

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

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

**March 21, 2017**

**MINUTES**

**Board Members Present:** Reb Guillot, Chair  
Lee Harbers, Vice Chair  
Barbara Gelband, Member  
Robert Shonka, Member  
Lee Mayes, Member

**Board Members Not Present:** Danny Sargent, Member

**District Staff:** Joseph Olsen, General Manager  
Diane Bracken, Chief Financial Officer  
Steve Shepard, Utility Superintendent  
Theo Fedele, Clerk of the Board  
John Hinderaker, Legal Counsel

**Regular Session**

**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 4:00 p.m. Mr. Guillot, Mr. Harbers, Ms. Gelband, Mr. Shonka, and Mr. Mayes were present. Mr. Sargent was not present. Mr. Ruppenthal had submitted his resignation.

**II. Call to the Public**

There were no comments by the public.

**III. Approval of Minutes – January 24, 2017 Meeting**

Mr. Harbers made a motion to approve the minutes as presented. Ms. Gelband seconded the motion. Motion passed unanimously.

**IV. Discussion on Proposed Rates and Possible Recommendation**

**V. Discussion on the Requested Fiscal Year 2018 Budget and Recommendation**

Mr. Olsen announced that the Discussion on Proposed Rates and Possible Recommendation and Discussion on the Requested Fiscal Year 2018 Budget and Recommendation are interrelated and therefore would be discussed together.

For the past three years, the mission of the District has been referred to as “to deliver safe, reliable water to our customers.” However, another version of the mission had been used throughout the years. While both are similar, staff concurs that the version being used the past three years is more succinct in focusing on service to the District and will officially be used going forward.

Mr. Olsen stated that over the past few years the focus has been on enhancing utilization of water resources through adjustments to the Water Resources Utilization Fee (WRUF), obtaining revenue stability, and utilizing the priority driven budget process. The goal was to achieve 90% fixed cost recovery to guarantee a 0% increase to rates and fees for customers for Fiscal Year 2018. The District has achieved this and will be able to keep the promise to our customers with no increases to rates and fees for Fiscal Year 2018.

Ms. Bracken stated that revenue is budgeted at \$39,614 lower than it was in the prior fiscal year. The total revenue and fund balance projected to be available at the beginning of Fiscal Year 2018 is \$128,121 lower than the balance available at the beginning of Fiscal Year 2017. The Requested Operating Expenses are \$424,731 higher than Operating Expenses budgeted for Fiscal Year 2017. The total Requested Disbursements for Fiscal Year 2018 are \$203,091 higher than the Total Budgeted Disbursements in Fiscal Year 2017. The projected Ending Fund Balance for Fiscal Year 2017 is just over \$7 million dollars. When preparing a budget request it is important to maintain a fund balance that is strong enough to cover all non-cash expenses, to allow an adequate number of days operating cash reserve, and to maintain a debt service coverage ratio of 1.2 or greater. The requested budget results in a projected debt service coverage ratio of 1.6. This Requested Budget will reduce the projected ending fund balance by \$231,304 when comparing it to the fund balance included in Fiscal Year 2017 Adopted Budget.

The following items include variations in revenue and expenses to support a 0% rate adjustment for the Fiscal Year 2018 budget and increased cash or reduced operating expenses by a total of \$2,107,009.19.

1. The Engineering Team will be charging some of their hours to specific capital projects. This reduces the operating expenses by a projected \$193,000 since these costs will be capitalized and spread over the life of the project. In addition, when the Intergovernmental Agreement (IGA) is signed for the Northwest Recharge, Recovery, and Delivery System (NWRRDS) project, and shared work begins, these expenses will be partially reimbursed to the District by the participating partners.

2. At the beginning of this fiscal year, the Bank of New York Mellon completed a cash sweep of the extra earning accumulated on the Debt Service Reserve account investments, providing the District with additional cash totaling \$344,791.54.
3. The Riverside Well loan was paid off in July 2016, so the cash needed for debt service is \$124,883 lower in Fiscal Year 2018.
4. According to the purchase agreement for the Thim Utility Company, for a period of 7½ years following the date of closing, premiums would be paid for each new connection. With the closing date of December 29, 2009, this payment obligation is fulfilled as of June 30, 2017. This helps to reduce operating expenses in Fiscal Year 2018. The Fiscal Year 2017 budget included \$82,749 for premium payment and actual payment were over \$89,000.
5. Requested Legal Services have been reduced by \$30,000 with the completion of the IGA work for the NWRD project.
6. An election is not planned in Fiscal Year 2018 reducing expenses by \$24,000.
7. There is an increase of \$159,304 in planned Development Revenue.
8. The City of Phoenix will store 3,500 AF in Fiscal Year 2018, increasing revenue by \$66,428 over the prior fiscal year.
9. The NWRD project funded with WRUF is requesting a funding amount that is \$693,500 less in Fiscal Year 2018.
10. We will not proceed with the purchase of Non-Indian Agriculture. Funding for this purchase was set aside over a two-year period and \$388,354.19 of reserved fund balance was moved back into the operating fund and is available to be included in this budget request.

