ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

SEPTEMBER 14, 2006

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met in regular session on Thursday, September 14, 2006, at 7:00 P.M., in the OWASA Community Room.

Directors present: Michael A. (Mac) Clarke, Chair; Randy Kabrick, P.E., Secretary; Fred Battle; Terri Buckner; Milton S. Heath, Jr.; Marge Anders Limbert; Gordon Merklein; and Laura Sandvik. Directors absent: Penny Rich, Vice Chair.

OWASA staff: Ed Kerwin, Jan Bryant-Berry, Mason Crum, Patrick Davis, Greg Feller, Vishnu Gangadharan, John Greene, Andrea Orbich, Kevin Ray and Paula Thomas of the OWASA staff; and Robert Epting, Esquire, Epting and Hackney.

Others present: Meg Holton, Water, Wastewater, and Stormwater Manager, UNC; and Ken Bruce, Brown and Caldwell.

There being a quorum present, Chair Mac Clarke called the meeting to order.

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MOTIONS ACTED UPON

1. Milton Heath moved to adopt the minutes of the August 24, 2006, Closed Session of the Board of Directors for the purpose of discussing and negotiation points; and to confer with staff and counsel regarding settlement negotiations concerning potential litigation. The motion was seconded by Fred Battle, and carried by unanimous vote.

2. Milton Heath moved to adopt the minutes of the August 24, 2006, Closed Session of the Board of Directors for the purpose of discussing a personnel matter. The motion was seconded by Fred Battle, and carried by unanimous vote.

3. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt *Resolution for Sole Source Procurement of Rotary Press from Les Industries Fournier, Inc. for the Biosolids Dewatering Operations at the Mason Farm Wastewater Treatment Plant*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Milton Heath, seconded by Fred Battle, and carried by unanimous vote.)

4. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution amending the Strategic Financial Planning and Management Document*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Gordon Merklein, seconded by Laura Sandvik, and carried by majority vote.)

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ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Mac Clarke said 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. There were none.

RAY PROPERTY

Mac Clarke said the Ray family's trustee had signed that afternoon the acquisition agreement for the Ray property with a final price of $2.2 million instead of $2.3 million in consideration of clean-up work to be done by OWASA.

RESOLUTION OF ORANGE WATER AND SEWER AUTHORITY DECLARING ITS INTENTION TO SEEK REIMBURSEMENT FROM THE PROCEEDS OF ONE OR MORE TAX-EXEMPT FINANCINGS FOR CERTAIN EXPENDITURES MADE AND/OR TO BE MADE IN CONNECTION WITH THE ACQUISITION, CONSTRUCTION AND/OR EQUIPPING OF CERTAIN CAPITAL IMPROVEMENTS

Mac Clarke said this item will be deferred until the next Board meeting.

CLOSED SESSION

Mac Clarke said this item would not be a closed session but that General Counsel, Robert Epting, would make an announcement.

Mr. Epting said that OWASA's claim again Pipeline Utilities has been settled and Pipeline Utilities' claim against OWASA has been dismissed with prejudice.

SLATE OF BOARD OFFICERS

Laura Sandvik said that the Nominating Committee met on Sunday, September 10, 2006 at 10:00 A.M. at the Weaver Street Market and proposes the following slate of officers for consideration at the Board's Annual Meeting on Thursday, September 28, 2006:

Chair, Mac Clarke
Vice Chair, Randy Kabrick
Secretary, Gordon Merklein

COMMITTEE MEETINGS

Ed Kerwin said the Natural Resources/Technical Systems Committee will meet on Thursday, September 28, 2006 at 5:30 P.M. in the First Floor Conference Room at Chapel Hill Town Hall to discuss biosolids.

ITEM TWO: PETITIONS AND REQUESTS FROM THE PUBLIC, BOARD AND STAFF

Mac Clarke asked for petitions and requests from the public, from the Board, and from staff. There were none.

ITEM THREE: QUARTERLY REPORT ON ATTENDANCE AT BOARD OF DIRECTORS' MEETINGS

The Board received the Quarterly Report on attendance at Board of Directors' meeting as an information item.

ITEM FOUR: UPDATE ON ASPHALT PLANT SOIL REMEDIATION NEAR THE STONE QUARRY RESERVOIR

The Board received an update on Asphalt Plant Soil Remediation near the Stone Quarry Reservoir as an information item.

ITEM FIVE: BIMONTHLY STATUS REPORT ON THE MASON FARM WASTEWATER TREATMENT PLANT 14.5 MGD UPGRADE AND EXPANSION PROJECT

The Board received a bimonthly status report on the Mason Farm Wastewater Treatment Plant 14.5 MGD Upgrade and Expansion Project as an information item.

ITEM SIX: QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED JUNE 30, 2006

The Board received the financial report for the quarter ended June 30, 2006 as an information item.

