ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: **Finance Committee**
Mac Clarke (Chair)
Braxton Foushee
Alan Rimer
Amy Witsil
Gordon Merklein (*ex-officio*)

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: February 18, 2011

SUBJECT: **Finance Committee Meeting – February 24, 2011**

The Finance Committee will meet on Thursday, February 24, 2011, at 5:00 p.m. in the OWASA Board Room. The agenda will be:

- Review and discuss information related to the Fiscal Year (FY) 2012 Budgets for Operations and Maintenance (O&M) and the Capital Improvements Program (CIP) (Attachment).

  Committee Action Requested: Receive information and provide guidance to inform the preparation of the preliminary FY 2012 Budget.

- Review and discuss potential water and sewer rate adjustment scenarios (information will be provided at the meeting).

  Committee Action Requested: Receive information and provide guidance.

As a reminder, we are scheduled to discuss the *Draft Preliminary Annual Budget* and staff rate adjustment recommendation at the March 24, 2011 Board Meeting.

We look forward to seeing and working with you at the Finance Committee meeting.

Stephen Winters, CPA
Director of Finance and Customer Service

cc: Board of Directors
Ed Kerwin
Bob Epting

Attachments: Attachment – Fiscal Year 2012 Budget Information

Fiscal Year 2012 Budget Summary

Operations and Maintenance (O&M)

Summary information on the initial draft of the Fiscal Year (FY) 2012 O&M budget, which totals $19 million, follows this page. Key elements and assumptions used in the budget's development include:

- The FY12 O&M budget is in line with projections made in last year's financial model.
- It exceeds the FY11 budget by 2.9% and the current FY11 forecast by 6.3%.
- Authorized staff positions have been decreased from 139 to 135.5 including elimination of the positions of Customer Service and Procurement Managers, one Administrative Assistant and one IT Services Technical Specialist.
- Overall, the number of funded positions has been reduced from 129 to 127.5. However, this includes two positions that were not funded in FY11.
    - Utilities Engineer – the position was left vacant during recent years when CIP activity slowed; it is necessary to fill it now to be able to complete planned CIP projects.
    - Utility Mechanic – due to workload, we need to fill one of the six currently unfunded Utility Mechanic positions.
- An assumed 10% increase in health insurance premiums and a placeholder for a 2.5% merit pay increase for employees.
- Funding for two consulting studies: one on water and sewer rates and another on employee compensation, classification, benefits and performance management.
- Expectation of normal operating conditions (average year number of water and sewer line breaks, maintenance and repair needs, etc.)

Capital Improvements Program (CIP)

OWASA is nearing completion on a number of important engineering studies that will influence the CIP across the entire 15-year (FY 12-26) planning horizon. These studies are:

- **Wastewater Treatment Plant Hydraulic and Treatment Capacity Study**: The study's final report will be completed and issued in March. Because most of the CIP-related work was accomplished in the early phases of the study, the results of this study were included in the development of last year's (FY 11-25) CIP. The later phases of the study were focused on optimization of plant operations, and while the results of this optimization work are extremely positive, the cost savings realized will be achieved in the Operations and Maintenance budget rather than the CIP budget.

- **Water Distribution (Hydraulic) Model**: Scheduled to be complete in March. This study will identify any areas of capacity and/or pressure concerns that need to be addressed in our system through 2030. Preliminary indications are that OWASA's system has relatively few water distribution system hydraulic deficiencies.

- **Wastewater Collection System Evaluation** (includes flow monitoring and computer modeled condition assessment of the wastewater collection system): Scheduled to be complete in March. This study will identify capacity deficiencies and areas where additional (physical) assessment and inspection should occur. Preliminary indications are that many projects previously planned for construction in the 15-year CIP should be postponed, while other new projects need to be included.

Although the FY 12-26 CIP is still under development, it appears that the total for the first five years of the FY12-26 CIP will be closely aligned with the total planned for this same period in last year's budget. Planning for the second and third five-year periods is still in the preliminary phase. However, the level of CIP investment in years six through 15 have little to no impact on near-term rate adjustments.

OWASA FY 2012 Budget Analysis Operations and Maintenance	FY10 Actual	FY11 Budget	FY11 Forecast	FY12 Budget	Variance between FY11 Forecast and FY12 Budget	Percentage Variance between FY11 Forecast and FY12 Budget	Variance between FY11 Budget and FY12 Budget	Percentage Variance between FY11 Budget and FY12 Budget
Operating and Maintenance Expenses by expense type								
Personnel	9,141,958	9,849,772	9,630,543	10,118,526	487,982	5.1%	268,754	2.7%
Chemicals	1,940,321	2,617,444	2,085,669	2,154,447	68,778	3.3%	(462,997)	-17.7%
Materials and supplies	534,880	584,097	580,527	760,048	179,520	30.9%	175,951	30.1%
Utilities	1,882,752	2,016,717	1,950,084	1,942,258	(7,826)	-0.4%	(74,459)	-3.7%
Maintenance	2,171,532	2,160,884	2,279,424	2,494,160	214,737	9.4%	333,276	15.4%
Professional Services	631,597	860,224	846,379	1,081,891	235,512	27.8%	221,667	25.8%
Insurance	292,246	281,954	281,875	275,000	(6,875)	-2.4%	(6,954)	-2.5%
Communication	120,927	173,790	162,875	161,920	(955)	-0.6%	(11,870)	-6.8%
Printing and reproduction	5,657	10,625	9,341	10,975	1,634	17.5%	350	3.3%
Educaton and development	77,614	115,435	117,235	135,625	18,390	15.7%	20,190	17.5%
Other	151,086	184,815	192,564	185,254	(7,310)	-3.8%	439	0.2%
Construction credits	(272,420)	(261,120)	(127,739)	(182,574)	(54,835)	42.9%	78,546	-30.1%
Total Operating Expenses	16,678,150	18,594,637	18,008,777	19,137,530	1,128,753	6.3%	542,893	2.9%
Operating and Maintenance Expenses by Department								
Executive Director	927,913	1,104,268	1,111,356	1,165,860	54,505	4.9%	61,592	5.6%
Customer Service	540,582	621,322	609,339	595,206	(14,133)	-2.3%	(26,116)	-4.2%
Engineering and Planning	1,179,754	1,275,706	1,275,706	1,412,552	136,846	10.7%	136,846	10.7%
Human Resources	405,717	486,508	395,604	588,139	192,535	48.7%	101,631	20.9%
Finance	923,687	1,218,155	1,175,972	1,119,647	(56,325)	-4.8%	(98,509)	-8.1%
Information Technology	722,877	838,972	837,243	1,042,443	205,200	24.5%	203,470	24.3%
Water Supply and Treatment	3,947,345	4,332,157	4,183,043	4,380,702	197,659	4.7%	48,545	1.1%
Water Distribution	2,218,543	2,441,477	2,474,500	2,727,461	252,961	10.2%	285,984	11.7%
Wastewater Treatment	4,682,497	4,990,637	4,671,813	4,831,115	159,302	3.4%	(159,522)	-3.2%
Wastewater Collections	1,129,235	1,285,433	1,274,201	1,274,405	204	0.0%	(11,029)	-0.9%
Total Operating Expenses	16,678,150	18,594,637	18,008,777	19,137,530	1,128,753	6.3%	542,893	2.9%
FY 2012 Operating and Maintenance Expenses used in last year's rate model				19,137,385				