

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

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

April 15, 2013

MINUTES

Committee Members Present: Jeffrey Ratje, Chair
Sheila Bowen, Member
Jennifer Dussor, Member
Reb Guillot, Member
Lee Mayes, Member
Jim Stevenson, Member
Tim Thomure, Member

Board Members Present: Dan M. Offret

District Staff Present: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy Manager
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Warren Tenney, Assistant General Manager

I. Call to Order and Roll Call

Mr. Ratje called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Ratje, Ms. Bowen, Ms. Dussor, Mr. Guillot, Mr. Mayes, Mr. Stevenson and Mr. Thomure were present.

II. Approval of Minutes – December 3, 2012 Meeting

Mr. Thomure made a motion to approve the December 3, 2012 Minutes. Ms. Bowen seconded the motion. Motion passed unanimously.

III. Selection of Chair and Vice Chair

Mr. Tenney reminded the Committee that under normal circumstances, the Vice Chair becomes the Chair and a new Vice Chair is elected. Since the Vice Chair has resigned, both positions are open to anyone.

Ms. Dussor arrived at 4:02 p.m. She introduced herself and briefly touched on her background.

Mr. Ratje said he would not mind serving as Chair one more term if nobody else wanted to. Mr. Thomure nominated Mr. Ratje as Chair. Mr. Mayes seconded the motion. Mr. Ratje nominated Mr. Thomure as Vice Chair. Mr. Stevenson seconded the motion. Motions passed with 5 votes. Mr. Ratje and Mr. Thomure abstained.

IV. Status of Capital Improvement Projects and County Road Projects

Mr. Maish said several projects have been completed over the past several weeks and capital projects are winding down. The only active projects are the Riverside well site improvements and the Hub 1A well, which will go out to bid soon.

V. Draft Fiscal Year 2013-14 Budget

Mr. Stratton talked about how fortunate the District was to be able to restructure and refinance at the end of 2012, which allowed a little breathing room and safety net in what the projected budget carryover balance will be. Mr. Tenney agreed staff was able to approach this year's draft budget with less worry than last year because of the debt restructuring. Key budget items were highlighted in a separate handout provided to the Board. Staff will continue to vigilantly watch revenues and water sales. The new Water Resources Utilization fee, set at 10 cents per thousand gallons, was established to fund Central Arizona Project (CAP) and effluent related projects. \$277,000 will be generated by the fee in a 12 month period. We are seeing some meter purchases in Metro Main and Metro Southwest, so \$330,000 is projected in development fees for the coming fiscal year. Staff is recommending that money be set aside for capital projects.

Salaries and benefits will be affected by three bond funded positions that are going away because the capital improvement projects (CIP) are ending. Staff is recommending another Utility Tech position and a 2% cost of living allowance (COLA). Last week the Board directed staff to move forward with the merit award program. A 50% increase is projected on insurance benefits. With everything factored in, next fiscal year's salaries and benefits total will still be less than this year's. Mr. Thomure asked about the salary reimbursements for the three bond funded CIP positions. Mr. Tenney said the District has been getting reimbursed for staff time spent on those projects, so overall this area will decrease because we will not have the full reimbursement.

Mr. Tenney explained the Purchased Power category will be affected by TEP's 15% rate increase for water utilities, so staff is factoring in roughly \$100,000 for that. Mr. Ratje asked for clarification on TEP's differentiated rates for water utilities. Mr. Hill explained the District is charged TEP's Rate 43 but indications are this rate will go away and be replaced by a demand type of rate. Mr. Ratje asked if the District's move toward an interruptible rate is already factored in. Mr. Hill said if the District goes to interruptible, we could save enough so that after their rate increase we would almost break even. Mr. Tenney said that is something that is being pursued.

