

**YEAR-END REPORT
FY2008**

**Strategic Planning
Measuring Performance**

CHARLOTTE-MECKLENBURG UTILITIES

Report prepared July 2008



Executive Summary

Charlotte-Mecklenburg Utilities' (Utilities) Year-End Report identifies our performance on the strategic initiatives and measures from the Fiscal Year 2008 (FY2008) Balanced Scorecard. As requested, performance measures, performance targets, and actual achievement information are provided in the Balanced Scorecard template included in this report. Also as requested, this Year-End Report includes comparison and trend information as well as changes, improvements, and lessons learned over the course of FY2008. Key service indicators have been updated and are also included in this Report.

During FY2008, Utilities faced significant challenges and experienced several achievements; they are discussed in the paragraphs that follow.

Challenges:

- **The drought** impacted every aspect of our business. In order to respond to the drought and protect our shared water supply, Utilities redirected both financial and human resources to the mandatory conservation efforts and enforcement.

Operational Impacts

Responding to the drought and enforcing mandatory conservation restrictions required staff to take on new responsibilities in addition to their ongoing responsibilities. Employees worked late hours and early mornings to patrol the county for conservation violations. In addition, Field Operations' crews worked extended hours to respond expeditiously to water leaks. One of the most significant operational challenges has been maintaining appropriate service levels while not overextending our resources.

Revenue Impacts

While mandatory conservation restrictions were necessary to protect the water supply, the restrictions negatively impacted Utilities' revenues significantly. In order to meet financial requirements, such as debt service on existing debt, a mid-year rate increase was necessary. The mid-year rate increase resulted in heightened media attention. While mandatory conservation restrictions presented our utility with financial challenges, they benefited Charlotte-Mecklenburg customers and our region by protecting the regional water supply. Communicating the conflicting environmental and financial needs to the media and community proved challenging.

- **Rising costs** in the areas of natural gas, electricity, and chemicals will continue to be a challenge for our water and wastewater treatment plants. While chemicals are becoming more costly, the need for greater amounts of chemicals will be required to meet increasingly stringent permit requirements. Similar to other businesses and departments, Utilities will also be challenged by the rising cost of fuel. We will continue to evaluate opportunities for gained efficiencies in the area of fuel conservation.
- **The slowing economy** also impacted our budget, more specifically the slowing development market. Revenues from new connections finished the year 33% (\$7.1 million)

under budgeted projections. During FY2008, Utilities added 7,440 new accounts to the system. This is down 61% when compared to FY2007.

Accomplishments:

Despite the tremendous challenges the drought presented, we accomplished several goals. And that in itself is surely an accomplishment.

- **Protected our regional water supply** during a severe drought by working with the regional Drought Management Advisory Group, and implementing, communicating, and enforcing water use restrictions. As part of our drought response, Utilities developed and implemented an aggressive communications plan. Our Communications Team provided over 700 interviews to local media and Utilities senior management met with dozens of stakeholder groups. To provide the media and others with the most current information regarding the drought, we created a **Water Watch Update** page on our website. The webpage, which is updated twice per week, includes statistics on the number of citations issued, daily water demands, and number of calls CharMeck 311 receives concerning water conservation. The webpage is very popular with our local media. Through shared efforts by Utilities, local media, and stakeholder groups, our community remained well informed about the drought and mandatory restrictions. As a result, we have successfully reduced community water usage.
- **Utilities' system for monitoring revenues** assisted with mitigating the financial situation by detecting the extent of the revenue losses early on. The early detection allowed Utilities staff to implement internal cost saving mechanisms (e.g., hiring freeze) and begin communication with our City partners (e.g., Finance, Budget & Evaluation, and City Manager's Office), City Council, and the community in advance of irreparable financial losses. Utilities recommended and Council supported the mid-year rate increase. As a result, Utilities ended the year without using fund balance to meet bond covenants.
- **Earned several awards** for our environmental stewardship and competitiveness achievement. We received Centralina Council of Governments' **Region of Excellence Award in Environmental Planning and Conservation** and two **Green Awards** from the *Charlotte Business Journal* for our efforts in safeguarding the environment. Utilities also earned the **Gold Award for Competitiveness Achievement** from the Association of Metropolitan Water Agencies for our competition, optimization, and benchmarking activities.

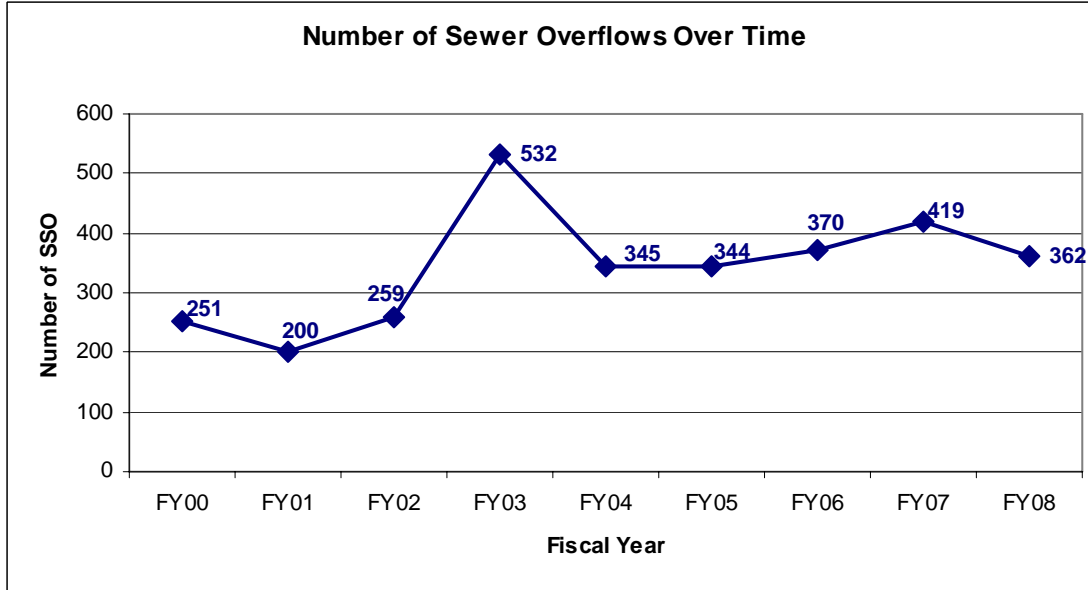
Performance & Key Service Indicators, Trends, and Comparisons

Charlotte-Mecklenburg Utilities' system continues to expand to meet the increasing water and wastewater needs of our customers. 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 are provided for FY2008.

