

Public Hearings Item 1:

Concurrent Public Hearings on the Preliminary Annual Operating and Capital Improvements Budget and Proposed Rates, Fees and Charges

Purpose:

On March 9, 2023, the Board of Directors adopted resolutions setting May 11, 2023, as the date for concurrent public hearings on OWASA's draft budget and schedule of rates for Fiscal Year (FY) 2024. This memorandum and attachments are provided to the Board of Directors as a basis for discussing the draft budget and Schedule of Rates, Fees and Charges for FY 2024.

Background:

OWASA is a non-profit, community-owned water and wastewater utility. Our investments in water and wastewater infrastructure are supported solely by rates and fees paid by customers for services; we do not receive funding from taxes. We reinvest the rates and fees paid by our customers directly into the treatment plants, pipes, and people that will serve our community for years to come. We strive to balance the need to invest in the community's water and wastewater infrastructure and to maintain affordable rates.

Nearly 50% of the amount customers pay for services goes toward funding critical capital improvement projects to upgrade pipes, pumps, and other important infrastructure. These investments will serve our community well into the future. The other 50% supports the maintenance and operation of the system 24 hours a day.

We appreciate our customers for their partnership. Beyond paying their OWASA bill each month, the cost and commitment borne by our community to use water wisely and protect the wastewater system pays dividends ecologically and economically. Additionally, we thank the roughly 900 customers that voluntarily contribute every month on their OWASA bill to Care to Share, a fund that provides water bill assistance to those in our community that need it most.

Draft FY 2024 Budget Synopsis:

The Board is considering a 9% rate increase for water and sewer services. This budget helps to ensure that we are investing in the community's water and sewer infrastructure at a level that decreases risks of failure in our systems and processes that would negatively impact the environment and OWASA customers.

Although a 7% increase was originally projected for FY 2024, new regulations regarding the removal of per- and polyfluoroalkyl substances (PFAS) from drinking water have been issued. As a result, to ensure the community has access to high-quality drinking water, OWASA plans to invest an estimated \$50 million in our water treatment plant over the next five years to be able to remove PFAS compounds and meet the new EPA regulations. Additionally, inflation has significantly increased the cost of supplies needed to safely treat the community's water and wastewater as well as the cost of construction for infrastructure. These factors coupled with a highly competitive labor market is applying pressure on OWASA's budget in multiple ways.

May 11, 2023

In an attempt to lessen the rate increase for FY 2024, the Board of Directors considered an alternative budget scenario. However, it was determined that the alternative budget scenario would put at risk OWASA’s ability to continue to deliver the level of service expected by the community.

A 9% increase in rates, if approved, will raise the median residential water and sewer bill of 3,000 gallons per month by \$6.79 to \$82.15. Any adjustments to monthly water and sewer rates would go into effect in October 2023. One-time system capacity or System Development Fees applicable when a new connection is made to the water or sewer system are also proposed to change; these rate changes would go into effect in July 2023.

Draft FY 2024 Budget:

At its meetings on [March 9, 2023](#) and [April 13, 2023](#), the Board reviewed and discussed the draft FY 2024 budget including information regarding projected operating expenses, capital improvements program (CIP) expenditures, and capital equipment purchases. These investments in the community’s water and wastewater systems are necessary to provide services, protect the environment and public health, and retain a highly skilled and dedicated workforce.

Operating Budget Assumptions and Highlights:

The draft FY 2024 budget is about 14% or \$3.8 million greater than the FY 2023 budget.

The draft FY 2024 budget includes funding for several items that were deferred in prior years and provides funds for strategic plan initiatives. Some increases in costs are due to inflationary pressure and supply chain issues. (See Attachment 1 for a summary FY 2024 operating budget.)

The following highlights items that account for most of the \$3.8 million difference between the FY 2023 budget and the draft FY 2024 budget.

Expenditure	Increase over FY 2023 Budget	Explanation
Increase in salaries and wages ¹	\$945,000	* 5% cost of labor adjustment plus merit adjustment based on Pay Administration Guidelines. * Includes two apprentice positions approved by the Board in the FY 2023 budget and a new Procurement Coordinator position.
Increase in contributions to Local Government Employee Retirement System ¹	\$206,000	* Based on wages; this cost increases as wages increase. * The mandatory employer contribution rate is 12.85% of wages.
Increase in contributions to employee’s deferred compensation accounts ¹	\$160,000	* Increase employer contributions from 3.5% to 5% of wages to remain competitive in the labor market.

