

ORANGE WATER AND SEWER AUTHORITY

PUBLIC HEARINGS AND MEETING OF THE BOARD OF DIRECTORS

MAY 24, 2007

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held Public Hearings and a regular Business Meeting on Thursday, May 24, 2007, at 7:00 PM, in Council Chambers at Chapel Hill Town Hall.

Directors present: Michael A. (Mac) Clarke, Chair; Randy Kabrick, P.E., Vice Chair; Gordon Merklein, Secretary; Fred Battle; Braxton Foushee; Marge Anders Limbert; Gene Pease; and Penny Rich. Directors absent: William R. Stott, III.

OWASA staff: Ed Kerwin, John Greene, Gwen Burston, Mason Crum, Patrick Davis, Greg Feller, Ed Holland, Andrea Orbich, Kevin Ray and Paula Thomas; and Robert Epting, Esquire, Epting and Hackney.

Others present: Milton S. Heath, Jr.; Meg Holton, Water, Wastewater, and Stormwater Manager, UNC; Ray DuBose, Director of Energy Services, UNC; Ben Poulson, Acting-Associate Director of Energy Services, UNC; and Michael Krasnov.

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

MOTIONS ACTED UPON

1. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution of Appreciation for Milton S. Heath, Jr.* (Resolution so titled attached hereto and made a part of these minutes. Motion by Penny Rich; seconded by Gordon Merklein, and carried by unanimous vote.)

2. Penny Rich moved to close the Public Hearing on the Operations and Maintenance and Capital Improvements Program Budgets. The motion was seconded by Marge Anders Limbert, and carried by unanimous vote.

3. Fred Battle moved to close the Public Hearing on the rates, fees and charges. The Motion was seconded by Penny Rich, and carried by unanimous vote.

4. Marge Anders Limbert moved to adopt the minutes of the April 12, 2007, Closed Session of the Board of Directors for the purpose of discussing pending litigation. The motion was seconded by Penny Rich, and carried by unanimous vote.

5. Marge Anders Limbert moved to adopt the minutes of the April 26, 2007, Meeting of the Board of Directors. The motion was seconded by Penny Rich, and carried by unanimous vote.

6. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution Awarding Audit Contract to McGladrey & Pullen, LLP and Authorizing Chair of the Board of Directors and the Finance Officer to Execute Said Contract*. (Resolution so titled attached hereto and made a part of these minutes. Motion by Marge Anders Limbert; seconded by Penny Rich, and carried by unanimous vote.)

7. Penny Rich made a motion that the Board convene in a closed session for the purpose of discussing a personnel matter. The motion was seconded by Marge Anders Limbert and carried by unanimous 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.

RESOLUTION OF APPRECIATION FOR MILTON S. HEATH, JR

Mac Clarke read aloud a resolution of appreciation honoring the service of former Board Member Milton Heath.

The Board expressed its sincere appreciation to Mr. Heath for his leadership and service to OWASA.

Penny Rich made a motion to adopt the resolution; it was seconded by Gordon Merklein; and carried by unanimous vote. Please see Motion No. 1 above.

ORANGE COUNTY

Mac Clarke announced that OWASA will provide a presentation to the Orange County Board of County Commissioners on Tuesday, June 12, 2007 at 7:30 PM at the New Courthouse in Hillsborough to discuss proposed rate changes. The presentation will be similar to those to the Chapel Hill Town Council and Carrboro Board of Aldermen.

COMMUNITY MEETINGS

Mac Clarke announced that OWASA officials met with the Carrboro Board of Aldermen on May 15, 2007 and the Chapel Hill Town Council on May 21, 2007 to present proposed rates, fees and charges; these meetings went well with no objections.

Mr. Clarke also said that during the Chapel Hill Town Council meeting, OWASA staff updated the Council on odor elimination without objection.

