

Charlotte-Mecklenburg Utilities

FY 2005 Year-End Report

Plan prepared July 2005

Executive Summary

Utilities year-end report identifies the corporate scorecard perspectives and objectives we have influenced during the last year. As requested, performance measures, performance targets and actual achievement information are provided in the Balanced Scorecard template included in this report. Also as requested, the template includes comparison and trend information as well as changes, improvements, and “lessons learned” made over the course of FY 2005, as it is available and pertinent. Key service indicators have been updated and may be found on page 9.

As requested, our most significant achievements and greatest challenges experienced during fiscal year 2005 are identified below. Utilities successfully faced several challenges in FY 2005, and thus are listed as both challenges and accomplishments. One of the biggest issues for Utilities in FY 2005 was reorganization. The establishment of a dedicated Customer Service division and the consolidation of Water Distribution and Wastewater Collection divisions into the new Field Operations division impacted approximately 419 Utilities employees—over half of our workforce. Both of these divisions will require continued implementation support in FY 2006 and 2007 through new business process improvements, setting benchmarks, employee training, and continued implementation of new strategies that have proven to be successful.

Several graphs have been updated to include FY 2005 data and are included in the Key Service Indicators, History, Trends, and Comparisons section of this report. Information on system growth, plant flow, financial health, and customer characteristics are included in this section. The regional water/sewer rate comparison graph has been updated and included in this section as well. Once again, Charlotte-Mecklenburg Utility rates are among the lowest in the regional peer group surveyed.

Challenges and Achievements

Charlotte-Mecklenburg Utilities stands ready to provide quality water and wastewater services at a low cost in the upcoming years. However, Utilities faced several key issues within FY 2005:

Vest and Irwin Competition—Accomplishment

<i>Corporate Objective:</i>	<i>Deliver Competitive Services</i>
<i>KBU Initiative:</i>	<i>Provide Competitive Service Delivery</i>
<i>Measure:</i>	<i>Implement Competition Plan</i>

The City’s Competition Policy requires all departments to have a five year competition plan that includes all privatization, competition, optimization, and benchmarking efforts within the departments. Utilities’ plan for FY 2005 included the competition of one of Utilities wastewater treatment plants, Irwin Creek, and one water treatment plant, Vest.

While three private firms presented statements of qualification, none chose to bid. City teams were the only ones to submit final cost proposals.

Private firms deemed to be qualified were contacted after proposals were submitted to inquire why they did not submit a bid. In general, the firms agreed that there was not an overwhelming chance they would be awarded the contract based on the current efficient cost of operation at the plants.

The competition process was guided and reviewed by the Privatization Competition Advisory Committee (PCAC). Upon receiving employee bids, Utilities' Procurement Team presented the bids and savings amounts to the PCAC and the PCAC approved plans to move forward and enter into a Memorandum of Understanding (MOU) with the City bid teams.

The Procurement Team has negotiated a MOU with the individual City bid teams. A combined annual savings of approximately \$290,000 is anticipated due to this competition. (This savings is over the calculated "status quo," or the FY 2006 budget for each plant with a 3% escalation rate per year). The MOU will be in place beginning July 1, 2005 and will last five years. The total savings for all five years is expected to be close to \$1.5 M.

Providing Major Capital Improvements: Challenge

<i>Corporate Objective:</i>	<i>Strengthen Neighborhoods</i>
<i>KBU Initiative:</i>	<i>Improve Level of Service Within Neighborhoods</i>
<i>Measure:</i>	<i>Coordinate Rehab with Engineering and Property Management Neighborhood Improvement Program</i>

<i>Corporate Objective:</i>	<i>Invest in Infrastructure</i>
<i>KBU Initiative:</i>	<i>Provide Adequate Capacity</i>
<i>Measure:</i>	<i>Construction of the Southwest Water Main</i>

Utilities continues to face challenges centering around increased growth and development of the service area and the impacts that will have on new and existing infrastructure, increased environmental sensitivity, and subsequently, increased regulations. Providing infrastructure development along transit corridors and in outlying County areas create needs for increasingly complex and expensive capital improvements. Utilities will be challenged in the coming years to maintain the balance of capital funding and staffing to manage the projects necessary to meet growth and escalating regulatory demand.

The State is placing an increasing emphasis, in the form of additional regulatory requirements, on secondary and cumulative impacts of these projects. As a result, large-scale capital projects take longer to complete. Also, due to many projects occurring at the extremities of the system, projects cost more while projects involving construction in developed areas cause more inconvenience within the service area.

The Briar Creek Relief Sewer project has emerged as an example of the difficulties in meeting the needs of growth and regulatory requirements in an already urbanized area. This project was not included in the original business plan because it was not deemed to be quite as high level, but since the project began, it has required more resources, more time, more consideration of alternatives, and more discussions with the public than initially thought—it has become more complex. The existing two sewer outfalls have experienced overflows in the past during heavy rain periods. Engineering studies of the outfalls have indicated that they are not sufficient to meet the needs of continued growth and redevelopment and contain flows during wet weather periods. Therefore a new, larger sewer line is required. Most of the area in Briar Creek is urbanized already and homes and businesses have been constructed within the creek floodplain along the stream leaving very little room for the construction of a large diameter sewer line. This project, and others like it, requires much more extensive communication with residents along the route and with regulatory agencies to determine an acceptable construction route.

Utilities has incorporated strategies to counter these trends into the FY 2006-2007 Business Plan/Balanced Scorecard through measures such as coordinating infrastructure improvements with Engineering and Property Management, work with the Planning Commission and towns to align growth and infrastructure needs, and complete the Southwest Water Main.

Reorganization—Accomplishment and Challenge

During FY 2005, Utilities made several major changes in organization structure. The first change was the establishment of a new Customer Service Division. The second was a lab consolidation between Mecklenburg County and Utilities. The third was the rollout of the Water Distribution and Wastewater Collection Optimization Pilot into a new Field Operations Division. While each of these changes have been challenging during transition, they mark a major organizational shift and are quite an accomplishment.

Customer Service

<i>Corporate Objective:</i>	<i>Enhance Customer Service</i>
<i>KBU Initiative:</i>	<i>Improve Customer Service</i>
<i>Measure:</i>	<i>Establish new Customer Service Division</i>

Utilities Customer Service division was established in July of 2004. Utilities developed a detailed plan to stabilize the division and improve several key business processes including the following:

Implementation of the New IVR and Phone System Including Management Reports –The new system provides additional capabilities including management reporting tools to monitor and continue to improve the operations. The first day that the system was implemented, customer service representatives (CSRs) were able to respond to over 2,000 calls.

Implementation of Online Payments - Implementation of electronic payment processing was completed in November of 2004. Over \$3,265,000 were collected as of June 2005. The electronic payment capability has streamlined the collection process saving 1.5 FTE in Finance and has reduced the number of calls to the CSR. 35,813 Utility customers have used the new capabilities, averaging about 5,000 online transactions per month.

Delinquency Process Improvements - In addition to streamlining the process for running reports after hours, improvements will include the ability to predict when a customer's service will be terminated for non-payment. The delinquent customers who are eligible for service termination will receive a courtesy notification via phone advising them to make payments. The courtesy notification will be implemented in July and the delinquency efficiency improvements are scheduled for September.

High Bill Inspections - The new process restricts the total number of inspections that are created by providing the Billing Technicians with consumption parameters and FAQ's to determine if an account is eligible for an inspection. A new report was developed to assist the inspectors with developing their routes each day for the most efficient distribution. Since implementation in March, the total number of inspections has decreased significantly. In addition, most inspections occur within 24 hours of the customer's initial contact. All customers are contacted with inspection results either in person or with an updated door hanger with specific information. Accounts not eligible for inspection receive a letter providing them with water conservation tips and methods to determine if they have a leak on private

property. Accounts eligible for City leak adjustments receive their adjustments much faster and are also contacted via mail with their new balances.

Mobile Workforce Enablement – Field Service Suite (FFS) will automate the creation and processing of service orders that now require manual intervention by the Utility staff. After the system is fully automated, it will replace the paper processing of the service orders. The system will be implemented after system deployment on August 31, 2005.

