

**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 22, 2019

MINUTES

Board Members Present:

Charlie Maish, Chair
Lee Mayes, Vice Chair
Ralph Churchill, Member
Lee Jacobs, Member
Scott Schladweiler, Member
Robert Shonka, Member
Kip Volpe, Member

District Staff:

Joseph Olsen, General Manager
Sheila Bowen, District Engineer / Deputy General Manager
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility Superintendent
Theo Fedele, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Mr. Maish called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Maish, Mr. Mayes, Mr. Churchill, Mr. Jacobs, Mr. Schladweiler, Mr. Shonka, and Mr. Volpe were present.

II. Election of Committee Chair and Vice-Chair

Mr. Shonka nominated Mr. Schladweiler for Chair for 2019. Mr. Churchill seconded the nomination. Motion passed unanimously.

Mr. Jacobs nominated Mr. Maish for Vice-Chair for 2019. Mr. Mayes seconded the nomination. Motion passed unanimously.

III. Call to the Public

There were no comments by the public.

IV. Approval of Minutes – October 15, 2018 Meeting

Mr. Maish moved to approve the minutes as presented. Mr. Mayes seconded the motion. Motion passed unanimously.

V. Discussion and Possible Recommendation for Mid-Year Review of Fiscal Year 2019 Budget

Ms. Bracken stated that metered water revenue is projected to be near budget by the end of the fiscal year. When comparing the percentage of budgeted water revenue collected through December, historically 54% of the budgeted revenue would have been collected. As of December 31, 2018, the percentage of budgeted revenue collected is 52.62% or 1.38% lower than the average. In Fiscal Year 2018 when the rate model was built to calculate Fiscal Year 2019 water revenue and rates, a full fiscal year of customer consumption and billing data is used to be consistent with the rate calculations each fiscal year. Since the budget is prepared 1½ years early, the water rates for Fiscal Year 2019 are based upon the customer consumption data from Fiscal Year 2017 since Fiscal Year 2018 data would not have been available to be used for the Fiscal Year 2019 rate calculation. As of December 31, 2018, the water revenue is \$296,018 higher than water revenue collected as of December 31, 2017. Part of this increase can be attributed to the rate increase that is estimated at \$93,590.

Mr. Volpe asked about the Unearned Revenue column, which seems misleading since it is revenue yet to be received. Ms. Bracken stated that it is revenue that has not occurred yet and the column is showing the comparison between the actual and budgeted amounts.

Ms. Bracken stated that as of December 31, 2018, 172 new meter applications were received. The budget included 196 new meter applications, 120 at Metro Main and Hub and 76 at Metro Southwest. If applications continue to be received at the same rate for the second half of the year, revenue will be over budget. However, we are unable to know how many applications will be received so we are still projecting to be on budget with this revenue.

Inspection fees have already exceeded the budget and are projected to be at least \$30,000 over budget by the end of the year. Engineering staff have experienced an increase in requested plan reviews in the first half of the fiscal year with revenue of \$8,000 higher than budgeted.

In the prior year, there were insurance claims for damage to District property and the reimbursements were classified to the Other Income category so this was budgeted higher.

An increase in the number of sewer accounts billed and an increase in the fee amount charged to Pima County for processing their sewer bills will generate about \$23,016 more revenue than was budgeted. The fee increased from \$1.34 to \$1.42 per month per account for sewer account billing. The cost of service is based upon the budget and cannot not be calculated until the budget is

complete: therefore, this revenue was not included in the adopted budget. In June, there were 18,531 sewer accounts billed and in December, there were 18,637 sewer accounts billed for an increase of 106 accounts.

Interest income is projected to increase \$120,000 with the purchase of Certificates of Deposit (CD). With the Debt Management policy in place, the District is required to have unrestricted cash equal to 25% of the total operating budget, which is \$4.75 million dollars this fiscal year. \$5 million dollars was moved from the Pima County Local Government Investment Pool to purchase CD's. The average rate on the 20 CD's purchased for time periods ranging from one to three years is 3.10% resulting in interest income of \$154,751 which is an increase of \$79,751 in just the first year. \$4.5 million of Water Resource Utilization Fee (WRUF) were invested in CD's with \$2 million in one year CD's and \$2.5 million in two year CD's with an average interest rate of 2.84% earning \$127,625 in the first year. The CD's were purchased in \$250,000 increments from different banks to ensure the District has FDIC coverage on each CD.

Mr. Volpe asked if a brokerage house was used. Ms. Bracken stated that the CD's were purchased through Wells Fargo Securities.

