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, Ms. Gelband, Mr. Hofmann, Mr. Mayes, Mr. Ruppenthal, and Mr. Shonka were present. Ms. Bowen was present by telephone. Mr. Harbers was not present.

II. **Election of Chair and Vice-Chair**

Ms. Gelband nominated Reb Guillot to serve as Chair. Mr. Hofmann seconded the nomination. Ms. Gelband made a motion to close nominations. Mr. Ruppenthal seconded the motion to close nominations. Motions passed 6-0-1; Mr. Guillot abstained.

Ms. Gelband nominated Sheila Bowen to serve as Vice-Chair. Ms. Bowen said it will be a challenge to attend FOC meetings when they fall on council meeting days but if it is okay to attend telephonically, she would be happy to accept the nomination. Mr. Shonka seconded the nomination. Ms. Gelband made a motion to close nominations. Mr. Hofmann seconded the motion. Motions passed unanimously.
III. Call to the Public

There were no comments by the public.

IV. Approval of Minutes – July 28, 2014 Meeting

Mr. Ruppenthal made a motion to approve the July 28, 2014 minutes as written. Ms. Gelband seconded the motion. Motion passed unanimously.

V. Discussion and Possible Recommendation for Mid-Year Review of Fiscal Year 2015 Budget

Mr. Olsen said there are three primary discussion points on the agenda. The first two tactical items are the mid-year budget review and proposed changes to the procurement policy. The third item is the District’s strategic approach including the five year capital improvement program and the 50 year Long Range Water Resources Plan.

Staff is projecting a decrease in metered water sales compared to five and ten year monthly consumption averages. In 2014, Metro Main saw the lowest demand since 1996. The 2014 demand was 4% lower than 2013. This follows the decline in demand trends that are occurring nationwide. When taking all other revenue categories into account, the revenue projection is favorable by roughly $300,000. On the expenditure side, the priority-driven methodology is working. The District is significantly under the projected operating expenses by roughly $1,000,000 even when taking a very conservative approach. Given these conditions, the one recommendation before the FOC is allocating an additional $45,000 towards meter replacements. The District has a large number of meters in service that are beyond their effective service life and not as accurate as they would be if they were newer meters. Replacing them will allow the District to pick up revenue that otherwise would be lost the payback period is rapid, which will allow the District to generate more revenue.

Ms. Bracken said while the decline in water consumption is expected to continue, the revenue is still projected to increase from some of the other revenue sources that are making up for the losses. The first section in the spreadsheets go into detail about revenue. Salaries and benefits are projected to be under budget, largely due to over estimating the number of eligible individuals who would elect to retire. The money is set aside for them when they are ready. Another reason for lower salaries and benefits was because the 50% projected increase to healthcare came in less. Services are projected to be under budget, largely due to lower legal fees along with a reduction in contracted electrical system repairs after filling the vacant Electrician position. General operating expenses are projected to be slightly under budget mainly due to the delay in receiving leased vehicles, and savings on postage with the elimination of the leased postage meter and the purchase of a new postage meter. The District also hired a new company for customer billing, printing, and mailing with a better bulk rate. There have also been savings negotiated from liability insurance and lower than planned election costs. Natural gas and
electric are projected to use all budgeted dollars by the end of the fiscal year. Supplies are expected to be slightly over budget with the purchase of additional chlorine. Other expenditures are projected to be under budget with the final costs of the ten year lease of the Avra Valley Recharge Project (AVRP) land are coming in lower than anticipated. The District will capitalize over a ten year period because it is set up as a prepay and spread out over a ten year period as opposed to all expenses incurring in the first year. In addition, with the implementation of GASB 65, the bond issuance costs that were budgeted will not be incurred this fiscal year or any fiscal year going forward because they were all expensed out two prior fiscal years ago with the restatement of the financial statements last fiscal year. Debt service will be $5,264 lower due to the reduction in interest payments resulting from advance payments on the principal. The advance payments were approved by the Board and FOC last year on the 20 year loan and we have now reduced than loan by ten years, with eight years remaining, saving the District substantial interest. Capital equipment expenses will be lower planned with the Supervisory Control and Data Acquisition human-machine interface upgrade costing less than expected. All capital equipment and increased funding approved in the Fiscal Year 2015 Budget have either been spent, ordered, or are in the process of being ordered and will be completed by end of the fiscal year. Capital projects are projected to be very close to the budgeted amount by the end of the fiscal year, with the cost of the Oracle Jaynes property being slightly over budget and the increase is offset by the decreases in the Ranch House Estates extension and private service line relocations. The dollars budgeted and set aside for the 299 acre-feet of Central Arizona Project (CAP) Non-Indian Agricultural water allocation will not be spent in the current fiscal year. This provides additional budget capacity of $185,112. In the future when it is needed, it will be budgeted as a non-cash expense because the cash has already been set aside. There are nine projects that were not budgeted; however, they incurred expenses this fiscal year. Capital expenditures are depreciated over the life of the asset, as opposed to being expensed all in the current year so an additional $38,201 has been added to depreciation expense in the current year to account for these expenses. In summary, the District is in a strong position with a straight line projection of revenue in excess of expenditures of $3,478,509 and a more conservative projected position of $1,503,847 of excess revenue over expenditures.

