

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

Metropolitan Domestic Water Improvement District

****Board Conference Room****

6265 N. La Cañada Drive

Tucson, AZ 85704

October 21, 2013

MINUTES

Committee Members Present: Reb Guillot, Chair
 Jennifer Dussor, Vice Chair
 Sheila Bowen, Member (via telephone)
 Lee Mayes, Member
 Jim Stevenson, Member

Committee Members Not Present: Lee Harbers, Member

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

I. Call to Order and Roll Call

Mr. Guillot called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:03 p.m. Ms. Dussor, Mr. Guillot, Mr. Mayes and Mr. Stevenson were present. Ms. Bowen was present via telephone. Mr. Harbers was not present.

II. Selection of Committee Chair and Vice-Chair

Ms. Dussor nominated Ms. Bowen for Chair. Ms. Bowen said she appreciated the nomination but she has concerns about missing meetings due to her new position. Ms. Dussor nominated Mr. Guillot for Chair. Mr. Stevenson seconded the nomination. Mr. Guillot confirmed he is available to serve. The motion passed 4-0, with Mr. Guillot abstaining.

Mr. Mayes asked Ms. Dussor if she is available, and she said she has limited knowledge of meeting rules but would be happy to serve. Mr. Mayes nominated Ms. Dussor for Vice Chair. Ms. Bowen seconded the nomination. Motion passed 4-0, with Ms. Dussor abstaining.

III. Approval of Minutes – September 16, 2013 Meeting

Ms. Bowen made a motion to approve the minutes. Mr. Mayes seconded the motion. Motion passed unanimously.

IV. Status of Capital Improvement Projects and County Road Projects

Mr. Maish said the only capital project ongoing is the Hub 1A Well. Difficulties resulted from the contractor having his electrician and pump installer pull out of the contract and he has since replaced both of them. Staff is having to redo submittals and will turn around as quickly as they can. The soft start is a long lead item which will take 15 months after the approval of shop drawings. The pump installed by new contractor. Staff anticipates it will be a long time period before that project is completed. Mr. Stevenson asked if the delays will increase the cost to the District and Mr. Maish said yes, somewhat. This contractor is already known to file a lot of claims so staff will be looking at that closely.

Mr. Maish said the County road jobs continue, although we are done with waterline relocations.

V. Discussion and Approval of Recommendation for Proposed Rate & Fee Adjustment

Mr. Tenney said the Board will hold a rate hearing October 28, 2013. All notification requirements have been met and customers received a description of what is being proposed, which is a \$2.00 increase to the Water Availability Rate and an increase to the Water Resources Utilization Fee by 10 cents to become 20 cents. Customers have an opportunity to express their opinions about the proposed rate increase before or during the public hearing. The Board would like to have a formal recommendation from the FOC.

Mr. Guillot recalled the FOC had a good discussion two meetings ago and the FOC was split, with half favoring 4% and half 6%. At the time, the Board seemed to have a similar view. He asked if anyone had further comment, now that the Board has suggested the \$2.00 plus 10 cents.

Mr. Stevenson asked if the proposed adjustments are the equivalent of 4%. Mr. Tenney explained the \$2.00 Water Availability Rate increase would generate about a 4% revenue increase and if 10 cents was also added to the Water Resource Utilization Fee that would generate another 1.47% increase in revenue, for a total of 5.47% revenue increase. The Water Resource Utilization Fee funds are set aside for CAP and effluent projects.

Ms. Bowen expressed concern that if the District imposes rate increases on upper tiers, it could cause an increase in conservation. Rather than risk that, she supports the Board's \$2.00 increase plus an additional 10 cents on the fee.

Ms. Dussor asked if the Board vote on any rate increases in their October meeting. Mr. Stratton said the October meeting was just a recap. The September meeting was when the Board settled on the recommendation to direct staff to prepare information proposing a 4% revenue increase. Ms. Dussor asked what type of customer feedback has been received so far. Mr. Land said staff has received about a dozen comments through mail, calls, or email. A couple comments favor the

increase but most oppose, citing that the District has asked people to conserve water and then when they did, the District needed to raise rates. Ms. Dussor asked if there is a feeling for the usage levels of the people who are providing feedback. Mr. Land said their usage varies. Customers using very little water will see a greater impact, about 9%. One complaint came from someone using over \$300 per month and the impact to that type of bill would be less than 1%. Mr. Land said previous rate increases have produced an initial cutback in usage and then gradually return to normal patterns.