Ms. Bracken stated that on July 2, 2018, the District recovered \$1,970.62 from the Local Government Investment Pooled losses from Lehman Brothers Holdings Inc. who filed Chapter 11 in 2008. The District has now recovered a total of \$30,022.20 from the original loss of \$75,351.62 or 39.8%. The budgeted revenue is projected to be \$141,761 higher than budgeted by the end of the fiscal year based upon data as of December 31, 2018.

Mr. Churchill asked if there was a better method to predict usage from year to year. Mr. Bracken stated that she utilizes a rate model that she built, which pulls multiple historical years of the customers' live data from the billing system into a spreadsheet. Growth is not included for a more conservative revenue estimate. The data is then tied into a rate sheet that adjusts rate increases to determine the impact of a rate adjustment to the District as well as to customers. Mr. Churchill asked if the revenue is made up of more than only the consumption. Ms. Bracken stated that in addition to consumption there is an availability fee for all meter sizes, water utilization fee, and Regional Transportation Fees (RTA) fees.

Ms. Bracken highlighted the significant changes in expenses that are expected to occur this fiscal year. Engineering staff is spending additional time working on capital projects increasing the offset to the operation budget expenses by \$76,735. Engineering is planning additional spending of \$7,820 on cost estimates for an additional reservoir storage at adjacent to the existing Herb Johnson Reservoir and investigation of land purchase options at Herb Johnson. The \$20,000 budgeted for the Geographic Information System (GIS) will not be spent this fiscal year, but will be deferred until the next fiscal year. Survey Services are planned to be \$10,200 over budget with the Diablo Village Estates Survey estimated to cost \$11,200.

Worker's Compensation rates increased more than planned and additional positions were added including one part-time position and one full-time position so Worker's Compensation is projected to be \$11,000 over budget. Payroll service costs are planned to be \$5,520 lower than anticipated with the new payroll service provider. The budget was based on the fees provided for each pay period but the actual fee is per month. With the addition of a part-time Customer Service Representative only one San Miguel High School student is working at the District so the \$5,760 savings is applied to the part-time position.

The Consumer Confidence Reports and newsletters are now provided to customers in electronic formats so public relation expenses are planned to be \$15,000 under budget. Water Quality testing services are planned to be \$26,000 under budget with the Synthetic Organic Chemicals (SOC) waiver received this fiscal year. There will be \$25,000 savings since the election was not held for Board members in 2018.

Cost savings are being generated for telephones and communications service costs with credits received from Sprint, the elimination of a fax line and three mobile access devices, utilizing phones as hot spots eliminating the need for additional equipment, as well as switching to Verizon with lower monthly fees.

Vehicle maintenance expenses are on an as needed basis. With oil changes covered in the vehicle leases, all teams are projecting to under spend by \$12,500. Vehicle lease expenses are projected to be \$4,974 lower than budgeted with trade values higher on vehicles at the end of the lease term being used to buy down the monthly payment amounts.

Supplies for mainline repairs are projected to be \$20,000 over budget with asphalt repairs on Mona Lisa, Oak Shadows, and Oracle Road.

On January 3, 2019, the bond defeasance of the 2011 Senior Water Revenue Bonds was completed, satisfying all legal ties to this bond debt. Since the bonds are non-callable, the funds for the remainder of the bond life cycle will be held in an escrow account with U.S. Bank acting as the Escrow Trustee. Funds have been invested in State and Local Government Securities with earning rates up to 2.66%. This bond defeasance will help to improve the District's debt service coverage ratio by eliminating debt from District books. The cost of principal, interest and fees associated with defeasing these bonds totaled \$1,561,174. If all normal payments had been made, the principal, interest and fees would have been \$1,619,180 over the next two years resulting in a \$58,006 interest and fee savings. In addition, satisfying this debt removed restrictions on debt reserve accounts tied to this bond totaling \$1,384,287. This defeasance process added additional debt expenses in the current fiscal year with a net amount of \$118,881 while eliminating this debt two years early.

The District is planning to spend near the budgeted amount for operational expenses; however, there is not a current plan to spend the contingency fund of \$500,000 unless an emergency occurs.

Mr. Olsen stated that the District utilizes a priority driven budget process. Throughout the year each of the teams arrive at what capital equipment items would further support their ability to achieve the District mission and all the requests are integrated into one priority list. The Fiscal Year 2019 priorities included the vacuum excavators and the dump truck. A couple of the Fiscal Year 2019 capital equipment items are slightly higher than the budgeted amount such as the vacuum excavator that was \$6,000 over budget. This is because Staff test the equipment and select the one that is going to best meet the District's needs. This sometimes results in the purchase of a slightly more expensive capital equipment item but one that will save the District financially on a long-term basis due to a longer life cycle and performance capability resulting in enhanced efficiencies. While there are still some items that are in the process this fiscal year to be completed, the capital equipment purchases are anticipated to be complete by the end of the Fiscal Year..