Mr. Harbers asked about the debt service coverage ratio of 1.2. Mr. Bracken stated that the bond resolution sets the minimum at 1.2. The budget calculated from the actuals is 1.6.

The following items include the increases in requested expenses and decreases in projected revenue and have either decreased the available cash or increased the planned expenses by \$1,775,225 accounting for most of the major changes in the Requested Budget.

1. The cost of CAP water purchases is projected to increase by \$317,850, Regulatory Fees are planned to increase by \$37,150, and there is an increase of \$19,657 for CAP water credits being sold by Metro Main to Metro Southwest. These three items have increased Operating expense in the requested budget by \$374,657.
2. Water Quality testing services are requested at \$90,905 higher than they were in Fiscal Year 2017 to accommodate planned additional water testing.
3. Bank charges have been increased by \$45,235 with the increased cost for credit cards payments due to both the volume and the fees associated with cards providing cash back and points to customers.
4. Depreciation expenses is expected to increase by \$99,908 with the inclusion of capitalized projects and contributed capital from prior years being added this fiscal year.
5. There is a \$32,258 increase in vehicle leasing expenses with all vehicles except for the

dump trucks and trailers.

6. Capital Equipment purchases are \$125,381 higher than the prior fiscal year with \$179,656 of requests not being funded in the requested budget.
7. Capital projects requests are \$352,000 higher than the prior fiscal year not including the WRUF funded project.
8. As mentioned during the Mid-Year Review, Marana will not be storing any water in Calendar year 2017 or 2018 reducing the projected revenue by \$408,911 when compared to the prior fiscal year.
9. Other Income is being reduced by \$65,000 with the breakout of revenue into specific sources providing a more accurate reporting.
10. In Fiscal Year 2017, the Avilla Pima Canyon project was added at a cost of \$155,970 decreasing the fund balance available to carry forward into Fiscal Year 2018 since this project was not in the original adopted budget, but added during the mid-year review.
11. There is a \$25,000 consultant services increase for the completion of the Inorganic Chemical (IOC) and Synthetic Organic Chemical (SOC) waivers for Metro Main, which is due in the fall of 2017 for a three-year waiver.

The requested budget includes a 2.5% cost of living adjustment (COLA) and a 1.5% potential merit increase for staff. The Consumer Price Index (CPI) has been trending upward since July 2016 and if the trend continues, the final recommendation will change to a 3% COLA and a 1% performance based merit.

With \$27,050,394 available from revenue and fund balance, and the requested expenses including non-cash expenses totaling \$25,095,869, the requested budget is in balance with a projected fund balance of \$5,347,628 at the end of Fiscal Year 2018.

Ms. Gelband asked about the contributed capital not recorded as an asset. Ms. Bracken stated that 14 items of contributed capital that were identified totaling \$1.9 million of assets. The depreciation is then based on the amount it would have been at the time they were contributed to the District as capital.

Mr. Olsen reviewed the priority driven budget process including prioritization process for the Capital Equipment items. A total of 13 Capital Equipment items are proposed to be funded in the amount of \$270,500. The items not funded will be reviewed for potential funding during the mid-year budget process or included in next fiscal year's budget process if not funded. For Capital Infrastructure, the Oracle Jaynes well is the number one priority for the current fiscal year. There are also two Regional Transportation Authority (RTA) projects: La Cholla between Overton and Lambert and one on Valencia Road. RTA projects will not extend the RTA fee longer than originally approved. Activities will continue on the NWRDRS project including acquisitions and easements, investigations of well sites, and some design components. In Fiscal Year 2018, the District will take the full CAP allocation of 13,460 acre feet (AF) to utilize and store for the future.

Ms. Gelband asked about the Pantano Road Project. Mr. Olsen stated this project is located in Metro Hub and enables the District to move water into the reservoirs from production wells.

Mr. Harbers asked how the total amount is determined for Capital Equipment. Ms. Bracken stated that a certain balance must be maintained in the fund balance and additional amounts can be directed to fund capital equipment.

Mr. Guillot asked about the increase in bank charges. Ms. Bracken stated this is due to the credit card fees for the merchant accounts.

Ms. Gelband asked if the amount received for collecting sewer fees will change. Mr. Olsen stated that Pima County Wastewater is reviewing their rate structures long term. The District currently collects \$1.25 per customer bill and that could change in the future. Ms. Bracken stated that an increase may be requested to get the payment closer to covering the full cost for providing the billing service.

Ms. Gelband moved to recommend that the Board of Directors consider approving no change in the rate structure for Fiscal Year 2018 as presented by staff. Mr. Harbers seconded the motion. Motion passed unanimously.

Ms. Gelband moved to recommend the Board of Directors consider adopting the Requested Budget for Fiscal Year 2018 as presented by staff. Mr. Mayes seconded the motion. Motion passed unanimously.

**VII. Future Meeting Dates and Agenda Items**

The next Finance Oversight Committee meeting is scheduled for November.

**VIII. Call to the Public**

There were no comments from the public.

**IX. Adjournment**

The meeting adjourned at 4:51 p.m.