BOARD COMMITTEES

Mac Clarke requested that Board Members respond to his e-mail regarding each Board member's preference for a more routine day and time to hold Committee meetings so that Board Members can appropriately plan to attend the necessary Committee meetings.

Randy Kabrick said the Natural Resources/Technical Systems Committee will meet on Wednesday, May 30, 2007 at 4:30 PM in the OWASA Boardroom to discuss the preliminary draft Phase I Biosolids Master Plan.

Penny Rich said the Board's Human Resources (HR) Committee met prior to the May 24th Board meeting and completed its review of proposed changes to OWASA's Personnel Policy. Ms. Rich said that at the June 14, 2007 Board meeting, the HR Committee will recommend approval of the proposed changes and she encouraged each Board Member to thoroughly review the proposed changes before the meeting.

Gordon Merklein said that a meeting to update Board Members on how the OWASA budget process works will be held on Wednesday, June 6, 2007 at 8:30 AM in the OWASA Boardroom.

INTERGOVERNMENTAL PARKS WORK GROUP (IPWG)

Fred Battle said that the IPWG met on Wednesday, May 23, 2007 and received the following: an update on parks design, construction and renovation of greenways and trails; an update on the Mountain to Sea Corridor, which will be a trail from the Blue Ridge Mountains to the Atlantic coast by the year 2020; and the 2007 Community Health Assessment, a survey by the Orange County Health Department to learn more about health and the quality of life in Orange County.

ITEM TWO: PETITIONS AND REQUESTS FROM THE PUBLIC

Mac Clarke asked for petitions and requests from the public.

Milton Heath addressed the Board and requested they consider asking staff to closely examine what Chapel Hill and Carrboro currently do with regard to stormwater management. If you conclude after the examination that more should be done you might pass that thought along to Chapel Hill and Carrboro officials. One way to get involve in the process is to contact the Towns and seek a censuses on goals and objectives and program steps and possible to incorporate the censuses between OWASA, Carrboro and Chapel Hill.

Mac Clarke thanked Mr. Heath for his comments.

ITEM THREE: PETITIONS AND REQUESTS FROM THE BOARD

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

ITEM FOUR: PETITIONS AND REQUESTS FROM THE STAFF

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

ITEM FIVE: PUBLIC HEARING ON DRAFT OPERATIONS AND MAINTENANCE AND CAPITAL IMPROVEMENTS PROGRAM BUDGETS

Mac Clarke opened the Public Hearing on the proposed Operations and Maintenance (O&M) Budget and Capital Improvements Program (CIP).

Ed Kerwin began the staff presentation on the draft Final Budget for Fiscal Year (FY) 2007-2008, noting that the challenges OWASA faces include: limited resources and growing demands; aging infrastructure; and increased regulations.

Mason Crum presented OWASA's CIP for Fiscal Years 2008-2022 and stated that the CIP has three major investment goals: replacement/renewal of deteriorated, aging infrastructure; meeting the future needs of the customers in the OWASA service area; and upgrading system components to meet evolving regulatory requirements.

The following are figures from the capital improvements plan presentation:

- Projected costs for 2008-2012 (5 years): \$58.2 million
- Projected costs for 2008-2022 (15 years): \$328 million

Category of Work Allocations of for the FY2008-2012 CIP Budget:

Growth:	12%	Regulatory Requirements:	3%
Renewal and Replacement:	70%	System Enhancement:	15%

Update on the Upgrade and Expansion of the Mason Farm WWTP

- Construction is on schedule for substantial completion by late summer of 2007.
- When completed, the plant's capacity will increase from 12 to 14.5 million gallons per day (MGD), which is expected to be adequate to meet the service area's needs for at least the next 10 to 12 years.
- Improvements in the treatment process will reduce nutrient discharge into Morgan Creek and Jordan Lake.
- Significant odor elimination steps will be complete.
- The treatment improvements will enable the Reclaimed Water initiative with the University of North Carolina to move forward.