ITEM SEVEN: QUARTERLY REPORT ON CONSUMPTION, EXTENSIONS AND CONNECTIONS

The Board received a quarterly report on consumption, extensions and connections as an information item.

ITEM EIGHT: MINUTES

Milton Heath made a motion to adopt the minutes of the August 24, 2006, Closed Session of the Board of Directors for the purpose of discussing and negotiation points; and to confer with staff and counsel regarding settlement negotiations concerning potential litigation. The motion was seconded by Fred Battle, and carried by unanimous vote. Please see Motion No. 1 above.

Milton Heath made a motion to adopt the minutes of the August 24, 2006, Closed Session of the Board of Directors for the purpose of discussing a personnel matter. The motion was seconded by Fred Battle, and carried by unanimous vote. Please see Motion No. 2 above.

ITEM NINE: RESOLUTION FOR SOLE SOURCE PROCUREMENT OF A ROTARY PRESS FROM LES INDUSTRIES FOURNIER, INC. FOR THE BIOSOLIDS DEWATERING OPERATIONS AT THE MASON FARM WASTEWATER TREATMENT PLANT

Terri Buckner said she asked that staff include information in future reports on the energy efficiency of this kind of equipment.

Milton Heath made a motion to adopt the resolution; the motion was seconded by Fred Battle, and carried by a unanimous vote. See Motion No. 3 above.

ITEM TEN: RESOLUTION OF ORANGE WATER AND SEWER AUTHORITY DECLARING ITS INTENTION TO SEEK REIMBURSEMENT FROM THE PROCEEDS OF ONE OR MORE TAX-EXEMPT FINANCINGS FOR CERTAIN EXPENDITURES MADE AND/OR EQUIPPING OF CERTAIN CAPITAL IMPROVEMENTS

The Board deferred this item to the September 28, 2006 OWASA Board meeting.

ITEM ELEVEN: RESOLUTION AMENDING THE STRATEGIC FINANCIAL PLANNING AND MANAGEMENT DOCUMENT

Ed Kerwin provided an overview of this item. He recommended amending the Strategic Financial Planning and Management Document; that the Board and staff evaluate appropriate measures to reduce increases in projected operation and maintenance expenditures over the next five years without negatively impacting OWASA's service performance objectives; that the Board and staff evaluate the timing and priorities of anticipated capital improvements for the next five years to determine if the level of anticipated spending can be reduce without negatively impacting important asset management and other service performance objectives; and that the Board increase the target for the debt service coverage ratio from 1.5 to 2.0.

Terri Buckner said the Board should keep in mind that some high volume users, such as the schools, are conservation-minded and will be impacted by high rate increases.

Milton Heath said he did not want to vote on a debt service coverage ratio without first knowing the implications for future rates charged to customers.

Gordon Merklein said OWASA may need to consider reducing expenses, and that revenue increases are not the only approach.

Fred Battle concurred with Mr. Heath.

Randy Kabrick stated that OWASA charges the true cost of water, unlike other utilities in the area.

Mr. Clarke said the OWASA service area is expected to grow and the focus for increasing the debt service coverage ratio is for financial stability.

Gordon Merklein made a motion to adopt the resolution; the motion was seconded by Laura Sandvik, and carried by a vote of five to three (Mac Clarke, Marge Anders Limbert, Randy Kabrick, Gordon Merklein, Laura Sandvik voted in favor; Fred Battle, Terri Buckner and Milton Heath voted against). See Motion No. 4 above.

There being no further business to come before the Board, the meeting was adjourned at 5:40 P.M.

RESOLUTION OF ORANGE WATER AND SEWER AUTHORITY DECLARING ITS INTENTION TO EXECUTE A SOLE SOURCE PROCUREMENT OF A ROTARY PRESS PROCESS FROM LES INDUSTRIES FOURNIER, INC. FOR BIOSOLIDS DEWATERING OPERATIONS AT THE MASON FARM WASTEWATER TREATMENT PLANT

WHEREAS, Orange Water and Sewer Authority (OWASA) is a political subdivision of, and is organized and existing under the laws of the State of North Carolina; and

WHEREAS, State of North Carolina General Statute (GS) 143-129 (Procedure for letting of public contracts) allows a governing board to approve purchases of apparatus, supplies, materials or equipment through a non-competitive, or "sole source," process when: (i) performance or price competition are not available; (ii) a needed product is available from only one source of supply; or (iii) standardization or compatibility is the overriding consideration; and

WHEREAS, OWASA plans to design and install a biosolids dewatering system at the Mason Farm Wastewater Treatment Plant (WWTP) to improve the reliability, flexibility and sustainability of the biosolids management program; and

WHEREAS, OWASA, with assistance from its consulting engineer, Brown and Caldwell, has extensively evaluated the advantages and disadvantages of alternative biosolids dewatering technologies; and

WHEREAS, following the evaluation, which included bench-scale performance testing, OWASA has determined that for several reasons, the rotary press technology is much preferred over other technologies; and

