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: March 18, 2011

SUBJECT: **FINANCE COMMITTEE MEETING – MARCH 24, 2011**

The Finance Committee will meet on Thursday, March 24, 2011, at 5:00 p.m. in the First Floor Conference Room adjacent to the Council Chambers at the Chapel Hill Town Hall. The agenda will be:

1) Review and discuss information related to the Fiscal Year (FY) 2012 Budget including updates to the Capital Improvements Program (CIP) and discussion of a potential rate adjustment.

   Committee Action Requested: Receive information and provide guidance to inform the preparation of the preliminary FY 2012 Budget and prepare to communicate the Committee's current position on a rate adjustment to the Board of Directors. (CIP Information is attached – other information to be provided at the meeting)

2) Discuss responses to our request for proposals to perform OWASA's annual financial audit. (Information to be provided at the meeting)

   Committee Action Requested: Receive information and provide guidance to inform the selection of an audit firm.

The *Draft Preliminary Annual Budget* and potential rate adjustment recommendation will be discussed 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: FY 2012 – 2026 CIP Information

Capital Improvements Program (CIP)
FY 2012 – 2026 CIP Information
March 18, 2011

Staff continues to identify specific project requirements in the CIP, and although the FY 12-26 CIP is still under development, it is apparent that the total for the first five years of the FY 12-26 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 it is expected that investment in these periods will also be closely aligned with last year's plan. Staff has also recently conducted a number of sensitivity analyses in the Financial Model and confirmed that the level of CIP investment in the out-years (years six through 15) has little to no impact on near-term rate adjustments.

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 (WWTP) 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. Other points of particular interest:

    - The later phases of the study were focused on optimization of plant operations, and while the results of this optimization work have been extremely positive, the cost savings realized will be achieved in the Operations and Maintenance budget rather than the CIP budget.

    - The CIP will confirm that OWASA will meet its commitment to our neighbors and the Chapel Hill Town Council by completing the Phase III Odor Control Improvement project in 2014. Another (fourth) round of odor modeling was performed as part of the WWTP Hydraulic Capacity and Treatment Study and this modeling confirmed that it will be necessary to cover and treat the air emanating from 10 of the plant's 16 aeration basins in order to prevent objectionable odors from leaving the confines of the WWTP compound (previous analysis had indicated the goal could be met by covering 8 of the basins). The WWTP Hydraulic Capacity and Treatment Study also concluded that OWASA can improve the efficiency and effectiveness of its biological treatment processes by improving the aeration system (conversion from a coarse to fine bubble aeration system) in some portions of the WWTP's biological treatment process. This work will likely be accomplished under the same construction contract as the Phase III odor improvements work, phasing the work so that the aeration improvement work is completed in a particular basin prior to covering that basin, with all work being completed prior to the end of calendar year 2014.

- **Water Distribution (Hydraulic) Model Update (included flow testing and pressure monitoring of the water distribution system to calibrate the 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 and near term investment requirements are not significant. The model results revealed OWASA provides adequate fire flow capacity to greater than 97% of its system. It also indicates that the Jones Ferry Road Water Treatment Plant will likely not need any additional capacity improvements before 2030.

- **Wastewater Collection System Evaluation** (included 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. Other points of particular interest:

    - The study confirmed that the Phase III project to upgrade the Bolin Creek Interceptor (that is currently underway) is a high priority and urgent requirement.

    - The CIP will reflect that planned upgrades on the Morgan Creek, Meeting of the Waters and other interceptors can be postponed, while upgrade work on the Friday Center, Finley Golf Course, Dobbins Drive and other less significant interceptors needs to be accelerated.

    - The CIP will reflect the study's recommendation that rehabilitation/replacement of the sewer collection system be increased from approximately .75% to 1.5% (percentage of current assets) per year by the end of the 15-year CIP (2026).

    - The CIP reflects the study's recommendation that we conduct physical inspection of certain high priority collector lines that do not have capacity shortfalls, but their condition needs to be regularly evaluated to ensure that any problems can be corrected prior to failure of the line.

