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: August 15, 2012

SUBJECT: Finance Committee Meeting – August 20, 2012

The Finance Committee will meet on Monday, August 20, 2012, at 5:00 PM in the OWASA Board Room. The agenda will be:

- **Review and discuss the Preliminary Financial Report for the year ended June 30, 2012. (Report included in the August 23, 2012 Board of Directors meeting agenda packet.)**

  Committee Action Requested: Receive and discuss the Financial Report.

- **Review and discuss a Board resolution to amend the Fiscal Year (FY) 2012 Budget to account for CIP expenditures exceeding budgeted amounts. (Resolution included in the August 23, 2012 Board of Directors meeting agenda packet.)**

  Committee Action Requested: Discuss the proposed resolution and recommend approval to the Board.

- **Review and discuss the process staff will follow in FY 2013 to provide CIP budget execution and reporting. (Memo attached.)**

  Committee Action Requested: Receive and discuss information.

Stephen Winters, CPA
Director of Finance and Customer Service

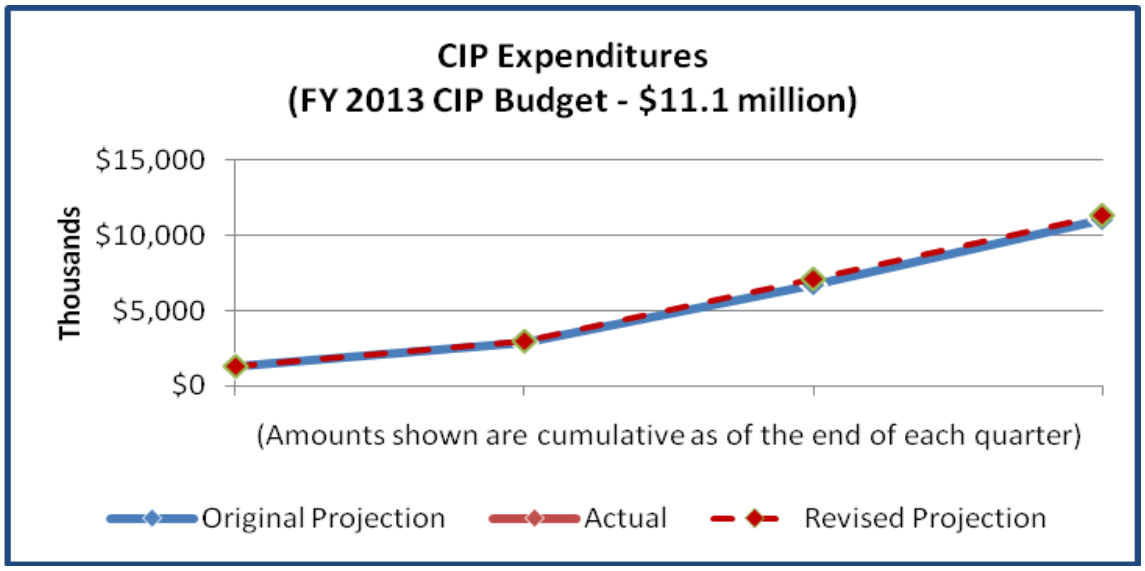
cc: Board of Directors, Ed Kerwin, Bob Epting

Attachment

Fiscal Year (FY) 2013 Capital Improvement Program (CIP) Forecast

In response to questions and comments from the Board, beginning in FY 2013 staff will provide quarterly updates on CIP execution. This information will be incorporated into the regular quarterly reports provided by the Finance and Customer Service Department. The quarterly CIP updates will include revised projections for the remainder of the FY, based on actual performance to date and the inevitable changes that will occur in individual project schedules and project cost estimates. The quarterly CIP report will also provide an explanation anytime the projected end-of-year CIP budget execution rate is forecasted to be less than 90% or greater than 105% of the annual budget amount (original forecast).

The current cumulative projection for FY 2013, by quarter, is provided in the below chart:



Please consider the following as you review the above chart:

- Based on OWASA's improved financial condition and increased confidence in annual revenue projections, staff is now focused on executing the CIP budget as a target, with a goal of achieving an execution rate of no less than 90% and no more than 105% of the annual budget. CIP Division staff have met with their counterparts in Finance and concluded that this goal allows the flexibility needed to reach the "target" (upon which the prior year's rates and fees were established) while not adversely impacting OWASA's financial situation.

- Staff intends to use a cost loaded schedule for the Aeration System and Odor Elimination Improvement Project. This will allow us to evaluate whether use of this practice can benefit the CIP Division's forecasting efforts. (A cost loaded schedule is a typical construction schedule in which the contractor links dollar amounts to completion of specific activities in the project.)

- As has been stated in the past, forecasting and capturing actual "to-date" CIP expenditures is challenging because expenditures can be charged to a project only after an invoice from the consultant or contractor has been reviewed and approved by the CIP Project Manager. This process can be impacted by:

    - whether a consultant/contractor desires to submit an invoice for a progress payment (rather than only a final invoice),
    - reprocessing invoices that were submitted originally with errors,
    - project weather and other construction-related events that result in less (or more) work being accomplished than was reflected in the latest project schedule, etc.

  Although staff will continue to face these unavoidable challenges, unlike in FY 2011 and prior years, staff is confident it has a plan and a backlog of designs that will allow budget execution goals to be met in the future.

Mason Crum, P.E.
Director of Engineering and Planning

cc: Board of Directors, Ed Kerwin, Bob Epting