZING EXECUTIVE DIRECTOR TO RENEW PUBLIC OFFICIALS AND EMPLOYEES LIABILITY INSURANCE FOR A ONE-YEAR PERIOD FOR \$2,000,000 OF COVERAGE WITH NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA**

**WHEREAS**, the policy for Public Officials & Employees Liability Insurance with National Union Fire Insurance Company of Pittsburgh, PA for the period of April 20, 2010 through April 19, 2011 expires April, 20, 2011; and

**WHEREAS**, a renewal offer has been received from National Union Fire Insurance Company of Pittsburgh, PA., for \$2,000,000 of coverage, at an annual premium of \$25,004.00; and

**WHEREAS**, it is to the advantage of the Authority to maintain continuity of coverage;

**NOW, THEREFORE, BE IT RESOLVED:**

1. That the Board of Directors of Orange Water and Sewer Authority has determined to renew the Public Officials and Employees Liability Insurance policy with National Union Fire Insurance Company of Pittsburgh, PA for a period of one year, for \$2,000,000 of coverage, at a total premium of \$25,004.00.

2. That the Executive Director be, and he hereby is, authorized and directed to renew the Public Officials and Employees Liability Insurance Policy.

Adopted this 24th day of March, 2011.

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Gordon Merklein, Chair

ATTEST:

\_\_\_\_\_  
Braxton Foushee, Secretary

**AGENDA ITEM**

- **FISCAL YEAR (FY) 2012 BUDGET AND POTENTIAL RATE ADJUSTMENT INFORMATION**

**PURPOSE**

- To inform the Board of Directors of the first draft FY 2012 Budget and potential rate adjustment.

**BACKGROUND**

- Staff is currently forecasting a budget surplus for FY 2011 of \$3.5 million.
- The current projection for FY 2011 potable water usage is higher than budgeted – 6.4 vs. 6.1 million gallons per day (MGD).
- The current projection for potable water usage for FY 2012 is 6.3 MGD. Last year at this time, we expected FY 2012 water usage to be 6.1 MGD.
- The first draft of the FY 2012 Operations and Maintenance and Capital Improvements Program budgets are closely aligned with last year's projections.
- While no decision regarding a rate adjustment is necessary at this time, the Finance Committee has reviewed two rate adjustment scenarios that are substantially lower than the 8.75% increase that was previously projected for FY 2012.
- Based on information presented at the Finance Committee's February 24, 2011 meeting, members prefer a small rate increase of 2% in FY 2012 and FY 2013 rather than no change in rates for FY 2012 and a projected 4% increase in FY 2013.
- The Committee considers a small FY 2012 increase to be a hedge against contingencies such as significant increases in energy and chemical prices or lower than expected water sales.
- In each scenario, all financial management policy targets are met except the affordability measure.

**ACTION NEEDED**

- Receive information and provide guidance to inform the preparation of the preliminary FY 2012 Budget and corresponding rate adjustment.

March 24, 2011




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## MEMORANDUM

**TO:** Board of Directors

**THROUGH:** Ed Kerwin 

**FROM:** Stephen Winters, CPA

**DATE:** March 18, 2011

**SUBJECT: FISCAL YEAR (FY) 2012 BUDGET AND POTENTIAL RATE  
ADJUSTMENT INFORMATION**

### Background

As part of the annual budgeting process, staff develops a draft of the Operations and Maintenance (O&M) and Capital Improvements Program (CIP) budgets. Staff also prepares a 15-year financial plan and makes recommendations which inform the Board's decision on a rate adjustment. On several occasions throughout the budgeting process, the Finance Committee and staff present information to, and seek counsel from the Board.

At the Finance Committee meeting held on February 24, 2011, staff presented a draft of the O&M budget for FY 2012. The Board received this information as part of the February 24 Finance Committee meeting materials.