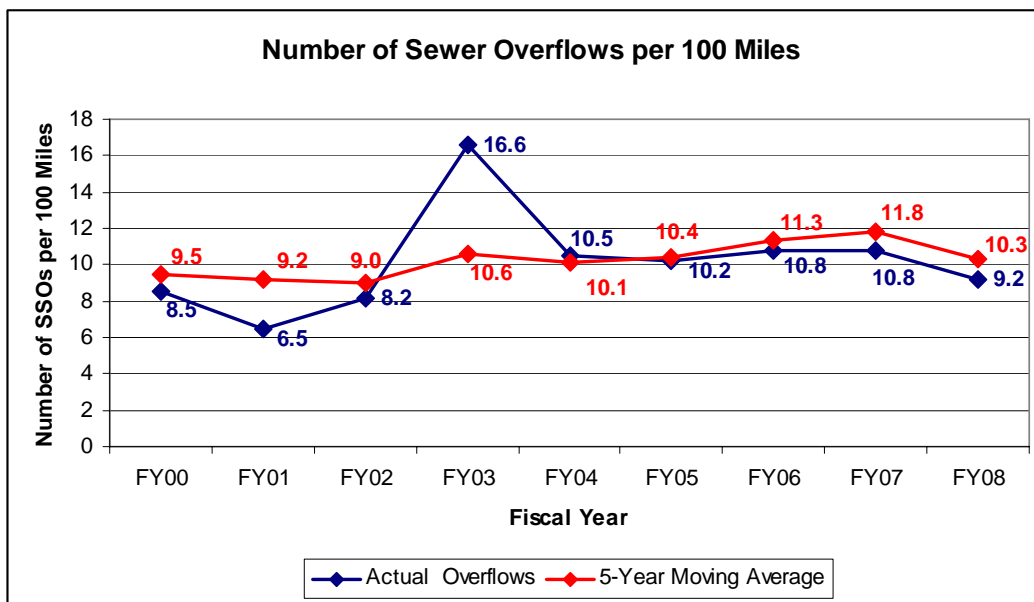
1. Miles of Pipe Maintained—over 7,871 miles
2. Number of new services added—approximately 1.6% growth or 3,896 services for water and approximately 1.6% growth or 3,434 services for wastewater
3. Daily average Water Pumped—105.7 million gallons, down 7% from FY2007
4. Daily Average Wastewater Treated—78.4 million gallons, down 9% from FY2007

Sanitary Sewer Overflows

Sanitary sewer overflows represent one of our greatest operational challenges. While our system safely collects, treats, and recycles 99.9% of our community’s 80 million gallons of wastewater each day, Utilities strives to meet the regulatory goal of zero sewer spills. The charts that follow provide historical sanitary sewer overflow data.



During FY2008, Utilities achieved its business goal of having less than 10 sewer overflows per 100 miles of pipe for the first time since 2002. Utilities ended FY2008 with 9.2 sewer spills per 100 miles of pipe. We also saw a decrease in the volume of overflows; the volume decreased by 70% from FY2007 (from 1,637,445 gallons to 506,823 gallons).



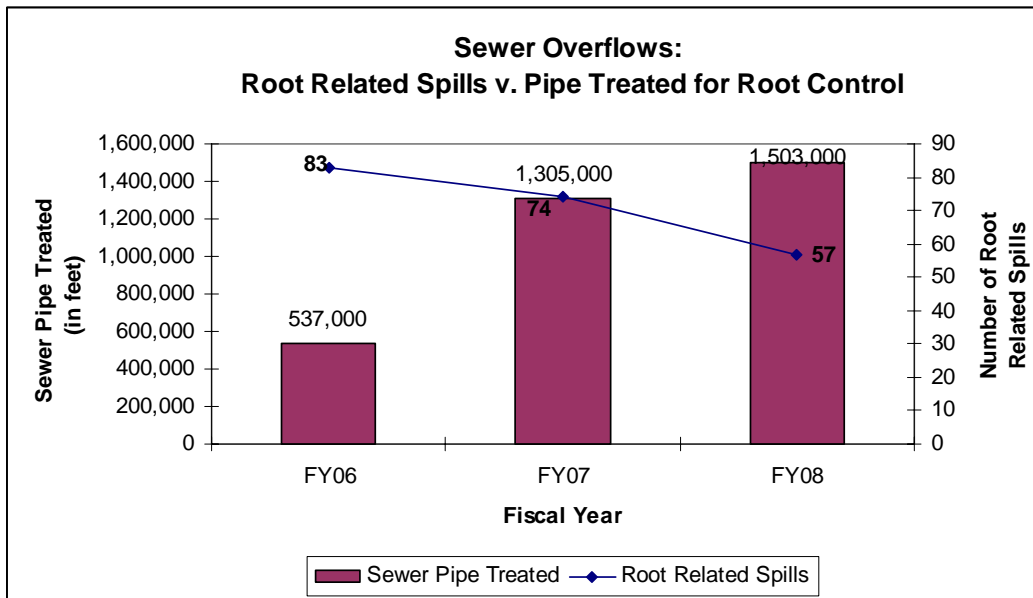
There are several factors contributing to this decrease. For most of the past decade we have increased line cleaning, pipe rehabilitation, capital improvements, and root control to reduce spills.