Mr. Tenney touched on CAP Water Purchases, which was projected with a 5% increase factored in. CAP is looking at significant increases higher than 5%, based on the negative impact of the

energy market. The proposed \$1.7 million would cover CAP water, as well as operation of AVRP if CAP rates go higher. Ms. Bowen asked if the 5% increase is purely rate driven, or if the District expects to increase the order volume. Mr. Tenney clarified the 5% increase includes cost but the District is also hoping to order more water for that. Mr. Block agreed the objective is both to try to anticipate how much CAP will raise their rates and get closer to full utilization of CAP water. With the existing rate originally proposed, the District will not have sufficient funds to utilize all its acre feet. Mr. Tenney said one item related to CAP that was recently realized and is not in the draft budget yet is the need to set aside funds to continue to lease the state land that AVRP is situated on. The lease expires in 2014 and the District would like to lease for another 10 year period. The cost is based on the appraisal from 10 years ago, so it will have to be refigured. Staff is recommending setting aside \$50,000 to pay the new lease in 2014.

Another area of increase is related to Contracted (Emergency) Electrical Services. A number of systems need to be replaced and currently the District has one Electrician on board. That item is increasing from \$20,000 to \$65,000. Mr. Ratje asked how much it would cost to hire another Electrician. Mr. Stratton said the workload would require more than one. He explained that the current Electrician is tied up with maintenance related issues and he also handles the telemetry for the SCADA system. When he is drawn off from those projects, it creates additional concerns. Mr. Mayes asked if the types of systems are changing. Mr. Tenney said some of the panels at booster stations and electrical involved with security systems need work. Mr. Stratton said some facilities are not up to code. For example, Metro Southwest needs significant upgrade to meet code. Mr. Hill said there is major work to be done in a short period of time. Mr. Ratje asked if District security systems have battery backup and Mr. Stratton confirmed.

Mr. Tenney said the economic downturn caused the District to push back some things, such as well maintenance. One reason for the previous rate increases was to make certain the District was able to keep up with basic maintenance. This year six wells are targeted for maintenance. One difference staff has noticed in the cost of doing well maintenance is the column pipes are more likely to need replacement, whereas before they could usually be reused. This increases the cost from the projected \$30,000 to closer to \$40,000 per well, which accounts for the increase from \$230,000 to \$270,000.

There is a projected \$30,000 increase in Miscellaneous Consulting Services to continue the work in the Productivity Improvement Project. This project upgrades computers and other equipment in the office and in the field, so the District relies less on paper and communicates more effectively. Staff wants to make sure communications improve overall. Mr. Stratton said this project includes improving internal processes, where duplication of efforts have been identified. The plan also looks at structures like combining databases to increase our efficiencies and make all information more accessible and usable for all staff. Software management is included to make sure we are doing things as productively as possible.

Mr. Tenney said last year the District recognized a number of retirements would impact the budget due to the sick leave policy. The Board revisited the policy last year because the District is responsible to pay out according to sick time accumulated. The District now sets aside money

as a contingency for that, based on the next two years. Based on predicting who is nearing retirement, there is a need to increase that contingency to \$160,000 from \$129,000.

Capital expenditures, using revenues from the Water Resources Utilization Fee and Development Fees, will be recommended. A complete list of capital projects is being developed and we hope to see a little more spent on capital improvements this year. Traditionally, \$1 million has been spent on capital projects per year.

Ms. Bowen asked about the projected 50% increase on health insurance benefits. Mr. Land confirmed the numbers reflect fewer people. The projections are calculated with the first 6 months at the current rate and the second 6 months increased by 50%. Mr. Ratje asked, with the federal medical laws kicking in over the next few years, is it more advantageous to keep staff levels under or over the 50 mark. Mr. Land said the District is making sure staffing stays under 50.

Mr. Ratje asked why Legal/Lobbying is going up by \$25,000. Mr. Stratton said Lewis & Roca is the District's legal counsel. That number is generally based on some reimbursement through our insurance provider, so the total is not reflective of what actually being spent. It is thought that we will not need as much contract review over the next year. We do have a current lawsuit with Pima County and depending on whether that can be settled, the budgeted amount could be used up rather quickly. This is the third year without hiring a lobbyist. District staff and the SAWUA lobbyist have been sufficient to stay on top of legislation.

