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

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: April 19, 2013

SUBJECT: Finance Committee Meeting – April 24, 2013

The Finance Committee will meet on Wednesday, April 24, 2013, at 8:00 AM in the OWASA Boardroom. The agenda will be:

- Review and discuss a resolution amending the Fiscal Year (FY) 2013 Annual Budget for additional capital equipment expenditures. (Information provided in the Board's April 25, 2013 Agenda packet, Item 2.)

  Committee Action Requested: Receive and discuss the resolution and make a recommendation regarding adoption to the Board.

- Review and discuss the Financial Report for the nine month period ended March 31, 2013. (Report provided in the Board's April 25, 2013 Agenda packet, Item 8.)

  Committee Action Requested: Receive and discuss the Financial Report.

- Staff will provide additional information regarding the Fiscal Year (FY) 2014 budget (see Attachment 1).

  Committee Action Requested: Review and discuss information.

- Review and discuss an opportunity to refund approximately $25 million of bonds resulting in about $2 million in interest costs savings over the next 18 fiscal years (see Attachment 2).

  Committee Action Requested: Discuss and decide whether to pursue the opportunity.

Stephen Winters, CPA
Director of Finance and Customer Service

cc: Board of Directors
Ed Kerwin
Bob Epting

Purpose

The purpose of this discussion is to provide information about the preliminary draft of the Fiscal Year (FY) 2014 budget that the Finance Committee requested at its last meeting.

Updated preliminary FY 2014 budget numbers

As we anticipated during our discussions with the Finance Committee, we have made changes to the previous draft of the preliminary budget.

	Previous Draft	Change	Current Draft
Category		**(in thousands)**	
Operating Expenses	$19,503	($412)	$19,091
Capital Improvements Program	15,990		15,990
Capital Equipment Expenditures	500	25	525
Debt Service on Outstanding Bonds	7,900		7,900
Total	$43,803	($387)	$43,506

Changes to the previous draft of the budget include the following:

Category	Amount (in thousands)
Reduction in personnel costs including correcting the amount of the increase in health insurance	($182)
Accounting for construction credits (amount not known at the time the previous budget version was compiled)	(230)
Vehicle to replace one recently totaled in an accident	25
Total	($387)

Finance Committee requests for budget details

At its meeting on March 28, the Finance Committee requested details of certain information contained in the preliminary draft of the FY 2014 budget.

- List of discretionary operating expenses – see Attachment A for a list of approximately $980,000 of operating expenses that staff considers important but could be deferred or eliminated with an increased, but difficult to quantify, risk of not meeting service expectations.
- Information Technology budget request detail – see Attachment B for details of the Information Technology Department's preliminary Operating Budget.
- Detail of consulting expense – see Attachment C for a detail of consulting expenses.
- Details supporting certain Information Technology Capital Expenditure requests – see Attachment D for the description and justification for a new telephone system and network storage device.
- Capital Improvements Program (CIP) projects – see Attachment E for a list of FY 2014 CIP projects.

Financial reserves

The following is an explanation and analysis of our three financial reserve funds.

Capital improvements reserve – The purpose of this reserve is to ensure more sustainable funding for the rehabilitation and replacement of water and sewer systems, capital equipment, and major unplanned increases in

CIP. Without this fund, these types of expenditures would have to be funded through unplanned rate increases or perhaps borrowing and/or deferral or elimination of other capital projects.

Our financial policy requires us to keep a minimum balance in this reserve fund of two percent of annual depreciated capital costs (or $5.3 million as of June 2012). This fund was put in place in FY 2010 and the Board decided to fund it gradually: $400,000 per year until the target minimum balance is achieved. The projected balance in the fund at the end of FY 2013 is $1.6 million: $3.7 million short of the target.

Rate/revenue stabilization reserve – The purpose of this reserve is to provide sufficient funding for operating costs during extended periods when expenditures are higher and/or revenues lower than budgeted, offsetting the need for rate increases and spending changes during a fiscal year.

Our financial policy requires us to keep a minimum balance in this reserve fund of five percent of projected water and sewer revenue which currently amounts to $1.7 million. This fund was put in place in FY 2010 and the Board decided to fund it gradually: $250,000 per year until the target minimum balance is achieved. The projected balance in the fund at the end of FY 2013 is $1 million: $700,000 short of the target.