These efforts are paying off. For instance, looking at the past three years we have seen a decrease in the number of root related spills and we expect to see continued improvement.

The Root Control Program developed in January 2005 is largely responsible for the decrease in the number of root related spills. Root Control is a process where the sewer pipes are filled with thick herbicidal foam which adheres to the roots and penetrates the cracks and joints of the pipe. The roots are killed on contact, where they eventually decay and fall off; thus, allowing wastewater to flow freely through the pipe. Since FY2005, Utilities has increased the amount of sewer pipe treated for root control. The graph below provides historical data.

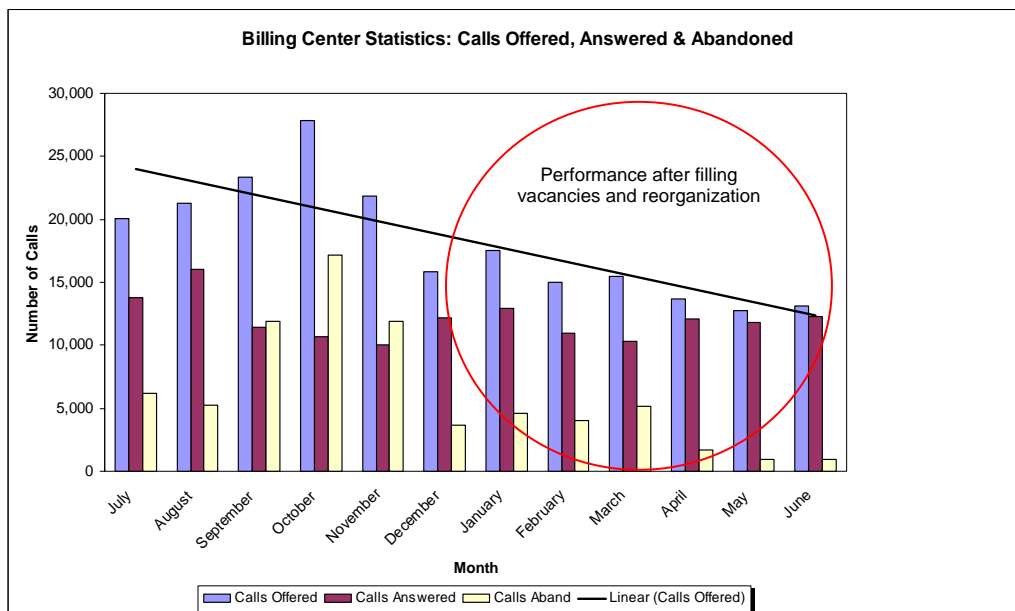
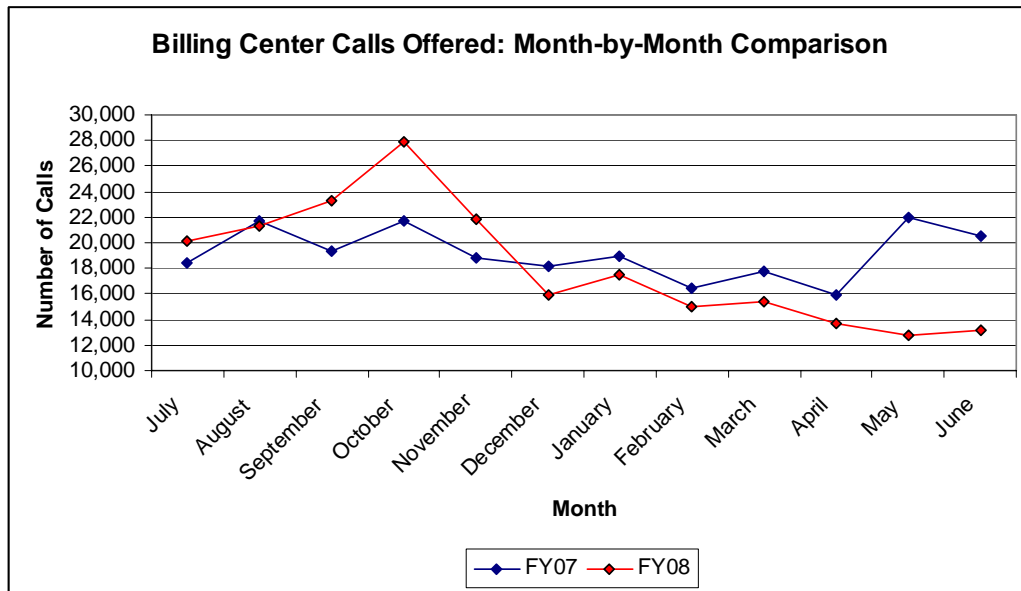


Root Control Program: manhole being treated



Customer Service

During FY2008, Utilities experienced exceptional performance improvements in the area of customer service. **Utilities met its goal of reducing the number of calls to the Billing Center by five percent; call volume was reduced by 5.15% when compared to FY2007.** The beginning of FY2008 brought about significant challenges, however, as the year progressed, performance improved month-by-month. The graphs that follow show the continual improvement.



Several factors contributed to the improved performance; a few of the major factors are listed below:

- Strengthened CharMeck 311 Partnership-** As a result of continued collaboration, the number of calls transferred from CharMeck 311 to Utilities' Billing Center is decreasing. For example, during FY2008, CharMeck 311 operators were trained to receive calls from Crisis Assistance Ministry allowing Crisis counselors to receive the assistance they need in a prompt manner. The transition involved close work with CharMeck 311, Crisis Assistance administrators, and Utility Billing staff.
- Filling Vacancies throughout Utilities-** Being appropriately staffed enables us to be proactive and responsive to customers' needs. In particular, after operating with significant staffing shortages during the beginning of the fiscal year, Utilities' Billing Center filled several vacancies during the winter; and

- Billing Center Reorganization-** During FY2008, Utilities worked closely with Human Resources to reorganize the Billing Center. The reorganization has created a more efficient structure that better utilizes the Billing Center resources. As a result of the reorganization and obtaining appropriate staffing, callers are spending less time waiting to speak with customer service representatives. Thus, eliminating the need for customers to hang up— which drives abandonment rate— and call back at a different time— which results in a repeat call and increases the overall call volume.

