BOARD OF DIRECTORS
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
PIMA COUNTY, ARIZONA

MARCH 27, 2017

**** BOARD ROOM ****
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
6265 N. LA CAÑADA DRIVE
TUCSON, AZ 85704

MINUTES

Board Members Present:	Judy Scrivener, Chair Bryan Foulk, Vice-Chair Jim Doyle, Member Dan M. Offret, Member
Board Members Not Present:	Helen Ireland, Member
District Staff:	Joseph Olsen, General Manager Sheila Bowen, Deputy General Manager / District Engineer Diane Bracken, Chief Financial Officer Steve Shepard, Utility Superintendent Theo Fedele, Clerk of the Board

Study Session

I. Call to Order and Roll Call

Judy Scrivener, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 5:31 p.m. Bryan Foulk, Dan M. Offret and Judy Scrivener were present. Jim Doyle arrived at 5:36 p.m. Helen Ireland was not present.

II. General Comments from the Public

There were no comments by the public.

III. Discussion of Proposed Adjustment of Rates

IV. Discussion of Requested Budget for Fiscal Year 2018

Mr. Olsen announced that the Discussion of Proposed Adjustment of Rates and Discussion of Requested Budget for Fiscal Year 2018 are interrelated and therefore will be discussed together.

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, obtaining revenue stability, and utilizing the priority driven budget process. The District has achieved a 90% fixed cost recovery and the recommendation for the Board to consider will be a 0% adjustment to rates and fees. On March 21, 2017, the Finance Oversight Committee (FOC) discussed and unanimously voted to recommend that the Board of Directors consider approving no change in the rate structure 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 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 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 seven and a half 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 Intergovernmental Agreement (IGA) work for the NWRRDS 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 acre-feet (AF) in Fiscal Year 2018, increasing revenue by $66,428 over the prior fiscal year.
9. The NWRRDS project funded with Water Resource Utilization Fees is requesting a funding amount that is $693,500 less in Fiscal Year 2018.
10. The purchase of Non-Indian Agricultural Water will not proceed so the 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.

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 Central Arizona Project (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 planed 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. Mr. Offret asked if the increase was net of the cash back. Ms. Bracken stated that this is an increase over what was budgeted previously.
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, now included in the lease program.
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 Budget 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 reduce 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 Budget 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 2018-2020.

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.

Mr. Offret asked if the capital infrastructure that was discovered would be depreciated over ten years. Ms. Bracken stated that it is development revenue for main lines that have a contributed 50 year life and are depreciated over that period.

Ms. Bracken stated that 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 balanced with a projected fund balance of $5,347,628 at the end of Fiscal Year 2018.

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 during the mid-year budget process and included for next fiscal year's budget process if not funded. The capital improvements programs (CIP) is going to be heavily weighted toward the Regional Transportation Authority (RTA) project on La Cholla between Overton and Lambert which has utilized a large share of the CIP funds with $1.2 million needed to relocate the District's water lines. Additional projects include RTA relocation on Valencia Road, the continuation and completion of the replacement of the Oracle Jaynes well, and planned obligations on the NWRRDS project. RTA projects will not extend the RTA fee longer than originally approved. In Fiscal Year 2018, the District will take the full CAP allocation of 13,460 acre feet (AF) to utilize as well as bank for the future. The FOC considered the proposed Fiscal Year 2018 budget and voted 5 to 0 to recommend the budget as presented.

Mr. Offret asked where the CAP allocation of 13,460 AF will be going. Mr. Olsen stated that roughly 3,000 AF will go to the Avra Valley Recharge Project (AVRP), a large portion into Cortaro-Marana Irrigation District (CMID) groundwater savings facility, BKW farms groundwater savings facility, and roughly 1,000 AF at KAI farms. This coming year, all of the groundwater savings facilities are fully utilized requiring 1,000 AF to also be stored at the Lower Santa Cruz Constructed Recharge Project to ensure the District's full allocation is stored.

Mr. Olsen stated that there will be no formal rate hearing this year but instead an informational meeting will be held to educate customers on the various efforts on the financial front that put the District in a healthy position to recommend a 0% rate increase.

Mr. Offret moved to approve a rate insert that will be mailed to all District customers outlining no changes to the rate structure for Fiscal Year 2018 and providing the date of the upcoming information meeting on June 7, 2017. Mr. Foulk seconded the motion. Motion passed unanimously.

V. General Comments from the Public

There were no comments by the public.

VI. Adjournment

The meeting adjourned at 6:01 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board