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**
Amy Witsil (Chair)
Terri Buckner
Alan Rimer
John Young
Gordon Merklein (*ex-officio*)

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: March 14, 2012

SUBJECT: Finance Committee Meeting – March 20, 2012

The Finance Committee will meet on Tuesday, March 20, 2012, at 5:30 PM in the OWASA Board Room. The agenda will be:

- **Review and discuss information related to the Fiscal Year (FY) 2013 Budgets for Operations and Maintenance (O&M) and the Capital Improvements Program (CIP) (Attachment 1).**

  Committee Action Requested: Receive information and provide guidance to inform the preparation of the FY 2013 Budget.

- **Review and discuss potential water and sewer rate adjustment scenarios (Attachment 2).**

  Committee Action Requested: Receive information and provide guidance.

- **Discuss approval of a Contract to Audit Accounts for the Orange Water and Sewer Authority for the Year Ended June 30, 2012 (Attachment 3).**

  In March 2011, we issued a Request for Proposals for audit services. We accepted a proposal from Martin Starnes & Associates and the firm performed OWASA's audit for FY 2011. The firm's proposal included a commitment to perform our audits for FY 2012 and FY 2013 for a base fee not to exceed $30,000 each year and Martin Starnes & Associates has presented a contract for the FY 2012 audit that is consistent with that proposal.

  Staff recommends that the Finance Committee recommend to the Board of Directors that it approve a resolution awarding a contract for OWASA's FY 2012 audit to Martin Starnes & Associates (Board packet information including a proposed resolution is attached).

  Committee Action Requested: Receive information and make a recommendation to the Board of Directors.

As a reminder, we are scheduled to discuss the FY 2013 Budget and staff rate adjustment recommendation at the March 22, 2012 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:

1. Fiscal Year 2013 Budget Summary
2. Rate Adjustment Information
3. Audit Contract Board of Directors packet information

Attachment #1
Fiscal Year 2013 Budget Summary

Background

The Fiscal Year (FY) 2013 Budget planning process began in December 2011. Staff developed budget planning documents which included the Summary of Strategic Issues, Planning Assumptions and Background Information, and the Fiscal Year 2013 Budget Calendar. On January 20, 2012, the OWASA Board of Directors discussed the documents and provided input which staff incorporated into the final versions.

The Operations and Maintenance and Capital Improvements Program budgets have been developed based on identified needs for FY 2013. Our assumptions about Operating Revenue are based on analyses of customer use patterns over the past three and a half fiscal years. These inputs and assumptions combined with OWASA's current financial condition form the basis of staff's recommendation for no rate increase in FY 2013.

Operations and Maintenance (O&M)

Summary information on the initial draft of the FY 2013 O&M budget, which totals $19.7 million, can be found on pages 4 – 6. Key highlights and assumptions in this draft include the following:

- The FY 2013 O&M budget is about $200,000 less than what was projected in last year's financial plan.
- It exceeds the FY 2012 budget by 3% and the current FY 2012 forecast by 4.8%.
- It assumes an 8% increase in health insurance premiums and includes a placeholder for a 2.5% merit pay increase for employees. We do not yet know how much health insurance will increase (or decrease). The merit pay placeholder has not been discussed with the Board's Human Resources Committee nor is the 2.5% increase a staff recommendation.
- A cost contingency of 5% for chemicals is included.
- Based on our FY 2012 Maintenance costs and an assessment of our anticipated needs for next year, the FY 2013 Maintenance line has been increased to about $500,000 more than the FY 2012 Budget and $185,000 more than the FY 2012 Forecast.
- $180,000 for consulting fees related to the continuation of the asset management project.
- Assumes normal operating conditions (average number of water and sewer line breaks per year, typical maintenance and repair needs, etc.)
- Number of authorized staff positions remains at 135.5.
- Includes an increase in the number of funded positions from 127.5 to 130.5. This includes three positions that were not funded in FY12.
    - Two Utility Mechanics in our Water Distribution and Wastewater Collection Department. These positions have been unfunded for the last several years. Filling them will allow us to resume several important maintenance program tasks that were suspended a few years ago during challenging financial times:
        - Water main and sewer force main valve testing and maintenance
        - Water and sewer air relief valve maintenance

- Uni-directional water system flushing
- Hydrant inspection and painting

These maintenance tasks are industry-recommended best practices, critical to improving system operability and reliability, and consistent with our goal of remaining a leader in the industry.

- Maintenance Coordinator. We propose reclassifying the vacant Maintenance Supervisor to Maintenance Coordinator.* This position is an important role in the implementation of the asset management system that is currently being developed. Responsibilities of this position will include:
  - Scheduling preventative, predictive and corrective work
  - Activity reporting
  - Quality assurance of system information
  - Decision-making support for asset repair / replacement

  * Reclassifying this position will require specific action by the Board of Directors at a future meeting.