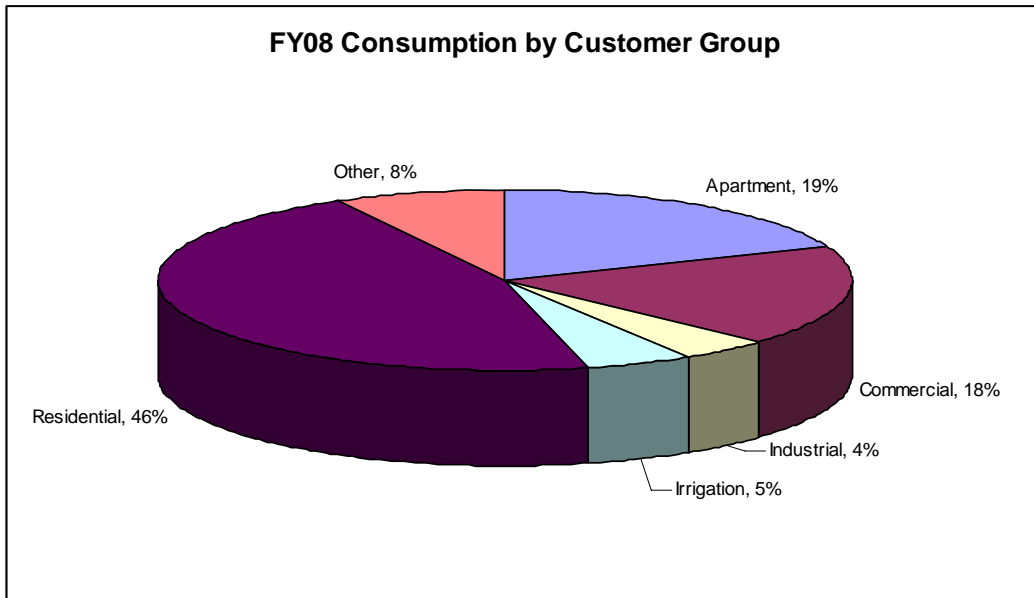
Utilities also met its business goal of billing 99.5% of metered accounts on actual readings.

Customer Trends

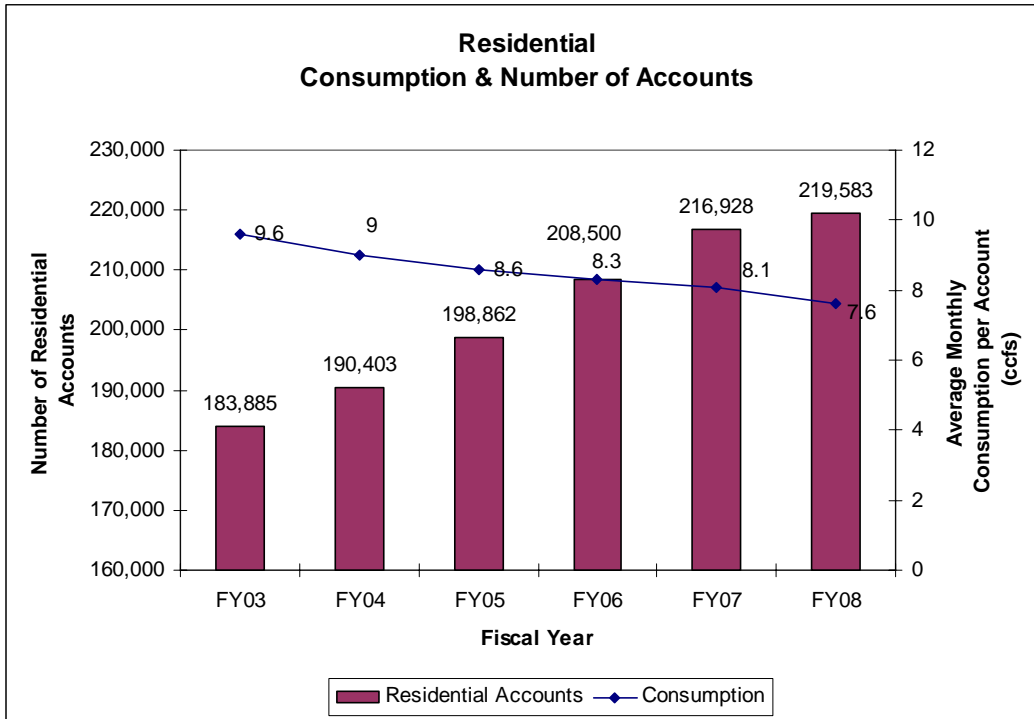
The number of customer accounts added was affected by the economy, more specifically the slowing development market. For FY2008, the number of new water and wastewater accounts added to our system was down 61% when compared to FY2007.

During FY2008, consumption was impacted by the drought and mandatory conservation restrictions. The graphs that follow provide information on customer consumption and plant treatment and flow.

