

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

**** BOARD CONFERENCE ROOM **
6265 N. LA CAÑADA DRIVE
TUCSON, AZ 85704**

OCTOBER 15, 2018

MINUTES

Committee Members Present: Charlie Maish, Chair
Lee Mayes, Vice Chair
Ralph Churchill, Member
Scott Schladweiler, Member
Richard Sarti, Member

Committee Members Not Present: Robert Shonka, Member
Barbara Gelband, Member
Lee Jacobs, 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 4:02 p.m. Mr. Maish, Mr. Mayes, Mr. Churchill, Mr. Sarti, and Mr. Schladweiler were present. Ms. Gelband, Mr. Jacobs, and Mr. Shonka were not present.

II. Call to the Public

There were no comments by the public.

III. Approval of Minutes – March 14, 2018 Meeting

Mr. Mayes made a motion to approve the minutes as presented. Mr. Churchill seconded the motion. Motion passed unanimously.

IV. Chief Financial Officer's Update on the District's Fiscal Year 2018 Independent Audit

Ms. Bracken stated that the District's independent financial auditors HintonBurdick, have reviewed the District's accounting books and records for Fiscal Year 2018 as required by the District's bond resolutions. The Auditors provided a completely objective opinion that the District's financial statements fairly presented, in all material respects, conformity with accounting principles generally accepted in the United States and the Governmental Accounting Standards Board (GASB).

During the exit interview, the independent auditors reported that no discrepancies were found so no correcting journal entries were needed and complemented District staff on the internal controls and procedures. The independent auditors did not have any recommendations for improvements and the District Audit Partner, Steve Palmer, stated that in his entire career, he has only had 3 to 4 flawless audits.

The Fiscal Year 2018 ending net position increased by \$11.34 million compared to an \$8.6 million increase in the prior fiscal year for an ending net position total of \$82,165,684. The increase in net position is a result of \$22.28 million of operating revenue, less operating expense of \$13.93 million, plus non-operating income of \$1.72 million, less non-operating expenses of \$1.21 million, and the addition of \$2.48 million of contributed capital. Metered water revenue increased by \$789,865 when compared to the prior fiscal year with no changes to rate or fee adjustments occurring during Fiscal Year 2018.

Mr. Olsen explained that contributed capital is when a developer financed project for a new subdivision constructs a water system and that water infrastructure is donated to the District as contributed capital, which is folded into the District's infrastructure assets.

Ms. Bracken stated that a note was added relating to the defeasance of the 2002 Subordinate Revenue Bonds, which has been legally removed from the financial statements but will remain in the notes until the fiscal year after their maturity date.

In a press release on September 25, 2018, Fitch Ratings affirmed the AA- bond rating on the 2009 and 2011 outstanding revenue bonds stating that the District has seen improvement over the last five years in key financial metrics with positive trends registered in all debt service coverage and debt to funds available for debt service. The review acknowledged the District's robust cash balance with over 500 days of cash on hand, revenue stability, and the substantial decrease in debt obligation.

As of June 30, 2013, the District had outstanding bonds and notes totaling \$56,928,587. In the past five years, the District has paid down this debt by \$23,826,023 or 42% of this debt while cash

funding all capital projects and not taking on any new debt. Plans are to pay off an additional \$6,151,300 in the current fiscal year with an early defeasance on another bond in January for a total debt reduction of \$29,977,323 or 52.7% of the outstanding debt from Fiscal Year 2013

Mr. Olsen stated the items to highlight include the 52% of debt paid off over a five year period, the revenue funded capital improvements, no additional debt, achieving the revenue stability goal of 90% of fixed cost covered with fixed revenue, all while the average rate increase over the past five years is only 2.5%. It is easy to do one of these items but to achieve success on all of these categories is astounding and a testament to the contributions of all staff as it relates to the priority driven budget, efficient use of resources, and the contributions of Ms. Bracken and her team.

V. Discussion and Possible Recommendation on the District's Procurement Policy

Mr. Olsen stated that the procurement policy provides guidance to staff on standardizing procurement related activities. The current policy was last amended in February 2015. Over the past 3.5 years, a number of items were identified that required clarification to ensure transparency and clarity in implementation of the policy. The two key thresholds on the policy will remain the same: procurement activities \$15,000 and greater are to still be brought to the Board for consideration and any check that is \$2,000 or greater requires the signature of two Board members.

The proposed changes are clarifying in nature as the policy is intended to be straightforward and easy to follow to ensure compliance by all staff. The highlight of the various proposed changes to the policy include:

- Clarifying approval amounts on check signatures and purchase order approvals to the penny as, under the old policy, no one technically could approve \$500.
- Authorizing Team Managers to sign invoices for recurring items exceeding \$500 such as utility bills, postage, and fleet fuel. Normally Team Managers have authorization up to \$500 but these recurring invoices often exceed that amount but have already been approved via a purchase order or are an on-going expense in the respective Team Manager's budget.
- The current policy states that Purchase Orders between \$500 and \$2,000 shall have three written or verbal quotes and purchase orders exceeding \$2,000 and under \$15,000 shall have three written quotes. It is recommended to combine these two ranges together and that purchase orders over \$500 and under \$15,000 will require three written quotes.
- Adding the Deputy General Manager to the list of authorized District representatives to be present during public bid openings. Previously this was the General Manager or Chief Financial Officer, and adding the Deputy General Manager ensures greater flexibility. The caveat is that the District representative cannot also be the Team Manager that requested the procurement activity to ensure compliance with internal controls.
- Added a section for the selection of non-professional services. Professional services are defined by ARS 41-2578 and include engineering services, surveying, and landscape architecture while non-professional services include auditing services, billing software

services, and software support. Having a separate category clarifies the requirements and legal statutes that staff must comply with given the type of service.