Kevin Ray discussed the proposed O&M Budget and Rates for FY 2007-2008. Mr. Ray said that the proposed operating appropriation reflects a 3.8% increase over the current appropriations.

<u>2007-2008 Budget Summary</u>	<u>(millions)</u>
Total Revenue:	\$38.7
Operating Expenses:	(\$18.0)
Debt Service:	(\$9.7)
Available for CIP:	\$11.0
Capital Outlay:	\$18.8

Sources of Revenue: \$38.7 million

Availability and Plan Review Fees:	8%
Grants and Assessments:	16%
Interest Income:	2%
Other Revenue:	3%
Sewer Revenue:	30%
Water Revenue:	41%

How \$1 of FY 2006 revenue is spent

Capital Spending (\$3.8 million)	\$0.15
Debt Service (\$9.5 million)	\$0.30
Net Operating Expenditures (\$17.3 million)	\$0.55

Operating and Maintenance Expenditures: \$17.3 million

Chemicals:	10%
Insurance:	1%
Maintenance:	12%
Materials & Supplies:	3%
Other:	3%
Professional Services:	5%
Fringe Benefits:	15%
Salaries & Wages:	40%
Utilities:	11%
Water Purchases:	0%

Mr. Clarke asked for factual comments from the Board. There were none.

Mr. Clarke asked for comments from the public. There were none.

Mr. Clarke asked for comments from the Board.

Gene Pease asked when was the last competitive employee pay study completed and whether the proposed 3.7% merit pay is competitive enough for the area. If the last study was not recent, perhaps the Board should consider conducting an external study.

Mr. Kerwin said the last pay study was done by a consultant within the past four years and concluded that OWASA's pay is competitive in the market.

Mr. Pease requested a breakdown of revenue by classes and asked how the University revenue is listed (institutional or separated). He also thought it would be more effective to compare the proposed budget to projected current year expenditures and not the proposed budget to the current budget.

Randy Kabrick asked how OWASA's General and Administrative expenses compare to other utilities. Staff will follow up on this request at a future date.

Penny Rich moved to close the Public Hearing on the O&M and CIP Budgets. The Motion was seconded by Marge Anders Limbert, and carried by unanimous vote. Please see Motion No. 2.

ITEM SIX: PUBLIC HEARING ON PROPOSED ADJUSTMENTS TO RATES, FEES AND CHARGES

Mac Clarke opened the Public Hearing on the proposed adjustments to the rates, fees, and charges.

Kevin Ray said that the proposed budget includes a 6.25% adjustment for monthly water rates and 13.75% for monthly sewer rates that would be effective on October 1, 2007. He said the rate increases are driven by the 15-year CIP needs, 60% of which support the renewal and replacement of aging infrastructure.

Mr. Ray said the proposed increasing block water rates for individually metered residential customers sends a strong price signal to higher-than-average users to conserve water. The block rates will also help reduce the effect of rate increases on low volume users. With block rates, the average bill for a residential customer who uses 6,000 gallons per month would be \$2.74 less (\$67.00 instead of \$69.74) than if seasonal rates were continued.

Mr. Ray displayed a January 2007 graph comparing the combined water and sewer bills for a typical single family residential customer in about thirty different communities in the Triangle region. OWASA bills are somewhat higher than the middle in this comparison.

Mr. Clarke asked for factual comments from the Board. There were none.

Mr. Clarke asked for comments from the public.

Ray DuBose, Director of Energy Services for the University of North Carolina at Chapel Hill, said OWASA's water and sewer services to the University are critical. Over the past year, the University and OWASA staff completed an analysis of how to improve the reliability of the system for the University.

Mr. DuBose said there is concern about the proposed increase in water and sewer rates, but the University is happy that the seasonal rate structure will continue for institutional customers. There is concern about the proposed 45% increase in sewer availability fees. The University would like to continue to prepay availability fees at the current rate for projects under construction before the rate increase takes effect, so that existing project budgets will not be adversely affected. The University would like to continued dialog on this topic. Finally, Mr. DuBose expressed his appreciation of the services OWASA provides and said he enjoys working with OWASA.