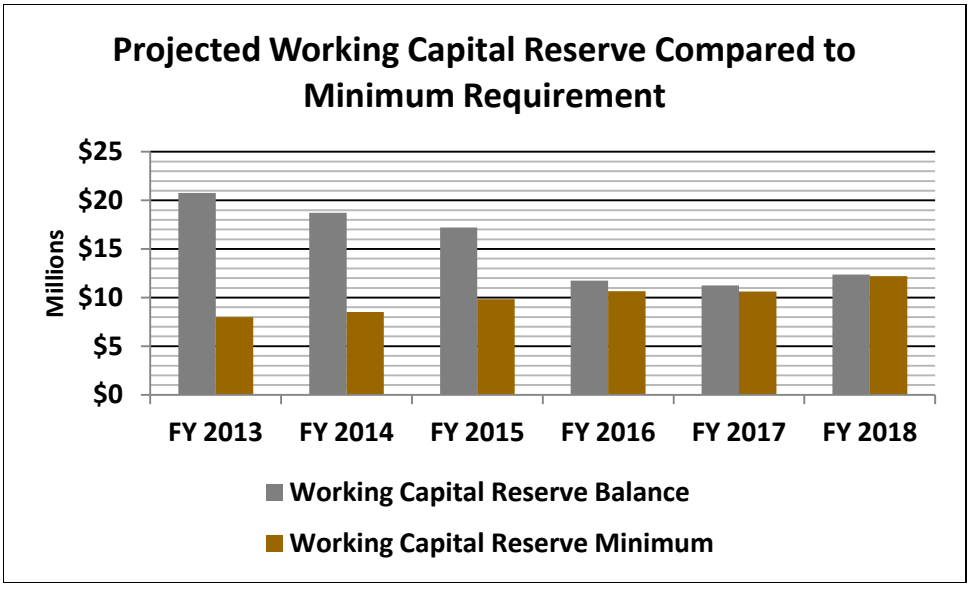
Working capital reserve – The purpose of this reserve is to sufficiently provide cash flow for daily financial needs and to counter revenue instability and unanticipated expenses. This is similar to the balance an individual might keep in a savings account to be able to deal with an unexpected home repair or temporary loss of income.

Our financial policy requires us to keep a minimum balance in this reserve fund of the greater of four months of operating budget, or 20% of the succeeding three years' CIP.

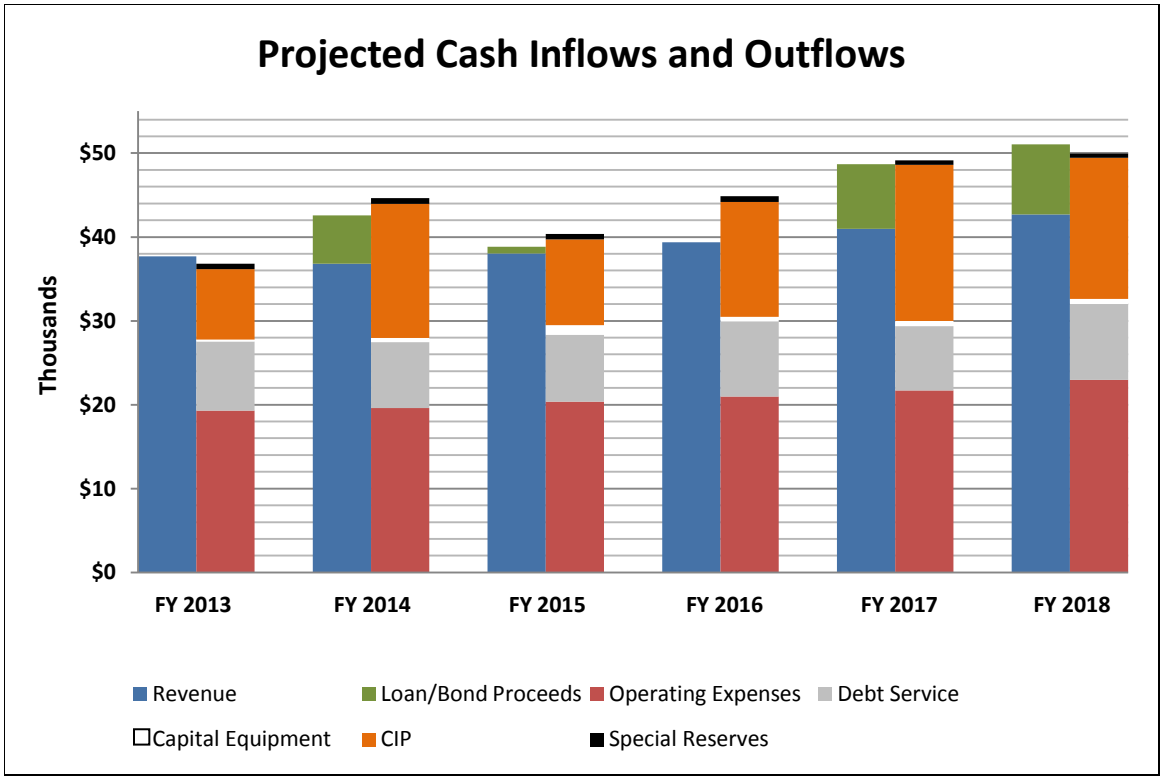
The working capital reserve balance is projected to be a little over $20 million at the end of FY 2013 which is about $12 million over the current required minimum balance.