Expenditure	Increase over FY 2023 Budget	Explanation
Increase in chemicals expense	\$1,146,000	* Price increases.
Increase in Maintenance	\$505,000	* Periodic (non-annual) maintenance activities at treatment plants. * Increase in cost of collection system maintenance. * Increase in software license, support, and maintenance fees.
Complete implementation of Computerized Maintenance Management System ²	\$270,000	* Project will help manage maintenance activities and provide better insight for projecting maintenance costs. * Project began in FY 2023.
Complete implementation of customer utility billing system ³	\$250,000	* Current software is poorly supported, based on outdated technology, and prevents OWASA from taking advantage of opportunities that are available with a modern platform. * Will move us closer to a seamless customer experience. * Project began in FY 2023.
Migrate geographic information system (GIS) to new platform ²	\$200,000	* New system will enhance functionality. * Required because support for current system will expire in March 2026. * Project began in FY 2023.
Total	\$3,682,000	

¹ Supports the strategic plan initiative: employee recruitment, retention, and development.

² Supports the strategic plan initiative: service reliability and resiliency.

³ Supports the strategic plan initiative: community engagement.

Additional information about the draft operating budget:

The following outlines some of the more significant items impacting the draft operating budget.

- 3% vacancy allowance – the personnel compensation budget has been reduced by about \$320,000, to account for position vacancies.
- An increase of 7.9% in health insurance costs.
- A 5% cost of labor increase in wages plus a merit increase based on OWASA’s Board-approved Pay Administration Guidelines. The cost of labor adjustment is based on research data provided by WorldatWork, a global nonprofit human resources support organization.
- Results of the pay and classification study indicate that OWASA’s pay ranges are approximately 3.72% below market and that wages will escalate by about 4.2% in 2023. This “shortfall” of

7.92% is very close to the cost of labor and merit increases included in the draft budget (minimum of 7.9% for employees earning a performance rating of Meets Expectations). Staff believes that the cost of labor and merit increases in the draft budget puts OWASA in a competitive position in the labor market.

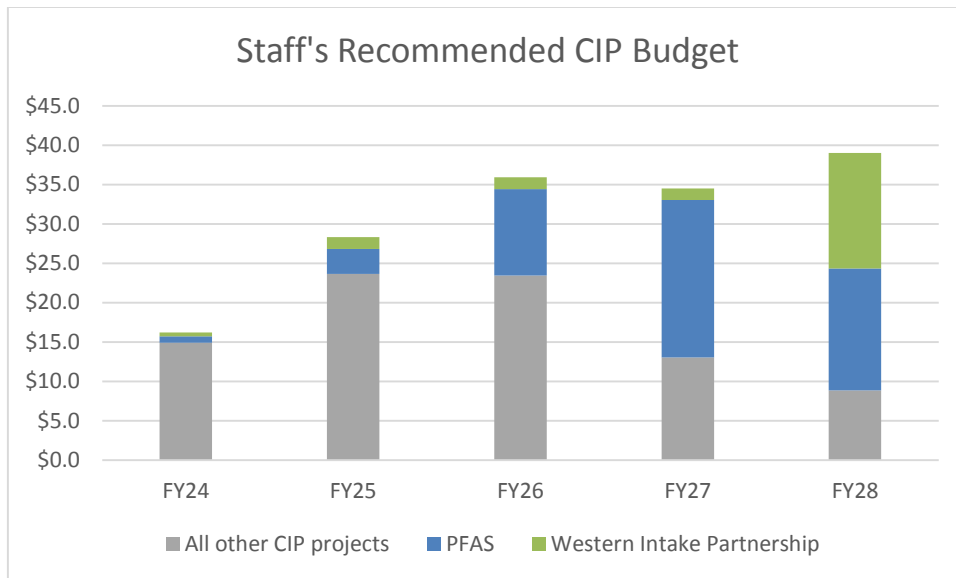
- 142 staff positions funded for FY 2024 including two apprentice positions approved by the Board last year. It also includes funding for a new Procurement Coordinator position in the Finance Department.
- Increase in OWASA's contribution to employee's deferred compensation plan (457) accounts from 3.5% of wages to 5%. This adjustment is to remain competitive in the labor market; peer organizations contribute 5% or more of wages to their employee's accounts.
- An increase in the cost of chemicals used in drinking water production and wastewater processing over last year's budget of about 34% or \$1.1 million.
- No provision for a rate structure study. The Board has expressed interest in conducting a study of OWASA water and sewer rate structure in the future and received a [presentation](#) from our rate consultant, Andy Burnham of Stantec Consulting, on the goals and objectives for this type of rate study. Our most recent rate study was conducted in 2016. And while we do not expect significant changes to result from our next rate study, best practices indicate that OWASA should conduct one within the next few years. We discussed this with our consultant and agreed that the next rate study should be conducted no earlier than FY 2025. It's best to have at least three years of data to analyze and we want to avoid using water consumption data that was impacted by the years of the pandemic.

