

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE**

**Metropolitan Domestic Water Improvement District
Board Conference Room
6265 N. La Cañada Drive
Tucson, AZ 85704**

January 24, 2011

MINUTES

Committee Members Present: Sheila Bowen, Chair
 Jeffrey Ratje, Vice-Chair
 Lee Mayes, Member
 Jim Stevenson, Member
 Tim Thomure, Member
 Bernie Wiegandt, Member

Committee Members Not Present: Barbara Gelband, Member
 Clare Strom, Member

Board Members Present: Dan M. Offret, Vice-Chair, Board of Directors

District Staff Present: Mark R. Stratton, General Manager
 Warren Tenney, Assistant General Manager
 Mike Land, Chief Financial Officer
 Charlie Maish, District Engineer
 Tullie Noltin, Recorder

I. Call to Order and Roll Call.

Tullie Noltin of the Metropolitan Domestic Water Improvement District called the Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Ms. Bowen, Mr. Mayes, Mr. Ratje, Mr. Stevenson, and Mr. Wiegandt were present. Mr. Thomure arrived at 4:07 p.m. Ms. Gelband and Ms. Strom were not present.

Mark Stratton, General Manager, said that he had received a letter of resignation late Thursday, January 20, 2011 from Barbara Gelband, Chair of the FOC. Ms. Gelband did not state a reason for her decision. She had been one of the original members of the Bond Oversight Committee. She sent her best wishes to the FOC and the District. The Board of Directors will be tasked with appointing another person to fill the vacant FOC seat at their February meeting.

Mr. Stratton also noted he received an email from Clare Strom indicating her thoughts about the meeting agenda. The FOC members were provided with a copy of her comments.

II. Nomination and Possible Election of Chair and Vice-Chair

Mr. Ratje nominated Ms. Bowen for Chair of the FOC. Mr. Wiegandt seconded the nomination. Mr. Ratje volunteered to serve as Vice-Chair if Ms. Bowen accepted the position of Chair, and Mr. Wiegandt seconded. Mr. Stratton suggested the FOC could adopt a rotation of Chair and Vice-Chair so that each member could have the chance to share in the responsibilities. Tim Thomure arrived at 4:07 p.m. Mr. Stratton summarized there had been motions and second motions for Ms. Bowen to serve as Chair, and Mr. Ratje to serve as Vice-Chair. Motion passed unanimously. Ms. Bowen chaired the remainder of the meeting.

III. Status of Capital Improvement Projects.

Charlie Maish, District Engineer, said most projects relate to the County roadway improvements. Mr. Stratton said that Hydrology staff has been preparing for the new well in Metro Hub. Mr. Maish talked about the timing for Magee Road projects, Phase I and Phase II. The Riverside transmission main will connect with the Sunset - La Cañada Phase II well site. A consultant is on board for Riverside Crossing. Almost all of these projects will be under construction, simultaneously or overlapping, in the next year and a half.

IV. Review and Possible Recommendation of Mid-Year Adjustment for Fiscal Year 2010-2011 Budget.

Mike Land, Chief Financial Officer, talked about areas within the budget that are more favorable than expected. Water sales are almost \$1 million ahead of last year. The acquisition of the Metro Southwest service area, the recent rate increase and increased water demand have all had an impact on the budget. Water sales are strong and the revenue stream is in line with projections. The only area lagging is meter installations, with only 16 to date. Last year there were 30 meter applications by this time. The District had hoped Metro Southwest would experience more growth but the housing market has not been positive. The RTA Waterline Relocation Fee has provided a consistent revenue stream for paying down the debt service. The District financed \$6.6 million to pay for waterline relocations. Ms. Bowen asked if the RTA Waterline Relocation Fee pays for debt service related to waterline relocations and Mr. Land confirmed. Mr. Stratton explained the Water Resource Fee for new connections. Mr. Land talked about the difference between the Fire Line Protection Fee and the recently established Private Fire Service Line Fee. Mr. Land said the largest expenditure is salaries and benefits, encompassing half of the operating budget. He explained the recent changes in health benefits. Mr. Ratje pointed out the overtime category seems three times higher than it was the same time last year. Mr. Stratton said increased overtime costs are related to inspectors for roadway projects, staffing challenges and additional main breaks on weekends. Mr. Land talked about other expenditures that are lower than expected, such as consult contract services. The Board of Directors chose not to hire a lobbyist this year, and the District has been fortunate in that there is no substantial water related legislation expected this year. The District has been tracking legislation internally and communicating with the SAWUA lobbyist as a SAWUA member. Mr. Land explained areas where funds were available for reallocation, as detailed in the report.