Reserve summary

Our working capital reserve balance currently exceeds the minimums required by our financial policy. However, according to our financial plan, these funds will be spent down over the next several years as shown in the following graph.



The following graph shows our financial plan's projection of cash inflows and outflows through FY 2018. As you can see, starting in FY 2014, cash outflows are expected to be greater than cash inflows which explains the decreases in the reserve balance.



How would lower bond ratings impact OWASA's borrowing costs?

Bond or credit ratings are indicators of the financial condition of the entity that issues bond debt and the relative quality of the bonds issued. A better bond rating indicates lower risk to an investor and translates into lower borrowing costs for the issuer. OWASA's current bond ratings are very good. A number of factors influence bond ratings but in discussions we have had with the ratings agencies, two of the most important factors for OWASA's high ratings are the level of our financial reserves and our debt service coverage ratio. From FY 2003 through 2009, our debt service coverage ratio and reserve balances were low. Rate increases from FY 2007 to FY 2010 helped to restore these two critical financial indicators.

Our financial policy stipulates that OWASA will maintain bond ratings of at least AA+ and we currently meet this target. The Finance Committee has requested information about the effect lower bond ratings would have on OWASA's borrowing costs. This information is shown in the chart below. The costs are based on a $10 million bond issue; therefore, the costs on a $20 million bond issue would be twice what is shown.

	Current Rating	Hypothetical Rating	Hypothetical Rating	Hypothetical Rating
Rating Agency:				
Moody's	Aa1	Aa2	Aa3	A1
Fitch	AA+	AA	AA-	A+
Standard & Poor's	AA+	AA	AA-	A+
Impact of lower rating	x%	x.1%	x.2%	x.45%
Estimated additional average annual cost on a $10 million bond issue	N/A	$6,500	$13,000	$29,250
Estimated additional cost over the life of a 25-year, $10 million bond issue	N/A	$162,500	$325,000	$731,250

Survey Work and Easement Acquisition in the Morgan Creek Vicinity

Engineering and Planning has researched deeds along OWASA's sewer lines and determined that approximately 2,125 of 6,300 parcels in our service area where sewer lines are located outside of the public right of way do not have duly recorded easements. Some of these occur on parcels owned by UNC or other public entities, but the majority is on private property.

The FY 2013 and FY 2014 budget development documents include the following statement:

> *"Properly recorded or platted easements do not exist for substantial parts of OWASA's sewer collection system, especially for the older portions of the system that were constructed before OWASA began operating in 1977. The lack of documentation limits OWASA's legal authority to resolve or prevent encroachments where property owners place structures, driveways, plantings, etc. These encroachments can interfere with our ability to properly maintain, repair and rapidly respond to emergencies in the system. Work is underway to define and identify the scope of the situation; resolving it may require additional resources."*

Our FY 2014 Operating Budget request includes $55,000 to begin surveying and properly acquiring appropriate easements in a pilot scale effort that will focus on 22 privately owned properties in the Morgan Creek vicinity, which includes a range of sewer line easement acquisition issues. The estimated cost to survey and acquire the easements in this area is approximately $55,000.

The results and experience gained through this pilot effort will inform future discussions and consideration of how to proceed with the larger system-wide issue of undocumented sewer easements.

Budget process next steps

The following steps are planned towards achieving our objectives of conducting the scheduled public hearings on the budget and rates on May 23, 2013 and presenting a final budget and proposed rate schedule for Board of Directors approval at Board meeting on June 13:

1. Staff will present a draft of the FY 2014 budget, CIP and rate adjustment recommendation to the Finance Committee and Board of Directors on April 24 and 25, respectively.
2. Staff will incorporate feedback from the Finance Committee and Board of Directors into drafts of the budget, etc.

3. Staff will present a revised draft of the FY 2014 budget, CIP and rate adjustment recommendation to the Finance Committee and Board of Directors in early May.
4. Also in early May, the Board will need to provide staff direction regarding the budget and rate adjustment information to be advertised to the public in advance of the public hearings.
5. Staff will prepare revised drafts of the FY 2014 budget, CIP and rate adjustment recommendation for presentation at the May 23 public hearings.
6. Board will receive and consider comments from customers and other stakeholders.
7. After considering public input, the Board of Directors will discuss and provide guidance to staff on the final draft FY 2014 budget, CIP and rate adjustment.
8. Staff will finalize the FY 2014 budget, CIP and rate adjustment recommendation and present it for adoption by the Board of Directors at its meeting on June 13, 2013.