Ms. Bracken said staff has requested to spend an additional $45,800 towards replacing 148 water meters, ERTs, and encoded receiver transmitters. The cost of replacing 117 two inch water meters is estimated at $63,966 with an annual revenue loss estimate of 5% or $64,879. The cost of replacing 31 one and one-half inch meters with the current price at $12,005 would incur an annual revenue loss of $9,293. An additional $7,567 would be used to purchase the ERTs that will save time and money in the long run by reducing the time it takes to read the meters. The prices used in this calculation are from the current pricing list; however, the District wanted to make sure we are able to get as much out of every dollar as possible so we have gone out for meter pricing, which is due tomorrow. Depending on the bid prices received, staff will calculate the number of meters that can be ordered. Staff budgeted $50,000 for meter replacement and spent $12,258 so far. There remains $37,742 in the budget to be applied towards new meters in addition to what is requested. The District currently has 145 two inch meters, 44 one and one-half inch meters, 106 one inch meters, and 4,831 five-eighths inch meters currently at or above
the projected replacement flow levels. The District would start replacing the higher sized meters first because they have the quickest payback and the largest revenue loss. If approved, the request will provide the District with an opportunity to replace the larger meters, generating more revenue. Additional funding is going to be requested in the upcoming 2016 fiscal year budget request to continue replacement efforts with the larger volume meters replaced first.

Ms. Gelband asked where the meters are located and if they are residential or commercial. Ms. Bracken said the meters are all in Metro Main and Hub. Mr. Olsen said the larger meters are primarily commercial meters. The residential meters are usually five-eighths, three quarter inch, or one inch. Ms. Gelband asked how staff determines which meters to replace. Mr. Olsen said the meters will be prioritized by age and volume. Meters age by how many gallons of water pass through and accuracy decreases with higher volumes. Ms. Gelband asked what is considered old for a residential meter. Mr. Olsen said a house would typically be considered old with about 1.4 million gallons or 20 years of service. There is a substantial amount of meters in inventory that are beyond that threshold, so the higher demand meters that have a higher payback will be the replacement priority. Ms. Gelband asked if the new meters will be computerized. Mr. Olsen confirmed these are Automated Meter Reading (AMR) meters, which are electronically read by a meter reader with a mobile collector, unlike Metro Southwest and Metro Hub that have automatic meter infrastructure installed. Ms. Gelband asked if residential meters would be replaced in the same location. Mr. Olsen said after the larger commercial meters are replaced and residential meters have begun, they would generally be replaced subdivision by subdivision.

Ms. Bracken mentioned the two inch meters included on the list have 12 million gallons and greater, and the one and one half inch are 7.5 million gallons and greater.