Mr. Churchill stated the structure of the policy makes sense and asked if the amount ranges are still valid based on historical purchases and what is anticipated in the future. Mr. Olsen stated that when doing the recent edits to the policy, as well as in 2015, the same question were asked and even with inflation it made the most sense to keep those numbers the same. There may be a point in the future that it may be appropriate to shift the thresholds higher but \$15,000 is high enough to be a strategic discussion and there are not many checks that are over \$2,000 and increasing to \$3,000 would not provide a benefit at this time. The current amounts ensure the visibility of the Board on those expenditures and checks and there are certainly options to make changes to those amounts in the future.

Mr. Churchill moved to recommend that the Board of Directors approve the Procurement Policy as updated and discussed. Mr. Schladweiler seconded the motion. Motion passed unanimously.

VI. Discussion and Possible Recommendation on the District's Debt Management Policy

Ms. Bracken showed the Committee a video that is an overview of the life cycle of bonds and a training video made available by the Municipal Securities Rulemaking Board as part of their effort to educate potential bond issuers.

The District has retained Mark Reader, Managing Director of Stifel, Nicolaus & Company Inc., to serve as the Financial Professional for the planned funding needs for the Northwest Recharge, Recovery, and Delivery System (NWRDRS) project. Michael Imhoff, Managing Director of the Denver office of Stifel Nicolaus & Company Inc., will provide the District with the service of underwriting the planned bonds. Due to the District's long-term relationship and mutual trust with Stifel, the District is not planning to hire a separate municipal advisor at this time.

The video included information regarding the continued disclosure requirements. On an annual basis, the District currently discloses:

- The audited financial statements
- The total new connections and total connections throughout the year. In Fiscal Year 2018, there were 261 new connections with 21,750 total connections. Included in the total connections are 266 vacant connections and 300 Private Fire Risers
- The Water Rates for each meter size
- The Senior debt coverage and the Subordinate debt coverage. as of June 30, 2018, the district has a 2.17 Senior debt coverage ratio and a 3.9 Junior or Subordinate debt coverage

Mr. Maish asked if the debt management policy was a standard boiler plate type policy or was it specific to the District. Ms. Bracken stated that the policy was written specifically for the District. There are standard items that were included that must be in any debt management policy and was customized to what is best for the District. Mr. Olsen stated the overall financial health of the District is of the utmost importance so the debt management policy was written to prevent the unintentional taking on of debt that is beyond the District's means and ensuring the adequate debt ratios.

Ms. Bracken stated that the debt management policy was written as a guideline to include the allowances and restrictions that guide the debt issuance practices of the District including the issuance process, management of the debt portfolio, and adherence to various laws and regulations. The intent of this policy is to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to a long-term capital and financial planning. A debt management policy signals to rating agencies and the capital markets that an organization is well managed and likely to meet all debt obligations in a timely manner. The IRS form 8083-G includes two boxes that the District will be able to check if this policy is recommend by the FOC and approved by the Board of Directors. A check mark in these boxes indicates there is a written debt management policy in place that includes continued disclosure reporting and can immediately reduce the District's cost of new bonds in the future. This policy will provide credibility, transparency, ensures there are standards, as well as a common understanding by staff, elected officials, and anyone reading the policy regarding all bonds issued.

Mr. Olsen stated that the goal is public trust and transparency in the District's financial processes. One of the items included in the policy is when going out for debt for a capital project there will be an independent cost estimate to validate the true costs and ensure the adequate resources for the projects.

Mr. Sarti moved to recommend that the Board of Directors approve the Debt Management Policy as discussed. Mr. Churchill seconded the motion. Motion passed unanimously.

VII. Presentation on the Water Resources Portfolio

Mr. Olsen stated that in 2014, the District began reporting annually to the public regarding the portfolio of water resources

Wally Wilson, Water Resources Manager, provided a presentation on the District's Annual Water Resources Portfolio.

VIII. Clerk of the Board Updates; Future Meeting

The next Finance Oversight Committee meeting will be scheduled in January.

Mr. Maish requested an update on the NWRRDS at a future FOC meeting.

Mr. Olsen stated that this would be Mr. Sarti's last meeting on the FOC since he will be on the Board of Directors beginning in January. Thank you to Mr. Sarti's for his service to the FOC and continued service to the District. Also, thank you to Mr. Churchill for volunteering to serve on the FOC.

IX. Call to the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 4:50 p.m.

Chair
Finance Oversight Committee