311 Process Development and Support – Utilities has collaborated Citywide with 311 and other consultants to develop processes to respond to customer inquires across organizational units. The processes have been completed and are currently being used by the 311 and Utilities Customer Service center. Utilities' role in the implementation of the City 311 Call Center proved to be a challenge for Customer Service due to the transfer of 14 positions from Customer Service to 311. This transfer involved identifying the employees that would be transferred and training them in 311 procedures. This transition was particularly disruptive to Customer Service (as opposed to another division) since Customer Service is a newly formed division and employees are still acclimating to the new procedures, organization, and environment. Utilities' Banner Team assisted with the transition to 311 by determining protocol, developing scripts for uniform call answering, and overall support of this major City initiative.

The creation of the Customer Service division is a big step in continuing a high level of customer service, however, Utilities believes that there is always room for improvement. In the coming year, Utilities plans to implement business process improvements to reduce the abandonment rate and wait time for customers who call our customer service operators.

Lab Consolidation

<i>Corporate Objective:</i>	<i>Develop Collaborative Solutions</i>
<i>KBU Initiative:</i>	<i>Encourage Teamwork</i>
<i>Measure:</i>	<i>Begin Lab Consolidation with LUESA</i>

Until FY 2005, Utilities and the Mecklenburg County Land Use Environmental Services Agency (LUESA) Environmental Laboratory operated independent significant environmental laboratories. Utilities did testing in two primary labs, an industrial waste lab and a wastewater treatment lab. The County already did testing for City Stormwater Services. Due to increased testing and regulatory requirements, both the County lab and Utilities found it necessary to expand beyond their current situation. The City began to make plans for building a new lab facility to house both the existing wastewater treatment lab and industrial waste lab. At the same time, the County had expressed an interest in selling the Hal Marshall building, the building that houses the County lab. Since selling the Hal Marshall building would require another building to be up fitted for a new County lab, Utilities and the County lab decided that it would make sense to consolidate staff, services, and facilities.

The County Lab became part of Charlotte Mecklenburg Utilities on July 1, 2004. Since then, many functional and operational changes have occurred at the new lab. Instrumentation and employees have been transferred to different facilities in an effort to more evenly distribute the number of employees at each laboratory. New equipment was purchased to improve the number of samples that can be analyzed at one time and decrease the labor involved. Software improvements have also helped streamline the reporting and invoicing processes.

Field Operations Division

Corporate Objective: Deliver Competitive Services
KBU Initiative: Provide Competitive Service Delivery
Measure: Continue Optimization efforts in Water Distribution and Wastewater Collection

On September 24, 2004 the new Manager of a combined Water Distribution & Wastewater Collection Division (Field Operations) was announced. Field Operations was created as a result of the success of a six-month Pilot which can be attributed to the project establishing key positions through reorganization, establishing the zone concept, combining water and sewer tap installation, and training/cross training employees. The biggest success factor has been the collaborative, employee driven process that has created all these changes.

Successes from this change will most likely occur in the following areas:

- ♦ Employees will be challenged by new work practices and have a career path clearly defined.
- ♦ We will realize a higher performance level, have better tools to identify, plan and schedule the fieldwork.
- ♦ We will create a model that Utilities can use for skill certification.
- ♦ Citizens will have more positive interactions with Utility teams.

The transition for Field Operations involved combining not only our distribution and collection work teams, but also their bases of operation, their skills and their work duties. Our countywide field operations service area is now divided into four sections, or zones. Each has a ‘home base’ and Zone Manager, who oversees both water and wastewater operations in that geographic area. Zones 1 and 2 began operating in January 2005. Zones 3 & 4 will be established the same way and are expected to be fully operational early FY 2006. The zones were decided upon based on the recommendation of the employee-led Organization Design Team who based their recommendation on work order history, infrastructure, and growth and development trends.

In the future we expect to realize approximately \$28 million in savings over ten years with an investment of approximately \$9 million. The investment will be in employee training, employee skill compensation, technology and support for the optimized practices.

Sanitary Sewer Overflows—Accomplishment and Challenge

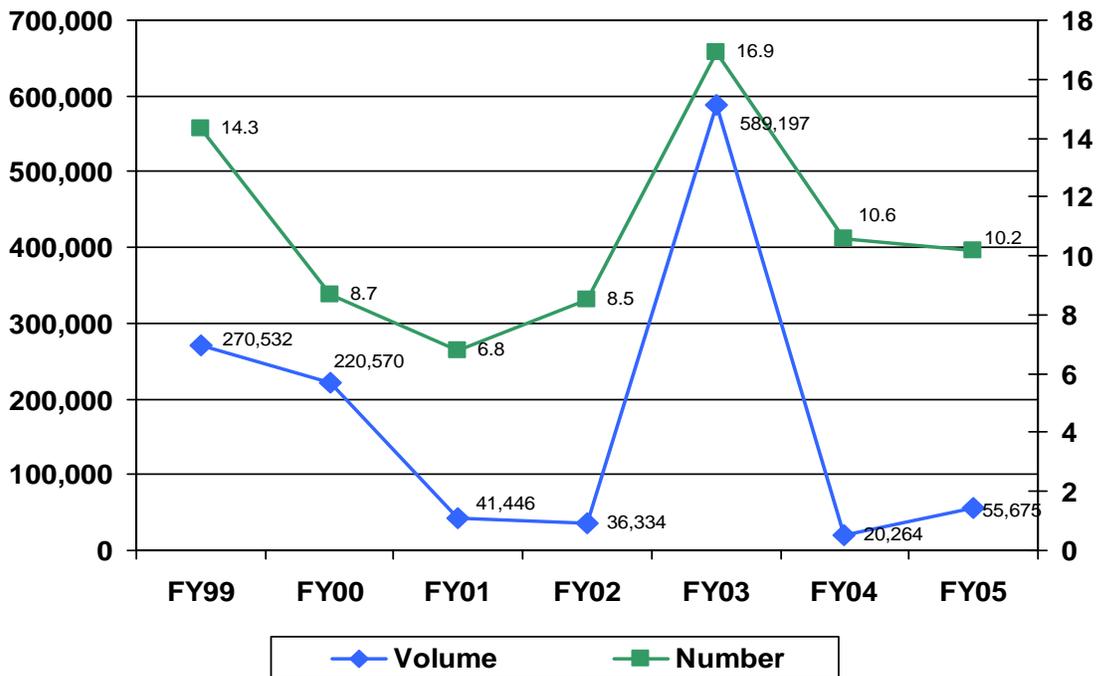
Corporate Objective: Safeguard the Environment
KBU Initiative: Collect Wastewater
Measures: Achieve a 10% Reduction in the Five-Year Mean of Overflows per 100 Miles of Pipe, Implement First Year of Capital Improvement Projects Aimed at Reducing Sewer Overflows, Enhance Operations and Maintenance (FOG and Root Control programs), Enhance Rehab Program, Contract for Cleaning Sewer Outfalls and Contract for Cleaning Small Sewer Lines (6 measures total)

Sanitary sewer overflows (SSOs) were quite high during FY 2003, due primarily to a dramatic increase in rainfall. The increased number of spills prompted the attention and action of the Environmental Protection Agency (EPA). Utilities retained a consultant, Brown and Caldwell, to assist in the data analysis from all of the SSOs that occurred during previous years and to examine causes and preventative measures to develop a program to significantly reduce SSOs in the collection system. They have found that major contributors of SSOs are primarily grease, roots, insufficient capacity and

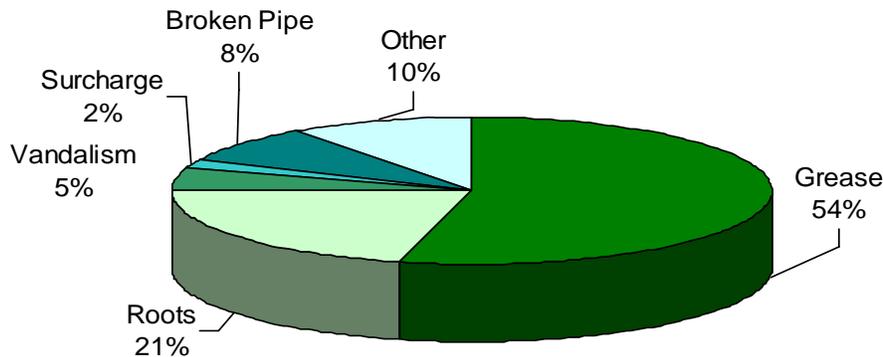
broken and deteriorated pipe. Utilities feels confident that progress is being made to ensure SSOs are being reduced as a result of Brown and Caldwell's recommended program and infrastructure improvements and without dependence on weather conditions.