Ms. Dussor asked about the topic of declining revenues in times of reduced water consumption, as was brought up at the last Board meeting. She asked if that is an issue for this Committee to address, or at what point it become an issue for the FOC to handle. Mr. Stratton said based on the continuing decline, he does not think we will see much of an upswing. The trend and how it relates to future rate increases will be monitored and discussed throughout the year but typically, public rate hearings are scheduled in October, after the budget is approved. First, the District looks at the specific needs and then determines if there needs to be a rate increase based on the revenue requirements. Bonds also require adequate cushion to make sure there is no problem meeting covenant requirements. Mr. Land said if usage continues to decline, there will be a need for consistent rate increases to make sure we adhere to that debt coverage. Mr. Stratton said historically, the District has tried to have moderate rate increases consistently, usually at the 4% level. That is generally small enough to not create a concern but it also generates a fair amount so that we are able to maintain funding of a majority of our debt service. Mr. Ratje asked for clarification that this draft budget does not rely upon a future rate increase. Mr. Land said that is correct; the draft budget is based on the data from the November 2012 rate adjustment. We have seen decent increases in usage in January and February but March toppled again, so the real unknown is water sales. Mr. Stratton said if the refinance and restructure in December 2012 had that not taken place, a fairly significant rate increase would have been required this year to stay in the black. The District is still spending more than it is bringing in but it is better than it would have been.

Mr. Stratton said the FOC has discussed COLA and merit increases in the past. The draft budget includes both at 2%, for a total of 4%. The merit increases would be awarded in January at the half year point. The total for a 2% COLA is \$66,000 and staff recommended moving forward with that. After discussions at the last Board meeting, staff was given direction to include these two items, so everything is reflected in the salaries and benefits line item.

Ms. Bowen asked what Mr. Stratton would cut, if expenditures and revenues had to be balanced. Mr. Stratton said he would probably cut a little bit of everything: well maintenance, reduce security, consulting services, do the electrician work with staff instead. Historically, the District has always purchased less than what we budgeted, so that could generally result in a fairly significant savings. Staff usually under-projects on revenues and over-projects on expenditures.

Ms. Bowen asked if the \$500,000 emergency contingency fund could suffer. Mr. Stratton said that contingency is seldom used and only as a last resort for a true emergency need. In over 20 years, there have only been three or four years we have actually gone into that contingency fund. Ms. Bowen asked if it makes sense to fund the contingency only if there is excess carryover operating funds, so the budget balances. Mr. Stratton said one idea is to fund the contingency only as a replenishing act, if we have had to expend from it. Mr. Land mentioned the contingency fund does not affect the calculations of debt ratios. Mr. Ratje asked if the District had to take money out of the contingency fund, would it then be considered an expense and be factored into debt coverage. Mr. Land confirmed it would be, at that point. Mr. Thomure gave his perspective on the contingency, which is that the District's cash position would remain the same even if there were \$500,000 more in expenditures.

Mr. Ratje thanked staff for including the merit awards in the draft budget since that is an issue the FOC brought up a few times because it is important to reward high achievers and boost morale. From Mr. Ratje's perspective, the plan looks reasonable. He said he also hopes water production levels are what we project them to be because he would hate to see a rate increase. He thanked staff for addressing the areas of concern.

Mr. Tenney said the Board will be provided with all comments by the FOC. The next meeting will focus on prioritizing and allocating capital items and capital projects. There will be a Board study session in two weeks and by the regular meeting in May, we hope to have some direction on how much money to include for capital projects and capital items. Mr. Stratton said the big question mark is on the revenue side. Ten years ago, it was fairly easy to project revenues but with the current consumption trends, that has changed.

Ms. Dussor asked if there are limitations on communications for the FOC. Mr. Tenney explained the FOC is an appointed committee of the Board so it is subject Open Meeting Law under state statues. Members should make certain a quorum is not created outside the public meetings, which can be done inadvertently, for example by one person sending an email to everyone and one member responding by hitting "reply all". Members should also avoid saying they favor one or another type of action outside meetings because if one member passes that information along to other members, a quorum exists in effect. The Attorney General's office has a detailed

overview of Open Meeting Law online. The District may schedule a presentation by Legal Counsel as a refresher on a future agenda.

Mr. Tenney said the next FOC meeting will be held Monday, May 20, 2013 at 4:00 p.m.

VI. Call to the Public

There were no comments by the public.

VII. Adjournment

The meeting adjourned at 4:55 p.m.

Jeff Ratje, Chair
Finance Oversight Committee