Action requested

Review the updated preliminary draft of the FY 2014 budget information and provide feedback.

Orange Water and Sewer Authority Attachment A
Fiscal Year 2014 Budget

Discretionary Expenses (not listed by priority)

Item No.	Category	Description	Totals
1	Office Supplies	Cut back on office supplies and subscriptions, eliminate purchase of new tables for Community Room	8,225
2	Advertising	Discontinue OWASA listings in telephone books.	1,416
3	Board Travel	Discontinue funding Board travel	1,200
4	Conservation	Eliminate dye tablets and low-flow shower heads to give to public.	3,000
5	Board Expenses and Miscellaneous	Discontinue snacks/refreshments at Board meetings and meals at committee meetings; refreshments at hosted professional affiliation meetings; etc.	4,750
6	Printing	Print and bind CAFR and Budget books in-house instead of using a professional printer	1,000
7	Postage and freight	Eliminate HR department mailings	3,000
8	Consultants	Eliminate consulting services for energy billing data management, VoIP requirements and selection, and web site development.	29,500
9	Customer Information	Eliminate Blue Thumb newsletters, create CCR and annual WW reports in-house, discontinue Spanish translations, etc.	13,000
10	Education and Development	Eliminate staff training and education, including H2O program funding, except continuing education required for professional certifications.	55,530
11	Dues and Memberships	Discontinue all OWASA company and individual memberships, including AWWA, Chamber of Commerce, WEF, League of Municipalities, Government Finance Officers Association (including Budget and CAFR award programs), etc. except those required for professional certifications.	20,200
12	Personnel	Eliminate 2.5% merit increase placeholder	125,000
13	Personnel	Reduce health insurance benefits to achieve no FY 2014 rate increase (increase deductible to $1,000 from $500)	75,000
14	Personnel	Freeze the two open Utilitiy Mechanic positions which means deferring our valve maintenance and unidirectional flushing program	90,000
15	Personnel	Close lake recreation on holidays	3,375
16	Lab Expense	Defer nitrate study until next fiscal year; limit and monitoring requirement are not effective until 2018	25,000
17	Materials and Supplies	Welder and plasma cutter for small projects that could be completed by staff. If we defer, we will continue to use an outside contractor.	4,200
18	Materials and Supplies	Racking/storage cabinets to store supplies and materials in neatly and orderly.	7,500
19	Maintenance	Stretch out UV ballast replacements over 5 years as opposed to 3 years	20,000
20	Maintenance	Defer JWC grinder rehab/replacement	7,500

Discretionary Expenses (not listed by priority)

Item No.	Category	Description	Totals
21	Maintenance	Wall repairs, painting, appliance replacement or remodeling of areas in the Administration, Operations and WTP buildings	17,000
22	Maintenance	Industrial coating of bulk ammonia storage tank, transformer by generator building, finished water pumps 4, 5, and 6, Cane Creek generator trailer. All areas are outside, corrosion on each will continue to get worse if not painted	26,250
23	Maintenance	Maintenance Mains - assume lower level of water main failures	50,000
24	Maintenance	Maintenance Meters - eliminate meter change outs (1,000 per year)	110,000
25	Maintenance	High voltage switch gear inspections and cleaning (to maintain main electrical transmission capabilities-forgo for one year)	34,500
26	Maintenance	Re-use spare Davis EMU pumps & impellers from units removed as part of aeration/odor CIP project	25,000
27	Consultants	Discontinue membership in NCWQA	5,000
28	Consultants	Jordan Lake Partnership Supplementary Project to model interconnections	70,899
29	Communications	Discontinue cablecast of Board meetings.	6,000
30	Miscellaneous	Employee events and awards (holiday party, flowers, cards, United Way, blood drive, Veteran's Day lunch, employee appreciation day, service awards)	13,200
31	Chemicals	Only treat sewer lines for root control that are necessary to maintain warranty	70,000
32	Engineering	Easement acquisition work	55,000
	Total		981,245

Staff considers these proposed operating expenses important. Items on this list are discretionary and could be deferred or eliminated with an increased, but difficult to quantify risk of not meeting service expectations. Staff will provide information about the impacts/consequences of not funding any of these items if desired.

