

**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 21, 2012

MINUTES

Committee Members Present: Bernie Wiegandt, Vice Chair
 Sheila Bowen, Member
 Reb Guillot, Member
 Jim Stevenson, Member
 Clare Strom, Member

Committee Members Not Present: Jeffrey Ratje, Chair
 Lee Mayes, Member
 Tim Thomure, Member

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

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

I. Call to Order and Roll Call.

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

Mr. Wiegandt apologized for being absent the last few months.

Mr. Stratton said the approval of the minutes has been added to the agenda, since the FOC is a formal Committee of the Board.

II. Approval of Minutes – April 16, 2012.

Ms. Strom said she had requested a few changes to some of her comments in the first draft of the minutes and staff was helpful. The distributed minutes reflect the agreed upon changes.

Ms. Bowen made a motion to approve the April 16, 2012 Minutes. Mr. Guillot seconded the motion. Motion passed with 4 votes and Mr. Wiegandt abstaining, citing his absence April 16th.

III. Status of Capital Improvement Projects and County Road Projects.

Mr. Maish said construction on Magee Road from La Cañada to Shannon is complete. Magee Road from Shannon to Thornydale is under construction at about 50% complete. La Cholla is under construction from Magee to Overton at about 75-80% complete. The District also has La Cañada from Ina to River about 60-70% complete. Iberia Avenue in Metro Southwest is complete, and the same contractor is doing change order work on the conflict improvements near Lulu Walker on Oracle Jaynes. The Riverside Transmission Main area is designed, and should be completed this week. Lowerings in the distribution system are being worked on seven days a week, 12 hour days, to meet the County's schedule. In design is Magee Phase 3, from La Cañada to Oracle, and Orange Grove from Camino de la Tierra to La Cholla. There was an issue with Pima County regarding both projects. Once resolved, those two projects will immediately go out to bid. Oracle Road conflicts with a 12" line in the intersection at Ina Road. There is a concern about how to do the work with heavy traffic. Consultants are working on the Pantano Transmission line in Hub, the Riverside well and Hub 1A well design. Ms. Bowen asked if the District anticipated added costs to the job requiring work seven days a week. Mr. Maish said no, because the price was locked into the contract.

Ms. Strom thanked staff for sending the change order boiler plate language she requested. She noticed the description of the change order in the Board meeting minutes expresses that this was not a normal situation, and the records will reflect the circumstances in case of an audit. She said her questions on this matter have been satisfied.

IV. Draft Fiscal Year 2012-2013 Budget

1. General Operating Costs.
2. Capital Equipment and Improvement Projects.
3. Revenue Generation.

Mr. Tenney said Mr. Land was out of town on a prior commitment.

Mr. Tenney said this has been the toughest budget he has ever worked on. Since the FOC last met, staff has had the opportunity to discuss the draft budget with the Board twice. The report used at the Study Session on April 30, 2012 was basically the same one provided to the FOC in April. The May 14, 2012 Board report was provided to the FOC for this meeting, along with the attached budget summary. Mr. Land and Mr. Tenney have continued to crunch numbers and update the actual revenue as the numbers come in. April numbers have resulted in a revised projected year-end balance of \$353,000, which is better than what was presented last month but still very far from comfortable for the year-end balance, historically averaging over \$1 million.

Mr. Tenney explained power costs were revised. It was known that TEP would have some kind of rate increase or adjustment in the coming year but with more investigation, it was learned that a credit will be eliminated. This would cause a slight cost increase. The District's power usage this year was examined and TEP's changes are not expected to impact the District as once thought, so staff felt comfortable with removing the extra \$59,000 from the draft budget and having the same amount as the current year.

Mr. Tenney said the Board will hold a special study session on May 29, 2012 to discuss the Sick Leave Pay-out Policy. Based on the growing liability, the Board wanted to have further discussion and revisit the policy itself. The draft budget contains a contingency fund for that liability, which will be revised accordingly after the study session. Mr. Stratton said other entities policies are being looked at so that a variety of alternatives can be suggested. Potential adjustments are expected to be made before the new budget is approved. He noted that no staff has stated they are retiring this year. Mr. Tenney said data is being prepared according to who could possibly be retiring in the next two years and staff has identified six employees whose pay-outs would total \$234,000. Mr. Land will likely recommend setting aside 20% of the total liability annually. Mr. Stratton noted staff will recommend to the Board a policy similar to the County or City, where employees must actually be entering retirement to receive a payout. Ms. Strom asked if the liability has been booked in the past. Mr. Tenney said the liability has been identified in annual audits but has not been not been flagged as a major issue. Mr. Land explained it was pointed out but had not reached a level where they suggested applying funds.