Mr. Shonka asked if the larger meters would have low flow bypass meters. Mr. Olsen said no because these are not assemblies, they are in ground meters with technology that can accurately pick up low flows.

Mr. Ruppenthal asked if the goal is to change all meters system wide, regardless of size and type by a certain date. Mr. Olsen said the goal is to make sure the meters we have in the ground are accurately picking up usage and consumption. There are not enough resources to be able to address all of the District’s metering needs so prioritization is necessary. Staff can determine how much of the resources can be allocated but the requirement far exceeds the resources we have today. Mr. Ruppenthal asked if modern meters are automatically used for all new construction. Mr. Olsen said yes; there are 20,000 customers in the District and we will continue replacing meters.

Mr. Shonka encouraged the District to try and find the resources to replace more meters because in his experience, once the meters are changed over the payback period could be much shorter than once thought. Mr. Olsen agreed, as studies and his experiences confirm, that when you change out meters, particularly larger meters, the payback period is only a couple of months before generating additional revenue. This must be balanced with the critical pending needs of
the rest of the year while providing service to the customers. Mr. Ruppenthal agreed it is a high priority to have accurate meters. In his experience, capturing lower flows on larger meters can account for much of the year’s unaccounted for water. It is important to direct resources to meter replacement. Mr. Olsen said from the FOC perspective, the District is expending resources to pump, treat, and distribute the water. If the water used is not captured in billing, it places a strain on the District’s overall finances. It is a priority for the District.

Ms. Gelband said many water meters that will be replaced predate Metro Water District and were put in by other water companies. The meter at her house has been in place for 38 years. Mr. Olsen said as with any system, there will be a host of meter technologies in inventory. There is no 100% accurate way to prioritize all meters but we can factor in age and use. Any water manager would wish for brand new meters throughout the entire service area but we do not have the necessary resources so we will keep addressing this over time.

Mr. Ruppenthal asked about the status of production meters. Mr. Olsen said the District has tracked and addressed losses on the production side but not on the revenue side.

Mr. Shonka asked what percentage of the District’s water is determined to be unaccounted for. Mike Block, District Water Resources Manager, said the District averages a 4% loss. Mr. Olsen said while there are some older areas of the system, the District as a whole comes in well below the regulatory 10% maximum because there are relatively fewer years of age on our infrastructure compared to other water providers in the region.

Mr. Shonka suggested having a good public relations program in place because there will be complaints from customers whose bills are suddenly higher. Mr. Olsen said the District is prepared and regularly conducts field visits to discuss meter accuracies or high bills.

Ms. Bracken said replacing all meters would cost $870,000. Staff is not asking for more money because the District wants to do the installation rather than paying an outside consultant to do the work. There is a limited time to get the work completed before the end of the current fiscal year.

Mr. Ruppenthal noted the meter replacement contractor recently working in his neighborhood did a good job.

Mr. Shonka asked what the District does with old meters. Mr. Olsen said they are scrapped or recycled for the brass content.

Ms. Gelband asked how many companies are bidding. Ms. Bracken said the number of companies is unknown. Mr. Olsen said this is an open bid process completed according to the procurement policy, whereby companies have a certain time frame to submit bids. Information packets were provided to numerous firms but we will not know how many actually submit until the bid opening. Ms. Bracken noted the bids will also be evaluated on the return on investment and life cycle of the meters, not just the upfront cost of the meters.
Mr. Shonka asked if American Water Works Association (AWWA) rating criteria are used on meters. Steve Shepard, Utility Superintendent, confirmed the District uses the AWWA standard.

Mr. Guillot noted this type of program is never complete because when you finish it is time to start over. Mr. Olsen agreed.

Mr. Ruppenthal made a motion that the Finance Oversight Committee recommend to the Board of Directors to approve the additional funding request of $45,800. Mr. Mayes seconded the motion. Motion passed unanimously.

