

Memorandum

Date: April 03, 2019

To: Great Lakes Water Authority Board of Directors

From: Andrew Sosnoski, Construction Accounting & Financial Reporting Manager
Jay Oswalt, Financial Planning & Analysis Management Professional

CC: Sue F. McCormick, Chief Executive Officer
Nicolette N. Bateson, CPA, Chief Financial Officer & Treasurer
Suzanne Coffey, Chief Planning Officer

RE: Financial Impact - GLWA-CS-272, Capital Improvement Program Delivery

Background: The nature of this proposed contract is that it is part business process/systems consulting and part capital delivery. This required the contractor and the GLWA team to identify soft costs for consulting services that are generally allocated to the Operations and Maintenance (O&M) budget versus costs directly assignable to capital project delivery. Attached is a worksheet that defines the methodology for allocation and the related dollar amounts. A recap of that analysis is below.

Estimated Cost by Year and Related Estimating Variance

Anticipated O&M Expenses: \$15,517,040

Anticipated Capital Expenses: 42,740,497

Total Contract Award: \$58,257,537

Financial Plan by Proposed Task and Related Cost Category Assignment

<i>Task</i>	<i>Assignable Category*</i>
<i>Task 01</i> – CIP Business Process Improvements	100% O&M
<i>Task 02</i> – CIP Delivery Standard Operating Procedure (SOP) Development	100% O&M
<i>Task 03</i> – CIP Delivery Resource Evaluation	100% O&M
<i>Task 04</i> – Project Management Information System (PMIS) Selection and Implementation	100% O&M

Task	Assignable Category*
<i>Task 05 – Project Administration & Project Controls</i>	<i>45% O&M, 55% Construction Bond and/or Improvement & Extension (I&E)</i>
<i>Task 06 – CIP Validation</i>	<i>100% O&M</i>
<i>Task 07 – Engineering and Construction Staff Augmentation</i>	<i>3% O&M, 97% Construction Bond Fund and/or I&E</i>
<i>Task 08 – Advanced Facilities Planning</i>	<i>100% Construction Bond and/or I&E</i>
<i>Task 09 – Staff Augmentation other than Construction or Engineering as defined by GLWA</i>	<i>100% O&M (if not directly assignable to a capital project)</i>
<i>Task 10 – Enterprise wide energy optimization & sustainability Planning</i>	<i>100% O&M (if not directly assignable to a capital project)</i>

* Use of Construction Bond Funds is defined by regulations (bonds) and use of Improvement & Extension Funds is defined in the GLWA Master Bond Ordinance.

Construction Bonds: The assignable category is consistent with U. S. Treasury Regulations regarding capitalized costs when tax-exempt bonds are utilized. The Internal Revenue Service (IRS) regulations provide for use of tax-exempt revenue bonds (also known as private activity bonds) for the purpose of capital expenditures, this includes all direct project specific costs, including architectural and engineering costs. The Treasury regulations provide examples and GLWA team members are familiar with the regulations. The vendor is required to provide sufficient detail in the invoice for allocation of project specific costs. Those costs are subject to regulatory compliance and audit.

Improvement & Extension Funds: The assignable category meets the criteria for use of I&E Funds which is defined by the MBO as “for improvements, enlargements, extensions or betterment of” the water or sewer system. In most recent years, GLWA has restricted the use of I&E Funds for tangible improvements. Capital delivery consulting services, while not always capitalizable as an asset, are eligible to be funded with I&E Funds as a period expense for betterment of the system.

Financial Plan Impact and Recommendation: There are multiple sources of funding depending on the type of costs incurred. The attached analysis is at a high level. Once the Contractor is engaged, staff and Contractor will work together to develop the next level of analysis related to priority and coordination with other GLWA initiatives. Conservative placeholder amounts were provided in the FY 2020 thru FY 2024 financial plan (see attached – Line #16) for O&M expense related to the business process and systems consulting services. The majority of the direct capital delivery costs are allocable to specific projects; project budgets will be reviewed and revised when initiated and/or when the CIP is validated (Task 6).

Recommendation: Given that there are funds in the FY 2019 O&M budget (\$172,240) to begin the initiative, but the amount may be insufficient by approximately \$200,000, it is recommended that a budget amendment for \$200,000 be included with the fourth quarter FY 2019 Budget Amendments. This would provide for an FY 2019 allowance of \$372,240 to initiate the project tasks that align with delivering a refined project priority and monthly spend by task. This would be available after the Contractor and staff have the opportunity to further build out the multiple year program and budget and amended as needed.