For FY 2005, Utilities experienced overflows at a rate of 10.2 per 100 miles of pipe, below the actual for FY 2004 of 10.6 (thus an accomplishment), but above our business plan target for the year of 9.3 (thus a challenge as well). The target of a 10% reduction in the five-year mean for SSOs for this year was more aggressive than in previous years (the previous target was 5% reduction in the five-year mean), so this may account for falling just short of the target. Several programs aimed at reducing overflows have been established and are being monitored. The Fats, Oils, and Grease (FOG) program as well as the Root Control Program are well established, but it may take a while to fully realize the benefits of these programs. Utilities believes that with continued improvements to our system and programs aimed at reducing overflows we will be able to reach the 10% reduction target in the FY 2006 business plan. Below are two graphs that show SSOs by number and volume over the past few years as well as the major causes of SSOs for FY 2005 (which, typically, has not varied much between years).

Sanitary Sewer Overflow Data Per 100 Miles of Pipe



FY 2005 Sanitary Sewer Overflows by Cause



Budget and Revenues—Accomplishment and Challenge

Corporate Objective:

Maintain AAA Bond Rating

KBU Initiative:

Maintain Financial Stability

Measure:

Receive AAA Bond Rating From Fitch and S&P and Aa1 From Moody's

Unusual weather patterns have had a negative impact on revenues for FY 2005. The hurricane season produced major rainfalls in September and October and consumption for those months was not as anticipated. These months are historically some of our best revenue producers.

Total revenues of \$182,489,682 were realized for FY 2005. This is less than anticipated by \$1,686,261 and is therefore a challenge. Although variable water and sewer revenues did not meet expectations, capacity and connection fee revenues were excellent and exceeded expectations. Expenditures totaled \$173,323,664 for FY 2005 compared to a budget of \$181,288,885. Lower than expected expenditures can be attributed to an average of 140 vacancies during FY 2005 and is thus an accomplishment. Since expenditures were less than total revenues, Utilities will have a savings of over \$9M for FY 2005.

Although Utilities cannot control the entire financial picture for the coming years, several strategies in the form of Balanced Scorecard measures reflect the commitment Utilities has to maintaining a solid financial picture. Maintaining a AAA bond rating, recovering \$3 million dollars through the revenue recovery program, and implementing 100% of Utilities' Competition Plan are just a few ways Utilities plans on maintaining financial stability.

Other Key Achievements:

- ♦ Continuation of Revenue Recovery Plan— For FY 2005 we added 1,910 accounts. The estimate is that this will produce \$3,205,300 of billings in the first year. This is made up of \$1,534,700 of back billings and \$1,670,600 of annual billing.
- ♦ Construction Period Financing—All three credit rating agencies awarded us excellent ratings on our first commercial paper revenue bond anticipation notes offering of \$400 million. This financing is similar to a line of credit where monies are drawn as they are needed. This financing avoids interest charges until funds are drawn. In two years the \$400 million should be fully drawn and the bond anticipation notes will be converted to permanent financing. Interest savings for 2005 is estimated at \$4.7M.

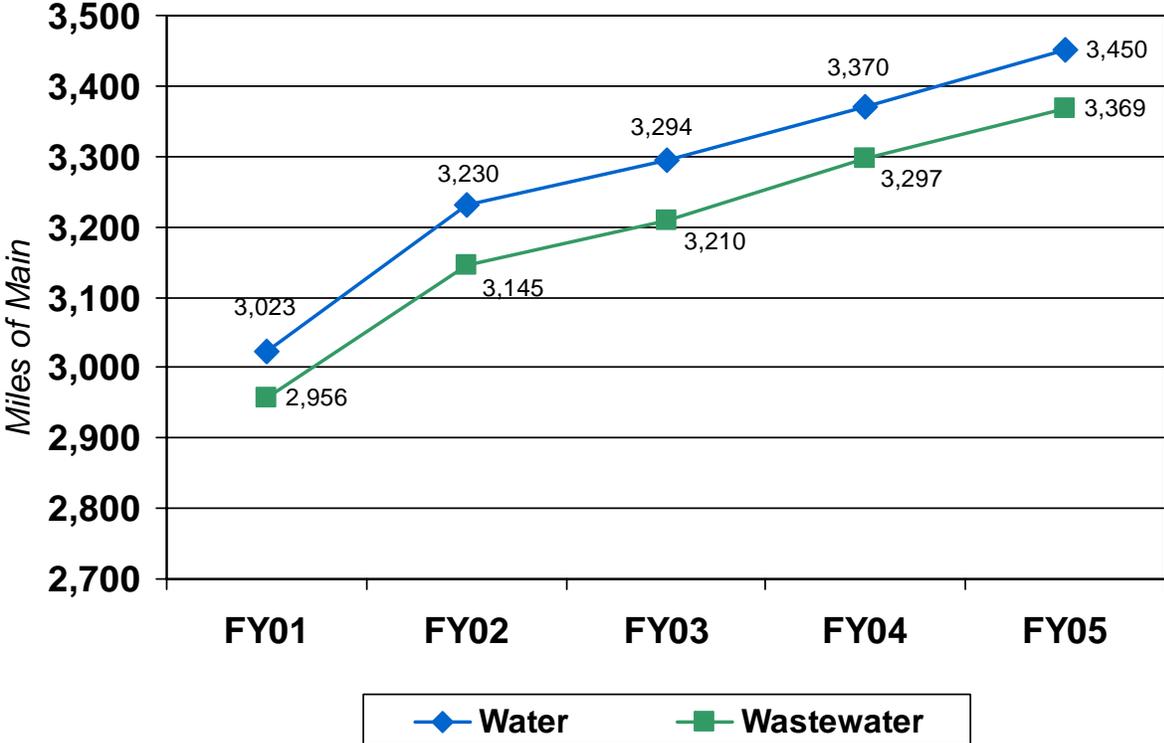
Key Service Indicators, Service History, Trends, and Comparisons

Charlotte-Mecklenburg Utilities' system continues to expand to meet the increasing water and wastewater needs of our customers due to growth and development. Listed below are several key service indicators that are workload and operational measures that assist us in tracking our ability to meet service demands. Data is provided for fiscal year 2005.

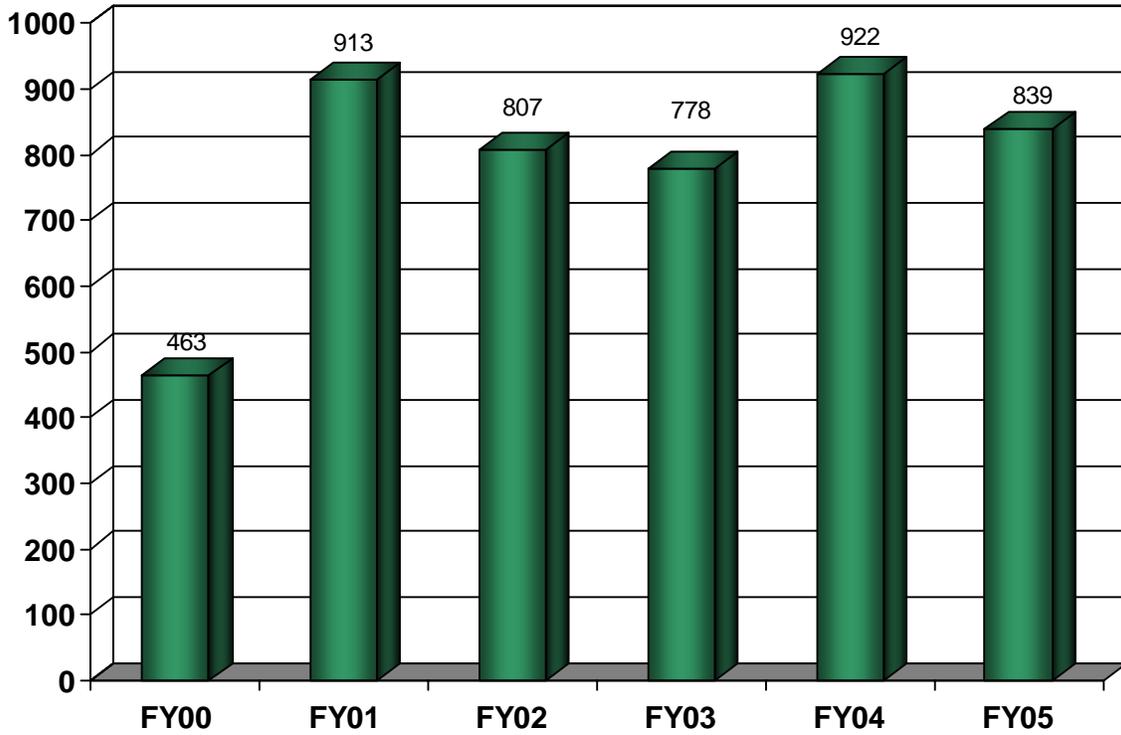
1. Miles of Pipe Maintained—over 6,800 miles
2. Number of new services added—approximately 1.8% growth or 4,085 services for water and approximately 2.9% growth or 5,767 services for wastewater.
3. Daily average Water Pumped—100.4 million gallons.
4. Daily Average Wastewater Treated—84.433 million gallons.