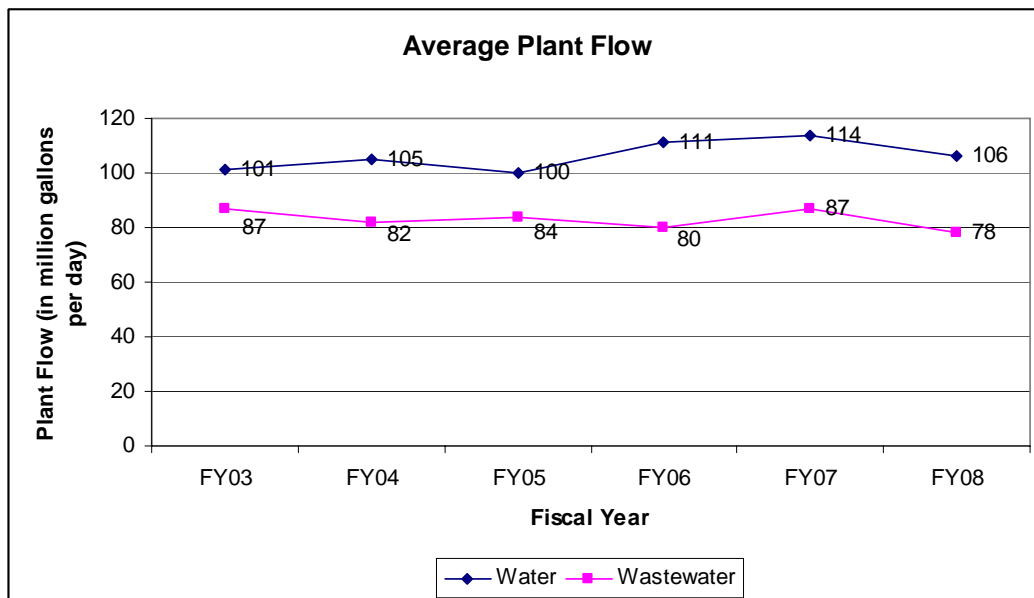
Residential customers still accounted for the majority of the consumption. The graph below illustrates consumption by customer group for FY2008.



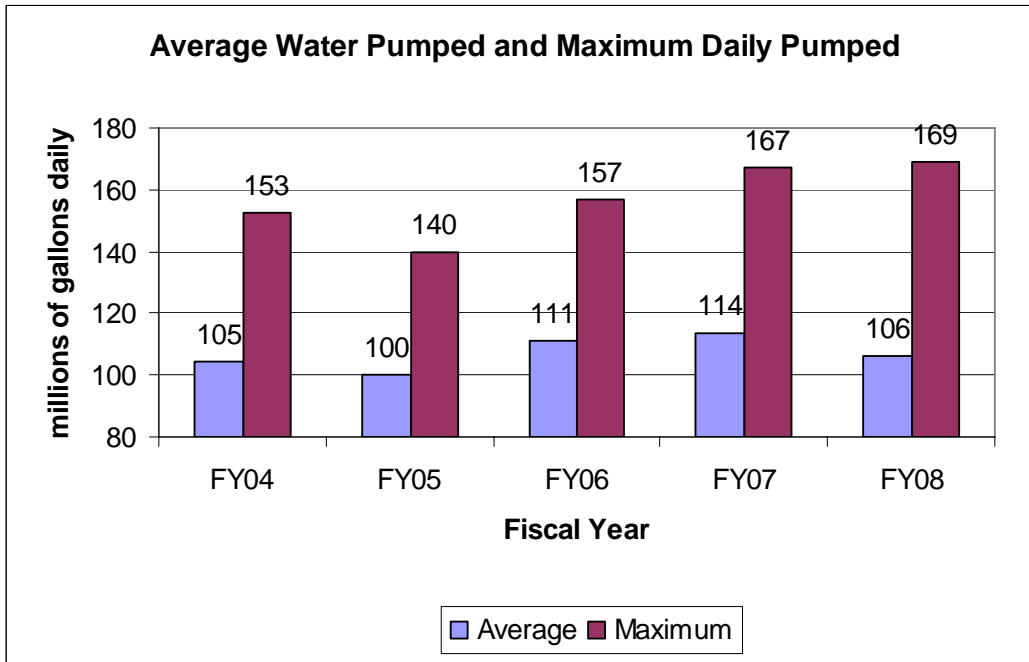
Utilities has seen a continual decrease in the average consumption per residential account for the past six years. The reduction in consumption is a result of an integrated approach of education, incentives, awareness, and community outreach programs to encourage water conservation. For FY2008, the mandatory conservation restrictions further contributed to the trend in declining water usage. **There was a 6.17% decrease in the average consumption per residential account when compared to FY2007.**



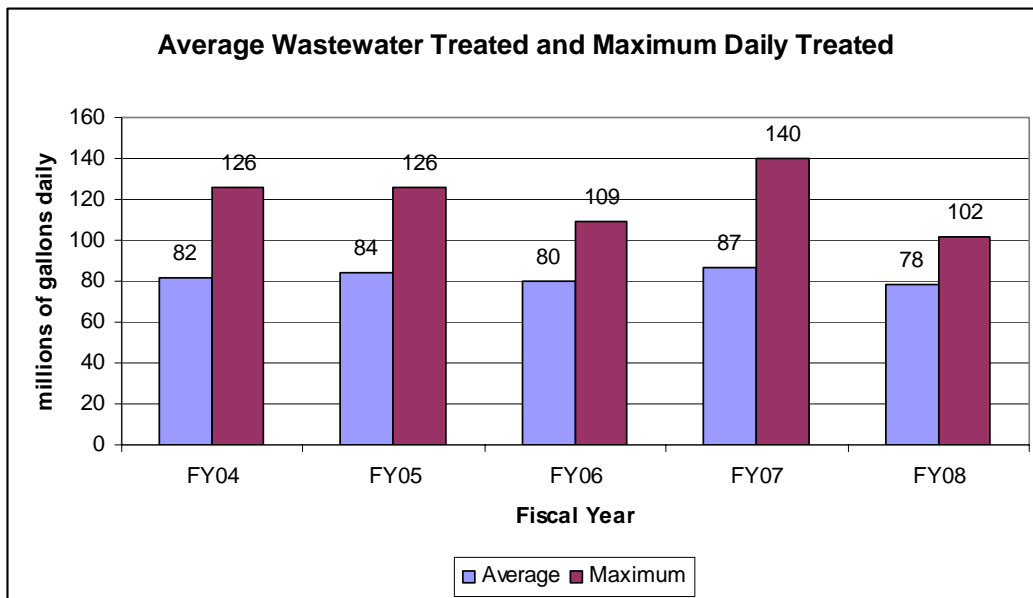
The water and wastewater treatment plants' flow, treatment, and pumping were affected by the decrease in consumption. The following graphs illustrate these declines.