Mr. Tenney said one reason for focusing on the Water Availability Rate is so that if customers do cut back the District will still get the \$2.00 increase, just less in the water usage charge, so we will still be in a better position.

Mr. Guillot supports increasing the fixed charge to apply against fixed costs. He feels this is the right direction.

Mr. Mayes said there is a lot of uncertainty right now and he supports playing the safe side. He would like to raise rates a little and reevaluate after we see the results. Next cycle, the FOC could look at more or less of an increase but he thinks this one is necessary right now.

Ms. Dussor thinks it is necessary to give the organization resources it needs to handle aging infrastructure and develop water resources in this area.

Mr. Tenney said staff was proactive in preparing financial reports and analyzing revenue. Newsletter articles went to customers explaining that unlike most utilities, the District's capital program replaced aging infrastructure but in doing so, incurred a fair amount of debt. Metered sales are the unknown factor, increasing in August and going down again in September. So far, the annualized data does not show any change in the historical slight decline. Knowing we have a significant amount of fixed cost payments, any increases in the Water Availability Rate will set up a more secure stream of revenue and help the District get closer to meeting its fixed cost needs. Moving forward with the proposed scenario ensures a more stable financial environment.

Mr. Stratton noted the proposal is not a 4% rate increase but a 4% revenue increase. The change will be different for customers based on how much they use. Mr. Tenney said staff felt it would be less confusing to say the District is asking for \$2.00 more from every customer, or \$24.00 more per year.

Ms. Bowen made motion to support the Board's recommendation to impose a \$2.00 increase to the Water Availability Rate and add 10 cents to the Water Resources Utilization Fee. Ms Dussor seconded the motion. Motion passed unanimously.

VI. Overview of 2012-13 Financial Audit

Mr. Land provided a portion of the draft audit, the income statement. Clifton Larsen Allen is cleaning up some footnotes and he will prepare the management discussion analysis soon. He

explained the loss on disposable capital assets of \$801,000 was because the relocated waterlines still had sizable book value and became a loss as an accounting function. Mr. Stevenson asked if they had any significant salvage value and Mr. Maish said no, the District had to pay to get rid of them. Mr. Land said the auditors also have us annually reevaluate and adjust the water recharge credits owned by the District. The final audit will be provided at the next meeting.

VII. First Quarterly Review of 2013-14 Budget

Mr. Land went over the revenues and expenditures compared to budget for the first three months of the fiscal year. Total revenues are at \$4,974,951 a majority of which is metered water sales. July, August, and September are usually high usage months because of the weather, so that is the reason why revenues are running ahead of budget by 20%. Operating expenses are running slightly over budget. Legal fees for the Pima County settlement are running high but most other items are within budget. Overall, the District is running \$731,000 over budget and that number will shrink as we get further into the fiscal year. Staff is tracking expenses very closely and hopes that revenues will continue to exceed budget.

Mr. Guillot asked when interruptible power rates took effect. Mr. Tenney said sites have been added over time. Mr. Maish said the District added three sites a few months ago. Mr. Stratton confirmed that move will help reduced purchase power costs. Mr. Land said about \$100,000 more than what was previously budgeted and the TEP rate increase was factored in.

VIII. General Manager's Report

Mr. Stratton said Chris Hill's last day was October 15th. The District is advertising nationally for the Chief Financial Officer and General Manager's positions. The interview process will begin shortly after the end of the month.

IX. Call to the Public

There were no comments by the public.

X. Next Meeting Date & Possible Agenda Items

Ms. Dussor asked if the District has ever analyzed water loss from unmetered usage from hydrants. Mr. Stratton said most District hydrants have security locks that require a special wrench to access. Fire departments have the wrenches but the general public does not access. The District does not experience much water theft.

Mr. Tenney said once the rate hearing takes place, staff will move towards working on the midyear budget review. The FOC decided to meet on December 16, 2013. Ms. Bowen said she will be on vacation and cannot attend.

Mr. Tenney said FOC members are welcome to attend the rate hearing on October 28, 2013.

XI. Adjournment

The meeting adjourned at 4:51 p.m.

Finance Oversight Committee