

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

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

August 15, 2011

MINUTES

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

Committee Members Not Present: Sheila Bowen, Chair
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.

Mr. Ratje called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Ratje, Mr. Guillot, Mr. Mayes, Mr. Stevenson, and Mr. Wiegandt were present. Ms. Bowen and Mr. Thomure were not present. Ms. Strom arrived at 4:04 pm.

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

Charlie Maish, District Engineer, gave a brief status on waterline relocation projects. Pima County has had plans for two of the projects for over a month and is withholding final approval over the removal of abandoned pipe. The County wants the District to remove all abandoned pipe but the District is only required to remove pipe that poses a conflict. About 75-80% of abandoned pipe is required to be removed. Unnecessary removals are costly and can create multiple challenges with other utilities. The District will be unable to get a head start on those projects due to the County's delay.

Clare Strom arrived at 4:04 pm.

III. Discussion of Policy for Contingency Fund, Year-End Balance, and Capital Reserve Account for the Annual Budget

Mr. Tenney talked about the draft policy he and Mr. Land developed regarding the Contingency Fund, the Year-End Balance, and the Capital Reserve Account. A draft resolution was also provided. The policy, once approved by the Board, would establish guidelines for how the different funds are to be used and would be useful during the budgetary process.

Mr. Tenney said the \$500,000 Contingency Fund has historically been set aside for unplanned and unbudgeted issues that might arise. The Contingency Fund has been used before but very rarely. Ms. Strom asked how the District used Contingency funds in the past. Mr. Stratton said funds have been used for materials for projects and well repairs. Mr. Land explained staff typically identifies line items that are under budget and considers how the excess contingency funds could cover shortfalls in other areas. Mr. Land said the excess contingency funds have been used as a budgeting tool to achieve the target year-end fund balance up to this point.

Mr. Tenney said the Year-End Balance fluctuates between \$1 million - \$1.5 million. It is seen as a backup in case something unexpected happens. Discussions with the General Manager have helped set the Year-End Balance equal to about one month of the District's expenses. Upon further discussion, it was recognized there might be economic circumstances when one twelfth of annual expenses would be too high. The Board could decide on a lesser amount if it is financially justified. Mr. Ratje made a suggestion that it might be better to specify the Year-End Balance would cover one month of *operating* expenses rather than simply expenses. Mr. Land said bonding agencies are always looking at cash on hand to structure bonds and set ratings. Mr. Ratje asked if having three separate reserve funds would show financial strength with financial agencies in the future, and Mr. Land agreed it probably would.

Mr. Tenney said the Board established the Reserve Account in February 2011, following a recommendation by the FOC. The Reserve Account might be better termed the "Capital Reserve Account" because it funds future capital projects and assets, reducing the need to seek outside financing. In the future, during the mid-year budget review, staff might consider areas where monies have not been spent so they could be transferred to this account and start generating interest. Mr. Land noted the \$682,600 currently in the Reserve Account is being held in the Arizona State Treasurer's investment pool. Mr. Stratton talked about the advantages of having monies set aside for large capital assets like land purchases, where timing can play a role in obtaining the best value. Mr. Wiegandt liked the idea of a different name for the Reserve Account but he wasn't sure if "Capital Reserve Account" was quite right. He agrees the name should denote the relationship with capital assets. There was a brief discussion on the differences between fixed capital assets, long-term and short-term assets, tangibles and non-tangibles. Mr. Land said he would look into accounting terminology for an appropriate name.

Mr. Guillot asked how the District initially paid for the Northeast Reservoir Booster Station's Thanksgiving Day flood a couple of years ago, before reimbursements came in. Mr. Land said

the Year-end fund balance was sufficient to cover costs until the reimbursements began coming through. Staff did not look at using Contingency funds at that time. Expenditures related to that incident are still being tracked and reimbursed.

There was a brief discussion about how the District is affected by the State's operating budget. Mr. Tenney said the District is a separate political subdivision and the State does not have the authority to sweep the District's funds. Mr. Land noted recent legislation required a change in Arizona Retirement contribution levels to benefit the State's General Fund. The District was not required to send the additional contributions to the State.

Mr. Ratje expressed his appreciation for staff's work on the draft policy. Ms. Strom agreed but she wanted to be sure the Board would receive the FOC meeting minutes with discussion points and the suggestion to change the name of the Reserve Fund.

Mr. Ratje made motion to move the discussion to the Board of Directors along with the FOC's discussion points. Ms. Strom seconded the motion. Motion passed unanimously.

IV. Future Meeting Dates; Future Agenda Items

Mr. Stratton said some of the Board Members have recommended not having a rate increase this year but they have not yet had a formal discussion or made any decisions. The FOC will be updated when the Board addresses this.

Mr. Guillot asked if revenues were still over and expenditures were still under budget. Mr. Land confirmed. He explained that revenues had bounced back primarily due to three factors: the rate increase, an unexpected sale of water rights, and a large multi-family project.

Ms. Strom asked about unfilled positions and whether there were any related personnel issues. Mr. Land said there was a vacancy in Customer Service and some in the Utility Division. Mr. Stratton said because production numbers had been in decline since 2006, he is watching to see if the recent incline continues before filling some of those positions.

Ms. Strom asked if there had been any more surprises relating to RTA project costs. Mr. Stratton said the first projects had some overruns but subsequent projects seem to be more in line.

Mr. Tenney said the FOC previously inquired about water resources and how that impacts the District's budget. He suggested next month might be a good time to discuss that.

The next meeting will be held on September 19, 2011 at 4:00 pm.

V. Adjournment.

Mr. Ratje made a motion to adjourn. Ms. Strom seconded the motion. The meeting adjourned at 4:41 p.m.