Orange Water and Sewer Authority
Information Technology Department
Preliminary Draft Fiscal Year 2014 Budget

Attachment B

Account	FY 2012 Actual	FY 2013 Budget	FY 2013 Forecast (updated as of 2/28/13)	FY 2014 Request
Salaries and Wages				
Salaries and Wages, Regular	280,378	293,502	291,718	306,404
Salaries and Wages, Overtime	149	2,000	1,635	2,000
Service Pay		0	0	1,802
Total Salaries and Wages	280,526	295,502	293,354	310,206
Fringes and Taxes				
Social Security and Medicare	20,621	23,224	22,010	23,747
Retirement Contribution	19,322	19,917	20,107	21,384
Deferred Compensation	1,960	2,080	2,080	2,080
Health Insurance	39,271	41,525	40,427	43,529
Dental Insurance	1,986	2,153	1,974	2,097
Disability Insurance	1,116	1,098	1,420	1,363
Group Life and A.D. and D.	1,496	1,549	1,632	1,526
Total Fringe Benefits	85,772	91,545	89,650	95,726
Utilities				
Telephone	78,741	82,920	88,087	90,852
Cell Phone Stipends	5,000	6,000	6,000	6,000
Total Utilities	83,741	88,920	94,087	96,852
Materials and Supplies				
Office Supplies	14,386	15,000	11,517	15,000
Computer Equipment and Parts	141,532	141,440	121,397	115,000
Total Materials and Supplies	155,918	156,440	132,915	130,000
Maintenance				
Maintenance - Equipment	265,905	245,100	241,099	295,600
Total Maintenance	265,905	245,100	241,099	295,600
Professional Services				
Consultants	114,833	96,000	96,000	82,000
Total Professional Services	114,833	96,000	96,000	82,000
Education and Development				
Education and Development	16,137	16,305	16,305	17,055
Total Education and Development	16,137	16,305	16,305	17,055
Miscellaneous				
Dues and Memberships		100	0	0
Rents and Leases	20,258	17,600	24,098	32,025
Total Miscellaneous	20,258	17,700	24,098	32,025
Total IT Operating Expenses	1,023,090	1,007,512	987,506	1,059,464

Orange Water and Sewer Authority
Information Technology Department
Preliminary Draft Fiscal Year 2014 Budget

Telephone Expense

Description	Monthly Expense	Annual Expense
Frontier	350	4,200
Verizon	1,440	17,280
Time Warner - MetroE & Cable	2,750	33,000
Time Warner - PRI	800	9,600
Time Warner - WWTP	250	3,000
Time Warner - Ulake	160	1,920
USA Mobility	55	660
AT&T	1,166	13,992
NC ITS	600	7,200
Total		90,852

Orange Water and Sewer Authority
Information Technology Department
Preliminary Draft Fiscal Year 2014 Budget

Computer Parts and Supplies

Description	Quantity	Price	Annual Expense
Replacment Equipment			
PC Workstations	10	850	8,500
Laptops	14	1,300	18,200
ArcGIS/CAD Workstation	1	1,700	1,700
Wireless Network Components	1	10,000	10,000
Printers	4	1,000	4,000
Other Equipment	1	22,000	22,000
Software Licenses			
Citrix Licenses	60	255	15,300
Terminal Services	60	255	15,300
Other Software	1	20,000	20,000
Total Computer Parts and Supplies			115,000

Orange Water and Sewer Authority
Information Technology Department
Preliminary Draft Fiscal Year 2014 Budget

Maintenance - Equipment

Description	Annual Expense
Digsmart	5,400
Mueller Systems (HotRod Electronic Read Meters)	1,500
ESRI (GIS)	28,000
Cisco SmartNet	11,000
Itron	7,200
Cameras, Doors and Security Systems	18,000
Dynamics,	15,000
Cogsdale	36,000
CityWorks	25,000
Microsoft EA	25,000
AutoCad	1,200
OCE (plotter)	2,500
Datawell (data collection handheld units)	7,500
Radios	5,250
XC2 (backflow monitoring)	800
EMC (virtualization equipment)	13,000
Enterasys	4,750
VC3 Web Site Hosting	3,000
CodeRED	5,000
Paramount Workplace	5,800
Dell	12,500
MP2	9,800
Greenshades	1,400
Granicus	1,000
Symantec Backup Exec	12,000
AlertLogic (security)	24,000
Citrix	4,000
Other	10,000
Total Maintenance - Equipment	295,600

Orange Water and Sewer Authority
Information Technology Department
Preliminary Draft Fiscal Year 2014 Budget