WHEREAS, Les Industries Fournier, Inc. is the only practical and proven source for a rotary press capable of meeting OWASA's needs; and

WHEREAS, pursuant to GS 143-129, the OWASA Board of Directors must approve purchases made through the sole source process prior to the award of the contract;

NOW, THEREFORE, BE IT RESOLVED:

1. That following extensive evaluation of the advantages and disadvantages of alternative biosolids dewatering technologies, the OWASA Board of Directors, based on guidance from staff and its consulting engineer, Brown and Caldwell, have concluded that a rotary press is needed to meet OWASA's needs for dewatering of biosolids at the Mason Farm WWTP because:

   (i) It has extensive advantages over other dewatering technologies, including but not limited to obtaining a high solids content while requiring minimal staff oversight, reducing the volume of wash water required, equalizing filtrate flow through continuous operation thereby eliminating the need for filtrate flow equalization facilities, and reducing the complexity and cost for odor control;

2. That the Board of Directors has concluded that a sole source procurement approach is appropriate because:

(i) A rotary belt press is needed considering the specific operations and needs of the Mason Farm WWTP;

(ii) Les Industries Fournier, Inc. is the only manufacturer offering the six-channel units needed to match OWASA's existing treatment train, and its rotary belt press is the only such product actually being used to de-water municipal sludge;

(iii) Performance competition for this equipment is not available;

(iv) The rotary belt press equipment needed by OWASA is only available from Les Industries Fournier, Inc.

3. That the Board of Directors hereby approves the sole source procurement of a rotary press from Les Industries Fournier, Inc. for biosolids dewatering operations at the Mason Farm Wastewater Treatment Plant, and authorizes and directs the Executive Director to proceed to negotiate and successfully conclude said purchase upon approval of OWASA's General Counsel.

4. This resolution shall take effect immediately upon its passage.

Adopted this the 14th day of September, 2006.

RESOLUTION STRENGTHENING THE DEBT SERVICE COVERAGE GOAL IN ORANGE WATER AND SEWER AUTHORITY'S STRATEGIC FINANCIAL PLANNING AND MANAGEMENT DOCUMENT AND AFFIRMING THE BOARD OF DIRECTORS' SUPPORT FOR ANNUAL RATE INCREASES NEEDED TO ENSURE FINANCIAL SUSTAINABILITY

WHEREAS, consistent with Orange Water and Sewer Authority's (OWASA) Mission Statement and Values, the organization has committed to "*...perform all services in a financially sound and responsible manner with sufficient revenues to properly operate and fully maintain the water and wastewater system*"; and

WHEREAS, OWASA's consultant is currently conducting a comprehensive Rate Study to include a review of the organization's revenue needs and the necessary rates, fees, and charges to ensure OWASA's financial performance goals are met; and

WHEREAS, the Board of Directors and staff have carefully reviewed and discussed the Rate Study consultant's recently completed draft Financial Model and Revenue Requirements Analysis in meetings on September 7 and September 14, 2006; and

WHEREAS, the Board of Directors approved a revised *Strategic Financial Planning and Management Document* on July 21, 2001 to provide the framework for OWASA's comprehensive financial management efforts; and

WHEREAS, the Board of Directors has determined that it is prudent to further strengthen the organization's Debt Service Coverage goal to ensure OWASA remains financially strong;

NOW, THEREFORE, BE IT RESOLVED BY THE OWASA BOARD OF DIRECTORS:

1. That the Debt Management Policies section 6.5.2 of the *Strategic Financial Planning and Management Document* be amended to read as follows:

> " ...to ensure that this requirement and the overall financial goals and objectives of OWASA are met, the target debt service coverage ratio shall be 2.0; provided, however, that the minimum coverage ratio for any single fiscal year when severe weather anomalies and/or other unforeseen circumstances may occur which negatively impacts revenues and/or expenses shall not be less than 1.5. "

2. That the OWASA Board and staff evaluate where appropriate measures to reduce increases in projected Operation and Maintenance expenditures over the next five years without negatively impacting OWASA's service performance objectives.

3. That the OWASA Board and staff will evaluate the timing and priorities of the anticipated capital improvements for the next five (5) years to determine if the level of anticipated spending can be reduced without negatively impacting important asset management and other service performance objectives.

4. That, based on the initial results of the financial modeling and Revenues Requirements Analysis completed to date for the Rate Study, the Board of Directors expects to adopt combined overall water and sewer rate increases in order to achieve the target debt service ratio coverage of 2.0 not later than Fiscal Year 2011. The design of the actual rates, fees, and charges to accomplish said rate increases will follow cost-of-service rate-making principles while promoting efficient use of water by all OWASA customers. The Board of Directors will work with staff and the rate study consultant to evaluate the effects of the increases and alternative rate structures on the various customer classes, and will invite and fully consider comments from OWASA customers prior to approval of a revised system of rates, fees, and charges.

Adopted this 14th day of September, 2006.