There were no other comments by citizens.

Randy Kabrick requested that staff look into the University's request regarding availability fees.

Fred Battle moved to close the Public Hearing on the rates, fees and charges. The Motion was seconded by Penny Rich, and carried by unanimous vote. Please see Motion No. 3.

ITEM SEVEN: MINUTES

Marge Anders Limbert moved to adopt the minutes of the April 12, 2007, Closed Session of the Board of Directors to discuss pending litigation. The motion was seconded by Penny Rich, and carried by unanimous vote. Please see Motion No. 4 above.

Marge Anders Limbert moved to adopt the minutes of the April 26, 2006, Meeting of the Board of Directors. The motion was seconded by Penny Rich, and carried by unanimous vote. Please see Motion No. 5 above.

ITEM EIGHT: RESOLUTION AWARDING AUDIT CONTRACT TO MCGLADREY & PULLEN, LLP AND AUTHORIZING CHAIR OF THE BOARD OF DIRECTORS AND THE FINANCE OFFICER TO EXECUTE SAID CONTRACT

Marge Anders Limbert made a motion to adopt the resolution; it was seconded by Penny Rich; and carried by unanimous vote. Please see Motion No. 6 above.

ITEM NINE: SEMI-ANNUAL STATUS REPORT FOR VARIOUS CAPITAL IMPROVEMENT PROJECTS, INCLUDING THE SEMI-ANNUAL REPORT ON COMMUNICATIONS PLANS FOR CAPITAL PROJECTS

The Board received the report as an information item.

ITEM TEN: CLOSED SESSION

Penny Rich moved that the Board go into a Closed Session for the purpose of discussing a personnel matter. The motion was seconded by Marge Anders Limbert and carried by unanimous vote. Please see Motion No. 7 above.

Orange Water and Sewer Authority

May 24, 2007

Page 8

There being no further business to come before the Board, the meeting was adjourned at 8:45 P.M.

RESOLUTION APPROVING AND AWARDED AUDIT CONTRACT TO
MCGLADREY & PULLEN, LLP AND AUTHORIZING CHAIR OF THE BOARD OF
DIRECTORS AND THE FINANCE OFFICER TO EXECUTE SAID CONTRACT

WHEREAS, Orange Water and Sewer Authority is required by the General Statutes of the State of North Carolina and the Series 2001 Bond Order to have its financial records audited at the termination of each fiscal year; and

WHEREAS, in February of 2006, the Authority solicited audit proposals based upon the established criteria recommended by the North Carolina Local Government Commission;

NOW, THEREFORE, BE IT RESOLVED:

1. That the contract between Orange Water and Sewer Authority and McGladrey & Pullen, LLP, Greensboro, N.C., for financial audit of the Fiscal Year Ending June 30, 2007, for total charges not to exceed \$30,125 is hereby approved subject to approval by the North Carolina Local Government Commission.

2. That the Chair of the OWASA Board of Directors and the Finance Officer are hereby authorized to execute such contract.

Adopted this 24th day of May, 2007.

ORANGE WATER AND SEWER AUTHORITY
CLOSED SESSION OF THE BOARD OF DIRECTORS

MAY 24, 2007

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met in closed session following the Board meeting on Thursday, May 24, 2007, in the First Floor Conference Room at Chapel Hill Town Hall.

Directors present: Michael A. (Mac) Clarke, Chair; Randolph M. Kabrick, P.E., Vice Chair; Gordon Merklein, Secretary; Fred Battle; Braxton Foushee; Marge Anders Limbert; Gene Pease; and Penny Rich. Directors absent: William R. Stott.

ITEM ONE

The Board of Directors met in Closed Session for the purpose of evaluating the annual performance of the Executive Director for the current fiscal year.

No official action was taken at the meeting.