    - Staff is currently evaluating the consultant's recommendation that we consider rehabilitating/replacing portions of customer service laterals as part of our collection system rehabilitation efforts. This has been proven to further reduce inflow/infiltration in collection systems. However, in areas where the use of trenchless technologies would allow us to avoid excavations when rehabilitating certain sewer mains, the excavation work that would be necessary to rehabilitate/replace customer service laterals would significantly increase costs and adverse customer impacts.

The draft CIP is attached, showing investment by category, by fiscal year, for the first 5-year period (also referred to as the CIP Budget) and totals are provided, by category, for the second and third 5-year periods.

A graph showing historical and future investment trends (in escalated and constant-year dollars) is also provided.

DRAFT (March 15, 2011 version)

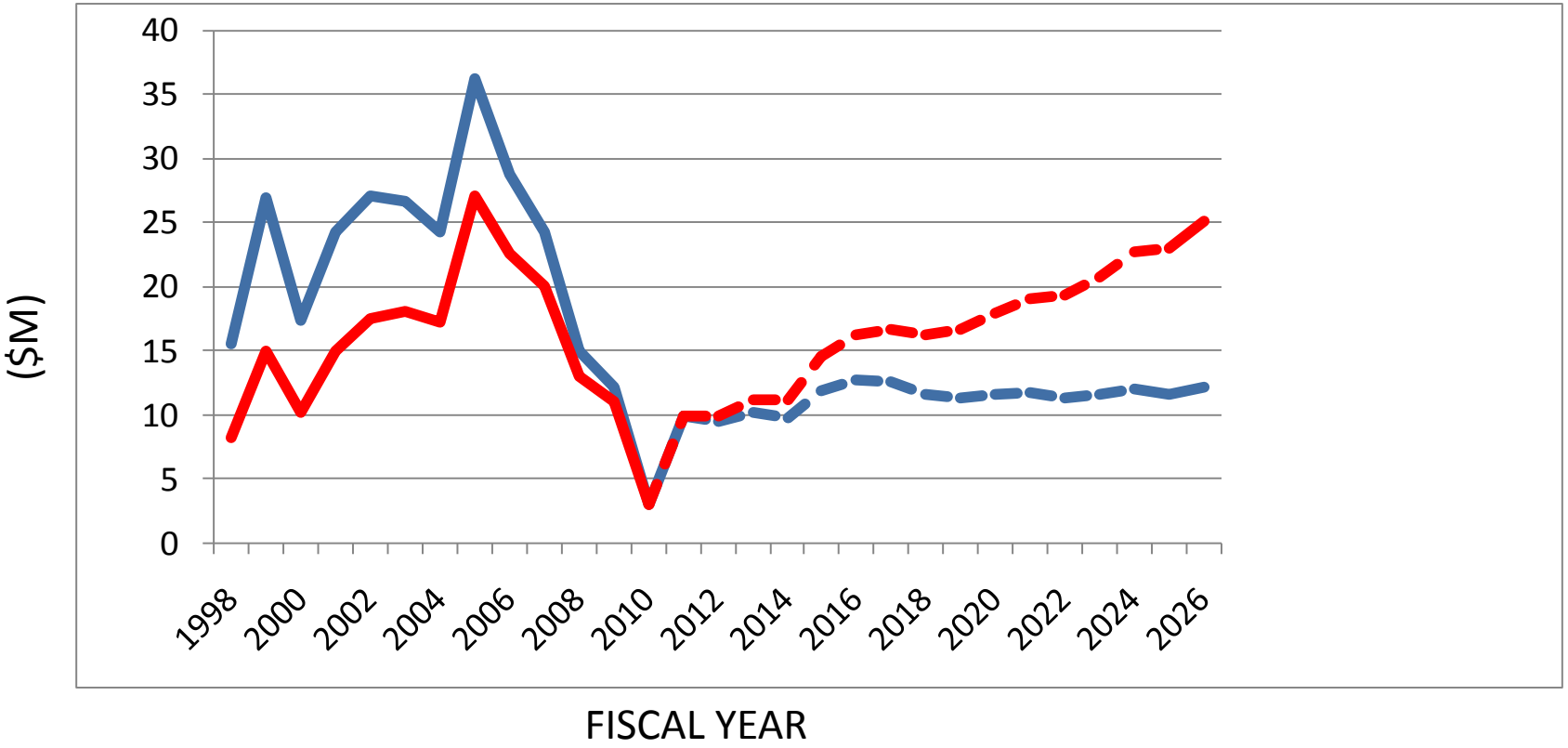
OWASA CAPITAL IMPROVEMENTS PROGRAM 2012-2026[1]