At the Finance Committee meeting to be held on March 24, 2011, staff will present an updated draft of the CIP budget for FY 2012 – 2026. The Board received this information as part of the March 24 Finance Committee meeting materials.

### Rate Scenarios

Also at the Finance Committee meeting on February 24, staff presented two rate adjustment scenarios. Summaries of the scenarios are on page 2.

The underlying assumptions for each scenario are the same. The difference between the two are the rate increases in FY 2012, FY 2013 and FY 2014.

Scenario 1 shows the effect of having no rate increase for FY 2012. Based on the information we have now, we anticipate that subsequent rate increases in FY 2013 and FY 2014 would need to be 4% each year.

### Scenario 1

Fiscal Year	FY12	FY13	FY14	FY15	FY16
Rate increase	0.00%	4.00%	4.00%	4.00%	5.00%
<b>Financial Management Objectives:</b>					
<b>Reserves (thousands):</b>					
Capital Improvements	\$750	\$1,000	\$1,250	\$1,500	\$1,750
Rate / Revenue Stabilization	\$1,200	\$1,600	\$2,000	\$2,400	\$2,800
Working Capital Reserve Balance	\$16,680	\$16,921	\$14,525	\$12,799	\$12,849
<b>Working Capital - Over (Under)</b>					
Target	\$8,974	\$6,585	\$2,303	\$0	\$0
Debt Service Coverage Ratio	2.06	2.19	2.32	2.04	2.05
Average Monthly Bill (5k gallons)	\$81.87	\$85.14	\$88.55	\$92.09	\$96.70
Anticipated borrowing (millions)				\$19	
<b>Approximate outstanding debt</b>					
balance at end of FY (millions)	\$91	\$85	\$80	\$94	\$88

Scenario 2 shows the effect of having a small 2% rate increase for FY 2012. Based on the information we have now, we anticipate that subsequent rate increases in FY 2013 and FY 2014 would need to be 2% and 3%, respectively. This alternative has the advantage of providing some measure of protection against unforeseeable occurrences in FY 2012 such as significant increases in energy and chemical prices or lower than expected water sales.

### Scenario 2

Fiscal Year	FY12	FY13	FY14	FY15	FY16
Rate increase	2.00%	2.00%	3.00%	4.00%	5.00%
<b>Financial Management Objectives:</b>					
<b>Reserves (thousands):</b>					
Capital Improvements	\$750	\$1,000	\$1,250	\$1,500	\$1,750
Rate / Revenue Stabilization	\$1,200	\$1,600	\$2,000	\$2,400	\$2,800
Working Capital Reserve Balance	\$17,193	\$17,623	\$15,005	\$12,799	\$12,849
<b>Working Capital - Over (Under)</b>					
Target	\$9,487	\$7,287	\$2,782	\$0	\$0
Debt Service Coverage Ratio	2.12	2.21	2.29	2.00	2.02
Average Monthly Bill (5k gallons)	\$83.51	\$85.18	\$87.73	\$91.24	\$95.80
Anticipated borrowing (millions)				\$19	
<b>Approximate outstanding debt</b>					
balance at end of FY (millions)	\$91	\$85	\$80	\$94	\$88

Each scenario results in all financial management policy targets being met except the affordability measure.

**Action Requested**

Receive information and provide guidance to inform the preparation of the preliminary FY 2012 Budget and provide feedback on potential rate adjustments.

**Next Steps**

No decision regarding a rate adjustment is necessary at this time. Over the next several weeks, staff and the Finance Committee will continue to collect and analyze data and fine-tune information that serves as the basis for the assumptions used in developing our financial plan.

The Board is scheduled to adopt the Preliminary Budget for FY 2012 at its meeting on April 28, 2011. Public hearings regarding the budget and rate adjustments are tentatively scheduled for May 26, 2011 and adoption of the budget and any rate adjustments is scheduled for June 9, 2011.



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Stephen Winters, CPA  
Director of Finance and Customer Service

cc: Ed Kerwin