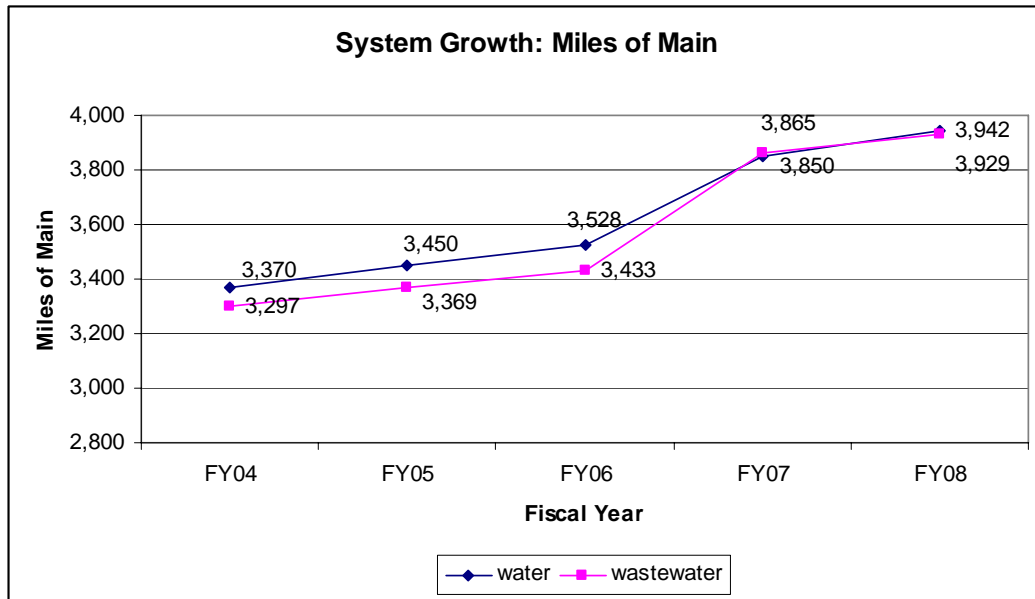
The average daily water demand is down 8 million gallons per day from FY2007.



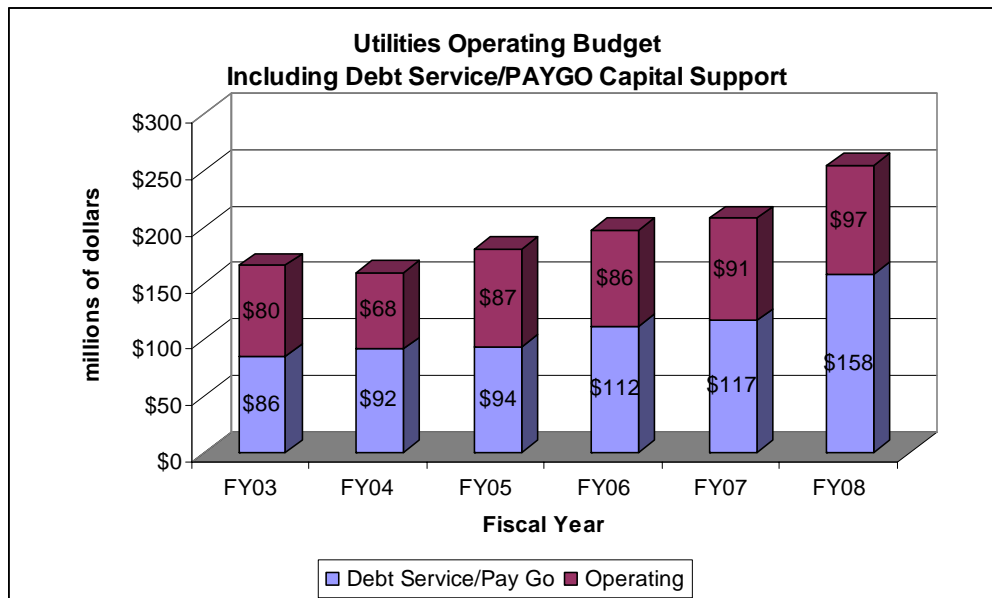
The average daily wastewater treated is down 9 million gallons per day.