Capital Improvements Program:

The draft FY 2024 CIP budget totals \$16.1 million of investments to improve system reliability and resiliency and operational efficiency; \$153.8 million is projected for the five-year period FY 2024-2028. A complete list of projects can be found in Attachment 2. The five-year plan includes funding for:

- \$91.5 million in work at the Jones Ferry Road Water Treatment Plant including investing in equipment and processes to remove PFAS compounds from the community's drinking water
- Replacement of approximately 6.3 miles of water mains
- Rehabilitation of approximately 15.4 miles of sewer mains
- Rehabilitation of eight wastewater pump stations
- Improvements to the Supervisory Control and Data Acquisition system at the water treatment plant
- \$13.7 million in work at the Mason Farm Wastewater Treatment Plant
- OWASA's participation in the Western Intake Partnership project to construct a raw water intake and facility on Jordan Lake

The following chart shows the projected 5-year CIP budget and highlights the impact of complying with the new PFAS regulations and participation in the Western Intake Partnership.



Future Budgets – Fiscal Years 2024-2028:

The following table shows projected rate increases for the five-year period from FY 2024-2028. Rate adjustments projected for FY 2025 and beyond will be re-evaluated each year.

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Rate Increase	9%	9%	10%	6%	6%
Increase in residential monthly bill based on median use of 3,000 gallons per month	\$6.79	\$7.39	\$8.96	\$5.91	\$6.26
Amount of monthly bill after increase	\$82.15	\$89.54	\$98.5	\$104.41	\$110.67

Proposed Schedule of Rates, Fees and Charges:

Attachment 3 is a draft of the Schedule of Rates, Fees and Charges with proposed changes noted.

Key Elements in the Schedule:

- A 9% increase has been applied to monthly water and sewer charges.
- The bill for a single-family individually metered customer using the community-median 3,000 gallons per month will increase by \$6.79 to \$82.15.
- Continuation of the block rate structure for individually metered residential customers, year-round rate for multi-family master-metered customers, and seasonal rates for non-residential customers.
- Conservation water commodity charges under declared water shortages (surcharges) remain in place with no change in the surcharge structure.
- Irrigation accounts remain subject to a year-round uniform charge and monthly service charge for irrigation use that is higher than the peak rate under the seasonal structure.

- No changes in the commodity rate or fixed monthly charge for reclaimed water as current rates cover costs.
- System development fees are being adjusted as a result of a rate study required by North Carolina House Bill 436/Session Law 2017-138. Pursuant to the law, OWASA's fees must be reevaluated every five years. Due to investments OWASA has and will make to expand system capacity, most fees will increase.
- Lake fees are unchanged.
- Miscellaneous charges such as meter installations have been adjusted based on estimates of the costs incurred to perform the service. Costs have been reduced on a few service items.

Summary:

In summary, the draft budget will provide funding for:

- Employee recruitment and retention measures including compensation increases, employee health insurance and a competitive deferred compensation plan,
- Increases in direct costs including chemicals critical to water and wastewater treatment,
- Upgrading several information technology programs,
- Replacing and rehabilitating system assets,
- Ensuring access to sufficient water supply,
- Complying with regulations, and
- Making progress towards accomplishing our strategic goals.

Next Steps:

- The Board will consider input received during the public hearings and provide guidance to staff.
- Formal adoption of the Annual Budget and the Schedule of Rates, Fees and Charges is scheduled for the Board's meeting on June 8, 2023.

Action Requested:

- Receive and discuss input provided by the public at, or prior to the public hearings, and subject to the rights of the public to submit written comments for up to 24 hours after the Public Hearings, as provided by statute.
- Provide direction to staff regarding the draft FY 2024 Budget and the Schedule of Rates, Fees and Charges that will be considered for adoption by the Board at its June 8, 2023, meeting.

Information:

- Summary information about the draft Budget for FY 2023 (Attachment 1)
- Information about the proposed Capital Improvements Program Budget (Attachment 2)
- Proposed Schedule of Rates, Fees and Charges (Attachment 3)