The charts that follow illustrate the growth trend by showing the number of miles of water and wastewater lines maintained, average leaks for mains and services, and the number of water and wastewater accounts from FY 2001- 2005.

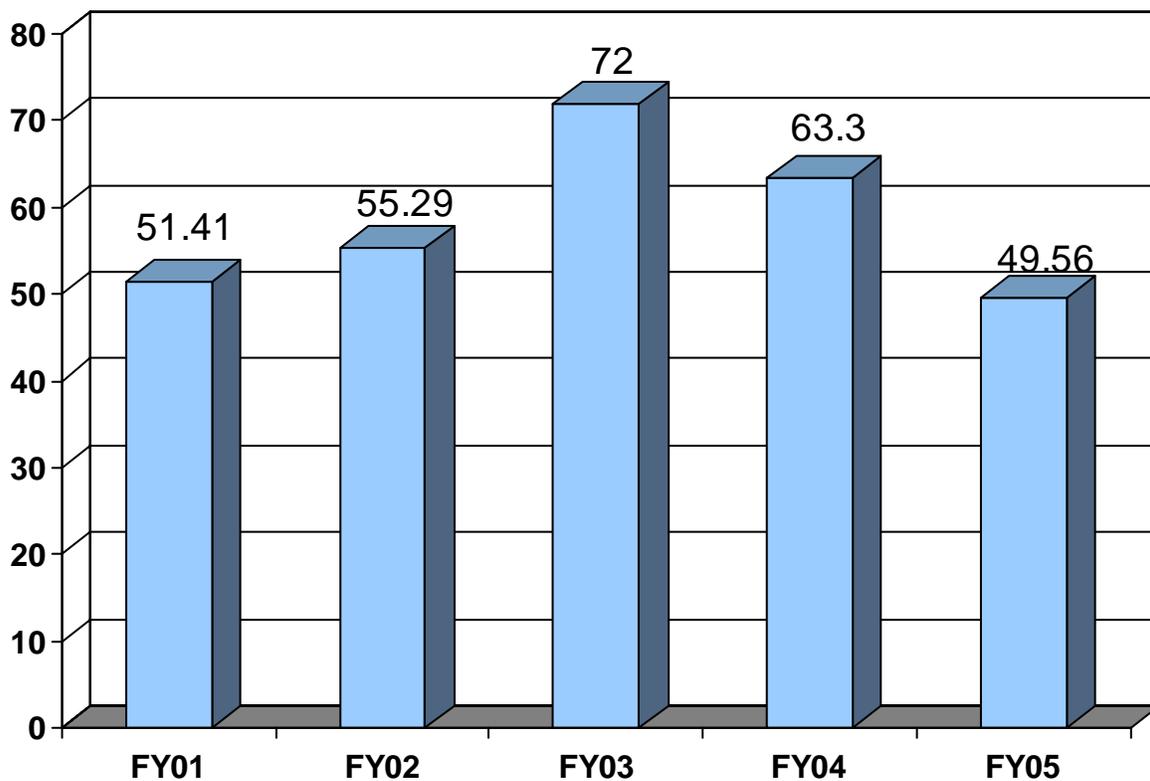
Miles of Main



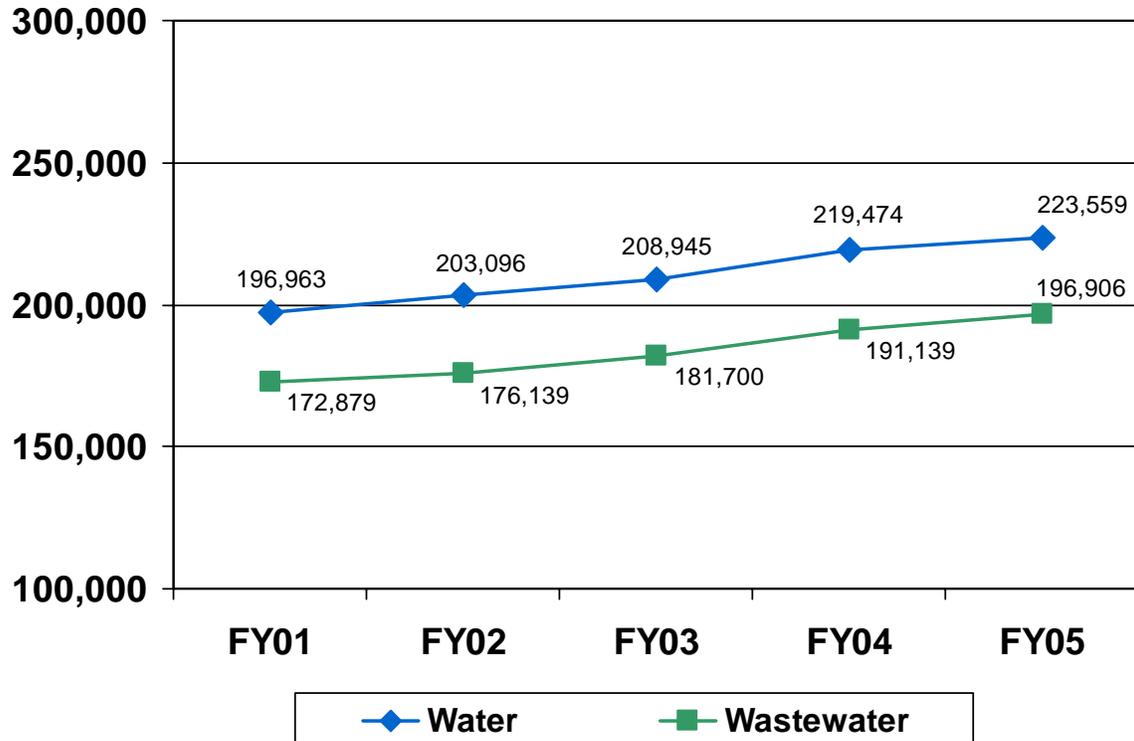
Miles of Wastewater Main Cleaned