Mr. Guillot commended District staff for managing the decreased water consumption and the budget. Everything that has been done over the past year has turned the District around. He thanked staff for keeping the District on the right track.

VI. Discussion and Possible Recommendation for Procurement Policy

Mr. Olsen said the procurement policy has been in place since 1999, which sets guidelines for acquiring materials and services. The policy was modified last in 2011. During Mr. Olsen’s first year at the District, he and Ms. Bracken read through the policy and identified opportunities to streamline, clarify, and add transparency. The most notable addition to the procurement policy is the inclusion of government purchasing agreements and that is to incorporate a procurement vehicle that the Board approved back in 2012. What has stayed the same is that the General Manager still has the authority to authorize procurements up to $15,000 for goods and services. Beyond $15,000, it must go to the Board of Directors for consideration and approval. A section was also added to provide clarification on authority for check signing. The General Manager has authority to sign checks below $2,000 but checks $2,000 and above require the signatures of two Board Members. The previous policy did not include information on check signing.

Ms. Gelband said the policy language on checks of exactly $2,000 was somewhat unclear. Mr. Olsen thanked her and will have staff clarify the language before presenting it to the Board.

Mr. Olsen said modifications were also made to sections on small purchases and multi-year contracts to consistently convey what the District’s current practices are. The previous policy left room for a lot of interpretation so additional language was added to clarify. Government purchasing agreements such as the City of Tucson’s cooperative purchasing program and the Arizona state bid list were also included in the language, which allows the District to leverage vetted procurement vehicles already available, if it meets the needs of the District and makes financial sense. This puts into place what was previously approved by the Board but was not specified in the previous policy.

Mr. Ruppenthal expressed surprise that all items over $2,500 staff require three bids. He raised questions about after-hour emergency situations. Mr. Olsen explained there is a provision for emergency procurements for unplanned events, allowing purchases for items meeting emergency
requirements beyond the $15,000 threshold to be ratified at a future Board meeting. This allows the purchase of materials and services in critical situations but not for standard daily practice.

Mr. Shonka asked who has the authorization to declare an emergency. Mr. Olsen said staff would notify him of the emergency and he would authorize moving forward. If the purchase exceeds $50,000, Mr. Olsen would reach out to the Board for concurrence and ratify the purchase at a future Board meeting.

Ms. Gelband said she notices quotes are required for purchases $500 to $2,000 but they can be verbal quotes. She asked if companies really provide written quotes for $500 jobs. Mr. Olsen said it depends on the company. Ms. Gelband said it seems like a small amount to go through the process but Mr. Olsen said it is not a full bidding process, they just provide quotes. It is often simple to get those quotes because the line item and unit costs are available. If everything is equal, staff goes with the low quote. When Mr. Olsen signs purchase orders, he can see the number of different quotes. Staff may seek multiple quotes but for whatever reason, a vendor may not be able to provide a quote.

Ms. Gelband asked why $15,000 was chosen as the level requiring Board approval. Mr. Olsen said $15,000 seems to be the level that starts to affect public perception where the Board needs to be involved. He did not have any desire to recommend increasing the number. It was incremented upward from $10,000 in 2011. Mr. Olsen said with the emergency procurement clause in place, which the District has not had to exercise during the past year, an increase is not needed.

Ms. Gelband asked if there are certain companies the District would not accept bids from. Mr. Olsen said if the standard materials meet specifications, the District would use the product. The open bid process requires all bids to be reviewed using the same scoring criteria. Ms. Gelband asked if any companies that might be deleterious to the District, such as companies previously involved in lawsuits, have submitted bids. Mr. Olsen said there is a clause that allows the District to “make recommendation for award based on the lowest responsive and responsible bid meeting specifications”. If the recommendation is for any company other than the low bidder, for whatever reason, full justification will be provided to the Board. The reasons for going with a company other than the lowest bidder may not be necessarily negative.