Ms. Bowen noticed in the Board minutes a discussion of a CAP fee being considered for next fiscal year, under the discussion about revenue generation. She liked the idea, knowing the District is moving towards increasing its utilization of CAP water, which is going to involve capital expense. She believes it would be prudent to start setting aside money now. Having an infrastructure for the CAP allocation keeps the District from having to purchase as much from CAGR, whose prices are going to increase.

Ms. Bowen asked about the status of well maintenance. She understood the District had placed this on a back burner and was going to restart. Mr. Stratton said discussions about the budget have not included further cuts to well maintenance but that is an option if the budget needs to be reduced any more. Ms. Bowen asked if any facilities are in danger of irreparable damage. Mr. Stratton said no, the rotation has been fairly consistent even though the District has fallen somewhat behind. Ms. Strom said she is concerned about the curtailment of well maintenance but trusts Mr. Hill's judgment. Mr. Hill said he is comfortable working within the budget, understanding maintenance can be deferred but cannot be put off indefinitely. Right now the District is in as good of shape as it can be. Anything unexpected can come out of the contingency fund, if needed. Mr. Tenney said \$230,000 is in the budget as of right now for the maintenance of six wells. The Board has had no discussion about reducing that number thus far, so it should be on target.

Mr. Tenney talked about the two capital projects currently under way: equipping the Old Magee Trail well and constructing a reclaimed line to Omni Tucson National. All other capital projects

are frozen due to lack of funds. With regards to the reclaimed line, Mr. Tenney said the District hopes to acquire a loan from Water Infrastructure Financing Authority of Arizona (WIFA). Under the agreement with Omni, Pima County contributes to construction and the District pays for the remainder. Omni has a 20 year timeframe to repay the District for the expense, so if a loan can be acquired from WIFA for 20 years, the District would not be out any money. This would free up funds for capital improvement projects of great importance.

Mr. Stevenson asked if Omni could be involved in WIFA payments. Mr. Tenney explained Omni does not qualify for a loan with WIFA because they are not a water provider, so the District will need to deal directly with WIFA. Mr. Stevenson asked if the District would still be on the hook for paying for the line if the WIFA loan does not happen. Mr. Tenney confirmed.

Mr. Wiegandt asked why Omni Tucson National is interested in having reclaimed lines. Mr. Stratton explained that when they built their additional 9 holes, they were required to take effluent when it became available as a condition of rezoning. At that time, it was known there would eventually be road improvements and it was decided then that the reclaim line would be constructed during road improvements.

Mr. Wiegandt asked if the District has looked into lending from the Greater Arizona Development Authority (GADA) as an alternative to WIFA. Mr. Stratton said it would be hard to match WIFA's interest rates. He was not certain if Mr. Land had looked into GADA or not. Mr. Wiegandt said in his experience, they have been virtually the same but GADA is available to a broader range of entities. GADA may meet more often than WIFA. There was some question about whether GADA loans federal money. Mr. Stratton noted that with WIFA federal dollars, Davis-Bacon wage requirements do increase costs a little, which does have an impact, although not a tremendous one. He said staff will check into GADA, as per Mr. Wiegandt's suggestion. Mr. Tenney noted the District has a good relationship with WIFA and their staff responded quite quickly to the District's inquiry. Ms. Strom agreed with Mr. Wiegandt on alternative funding sources. She would like to see no stone go unturned.

The discussion recapped the impacts of road improvements to the District's budget and how many reductions in expenses and capital improvements there have been over the past few years.

Mr. Tenney talked about revenue generation. In the past, the District has carried year-end balances in the \$1-\$1.2 million range and there is a degree of discomfort having less this year. He spoke about the importance of continuing critical resource infrastructure improvements, recognizing costs are going up. Rates are increasing for CAP water and that will impact the District if the full allocation is utilized. How to generate more revenue is a concern. Some scenarios have been drafted as a precursor to rate discussions because it is relevant to the budget. One scenario proposes raising the base rate to try to have as much of the fixed costs included as possible. An additional option is the implementation of a fee for a specific purpose, such as renewable supply utilization. The Board can discuss which direction it wants to go and then follow the traditional time frame. Rate hearings are normally held in October, with rates increased in November. The table shows how much revenue might be generated in the 7 months

remaining in the fiscal year under that timeframe. Mr. Tenney said a \$1.75 increase might seem more palatable than a percentage.