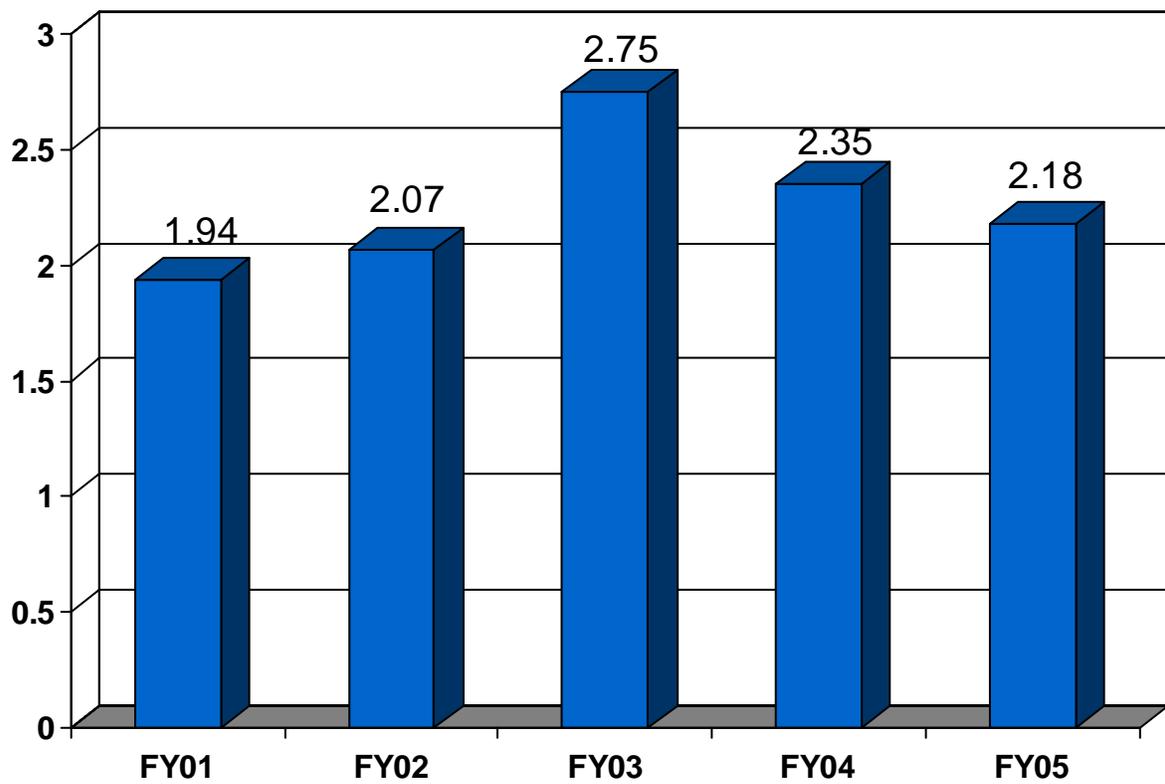
Number of Leaks Per 100 Miles of Water Main



Number of Water and Wastewater Accounts

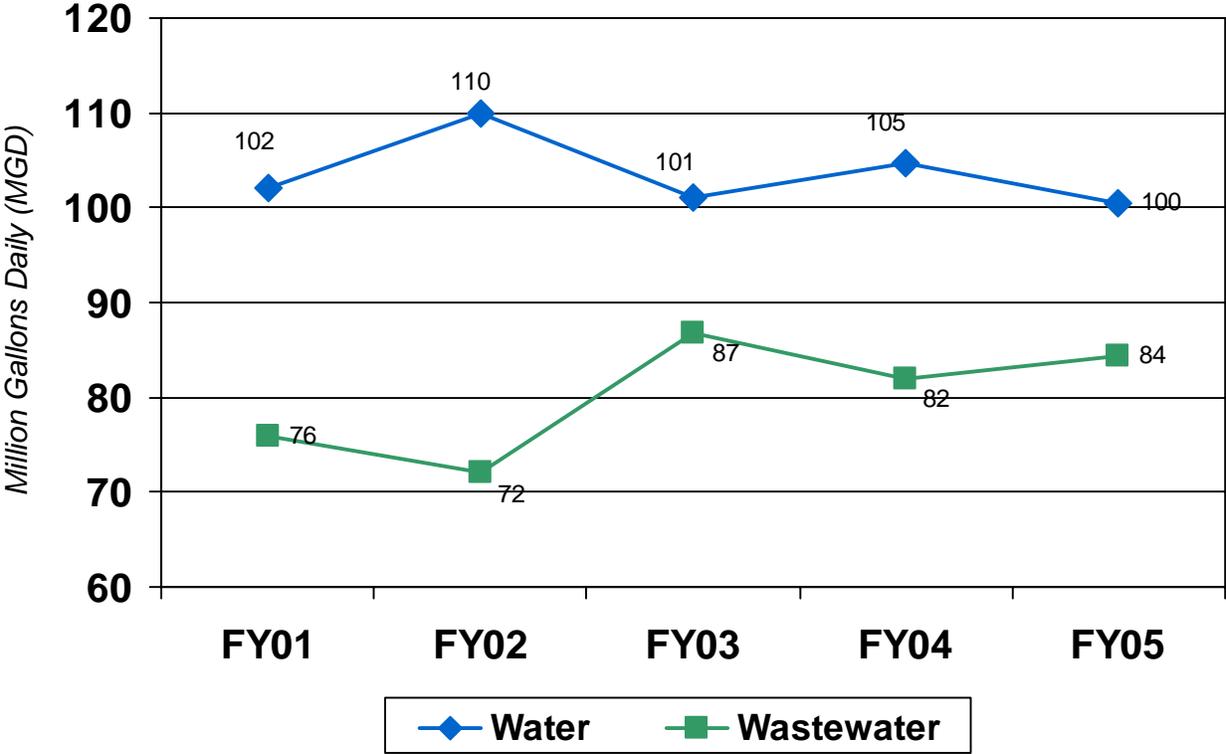


Number of Leaks Per 100 Water Services

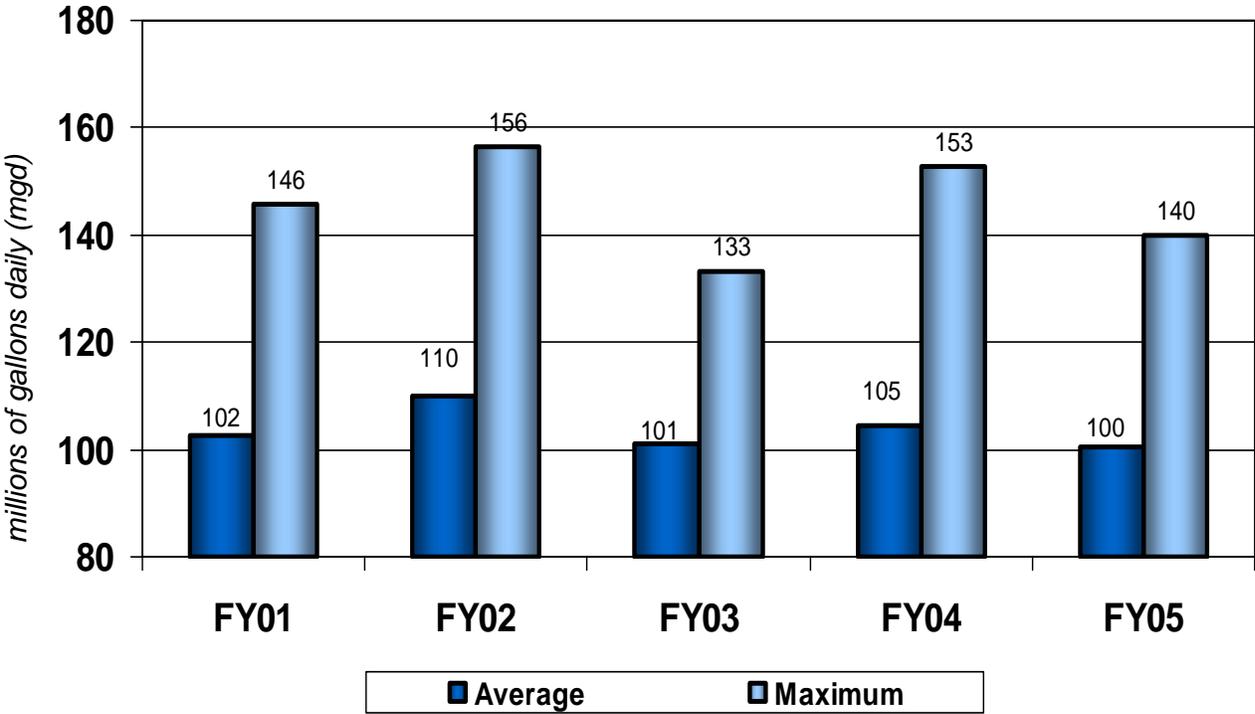


The average daily water demand is down almost 5 MGD from FY 2004 and the average daily wastewater treated is up 2 MGD.

