

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

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

**May 16, 2011**

**MINUTES**

Committee Members Present:       Sheila Bowen, Chair  
  Jeffrey Ratje, Vice-Chair  
  Reb Guillot, Member  
  Lee Mayes, Member  
  Jim Stevenson, Member  
  Clare Strom, Member  
  Bernie Wiegandt, Member

Committee Members Not Present:   Tim Thomure, Member

District Staff Present:               Mark R. Stratton, General Manager  
  Christopher W. Hill, Deputy 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.**

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

Mark Stratton, General Manager, arrived at 4:31 p.m.

**II.    Status of Capital Improvement Projects and County Road Projects.**

Charlie Maish, District Engineer, said construction on Magee from La Cañada to Shannon was in progress. La Cañada from Ina to River is expected to start in August; staff is awaiting comments and approval on plans and it appears there will not be an opportunity for a head start. Road work on Magee from Shannon to Thornydale is expected to begin in October; plans were submitted to the County about one month ago and staff is awaiting comments. La Cholla from Magee to

Overton had been expected to start in August but has been delayed by the County; the new date has not been confirmed but construction is anticipated in the fall.

Ms. Bowen asked about the Matter Well replacement and Ashton Company's intention to drill a temporary well. Mr. Maish said it appeared that Ashton would no longer be drilling there. Mr. Maish said the Board of Directors will be looking at modifying the bulk rate because it is sometimes cheaper to drill a temporary well than to purchase bulk water from the District. Ashton's plans call for a significant amount of soil cement and rechanneling, which requires a lot of water. Ashton did submit an application to Arizona Department of Water Resources (ADWR) to drill a well but District staff has had discussions with Ashton and they have indicated if the bulk rate is lowered they would use our water.

Ms. Bowen asked if there are any restrictions regarding drilling private wells in the District. Mr. Maish said in this case Ashton would be leasing type 2 water rights from a private individual and the County would have to grant authorization to drill in the right-of-way. Although the County has never done that before, it is not uncommon to drill temporary wells near construction sites.

Ms. Strom asked how bulk water charges are calculated and why the District has a higher bulk rate than other providers. Mr. Land the bulk rate is tied to the fourth tier. The residential bulk rate is the base rate plus \$5.40 per thousand gallons. The commercial bulk base rate is multiplied times three, plus \$16.20 per thousand gallons. The Board intended to discourage the use of water for dust control on construction sites. Since the rate is so high, commercial contractors usually go outside the District to obtain bulk water. A lower rate would generate favorable income at a time when production is down and there are no problems with the water table.

Ms. Strom asked if the District could require the use of District water on all construction sites within the service area through contracts or statute. He said the District has no authority over general construction projects and Pima County would have to agree to make something like that a requirement on their contracts and the cost is high. Mr. Maish noted the District does provide water at no cost for District-contracted projects.

Christopher Hill, Deputy General Manager, said a public hearing is scheduled for June 6<sup>th</sup> to discuss modifications to the bulk rate. Mr. Maish said that bulk water had been a money-maker for the District in years past but the higher rate compelled contractors to look for other sources of water. From a conservation standpoint, it has been effective. Mike Land, Chief Financial Officer, noted the Board could set a temporary rate.

### **III. Updates on Draft Fiscal Year 2011-2012 Operating Budget.**

Mr. Land talked about the updated operating budget summary. The bottom line is now \$1,943,757, due in part to an increase in water sales. There is no rate increase factored in for the new budget at this point. A small reduction in Workers Compensation is favorable to the bottom line. Consultant/Contract Services was reduced by \$125,000 after the State indicated it will continue to fund operations and maintenance at South Shannon. General operating expenses

were increased to pay for rental fees for a skid steer. The cost for the truck-mounted vacuum has been adjusted under capital equipment. Capital projects figures have been increased to allow for replacement of meters at Metro Hub, as approved by the Board.

Ms. Bowen asked why the Workers Compensation costs went down. Mr. Land said the decrease was a result of changes in waterworks personnel standards and the District's good safety record.

Ms. Bowen asked about Other Income Revenues totaling nearly \$390,000. Mr. Land said that figure is primarily the sale of one-time sale of water rights at Arboles Viejos.

Ms. Bowen asked about how RTA financing was reflected in debt service. Mr. Land clarified the RTA Fee had been paying for waterline relocations as it was being collected but now that financing has been secured, the funds are allocated in debt service.