Mr. Volpe asked about the warehouse reorganization. Mr. Olsen stated that the warehouse contains all regular use items for infrastructure maintenance including various copper fittings and meters. There has been an initiative for the past couple years to utilize the limited space more efficiently including adding dividers and bins to more readily identify and locate where items are for the job that needs to be accomplished.

Mr. Olsen discussed the items in the capital improvements program. The Regional Transportation Authority (RTA) waterline relocation on La Cholla between Overton and Lambert will be roughly \$430,000 under budget. That project is moving towards completion next month.

At the Metro Hub reservoir site, there were two reservoirs that together did not provide the storage needed for redundancy and reliability in the Hub service area. The Hub storage site expansion involved demolishing the smaller 175,000 gallon tank and replacing it with an 800,000 gallon tank. The tank is currently being constructed and is roughly \$334,000 over budget based on necessary additions to this project including the emergency interconnect with Tucson Water that ties-into the reservoir site for reliability.

Old Nogales Highway mainline replacement project is a high priority due to almost monthly main breaks on this line. Funds are spread out over three fiscal years in the budget to address the phases at Old Nogales though bids were just received and are being reviewed to determine if a different execution strategy would be more financially beneficial to District Residents.

[11]The La Canada Bridge at CDO pipe joint replacement was budgeted at \$25,000 but an additional \$50,000 is needed so this project will be rolled into next fiscal. Mr. Maish asked if that was addressing all the joints that are leaking now. Mr. Olsen stated that this project was a replacement of the gaskets for all of the joints. Mr. Volpe stated the \$25,000 would be a savings this fiscal year since the amount was moved to next year. Mr. Olsen stated that this is a carry forward requirement

for what would not be spent in the current year but the requirement does not go away. If the repair was not needed then the \$25,000 would be realized as savings but the repairs will be made next fiscal year so the \$25,000 is set aside to address those needs in the next fiscal year.

Mr. Olsen stated that some capital improvement items were not budgeted but required initial planning to prepare for future fiscal year execution. The conceptual cost estimates for the Herb Johnson Reservoir to have 2.5 million gallon reservoir next to the existing 5 million gallon reservoir was prioritized since that is where all of the District's NWRRDS water will be delivered. The initial cost estimates were also completed for the Pantano transmission main, which enables more efficient movement of water produced by wells at the Hub service area, and the South Shannon transmission main, which enables the conveying of recovered NWRRDS water through the Metro Main distribution system. State land easements were needed for \$74,400 since the NWRRDS recovery pipeline is crossing State land in multiple locations along with some of the NWRRDS recovery planned to be located on State Land property. The Hacienda Sisters developer financed project was partially reimbursed. While the District was fully reimbursed for the actual cost of constructing the PRV, some of the staff time assigned to the project was for internal staff training purposes to enhance their capabilities and should not be reimbursed by the developer. [12]

Ms. Bracken clarified that State land will be recorded as a prepaid because with a 6.5 year life remaining on the 10 year lease, which will come out as prepaid each year on the budget.

Mr. Volpe asked why the training is not included in operations. Ms. Bracken stated there was additional staff time associated with on the job training with that project because the full cost was captured then reimbursed. The cash was put to contributed capital and in the end the asset gets capitalized for the full value of the asset. Staff time was tracked on timesheets during training while they worked on the project and reimbursement was not asked for that time worked.

Mr. Olsen stated that staff is not requesting that the FOC recommend to the Board any changes in the current Fiscal Year budget.

Mr. Maish moved that based on the Committee's mid-year review of the Fiscal Year 2019 budget that staff proceed with the budget as presented. Mr. Shonka seconded the motion. Motion passed unanimously.

VI. Update on the Northwest Recharge, Recovery, and Delivery System

Mr. Olsen provided a strategic background on the NWRRDS. Since the District was formed over 25 years ago, the aquifer has dropped about 1-2 feet per year, which creates a long-term strategic challenge of being able to sustain customers' demands if the aquifer is dropping at that constant