Consultants

Description	Annual Expense
Finance/customer billing software consulting support	7,000
Distributions/Collections software consulting support	25,000
VoIP requirements and selection consulting	10,000
Computer cabling	15,000
Consulting support for Business Intellegence projects	10,000
OWASA website	15,000
Total	82,000

Orange Water and Sewer Authority
Information Technology Department
Preliminary Draft Fiscal Year 2014 Budget

Month & Year	Employee	Organization - Activity - Location	Purpose	Amount
Jun-14	Dan Przybyl	Microsoft TechEd Conference - Location TBD	Technical training across all Microsoft products and platforms - Registration - $1,895; Travel Expenses - $1,440	3,335.00
Jun-14	Pat Abernathy	Microsoft TechEd Conference - Location TBD	Technical training across all Microsoft products and platforms - Registration - $1,895; Travel Expenses - $1,440	3,335.00
Apr-14	Ryan Byars	Microsoft DevConnect - Location TBD	Technical conference for Microsoft SQl Server and SharePoint - Registration - $1,495; Travel Expenses - $1,400	2,895.00
TBD	Pat Abernathy	Global Knowledge - Training - Raleigh, NC	Microsoft Exchange Server 2013	2,995.00
TBD	Ryan Byars	Global Knowledge - Training - Raleigh, NC	Microsft Sharepoint 2013 Administration	2,995.00
TBD	Richard Wyatt	Global Knowledge - Training - Raleigh, NC	Windows 7 Desktop Administration	Comp
Sep-13	Dan Przybyl	NCLGISA Fall Symposium - Pinehurst, NC	Professional Affiliation	750.00
May-14	Dan Przybyl	NCLGISA Spring Symposium - Wilmington, NC	Professional Affiliation	750.00
Total Education and Development				**17,055.00**

Orange Water and Sewer Authority Attachment C
Preliminary Draft Fiscal Year 2014 Budget
Professional Fees

Item No.	Description	Total
1	Legal	235,000
2	Insurance-Property & Casualty	235,000
3	Insurance-Public Officials	25,000
4	Interpreter for hearing impaired, transcription services, etc.	1,000
5	Utility Trac - consultant support/software services for an energy billing data management system	1,500
6	Unspecified	2,000
7	Credit checks, collection fees	43,000
8	Miscellaneous survey work	1,000
9	Easement surveys	5,000
10	Property boundary surveys	1,000
11	Project to acquire easements along Morgan Creek	55,000
12	Annual members in Jordan Lake Partnership (JLP)	7,500
13	Project to model interconnections (JLP)	66,087
14	Employee Assistant Program contract, membership and services with Capital Associated Industries, Fitness for Duty Tests, Psychological Evaluations, etc.	12,000
15	DOT, HAZMAT and Pre-Employment Physicals, Drug Screens, Hearing Tests, Hep B Shots, Criminal Background Checks, etc.	26,000
16	Annual financial audit	30,000
17	Rates consultants	30,000
18	Financial services (ratings agencies, liquidity facility and remarketing arrangement for variable rate bonds, credit card processing, etc.)	227,950
19	Trustee services	25,275
20	Finance/customer billing software consulting support	7,000
21	Distributions/Collections software consulting support	25,000
22	VoIP requirements and selection consulting	10,000
23	Computer cabling	15,000
24	Consulting support for Business Intellegence projects	10,000
25	OWASA website	15,000
26	Partnership for Safe Water membership	600
27	Triangle J membership including pass-through payments to the U.S. Geological Survey for lake sampling and streamflow monitoring	42,000
28	Water Research Foundation	6,000
29	Urban Water Consortium	5,000
30	Cape Fear River Study	1,500
31	Dams inpections	12,000
32	Orange Grove Fire Dept	8,000
33	Aquatic weed control	5,000
34	Upper Cape Fear River Basin Association	12,000
35	North Carolina Water Quality Association	5,000
36	CITI - Instrument Calibration Contract	22,000
37	CITI - Instrumentation/SCADA Maintenance Contract	68,500
	Totals	1,298,912

Orange Water and Sewer Authority Attachment D
IT Department Capital Equipment Expenditures explanation
Preliminary Draft Fiscal Year 2014 Budget

Telephone System

Our current phone system is a Cisco UCS voice-over-IP system that was implemented in 2008. The system consists of:

- Two Call Manager platforms, one Publisher and one Subscriber where each can fail over to the other for redundancy.
- One Call Center Express platform that provides the call center functionality for Customer Service including queuing, call statistics, etc.
- One Unified Communications server that provides the integration between the Call Manager systems and Microsoft Exchange to provide voicemail/email integration.