- Savings from the following recent initiatives:
  - Consolidation of banking activities resulting in a reduction of approximately $15,000 in service fees
  - About $10,000 from reduced security services costs
- Savings from initiatives that have been implemented over the past two years:
  - Approximately $300,000 from wastewater treatment process improvements
  - Almost $220,000 in interest costs from the Series 2010 bond refunding
  - Over $200,000 from the elimination (through attrition) of four positions: largely a result of process improvements
  - Over $10,000 from reduced telecommunication costs

Capital Improvements Program (CIP)

CIP expenditures for FY 2013 total $11.5 million. Summary information on the initial draft of the FY 2013-17 CIP budget is on page 7. Highlights of the plan include:

- Although we have shifted the timing of some projects, the total FY 2013-17 CIP budget is essentially the same as what was projected in last year's financial plan.
- Our CIP program, especially for the next five years, is well informed and reflects the extensive influence of four major engineering studies completed during the past two years. These studies have helped us in

prioritizing our CIP projects and have confirmed that OWASA is investing appropriate funds in the right places.

- This year's CIP puts us in an excellent position to meet our commitment to the Town of Chapel Hill (per Council's Special Use Permit requirements) regarding efforts to eliminate offsite odors at the Mason Farm Wastewater Treatment Plant (WWTP) by the end of calendar year 2014.

- The CIP includes a significant investment to increase the efficiency and effectiveness of our biological treatment process at the WWTP. This investment is expected to reduce operating costs at the plant by over $200,000 per year, beginning in calendar year 2015.

- As before, the proposed CIP also retains the funds necessary to convert OWASA's Jordan Lake Allocation from a Level II (future use) to a Level I (current use) allocation.

- No funding is included for a regional water intake/treatment facility at Jordan Lake; however, such contributions may be recommended in the future depending on further findings of the Jordan Lake Partnership and future assessments of OWASA's long-term water supply needs.

Despite the uncertainties of the future, we are confident that this CIP leaves OWASA well-postured to remain the sustainable, responsible and environmentally focused organization that our community expects.

Orange Water and Sewer Authority
FY 2013 Draft Budget Analysis
(in millions)

	FY 2012 Budget	FY 2012 Forecast	FY 2013 Draft Budget	Variance between FY12 Forecast and FY13 Budget	Percentage Variance between FY12 Forecast and FY13 Budget	Variance between FY12 Budget and FY13 Budget	Percentage Variance between FY12 Budget and FY13 Budget
Operating Revenue	36,770	36,927	36,791	(136)	0%	21	0%
Operating Expenses	(19,145)	(18,829)	(19,724)	(895)	5%	(579)	3%
Net Income	17,625	18,098	17,067	(1,031)	-6%	(558)	-3%
Non-operating Income	947	1,776	1,169	(607)	-34%	222	23%
Debt Service	(8,776)	(8,587)	(8,235)	352	-4%	541	-6%
Net Revenue less Debt Service	9,796	11,287	10,001	(1,286)	-11%	205	2%
Less Capital Expenditures:							
Capital Improvements Program	(9,869)	(8,882)	(11,468)	(2,586)	29%	(1,599)	16%
Capital Equipment	(600)	(578)	(300)	278	-48%	300	-50%
Net increase (decrease) in reserves	(673)	1,827	(1,767)	(3,594)	-197%	(1,094)	-162%

OWASA FY 2013 Budget Analysis Operations and Maintenance	FY10 Actual	FY11 Actual	FY12 Budget	FY12 Forecast	FY13 Budget	Variance between FY12 Forecast and FY13 Budget	Percentage Variance between FY12 Forecast and FY13 Budget	Variance between FY12 Budget and FY13 Budget	Percentage Variance between FY12 Budget and FY13 Budget
Operating and Maintenance Expenses by expense type									
Personnel	9,141,958	9,621,540	10,124,332	9,918,152	10,363,531	445,379	4.5%	239,198	2.4%
Chemicals	1,940,321	1,762,569	2,154,447	1,830,061	2,028,500	198,439	10.8%	(125,947)	-5.8%
Materials and supplies	534,880	571,375	760,048	732,990	780,452	47,462	6.5%	20,404	2.7%
Utilities	1,882,752	1,825,207	1,942,258	1,843,920	1,916,309	72,389	3.9%	(25,949)	-1.3%
Maintenance	2,171,532	2,837,861	2,494,160	2,805,046	2,990,071	185,025	6.6%	495,911	19.9%
Professional Services	631,597	820,163	1,081,891	1,207,992	1,155,317	(52,675)	-4.4%	73,426	6.8%
Insurance	292,246	275,072	275,000	250,794	275,000	24,206	9.7%	-	0.0%
Communication	120,927	125,324	161,920	151,519	140,340	(11,179)	-7.4%	(21,580)	-13.3%
Printing and reproduction	5,657	4,725	10,975	6,007	8,475	2,468	41.1%	(2,500)	-22.8%
Educaton and development	77,614	102,423	135,625	112,647	131,715	19,068	16.9%	(3,910)	-2.9%
Other	151,086	121,890	187,254	180,748	142,188	(38,560)	-21.3%	(45,066)	-24.1%
Construction credits	(272,420)	(231,752)	(182,574)	(210,658)	(208,069)	2,589	-1.2%	(25,495)	14.0%
Total Operating Expenses	16,678,150	17,836,397	19,145,337	18,829,218	19,723,828	894,610	4.8%	578,492	3.0%
FY 2013 Operating and Maintenance Expenses used in last year's rate model					19,943,284				