	FIVE-YEAR CAPITAL BUDGETING PERIOD					5-YEAR BUDGET	6 To 15-YEAR PLANNING PERIOD		15-YEAR
PROJECT CATEGORY:	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2012-16**	**FY 2017-21**	**FY 2022-26**	**FY 2012-26**
RAW WATER SUPPLY SOURCES	425,000	250,950	84,050	130,153	600,310	1,490,463	3,560,495	672,013	5,722,971
RAW WATER TRANSMISSION	0	0	0	23,000	0	23,000	0	0	23,000
WATER TREATMENT FACILITIES	110,800	147,840	395,125	2,037,000	2,015,000	4,705,765	12,443,000	15,714,000	32,862,765
FINISHED WATER PUMPING	66,000	0	0	0	527,000	593,000	3,319,149	0	3,912,149
FINISHED WATER STORAGE	0	0	0	0	0	0	0	966,702	966,702
WATER TRANSMISSION AND DISTRIBUTION	3,424,825	906,343	2,688,717	4,292,694	4,651,012	15,963,591	16,733,399	18,091,996	50,788,986
WASTEWATER COLLECTION LINES	3,799,000	2,389,000	2,154,462	3,559,494	3,704,355	15,606,311	22,178,251	35,014,002	72,798,564
WASTEWATER PUMP STATIONS	998,000	5,044,000	305,000	333,000	362,000	7,042,000	3,234,000	7,782,000	18,058,000
WASTEWATER TREATMENT AND DISPOSAL	993,000	2,348,905	5,503,000	3,761,000	3,887,000	16,492,905	22,549,000	28,779,000	67,820,905
CENTRAL OFFICE AND OPERATIONS	53,000	112,000	116,000	366,000	484,000	1,131,000	2,227,000	2,845,000	6,203,000
RECLAIMED WATER FACILITY REHABILITATION[2,3]	0	0	0	0	0	0	154,000	896,000	1,050,000
DRAFT FY 2012 - 2026 CIP BUDGET PROJECTION:	$9,869,625	$11,199,038	$11,246,354	$14,502,341	$16,230,677	$63,048,035	$86,398,294	$110,760,713	$260,207,042
LAST YEAR'S (FY 2011 - 2025) BUDGET:	$7,967,000	$8,962,000	$12,485,000	$17,083,000	$22,116,000	$ 68,613,000	$113,684,000	$106,237,350	$288,534,350
DRAFT FY 2012 - 2026 minus LAST YEAR'S (FY 2011 - 2025) BUDGET:	$1,902,625	$2,237,038	($1,238,646)	($2,580,659)	($5,885,323)	($5,564,965)	($27,285,706)	$4,523,363	($28,327,308)

NOTES:

1. *Budget amounts are in Escalated Dollars (FY '12 dollars escalated 5% annually).*
2. *Reclaimed Water Facility Rehabilitation is a new category for FY '12.*
3. *The Information Services category was removed from the CIP because the projects do not meet our definition of CIP projects.*

OWASA CIP 1998-2026



Actual Expenditures

Forecast (Budget) as it will be presented in the CIP book

Actual Expenditures in Current Year (FY11) Dollars

Forecast (Budget) in Current Year (FY11) Dollars