The existing VoIP system was a complete replacement of the previous Cisco VoIP system. The existing hardware platforms (four Cisco servers) are now five-years old and will reach end-of-support in FY 2014. After this point, we will not be able to obtain Cisco SmartNet coverage for the server platforms. In the event of a hardware failure, we would need to purchase new hardware and engage Cisco or another Cisco-support vendor to implement the hardware. This could result in a loss of functionality of part of the system (such as Call Center) for an extended period.

In addition, the software licenses will, or already have, reached end-of-support. Cisco has two different types of support for their UCS software; in-version support and release support. Based on Total Cost of Ownership considerations, we purchased our system with in-version support which allows us the rights to upgrade our software within its current version release but not to the next major release version. Our Call Center Express software has already reached end-of-support. There are no more interim releases for the software and Cisco will not provide technical support for the software (we currently use a third-party for the support we occasionally need). The remaining software licenses for Call Manager and Unified Communications will expire in Fall 2013. Without support, any issue with the hardware or software could result in an extended outage of communication services.

We have been reviewing phone system options to replace our current Cisco VoIP system. We have identified Mitel and ShoreTel as the two best replacement options (both are VoIP systems), plus the option of upgrading to the latest Cisco hardware/software platforms or migrating to a hosted VoIP solution. The Information Technology Department is currently in the process of drafting a Request for Proposal to obtain vendor proposals for a new phone system. The upgrade will also provide the opportunity to improve functionality such as system resiliency, call statistic reporting, telepresence, twinning, etc.

The capital equipment request of $70,000 is a best-guess estimate of the total implementation cost for a new system. The previous Cisco implementation in 2008 was approximately $80,000 including hardware, software and engineering services.

Network Storage

Our current storage environment manages approximately 14 terabytes of data. The storage platforms for this data consist of:

- Two Dell Equallogics SANs which provide the storage for our VMware environment. The first Dell Equallogic was implemented in Spring 2011 and the second in Spring 2012. These SANs host most of our active data – databases, email, unstructured data, etc.

- One EMC Clariion AX4 SAN which is currently used for our email DR/BC configuration and storage for our file and email archive vaulting. The Clariion AX4 was purchased in 2008 and will reach end-of-support in October 2013.
- One DataDomain DD530 deduplication storage system that is the backup target for our system backups in our disk-to-disk-to-tape backup architecture. The DD530 will reach end-of-support in late CY 2014.

We are looking to replace these devices with a single device that will fulfill our combined off-line storage requirements. We are currently investigating a wide range of possible vendors and technologies to identify the most cost-efficient solution. The estimate of $55,000 is based upon the actual implementation cost of our latest Dell Equallogics SAN including hardware, licensing and engineering services. The actual cost may be lower based upon the solution selected. We have been researching numerous storage solutions including Storage-as-a-Service. The almost limitless array of storage vendors, technology approaches and range of functionality necessitate an extended survey of the field; no solution or approach has been selected to date.

Orange Water and Sewer Authority
Preliminary Draft Fiscal Year 2014 Budget
Capital Improvements Program