Funding Sources (depending on task)

- Water Operations & Maintenance Budget (5910)
- Sewer Operations & Maintenance Budget (5960)
- Sewage Disposal Construction Bond Fund (5421)
- Water Construction Bond Fund (5519)
- Sewage Disposal Improvement & Extension (5404)
- Water Improvement & Extension (5506)

Cost Centers (depending on task)

- Capital Improvement Planning (Water cost center 88660.000 - O&M; charged to Sewer System as part of Centralized Services)
- Water Engineering (882111.000 – Construction Bond Fund/I&E)
- Wastewater Engineering (892211.000 – Construction Bond Fund/I&E)

Expense Type (depending on task)

- Contractual Professional Services (617903 O&M)
- Capital Allocation: Non-Personnel (601998 Construction Bond Fund/I&E)

Great Lakes Water Authority
GLWA-CS-272 - Capital Program Management Estimated
Financial Projection Allocation as of April 03, 2019

Line #	Part A - Proposed Project Total by Type of Cost and Projected Spend by Year										
	Task Name	Estimated O&M %	Estimated Capital %	Estimated O&M \$	Estimated Capital \$	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
1	Task 01 – CIP Business Process Improvements	100%		\$ 1,043,816	\$ -	\$ 150,000	\$ 846,645	\$ 17,459	\$ 17,987	\$ 11,725	\$ 1,043,816
2	Task 02 – CIP Delivery Standard Operating Procedure (SOP) Development	100%		1,181,756	-	150,000	981,835	18,477	19,035	12,409	1,181,756
3	Task 03 – CIP Delivery Resource Evaluation	100%		676,847	-	-	539,736	77,753	30,196	29,162	676,847
4	Task 04 - Project Management Information System (PMIS) Selection and Implementation	100%		1,493,744	-	-	1,418,582	27,819	28,661	18,682	1,493,744
5	Task 05 – Project Controls and Reporting Support	45%	55%	5,722,884	6,994,636	-	4,154,167	3,133,598	3,233,408	2,196,347	12,717,520
6	Task 06 – CIP Validation	100%		2,381,024	-	-	1,601,022	283,486	293,331	203,185	2,381,024
7	Task 07 - Engineering and Construction Staff Augmentation*	3%	97%	1,043,483	33,739,298	60,000	11,180,357	8,711,030	9,013,501	5,817,893	34,782,781
8	Task 08 - Advanced Facilities Planning		100%	0	2,006,563	-	526,121	541,111	560,013	379,318	2,006,563
9	Task 09 - Staff Augmentation other than Construction or Engineering as defined by GLWA	100%		1,534,586	-	-	426,598	432,022	446,879	229,087	1,534,586
10	Task 10 - Enterprise wide energy optimization & sustainability Planning	100%		438,900	-	-	431,812	2,623	2,703	1,762	438,900
11	Total by Type of Project Cost			15,517,040	42,740,497	\$ 360,000	\$ 22,106,875	\$ 13,245,378	\$ 13,645,714	\$ 8,899,570	\$ 58,257,537
	Total Proposed Contract Award**				\$ 58,257,537						
Part B - Recap by Type of Cost Projected											
12	O&M (Potential I&E)			\$ 15,517,040		\$ 300,000	\$ 8,451,596	\$ 2,531,540	\$ 2,564,698	\$ 1,669,206	\$ 15,517,041
13	Capital (Construction bond Funds and/or I&E)				\$ 42,740,497	60,000	13,655,280	10,713,838	11,081,016	7,230,364	\$ 42,740,498
14	Grand Total**				\$ 58,257,537	\$ 360,000	\$ 22,106,876	\$ 13,245,378	\$ 13,645,714	\$ 8,899,570	\$ 58,257,539
Part C - Potential Financial Plan Amendment - O&M Costs and/or I&E Funds											
15	Projected O&M and/or I&E					\$ 300,000	\$ 8,451,596	\$ 2,531,540	\$ 2,564,698	\$ 1,669,206	\$ 15,517,041
16	Estimate in FY 2020 thru FY 2024 Financial Plan (O&M)					172,240	1,320,000	1,320,000	770,000	1,640,620	5,222,860
17	Estimated O&M and/or I&E Fund Budget Amendment/Adjustment Required					\$ 127,760	\$ 7,131,596	\$ 1,211,540	\$ 1,794,698	\$ 28,586	\$ 10,294,181

O&M: Operations & Maintenance I&E:
Improvement and Extension Fund

*Task 7 2019 activity will be all Capital

**Note: proposed contract is \$58,257,537; \$2 difference is due to rounding.