Mr. Stratton said he received an email from Finance Oversight Committee Member, Clare Strom, with her comments about the meeting. She would like to see the recommendations from the audit given top priority. Mr. Stratton said one of the issues arising from the audit was the result of inadequate communication regarding IT practices in place, and the other was a software issue that was being resolved. Ms. Strom expressed concern about personnel morale in light of benefit changes and in the absence of pay raises. Mr. Stratton said the Board had similar concerns regarding personnel. Under the circumstances, District employees are in a pretty good position related to other folks who are taking pay cuts and unpaid furlough days. There have been discussions with staff about how to add benefits and boost morale, even if not monetarily. With regards to health benefits, the District was able to work out a package with as good or better benefits at a lower cost. The Arizona State Retirement System is likely to keep going up, and that is being considered when planning for the future.

There was a detailed discussion about reallocating funds for unfunded capital equipment and capital projects. Mr. Stratton talked about the creation of an emergency capital fund, which is a concept the Board came up with. He talked about some of the additional costs associated with the waterline relocations. The projects are proving to be more costly than original estimates due to the requirements of County. Ms. Bowen questioned whether the new fund should contain the word "emergency". She wanted to know if the balance would carry forward to future budget cycles. Mr. Stratton explained it would function as a pay-as-you-go fund, as needed, and balances would be carried over. If there are not any projects or equipment needed, the monies could be saved for the future to prevent the need to secure financing. He agreed the "emergency" name signifies the use would be disaster-related, and he would also rather it be available for anything that needs attention. Mr. Ratje asked whether the money should be used for short term investments rather than sitting in an account without earning interest. Mr. Wiegandt said he recognized the need for these unfunded capital items and he liked the idea of a capital reserve fund, but he wondered if the District could be locked into using the monies for capital items without the ability to revert back. He asked whether the District could benefit from simply closing out the budget year under budget. Mr. Land noted the debt service reserve and repair & replacement funds were still being funded. There is no general cash reserve. The District would be establishing a capital reserve before having a general reserve, which is only different in flexibility. Mr. Wiegandt liked the idea of restricting the use of these accounts through budget amendments. Mr. Stratton said the Board does have the discretion to fund certain items on a case by case basis. Mr. Ratje said he would favor the Board restricting all expenditures coming out of the reserves. Public perception would remain positive and he favors more transparent practices. Mr. Ratje made a motion to recommend the establishment of a capital reserve fund that is flexible for general utilization and will require the Board's prior approval. Mr. Thomure seconded the motion. The motion passed unanimously.

Mr. Stratton asked Mr. Land if the Board formally amends the budget with reduction in overall spending, how that would impact monies going into the reserve fund. Mr. Land said that statutorily the Board should not be the changing the bottom line, only reallocating funds. Mr. Stratton noted that staff will justify all requests for allocations to the Board of Directors.

V. Future Meeting Dates, Future Agenda Items.

Mr. Stratton said the Board of Directors would be addressing at their next meeting whether to appoint someone to the vacant FOC seat.

Mr. Stratton presented awards to all of the FOC members for recognition of their service on the Bond Oversight Committee. Ms. Gelband's award will be given to her. He said on behalf of District staff, the collaboration with the committee members is greatly appreciated. The Board also extends its appreciation.

Mr. Offret, District Board Member, asked for a few minutes of the Committee's time. He thanked the FOC for the help they have given the Board. He said the level of scrutiny and detailed questioning was fantastic. He had voiced his concerns about next year's budget to Mr. Stratton, and his vision is that rates will not be raised for the next five years. He has not presented his vision to the Board yet but would like to have the FOC and staff's assistance in determining what it will take to accomplish that goal. He would like to cut the budget as much as possible, line by line. He would like to deconstruct and reconstruct the budget, looking at ongoing programs and possible deferments. He wants the FOC to be prepared for that task and to keep up the good work.

The next FOC meeting is scheduled for Monday, February 28, 2011 at 4:00 p.m.

VI. Adjournment.

The meeting adjourned at 5:23 p.m.