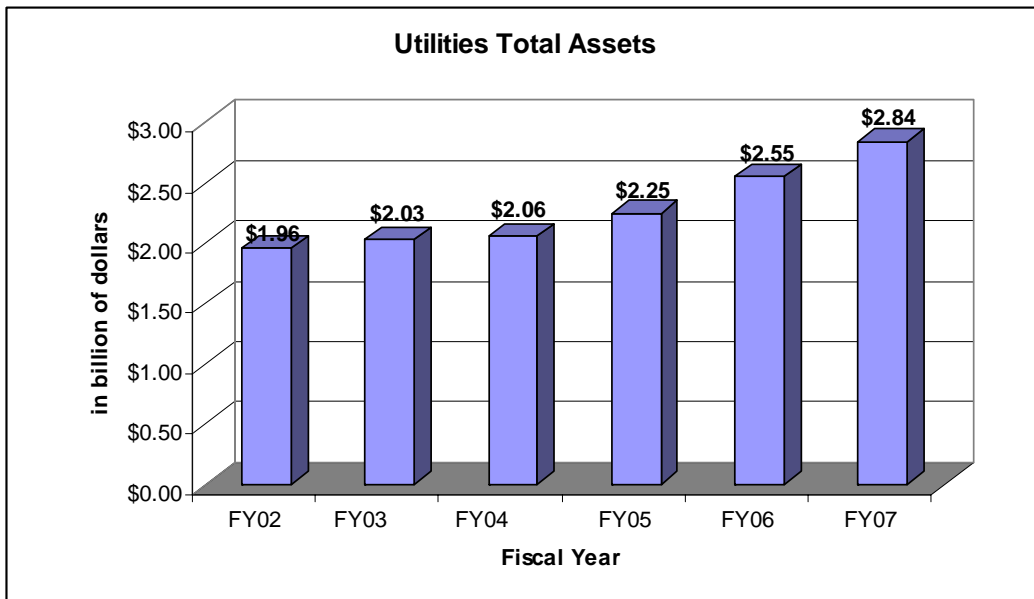


Other Key Indicators

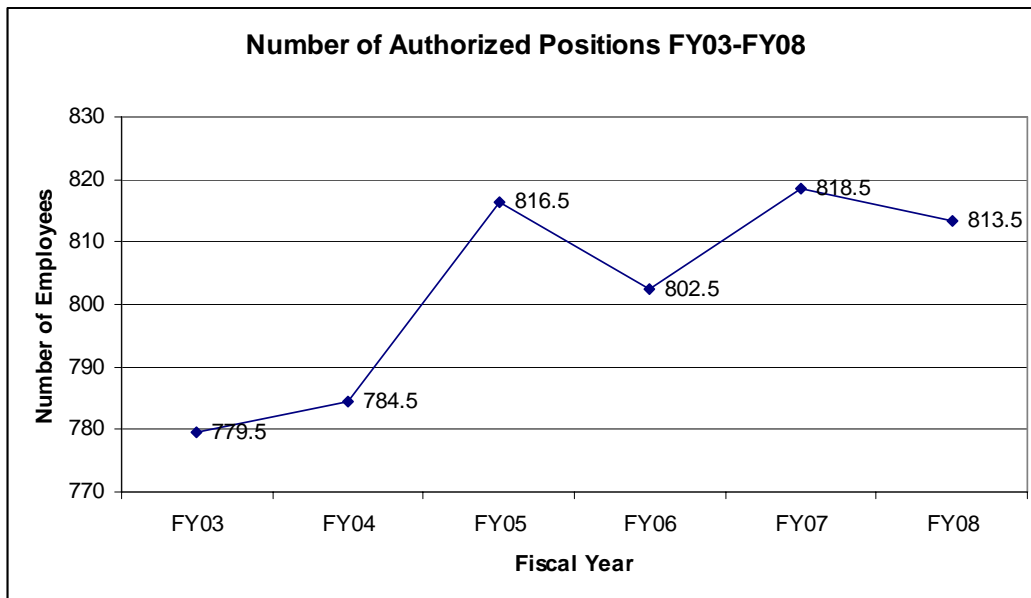


Utilities is one of only 13 public utilities that has the highest bond rating (AAA or Aa+) by two of the three major rating agencies. The following two graphs illustrate Utilities’ financial health.

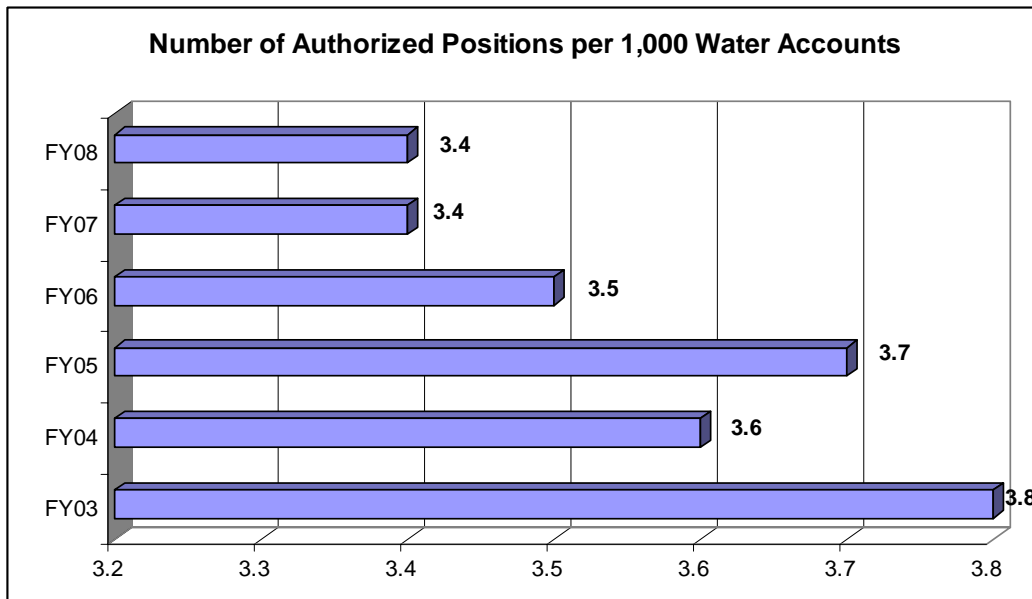




Utilities remains a lean organization. The graphs below illustrate Utilities historical staffing levels. In the graphs that follow, it is important to note that the significant increase in employees in FY2005 was a result of moving positions from City Finance and the County Lab to Utilities as part of the reorganization effort. In FY2008, as part of a citywide effort, Utilities donated six positions to CharMeck 311 and the Chief Information Officer initiative.