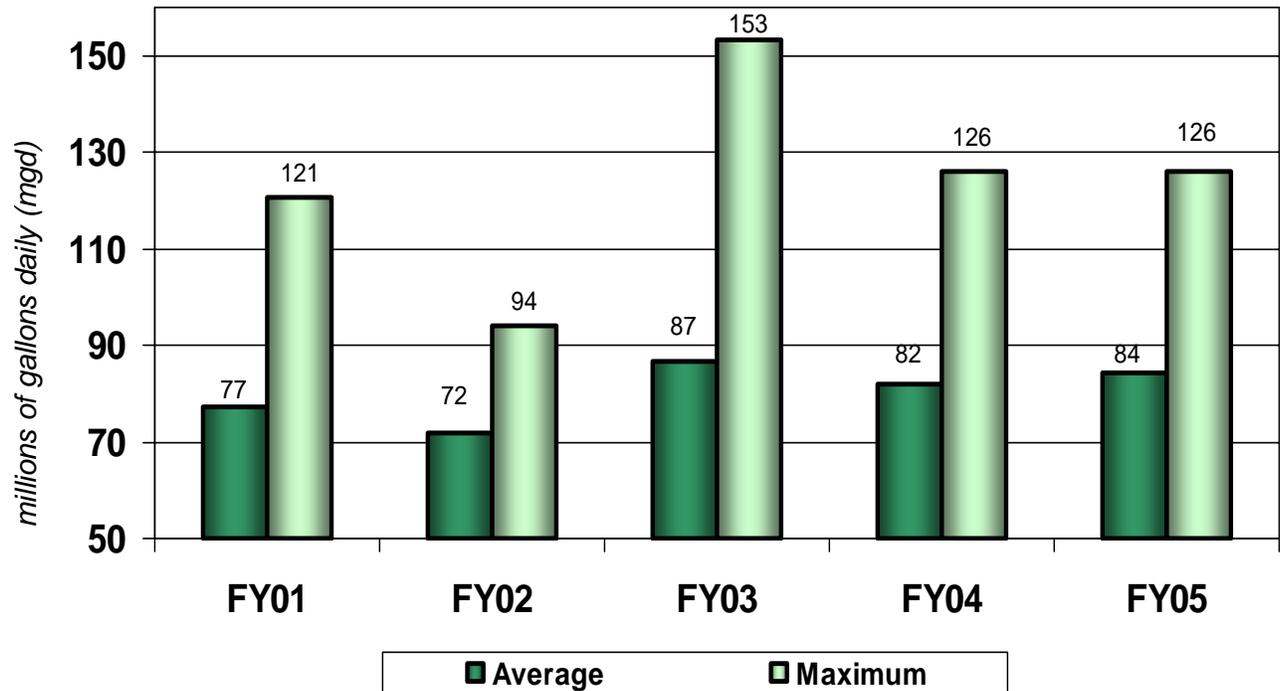
System Growth: Average Plant Flow



Average Water Pumped and Maximum Daily Pumped

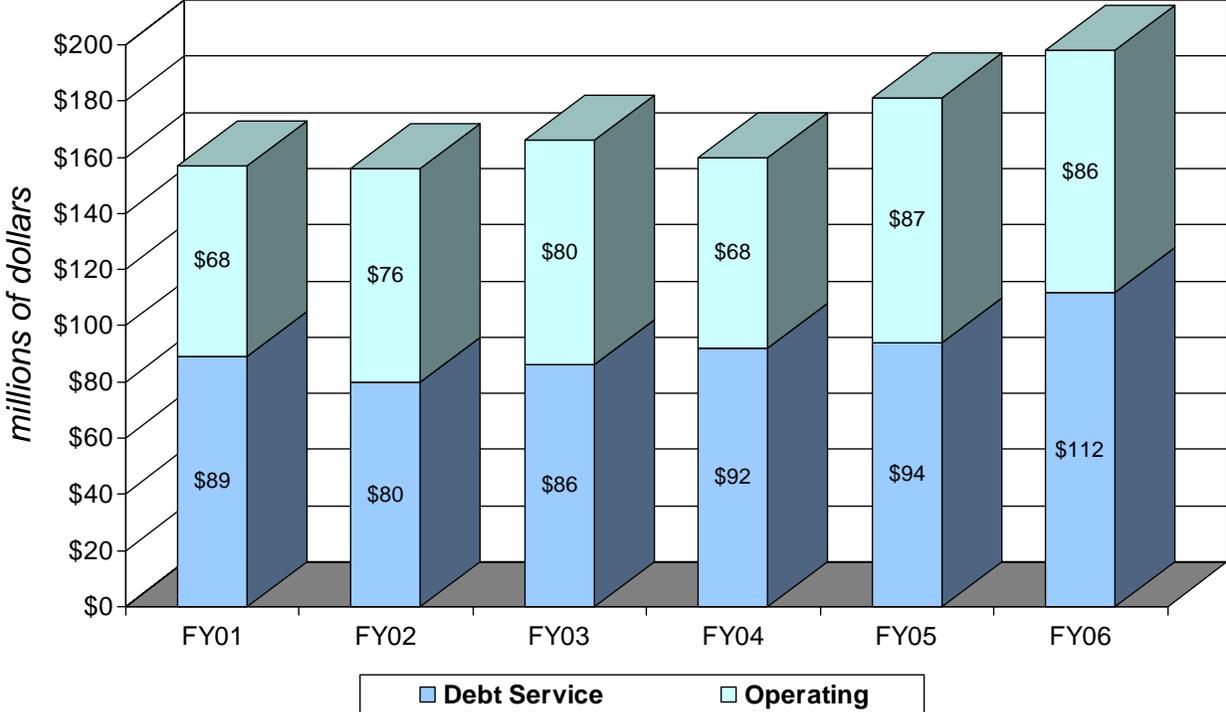


Average Wastewater Treated and Maximum Daily Treated

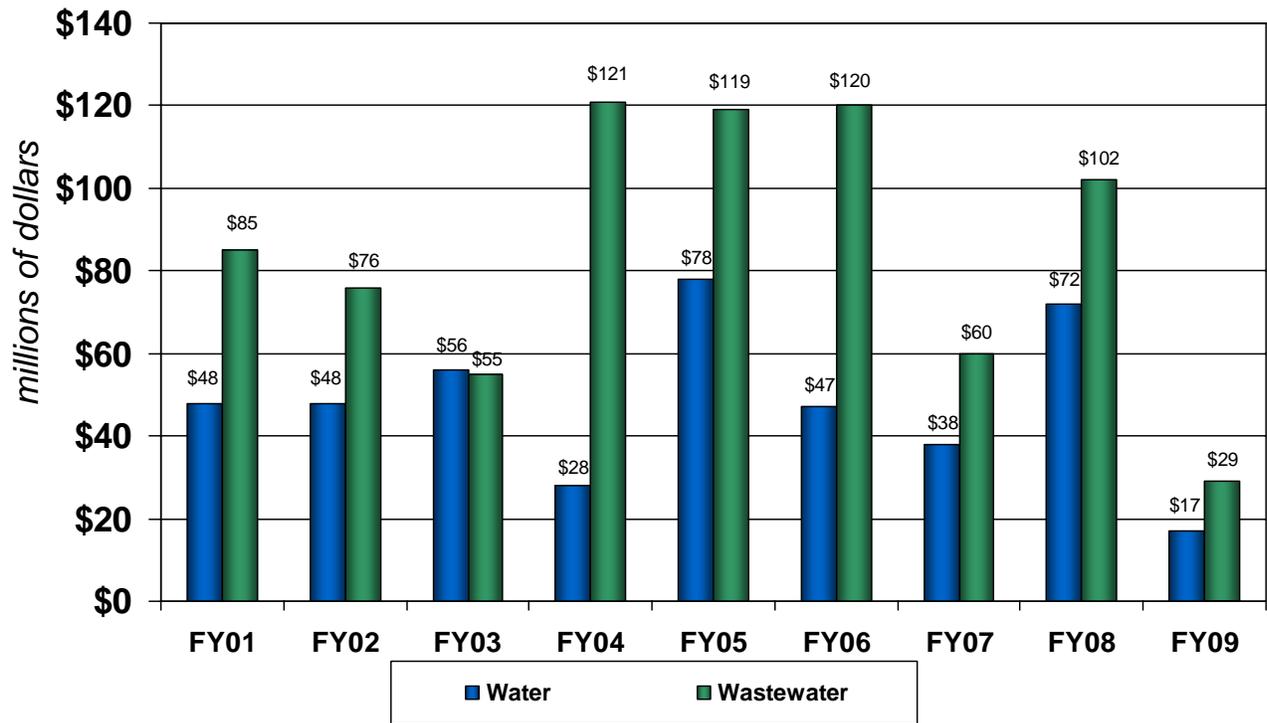


The following graphs illustrate Utilities' financial health.