Ms. Bowen asked if the contingency for emergencies is smaller than it has been in prior years. Mr. Stratton said it has been \$500,000 for quite a few years. Ms. Bowen asked about the operating fund reserve. Mr. Tenney said that is the contingency for emergencies, to pay for unexpected things such as a well going down. Mr. Stratton noted there has been very little utilization of the contingency fund over the years.

Mr. Guillot said after being part of this process for several years, he is convinced the base rate should do as much to cover known operating expenses as possible. This would give more stability in planning, whether it turns out to be a dry or wet year. He is not as much concerned about the impact to low users because he has never subscribed to idea that the impact on low users would be that significant. An increase to the base rate gives the District a stable platform and that is much better than fluctuating year to year.

Ms. Bowen agreed. She noted that in the summary, the revenue shortfall is projected to continue as people use less and less water. She asked if there is any sort of subsidy for low-income users. Mr. Stratton said a couple local charities distribute some money for those who cannot pay utility bills. Mr. Tenney noted low income users are not always low water users, and vice-versa.

Mr. Wiegandt recalled the last rate increase was a base rate increase. Mr. Stratton said the last increase involved both the base rate and the commodity rate. Mr. Tenney said he is personally grateful seeing the continued decrease in usage but he is concerned about how that has impacted revenue. It is important to note that the base rate still does not cover all basic costs. Mr. Wiegandt asked if a rate increase is included in the revenue line of the draft budget, and Mr. Tenney said no, the figure shown is based on current rates.

Ms. Strom agreed with Mr. Guillot and added she would be willing to go as high as a 6% rate increase, which is still less than the increase the neighboring provider is doing. She said the District is at an important crossroads with CAP water and if the opportunity is lost, costs will escalate. She is in favor of collecting a flat fee from every customer to begin offsetting the costs of ramping up CAP.

Ms. Strom wants to see employees receive at least a 3% COLA, so they see the District have not left them in the dust; they have not had a raise and they need one. Mr. Tenney clarified that the draft budget includes a 2% COLA and Ms. Strom said she would like to see that raised to 3%. Mr. Tenney talked about the ASRS change from 47%-53% back to 50%-50%, retroactively. The District does not have to adjust salaries because when the change occurred, the Board approved a 0.7% increase to staff at that time. The Board will discuss whether to keep that 0.7% in effect.

Ms. Strom asked about aligning Metro Southwest rates with the Metro Main and Hub rate structure. Mr. Stratton said the Metro Southwest rate structure stayed the same as it had been before the District acquired it. It is higher than District rates and the thinking is that eventually,

they will align and Metro Southwest customers can be moved onto the standard structure. There is no timetable set for that to occur but staff is monitoring the situation. Developers are looking at acquiring land in the Metro Southwest service area but that will take 1-2 years to impact revenues.

Ms. Bowen said she agreed with Ms. Strom's recommendations. She would also like to see more of the base costs covered. She favors a direction of sustainability with a CAP fee of some sort. She said she had not given much thought to suggestions of further increases to the COLA but recommends possibly rescinding the 0.7% related to the ASRS ruling and giving it back as part of the COLA. She would like to make sure well maintenance needs are met.

Mr. Guillot favors a 10% increase in the base rate, a 2% COLA, and the establishment of a CAP fee. He would also like to better educate the customers about Pima Wastewater charges appearing on their water bills, and several others agreed. Mr. Stratton noted a 10% wastewater increase is coming July 1st. Mr. Guillot emphasized the need to bring the base rate in line with operating costs for the stability of the District.

There was a discussion about tying a specific dollar amount, \$1.75 for example, to a recommended base rate increase. The FOC members decided to avoid being too specific. Mr. Tenney noted a \$1.75 base rate increase would not cover all basic needs but would only bring it closer. Discussions among staff a year and a half ago suggested the base rate would have to be around \$35.00 to cover basic operational needs.

Mr. Wiegandt asked if staff was looking for a recommendation from the FOC. Mr. Stratton said the FOC could recommend or suggest as it sees fit. The purpose of the FOC is to provide recommendations to the Board on financial matters. The Board makes the decisions but the FOC serves as a valuable resource. FOC members are always invited to attend Board meetings and final comments can be made in person based on discussions, if they so choose.