rate. The District does have a renewable allocation of Central Arizona Project (CAP) supplies of 13,460 acre-feet (AF); however, this allocation is stored about 13 miles to the west of Metro Main at the AVRP storage basins, located north of the Marana Airport, and at groundwater savings facilities (GSF) such as BKW farms, Cortaro Marana Irrigation District, and Kai Farms. The District has looked at ways to recover and bring that water into Metro Main. In 2013, a route study was performed that looked at various options to recover the stored CAP water. From 2015-2017, there were extensive negotiations with other water providers since this is not only a District challenge. The Towns of Oro Valley and Marana also have their water stored out in that geographical location, predominantly GSFs. With this shared challenge of physically wanting to access renewable water supplies, a collaborative solution was coordinated to partner together as opposed to doing three sets of separate pipeline and wells. Starting with a blank sheet of paper, a customized and unique intergovernmental agreement (IGA) was developed and approved unanimously by all governing bodies in April 2017 to construct this infrastructure with an operating term of 50-years. There are three locations to drill wells on State land property and coordination is ongoing to acquire Marana Airport property for fee title land for additional well locations. The plan is to drill three wells with some redundant location options in case any problems arise during drilling or on capacity estimates. With those wells, and two existing wells on Marana Airport property, the water will be physically recovered and tied into a connection point on Avra Valley Road just southeast of the Marana Airport.. The recovery transmission pipeline will travelling down AVRA Valley Road and across I-10 to Lambert where it will come to a forebay location or storage tank on the Lambert Road alignment. The transmission main is shared based on proportional capacities in the project. This project is sized to convey 10,400 AF per year with Oro Valley and the District each having 4,000 AF and Marana having 2,400 AF. Each entity will have their own boosters to be able to convey water from the forebay to their respective service areas. The District's portion will go to the Herb Johnson reservoir because it is a 5 million gallon reservoir, conveys water to a vast majority of Metro Main, and enables a secondary blend.

Mr. Churchill asked if the Town of Marana will ask for more in the future if they grow as projected. Mr. Olsen stated that the way that this project was sized was based on the pipeline and well capacities. The option exists if one entity does not use their annual capacity, the other parties of the IGA could pick up that capacity on a year to year basis and pay the respective maintenance cost. The IGA does try to envision numerous of "what if" scenarios and also created a Committee, comprised of the respective General Manager and Water Directors for each entity, to address unanticipated issues.

Mr. Volpe asked if the NWRDSDS budgeted amount of \$1.52 million plus an overage of \$30,000 is the difference between shared costs and what is solely the District's cost. Ms. Bracken stated that the District has costs this year in addition to the project due to cash funding the design and land acquisition. Mr. Olsen stated that with three different municipalities involved in the project it creates a question of who owns the infrastructure and the land. The decision was for the District

to own the physical pipeline and purchase and own the land. Oro Valley and Marana will have intangible assets, or contractual capacity in NWRRDS based on the proportional financial contributions.

Mr. Olsen reviewed handouts that include the six proposed NWRRDS execution packages, the estimated cost per partner, and the Herb Johnson Expansion plans. The NWRRDS schedule and the cost estimates are based on the work accomplished by HDR, who was selected to provide Program Support for the project.

VII. Update on the District's Calendar Year 2019 Goals

Mr. Olsen stated that every year, as part of the Board's performance review of the General Manager, there is a review of the District's specific performance objectives which are the unique and compelling items that require additional focus during the upcoming calendar year to be able to refine and enhance the capabilities of the District. The approved Specific Performance Objectives for calendar year 2019 were discussed as follows:

1. Work succession planning activities on planned and unplanned retirements and separations.
2. Continue NWRRDS progress to include initiating detailed design efforts for key elements.
3. Justify to the FOC and the BOD the proposed adjustments and plan RTA fee elimination in Fiscal Year 2020.
4. Accomplish planning and coordination efforts in preparation for NWRRDS and other Capital Improvements financing.
5. Continue implementation of technological solutions including electronic work order tracking.
6. Continue proactive regional partnerships on emerging water quality issues and convey information to customers.
7. Accomplish site-by-site security review and plan necessary upgrades to ensure water quality and protection of key infrastructure assets.
8. Facilitate Arizona Municipal Water Users Association (AMWUA) and Southern Arizona Water Users Association (SAWUA) partnership efforts with the Legislature to eliminate 2025 effluent credit sunset and to increase recycled water earned percentage in managed recharge projects.
9. Support the Drought Contingency Plan (DCP) efforts to bring a legislative solution to prevent critical Lake Mead levels in early 2019.

Mr. Churchill stated that item number one was the most important item. Mr. Olsen agreed stating that we have had long-tenured employees who have recently retired but the District has been fortunate in acquiring talented individuals to take their place. Having a proactive succession planning strategy in place helps continue this ability of having highly talented individuals continue to accomplish and support the District Mission.

Mr. Volpe asked if the District had relationship with the University of Arizona and their hydrology department. Mr. Olsen stated that we have close partnerships with the Water Resources Research Center and often present at their workshops. While there are many competent students at the University, the challenge with recruiting these new graduates is timing, in that we may not have an opening immediately after graduation, and that some of our positions require industry experience beyond basic educational requirements.

VIII. Clerk of the Board Updates; Future Meetings

The next Finance Oversight Committee meeting is scheduled for March 27, 2019 at 4:00 p.m.

IX. Call to the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 5:13 p.m.

Scott Schladweiler, Chair
Finance Oversight Committee