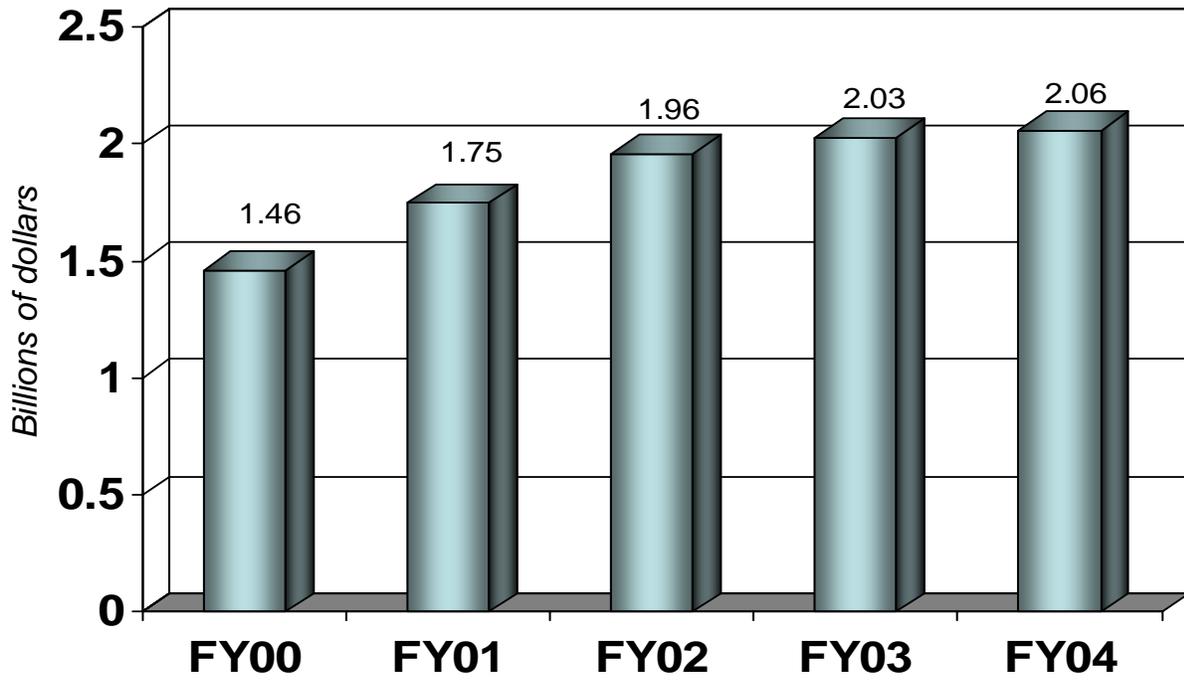
Utilities Operating Budget Including Debt Service



Water and Wastewater CIP

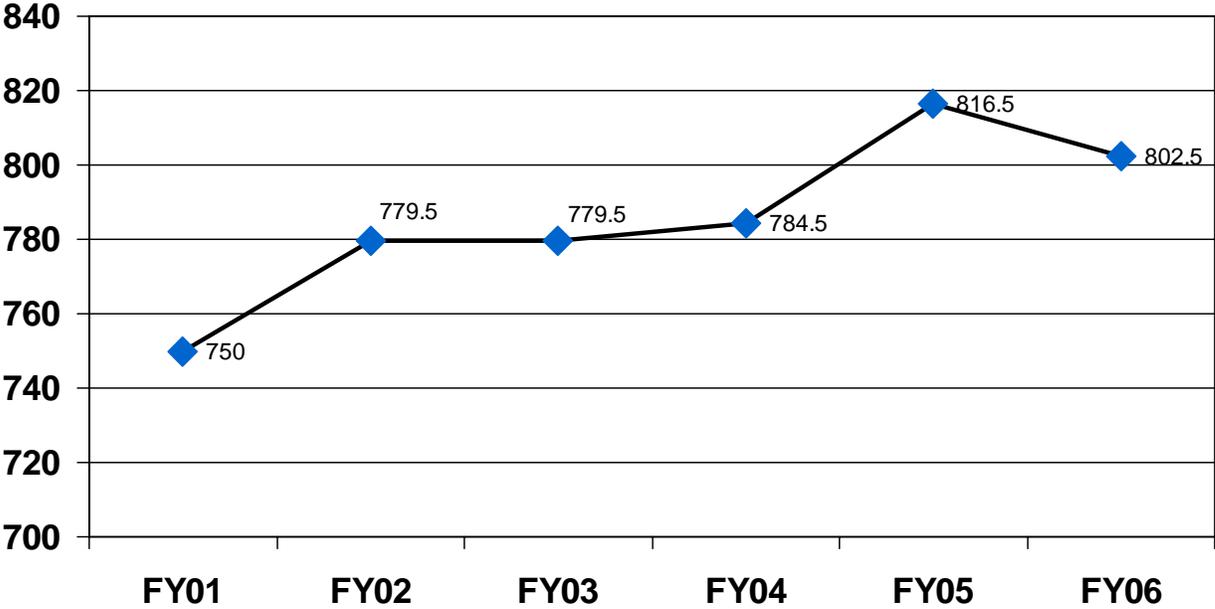


Total Assets



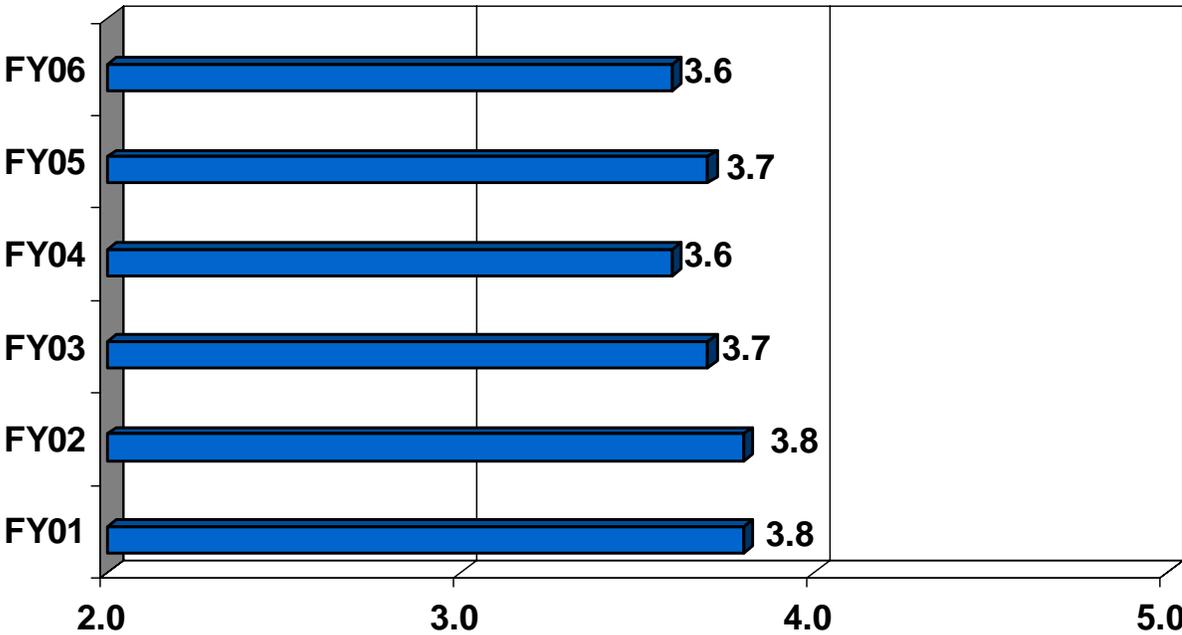
In this graph it is important to note that the significant increase in employees in FY05 was as a result of the move of positions from City Finance and the County Lab to Utilities as part of the reorganization effort.