Ms. Strom motioned that the FOC recommends the Board consider generating revenue by increasing the base rate to cover more of the basic costs, implement a fee for renewable supplies, give a COLA to staff, look at alternative outside funding sources for capital improvements, and better educate customers about wastewater charges being separate from water charges. Ms. Bowen seconded the motion.

Mr. Wiegandt suggested the language "basic costs" be changed to "total operating budget" so that it directly related to terminology in the budget document. The other members agreed.

Ms. Strom amended the motion language as such and Ms. Bowen agreed, as the person seconding the motion. The motion became: The FOC recommends the Board consider generating revenue by increasing the base rate to cover more of the total operating budget, implement a fee for renewable supplies, give a COLA to staff, look at alternative outside funding sources for capital improvements, and better educate customers about wastewater charges being separate from water charges.

Ms. Bowen said she was struggling with not recommending a specific goal. She would like to see the budget more consistent year to year. A discussion established that, rather than alter the motion, the FOC would like staff to convey the recommendation to the Board with the reasoning behind it being the FOC would like to see the year-end fund balance more consistent with prior years. Ms. Strom and Ms. Bowen expressed agreement and entrusted staff to convey the reasoning to the Board.

Motion passed 4-1, Mr. Wiegandt voted against.

Ms. Strom asked Mr. Wiegandt why he voted against the recommendation. He said if the objective in raising the base rate is to cover the entire total operating budget, then all other revenues are for unknown purposes. He asked if every drop of water the District sells would then be considered excess revenue over and above the cost of doing business. He thinks that would be a nice spot to be in, but he is not sure it is necessarily doable. He does not know what the base rate needs to be to accomplish that but it would certainly need to be pretty significant. Secondly, with the conditions the marketplace has been experiencing 5-6 years, he finds it remarkable the District does not include in the discussions anything regarding the expense side of the equation. The discussion is always about revenue or funding mechanisms. The FOC has not discussed expenses enough. Lastly, the previous rate increase was for the purpose of dealing with an impending debt service issue. The District went forward with it but had it not done so, we would have an operating expense issue. He feels there is some disconnect on the reasoning for rate increases. He is not in support of simply finding another way to cover expenses, just because the District has a mechanism to do so at its disposal. Mr. Wiegandt said he was going to save these comments for the rate increase discussions but these are the same reasons for his no vote on the FOC motion.

Ms. Bowen said the FOC can benefit from having a detailed accounting of the general operating expenses that occur and exist whether customers use water or not when discussing future agenda items related to that concept.

Ms. Strom invited Mr. Wiegandt to feel free to voice his differing opinions and debate ideas before voting in the future. Opposing views need to be said and his comments are well taken. There had been an exhaustive meeting in April about how expenses have been taken down to the bare bones. She appreciates him bringing everything to the table and dissenting thoughts can always be woven into a compromise.

Mr. Wiegandt thanked Ms. Strom for her comments.

V. Future Meeting Dates; Future Agenda Items.

Ms. Bowen suggested it would be helpful to the Committee, given Mr. Wiegandt's comments, to see an analysis of what the District's fixed and variable expenses are. She would like to see what the District must pay whether customers use a drop of water or not. She feels this information

would help educate the FOC on the financial needs of District. Knowing similar conditions are occurring across the country, she is interested in seeing that data. Ms. Strom agreed.

Ms. Bowen said she is also interested in seeing an update on the Capital Improvement Program that was proposed several years ago. She would like to see an overview of what has been accomplished and what has been deferred, and how CAP water fits in.

There was a brief conversation and agreement about taking the summer off and returning in August, after staff has a chance to get through the budget cycle. Ms. Strom asked that the FOC to continue to receive the BOD minutes in the summer.

Mr. Wiegandt said the next FOC meeting will be held on August 20, 2012 at 4:00 p.m.

VI. Call to the Public.

Dan M. Offret, Vice-Chair of the Board of Directors, said it had been difficult to sit through and not participate. He thanked the FOC for reinforcing how he has been thinking. He said he could only speak for himself but he thinks the other Board members had similar thoughts.

VII. Adjournment.

Mr. Wiegandt made a motion to adjourn. The meeting adjourned at 5:35 p.m.

Jeffrey Ratje, Chair
Finance Oversight Committee