OWASA FY 2013 Budget Analysis Operations and Maintenance	FY10 Actual	FY11 Actual	FY12 Budget	FY12 Forecast	FY13 Budget	Variance between FY12 Forecast and FY13 Budget	Percentage Variance between FY12 Forecast and FY13 Budget	Variance between FY12 Budget and FY13 Budget	Percentage Variance between FY12 Budget and FY13 Budget
Operating and Maintenance Expenses by Department									
Executive Director	927,913	1,028,419	1,171,667	1,154,910	1,183,701	28,791	2.5%	12,034	1.0%
Customer Service	540,582	528,784	595,206	636,335	589,405	(46,930)	-7.4%	(5,801)	-1.0%
Engineering and Planning	1,179,754	1,251,469	1,414,552	1,374,743	1,364,120	(10,623)	-0.8%	(50,431)	-3.6%
Human Resources	405,717	423,311	588,139	602,963	534,002	(68,961)	-11.4%	(54,137)	-9.2%
Finance	923,687	1,093,840	1,119,647	1,082,573	1,069,393	(13,180)	-1.2%	(50,254)	-4.5%
Information Technology	722,877	846,091	1,042,443	1,018,754	1,011,849	(6,905)	-0.7%	(30,594)	-2.9%
Water Supply and Treatment	3,947,345	4,075,074	4,380,702	4,353,453	4,720,936	367,484	8.4%	340,235	7.8%
Water Distribution	2,218,543	2,507,515	2,727,461	2,457,838	2,649,733	191,895	7.8%	(77,728)	-2.8%
Wastewater Treatment	4,682,497	4,768,789	4,831,115	4,783,299	5,161,964	378,665	7.9%	330,849	6.8%
Wastewater Collections	1,129,235	1,313,106	1,274,405	1,364,349	1,438,724	74,375	5.5%	164,319	12.9%
Total Operating Expenses	16,678,150	17,836,397	19,145,337	18,829,218	19,723,828	894,610	4.8%	578,492	3.0%
FY 2013 Operating and Maintenance Expenses used in last year's rate model					19,943,284				

OWASA CAPITAL IMPROVEMENTS PROGRAM 2013-2017[1]

	ANNUAL TOTALS					5-YEAR TOTAL
PROJECT CATEGORY:	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2013-17**
RAW WATER SUPPLY SOURCES	339,000	216,000	63,000	256,000	231,000	1,105,000
RAW WATER TRANSMISSION	0	0	23,000	0	0	23,000
WATER TREATMENT FACILITIES	230,000	0	1,827,000	2,042,000	2,144,000	6,243,000
FINISHED WATER PUMPING	225,000	0	0	527,000	2,266,000	3,018,000
FINISHED WATER STORAGE	0	0	0	0	0	0
WATER TRANSMISSION AND DISTRIBUTION	1,991,000	4,258,000	2,694,000	3,410,000	4,219,000	16,572,000
WASTEWATER COLLECTION LINES	2,767,000	3,306,000	2,887,000	4,233,000	3,615,000	16,808,000
WASTEWATER PUMP STATIONS	3,562,000	389,000	833,000	489,000	540,000	5,813,000
WASTEWATER TREATMENT AND DISPOSAL	2,355,000	6,575,000	2,046,000	3,701,000	3,886,000	18,563,000
CENTRAL OFFICE AND OPERATIONS	0	36,000	206,000	372,000	390,000	1,004,000
RECLAIMED WATER FACILITY REHABILITATION	0	0	0	0	0	0
FY 2013 - 2017 CIP PROJECTION	$11,469,000	$14,780,000	$10,579,000	$15,030,000	$17,291,000	$69,149,000

NOTES:

1. Budget amounts are escalated at 5% annually (with some exceptions)

Staff Recommendation - No Increase in FY13

Fiscal Year	FY13	FY14	FY15	FY16	FY17
Rate increase	0.00%	2.00%	3.00%	3.00%	3.00%
Financial Management Objectives:					
Reserves (thousands):					
Rate / Revenue Stabilization	$1,000	$1,250	$1,500	$1,750	$2,000
Capital Improvements	$1,600	$2,000	$2,400	$2,800	$3,200
Working Capital Reserve Balance	$16,215	$10,752	$10,025	$9,949	$9,993
Working Capital - Over (Under) Target	$8,078	$2,052	$266	$0	$0
Debt Service Coverage Ratio	2.2	2.3	2.4	2.0	2.4
Average Monthly Bill (5k gallons)	$83.53	$85.20	$87.76	$90.39	$93.10
Anticipated borrowing (millions)				$14	
Approximate outstanding debt balance at end of FY (millions)	$91	$85	$80	$89	$84

AGENDA ITEM

- **RESOLUTION AWARDING AUDIT CONTRACT TO MARTIN STARNES & ASSOCIATES, CPAS, P.A. AND AUTHORIZING CHAIR OF THE BOARD OF DIRECTORS AND THE FINANCE OFFICER TO EXECUTE SAID CONTRACT**

BACKGROUND

- General Statutes of the State of North Carolina and OWASA's Bond Order require that Orange Water and Sewer Authority have its financial records audited annually by an independent Certified Public Accountant.

- In March of 2011, OWASA solicited audit proposals based upon the established criteria recommended by the North Carolina Local Government Commission.

- A staff panel reviewed and evaluated the proposals received based on qualifications and cost. After interviewing the eligible respondents, Martin Starnes & Associates, CPAs, P.A. was identified as presenting the best proposal.

- In keeping with their proposed renewal option from 2011, Martin Starnes & Associates, CPAs, P.A. has proposed to conduct the audit for Fiscal Year (FY) 2012 for a fee of $28,500 for the basic audit and if applicable, an additional $1,500 for single audits of state and federal grant monies received and expended.

RECOMMENDATION

- Approve the FY 2012 audit contract with Martin Starnes & Associates, CPAs, P.A. for total base fees not to exceed $30,000.

ACTION NEEDED

- Adopt the Resolution Awarding Audit Contract to Martin Starnes & Associates, CPAs, P.A. and Authorizing Chair of the Board of Directors and the Finance Officer to execute the contract.

March 22, 2012

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: Board of Directors

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: March 16, 2012

SUBJECT: Approval of Annual Audit Contract

Background

General Statute 159-34 requires Orange Water and Sewer Authority to have its accounts audited by an independent auditor after the close of each fiscal year. OWASA must prepare and publish an annual financial report in conjunction with its annual audit. The auditor's conclusions are to be set out in a report in the form of an opinion and comments relating to the financial statements. The auditor must be approved by, and reports to, the Board of Directors, and is engaged through a contract executed by the Board Chair and the Finance Officer.

In March of 2011, OWASA solicited audit proposals based upon the established criteria recommended by the North Carolina Local Government Commission. The auditing firm of Martin Starnes & Associates, CPAs, P.A. presented the best proposal and was chosen to conduct the audit for FY 2011. We were very pleased with the service the firm delivered.

Martin Starnes & Associates, CPAs, P.A.'s 2011 proposal included renewal options for two succeeding years. The 2012 renewal contract from Martin Starnes & Associates, CPAs, P.A. reflects the original renewal quote of $28,500 for the basic audit and if applicable, an additional $1,500 for single audits of state and federal grant monies received and expended.

Recommendation

Staff recommends that the Board engage Martin Starnes & Associates, CPAs, P.A. for auditing services for the fiscal year ending June 30, 2012. The attached resolution appoints Martin Starnes & Associates, CPAs, P.A. to perform the audit for a base fee not to exceed $30,000.

Stephen Winters, CPA
Director of Finance and Customer Service

RESOLUTION APPROVING AND AWARDING AUDIT CONTRACT TO MARTIN STARNES & ASSOCIATES, CPAS, P.A. AND AUTHORIZING CHAIR OF THE BOARD OF DIRECTORS AND THE FINANCE OFFICER TO EXECUTE THE 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 March of 2011, the Authority solicited audit proposals based upon the established criteria recommended by the North Carolina Local Government Commission; and

WHEREAS, Martin Starnes & Associates, CPAs, P.A. provided satisfactory service related to the Fiscal Year 2011 financial audit;

NOW, THEREFORE, BE IT RESOLVED:

1. That the contract between Orange Water and Sewer Authority and Martin Starnes & Associates, CPAs, P.A. for financial audit of the Fiscal Year Ending June 30, 2012, for charges not to exceed $30,000 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 22nd day of March, 2012.

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Gordon Merklein, Chair

ATTEST:

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Amy Witsil, Secretary