Number of Authorized Positions FY01-FY06



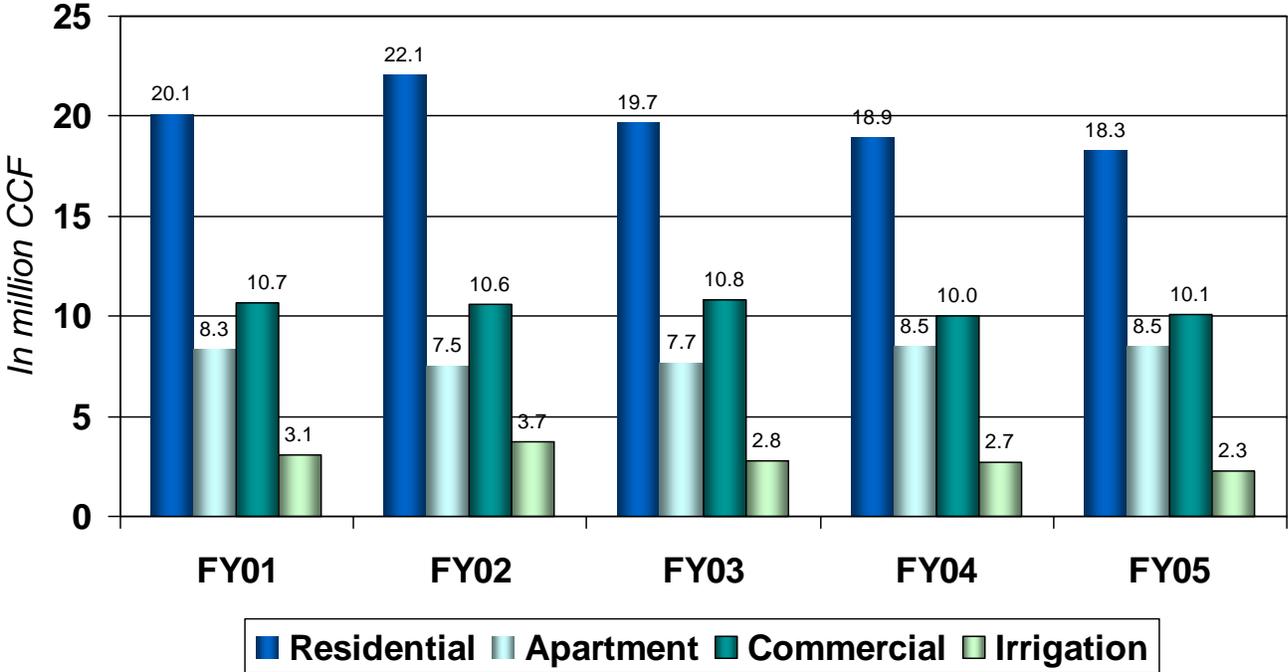
Although the actual number of employees may increase over time, the ratio of employees per 1,000 water accounts is actually decreasing which shows efficiency. The exception to this statement is FY05, which saw the addition of positions due to reorganization efforts with Customer Service and the lab consolidation.

Number of Authorized Positions Per 1,000 Water Accounts

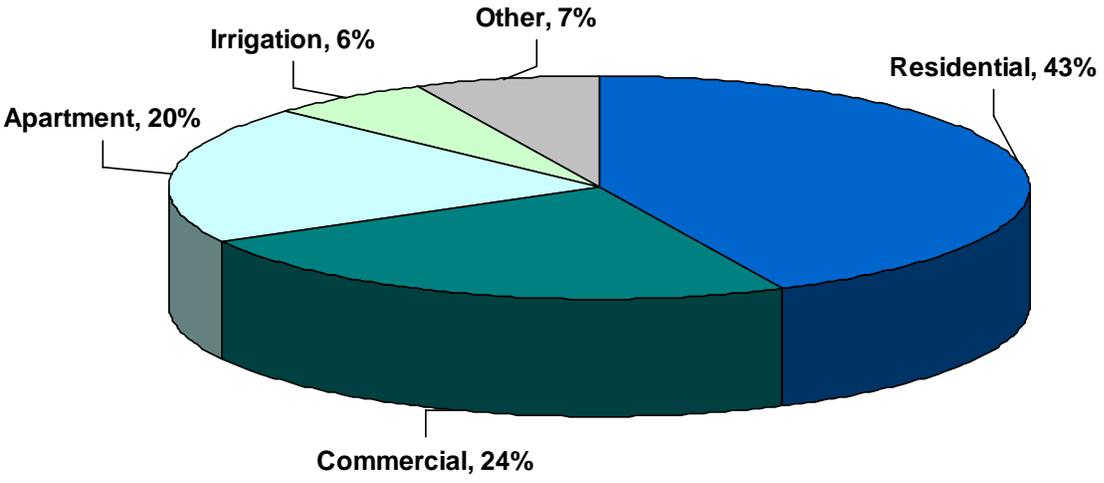


The following graphs illustrate consumption history by customer group and the FY 2005 consumption breakdown percentages by customer group.

FY01-FY05 Consumption by Customer Group



FY05 Consumption by Customer Group



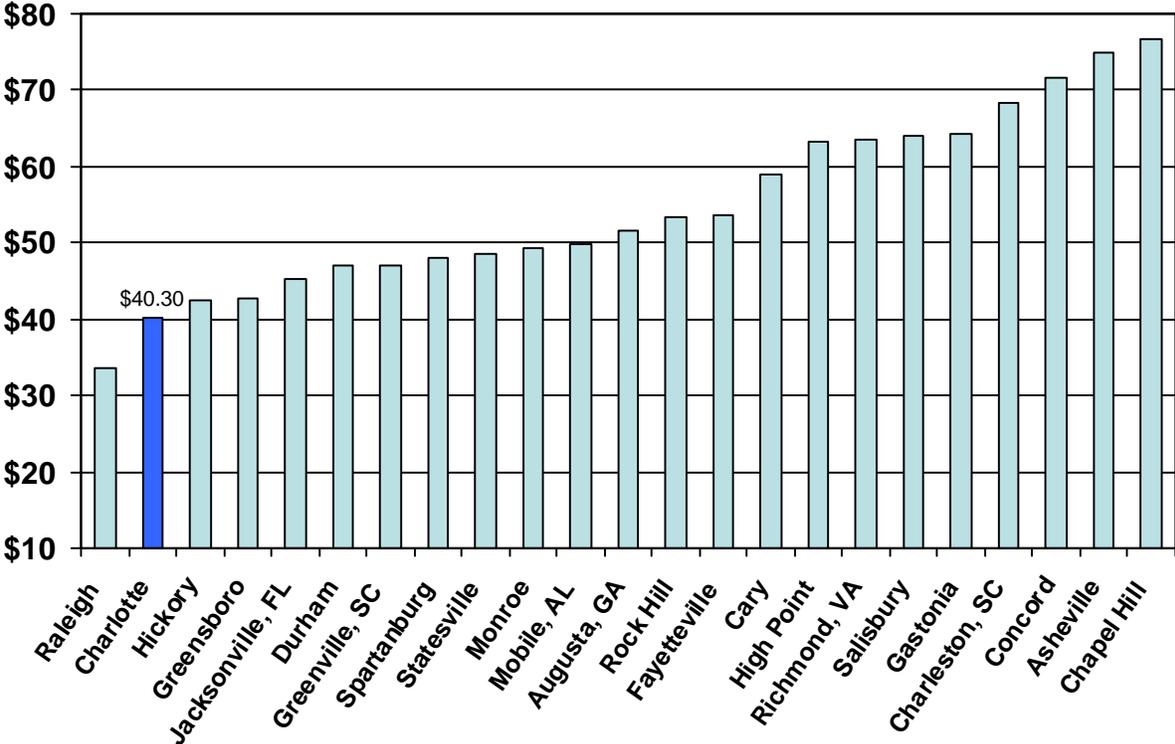
The following graphs illustrate the average residential bill over the past five years and the differences between the average residential bills of neighboring areas for FY 2004. Combined water and sewer rates for Charlotte-Mecklenburg are the second lowest in the regional survey. Utilities has maintained a high level of service, while also maintaining affordable rates.

Average Residential Monthly Bill Comparison Using 10ccf



Although recent rate increases have been higher than average, Utilities is still able to maintain some of the lowest rates in the region.

FY05 Regional Rate Comparison



Conclusion

Charlotte-Mecklenburg Utilities remains committed to the City's corporate strategy and to providing high-quality, low-cost services to our customers. This year-end report explains the achievement of organizational goals and objectives as well as our continuing mission of providing basic services to our customers.

While we continue to face issues of growth and development as well as other issues that impact service delivery, we believe this year-end report for FY 2005 demonstrates Utilities' support of the City's overall corporate strategy.

Appendices

A—FY 2005 Corporate Scorecard and Utility Balance Scorecard Link

B—FY 2005 Utilities Balanced Scorecard Performance Measures and Actual Achievements

C—Official Utilities Facts for FY 2006