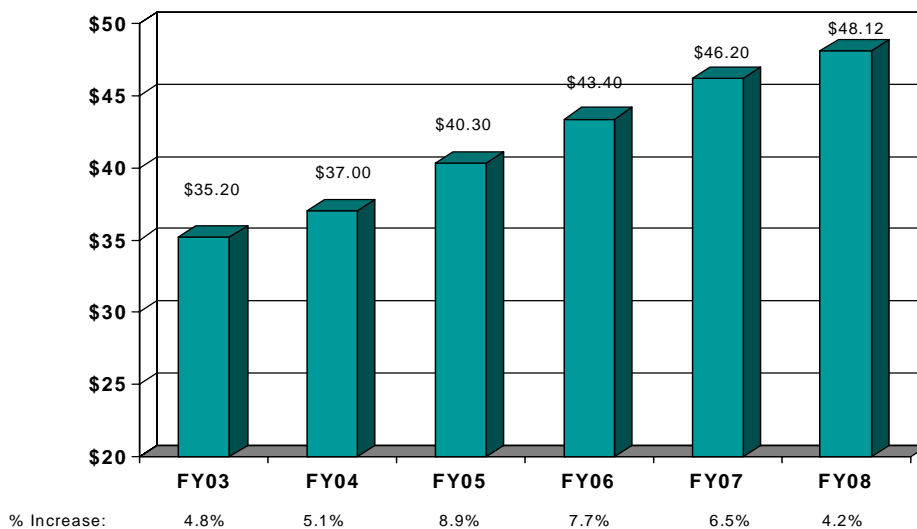


Although the actual number of employees has increased over time, the ratio of employees per 1,000 water accounts is actually decreasing, which shows efficiency.

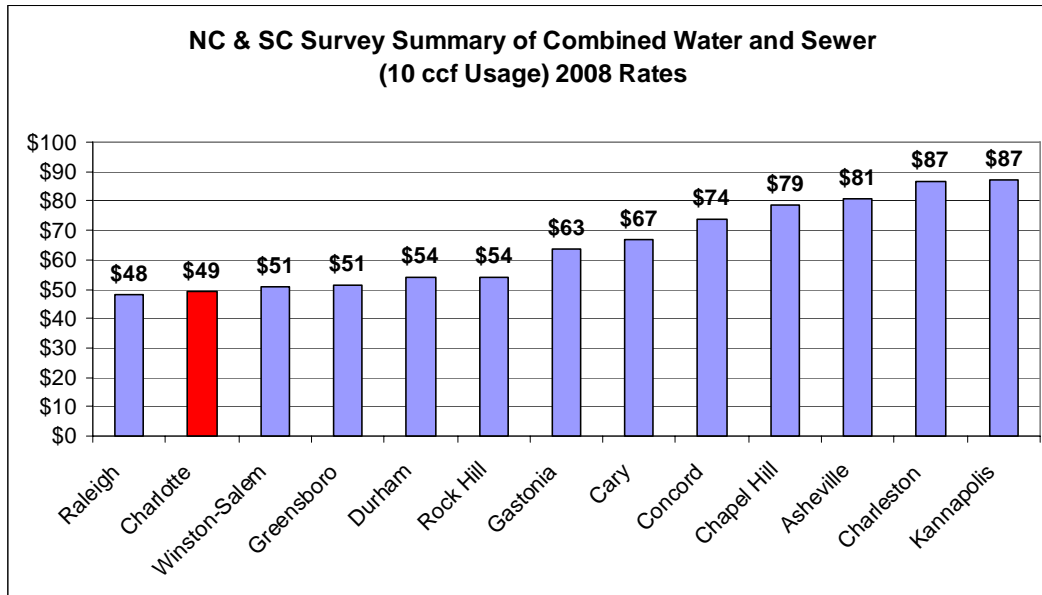


Our rates remain among the lowest in our region. The following graphs illustrate Utilities' average residential bill over the past six years and comparisons of the average residential bills of our regional peers for FY2008.

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. Combined water and sewer rates for Charlotte-Mecklenburg remain among the lowest in our region. We have maintained a high level of service, while also maintaining affordable rates.



Lessons Learned

Several lessons have been learned during FY2008, a few include:

- Performance data affirm that the Billing Center is headed in the right direction. As a result of the changes, we are able to provide better, more responsive services to citizens.
- Sanitary sewer overflows prevention activities are helping. The data show a decrease in the number of sewer overflows and most notably a decrease in the number of root-related overflows. This is encouraging as it confirms that prevention efforts, such as our Root Control Program, are effective.
- The successful management of the drought has highlighted the importance of regional collaboration for drought response.

Target and Performance Data Reconciliation

As requested, an explanation of any large differences between target and performance data is provided in this section.

The leak repair performance significantly outperformed the target of “repair all leaks within 10 days.” While Utilities called upon our customers to conserve water during mandatory conservation, we also took every opportunity to do our part. Since entering into mandatory conservation, Utilities crews have been working an accelerated schedule and extended hours to respond to leaks. Utilities goal while in mandatory conservation is to fix all leaks within five days. **For FY2008, the actual average was 2.88 days.** Based on FY2008 data, including response times and expenses incurred for overtime, Utilities will be reevaluating this goal for FY2009.

Utilities’ actual performance of 20% on the University of North Carolina at Charlotte’s survey was below the target of “increase combined positive performance rankings in the fall UNCC survey from 26% to 28%.” Two factors may be of significance:

- The 28% target was based on one year of previous performance. As Utilities continues to participate in the survey, more performance data will be available and an appropriate target will be identified.
- It is likely that the mandatory conservation restrictions and heightened media coverage surrounding the restrictions influenced respondents' ratings.

Budget and Revenues

The mandatory conservation restrictions had a negative impact on revenues for FY2008. Total revenues of \$240,825,584 were realized for FY2008; this lower than the budgeted revenue by \$8,410,146. Utilities projects \$2.4 million in budget savings— all attributable to salary savings.

Conclusion

While Utilities continues to face issues of drought, a slowing economy, and rising costs of fuel, chemicals, and natural gas, we believe this Year-end Report demonstrates our commitment to supporting the City's overall corporate strategy and to providing high-quality, low-cost services to our customers.