Mr. Guillot said the FOC has devoted quite a bit of time to discussions on the possibility of a bonus or other salary adjustment for personnel but has not noticed an in-depth discussion or decision about this in Board meeting minutes. Mr. Land said salaries would be part of the Board study session on May 23<sup>rd</sup>. The Board has received the FOC recommendation and they will direct staff to either include or not include a salary adjustment in the budget to be prepared for the June 13<sup>th</sup> meeting. Mr. Land said the budget is an ongoing process and the draft changes several times before adoption based on projections and actual data for the current year. There have recently been a couple of resignations and new hires so updates will be made to reflect actual salaries and insurance.

Mr. Ratje said that three months ago the FOC made a recommendation to adopt another reserve fund. He asked if that is reflected on the budget summary. Mr. Land said it is not shown because this summary only covers the operating budget. There are a few accounts zeroed out with a notation indicating the items could be funded from the reserve if needed. Mr. Ratje asked if the reserve had been established as a separate account or just removed from the bottom line. Mr. Land said it had been taken off the bottom line but not officially moved into a separate fund.

#### **IV. Investment Policies and Fiscal Requirements.**

Mr. Land said after the last meeting's discussion about investments and the workings of District, he pulled a number of documents together to serve as working tools for the FOC. Those documents were provided in the packets. The packet contains explanations of the criteria for financial standards such as investments, bond covenants, debt reserves, working capital requirements, customer deposits, and depreciation. He went over the basic processes regarding the intake of cash and deposits with the Pima County Treasurer's office. Investments are governed by State statutes regarding public monies. Check payments for invoices and payroll goes through Canyon Community Bank. The RTA financing is held at the State Treasurer and is drawn down fairly quickly without earning much interest.

Ms. Bowen asked if the operating reserve fund is treated differently than the contingency fund. Mr. Land said the Board must decide whether to fund something with contingency monies but they do not use those funds unless the costs were unexpected. Unfunded projects can be funded

out of the contingency if the Board so chooses. The budgeted operating funds can be shifted without Board action when one line item has unused funds and another is short, as long as the bottom line is not affected. A financial report is provided to the Board monthly with explanations of any line item overages within the operating budget but usually expenditures are under budget on a bottom line basis. Use of the contingency fund requires an approval process. Ms. Strom asked for a recent example of contingency fund use. Mr. Hill said the last time the District used the contingency was about nine years ago. The budget ran out money for well maintenance and a couple of wells failed, so staff had to request monies to do repairs.

**V. Future Meeting Dates; Future Agenda Items.**

Ms. Strom said she had mentioned at the last meeting a desire to learn more about water terminology and relationships with other entities in the water community. She said she appreciates receiving the minutes from the Board and she noticed they made the same comment about receiving FOC minutes. She would like the FOC to have a little better foundational knowledge of the District. Ms. Strom offered to put together a list of topics and terminology, which other FOC members would be free to add to.

Mr. Ratje said the discussion about reserves and contingencies satisfied his prior request. He posed the question of whether \$500,000 was too high for the contingency, considering it was rarely used. Mr. Hill said a need for that much is improbable but not impossible.

Mr. Stratton arrived at 4:31 p.m.

Mr. Wiegandt raised questions about how the contingency fund affects the debt coverage requirements. He suggested the FOC might review and analyze that because the contingency is not reflected in the bottom line fund balance. He suggested a more in-depth discussion about control mechanisms on shifting among line items at the staff level. He said perceptions could be skewed and there could be undue pressure to raise rates when it is not needed. The FOC could discuss alternatives regarding replenishing the reserves, or even eliminating the contingency. The District is not bound by requirements imposed from an outside higher authority.

Mr. Ratje had questions related to the contingency as well. He wondered whether the contingency funds should be placed in a separate account or invested to earn interest since it is rarely used. Ms. Strom talked about her workplace investment policy and wondered if interest income could have been collected in years past. Mr. Wiegandt expressed concern about investing in a risky environment.

Mr. Stratton said the District does enjoy a fair amount of freedom and participates in an open process with the Board. Ms. Bowen said she had printed an example of a contingency policy from another water provider that the FOC may choose to model after. A policy could be drafted by the FOC and considered by the Board. Mr. Wiegandt warned against making things too complicated. The discussion about contingency policy would continue at a future meeting.

Mr. Ratje asked Mr. Stratton about his experience speaking to the La Canada Magee Homeowners' Association meeting about the Matter Well replacement site. Mr. Stratton said the

audience was receptive to the idea and Mr. Wiegandt agreed; he had been pleasantly surprised by their support. He said staff is awaiting legal description of the property to move forward.

Ms. Bowen said the next meeting will be held on Monday, June 20, 2011 at 4:00 p.m.

**VI. Adjournment.**

Mr. Ratje made a motion to adjourn. Mr. Wiegandt seconded the motion. The meeting adjourned at 4:53 p.m.