Attachment E

Project Name	Budget ($)	Comments
Jordan Lake Raw Water Supply Allocation	5,000	must pay annual bill
Stone Quarry Reservoir Development	15,000	must pay annual bill (no fault well repair fund)
Calvander Pump Station Improvements	60,000	contract awarded
Water Main - Road Improvement Projects	17,000	contract awarded
Friday Center Interceptor	1,657,000	contract awarded
Heritage Hills Force Main Rehabilitation	100,000	contract awarded
Force Main Condition Evaluation	58,000	contract awarded
Oaks 3 and Tinkerbell Pump Stations Replacements	64,000	contract awarded
Mason Farm WWTP Aeration System/Odor Improvements	7,898,000	contract awarded
Water Main Rehabilitation/Replacement Projects (split)	75,000	contract awarded
Water Main Replacement - Cameron Avenue (split)	217,000	contract awarded
Sanitary Sewer Condition Evaluation (split)	73,000	contract awarded
Sanitary Sewer Rehabilitation (split)	90,000	contract awarded
Mason Farm WWTP Flood Protection Enhancement	135,000	berm repair project currently out for bid, will award in FY 13
SUBTOTAL	**$ 10,464,000**	
Tom's and Morgan Creek Aerial Crossings Replacements	579,000	inspection revealed possible failure of these aerial crossings if not repaired soon
WTP SuperPulsator Upgrades/Rehabilitation	487,000	inspection revealed work needs to be accomplished now
WWTP Recapitalization/Rehabilitation Projects	400,000	high priority safety and operational repairs to hypochlorite facility
WWTP Replacement of Polymer Feed for Dewatering Ops	174,000	must do to avoid (single point) failure of polymer feed system for dewatering biosolids at WWTP
Comprehensive Coatings Program	139,000	corrosion control of key WWTP structures (recurring annual program)
Comprehensive Asset Management Plan Development	300,000	determine appropriate level of annual Operating and CIP investment and replace computer maint mgmt system
WWTP Digester No. 2 to Digester No. 1 Transfer Pump	70,000	high priority replacement pump
Sanitary Sewer Rehabilitation (split)	239,000	repair of items identified by sanitary sewer eval program; design/bid for FY '15 rehab projects
WTP Recapitalization/Rehabilitation Projects	240,000	equip replacements: chlorine analyzer replacements, VFD upgrades for flocculator, MCC rehab, chem bldg HVAC
Water Main Rehabilitation/Replacement Projects (split)	727,000	replace deteriorated water mains per priority model and problems identified by OWASA's operations departments
Sanitary Sewer Condition Evaluation (split)	496,000	inspect sewer mains to see what needs to be rehabbed/replaced.
WWTP Solids Treatment and Recycling Optimization Study	150,000	initiate comprehensive study of WWTP solids treatment and biosolids recycling operations in late FY 14. Most work will be accomplished in FY 15
Cane Creek Reservoir Dam Repairs	62,000	replace caulking in spillway joints. Inspection identified requirement several years ago
Bolinwood Dr Interceptor (Bolin 1)	114,000	design for replacement of an undercapacity sewer main (confirmed by flow monitoring)
Little Creek Interceptor (Little 1)	68,000	design for replacement of an undercapacity/detriorated sewer main (capacity shortfall confirmed by flow monitoring)
Administration Building HVAC Controls Study	36,000	evaluate patchwork control system for HVAC in admin building
Cane Creek Reservoir Dock Replacement	135,000	scope of dock replacement project is still to be determined. Current safety issue
Water Main Replacement - Cameron Avenue (split)	331,000	design for replacement/abandonment of water mains along West Cameron
South Estes Drive and Willow Drive	726,000	water main replacement. Design is at 95% complete
Distribution System Pressure Monitors	32,000	needed for distribution system monitoring and operation
Rosemary St, Henderson St, and Hillsborough St	21,000	project is 90% designed. $21k to determine if scope can be reduced/modified to reduce customer impacts
TOTAL	**$ 15,990,000**	

Notes:
Some projects are shown as "split" to reflect portion that is already under contract
Assumes no significant changes in regulatory requirements
No funding included for possible new strategic initiatives (smart meters etc.)
No funding included for possible Jordan Lake related agreements with Durham and Cary
Assumes no change to biosolids recycling procedures/operations
Ongoing Asset Management efforts will lead to an even better understanding of average annual CIP investment requirements in the future

Acronym Legend

CIP = Capital Improvements Program
WWTP = Wastewater Treatment Plant
WTP = Water Treatment Plant
HVAC = Heating, Ventilation and Air Conditioning
VFD = Variable Frequency Drive
MCC = Motor Control Center

Purpose

The purpose of this discussion is to provide information about an opportunity to refund approximately $25 million of OWASA's outstanding bonds at lower interest rates. The refunding would result in about $2 million in cost savings over the next 18 fiscal years.

The opportunity

In our effort to address affordability, we continually look for ways to reduce costs. One of our practices is to regularly monitor the bond market and we have an opportunity to reduce our interest costs by refunding (or refinancing) about $25 million of our outstanding bonds at lower interest rates. This refunding would save us about $150,000 each year from FY 2014 through FY 2020 and about $80,000 each year from FY 2021 to 2031 – roughly $2 million over the next 18 years. The savings are net of the costs of issuance.

This opportunity results from interest rates that have been gradually moving in our favor since last summer. Interest rates can change fairly quickly; there was an uptick last December over concerns about the federal government's budget and again in February due to signs of the economy strengthening. These fluctuations make it important to take advantage of these opportunities timely.

Most of the costs associated with the transaction are incurred only if the deal ultimately goes through. If the market moves against us to the point that it doesn't make sense to go through with the refunding, none of the service providers will be compensated other than the three ratings agencies (which charge fees of about $20,000 each). The decision to cancel the transaction can made up to essentially the last minute.

Next Steps

If the Committee agrees with staff's recommendation to go forward with the refunding, we would recommend asking the Board to adopt a preliminary resolution at its meeting on May 9. There are a number of other steps in the process including another OWASA Board resolution on May 23 and obtaining the approval of the NC Local Government Commission in early June. We would expect to close the transaction in late June.

Action requested

Discuss the bond refunding and decide whether to pursue the opportunity.