Mr. Shonka asked if Arizona State law requires awarding to the low bid, or the lowest responsible bidder. Mr. Tenney said Arizona law says the low bid but there is flexibility in the law for other reasons such as past history or safety concerns. Mr. Ruppenthal agreed Arizona offers some flexibility. His company has worked under a common procurement process with other entities in the Phoenix area. Once a contract is in place, it is very easy to piggyback and it decreases procurement costs. Expenses are incurred to get the ball rolling and time has a dollar value.
Ms. Bracken said with some larger entities’ contracts, there may be larger volume discounts on pricing.

Mr. Shonka asked who would make decisions in an emergency if the General Manager was not available. Mr. Olsen said he is always available via current technology but if for some reason he is out of contact, he would make sure there was an alternate.

Mr. Shonka made a motion to recommend to the Board of Directors adoption of the procurement policy as written by staff. Ms. Bowen seconded the motion. Motion passed unanimously.

**VII. Planning Efforts**

a. Long Range Water Resources Plan

Mr. Olsen said staff looked at the 50 year projected demands and compiled a water resource portfolio for each of the District’s six service areas. This allows staff to show the public, the Board, and other interested parties that the District is taking various proactive steps to ensure we are acquiring the right portfolio of water resources, leveraging the water resources we have, and making the right infrastructure/resource decisions to ensure we are able to support present and future demands over the next 50 years. It is important to look at where the projections are at the various year increments. Every long range plan is inaccurate when you get out to 50 years because current demand trends and the best information available are used to project forward so the goal is to renew the plan regularly based on new information.

Staff will present the Long Range Water Resources Plan to the Board in February and will then provide a copy to the FOC.

b. Five-Year Capital Improvement Program

Mr. Olsen said in planning for the District’s capital infrastructure needs, staff has followed the methodology of the priority driven budget process. We have gone through the known unmet infrastructure needs and looked at everything from a criticality point of view. Staff has also looked at how to fund each project, particularly over the next five years. Over the next five years, the District is not taking on additional debt burden on the capital program because we need to wait until around 2019 for some of the current debt to be paid off and expired. The District is instead revenue funding its capital program over the next five years. Any new meter connections and capacity based connection fees, which are system development fees, will revenue fund capital infrastructure. The District is not doing a bond funded capital program but instead will carefully allocate each dollar to make sure that the most critical and pressing capital needs are accomplished.

Over the next two years, the redrilling of the Oracle Jaynes Station well will be the largest project during that period. Last month, the Board approved purchasing the adjacent property
because the current site is too small to facilitate redrilling. This year, the District is securing the site and next year, the well will be redrilled to replace lost capacity.

Mr. Olsen said there are many competing needs to be addressed: capital, production capacity, mains in the ground, reservoir storage, technology of meter replacements and control systems. The five-year capital improvement program (CIP) lays out the limited financial resources that exist and identifies the most critical capital projects. More discussions on this topic will occur when it is time to meet about the financial plan.

Mr. Ruppenthal asked how the District balances water resources when there are outlying systems not connected by pipe. Mr. Olsen said there are six service areas including Metro Main, Metro Hub, Metro Southwest which is comprised of three separate service areas that are not physically connected, and Metro West near Marana Airport. Each service area has unique challenges and solutions. The biggest concern in Metro Main is the two foot annual decline in the aquifer. The CAP Recharge, Recovery and Delivery System is a way to address the decline by bringing in CAP water and blending it with groundwater. Metro Hub does not have the same issues; the aquifer is rising there and the water resources are solid but the infrastructure is older. Metro West is not yet developed. There is development in Metro Southwest and the City’s infrastructure and recharge facilities are adjacent to one service area and close to another, where the District could partner to have water stored, recovered, and delivered. Each area has its own challenges so we must look at the revenue in each area and identify options to address those challenges. The water resources projection looks at demand for the next 50 years. The CIP looks out five years to identify and list unmet needs to be addressed in the future.

Mr. Shonka asked if the District has a natural disaster plan in effect in case customers are out of water. Mr. Olsen said the District does have a continuity of operations plan to make sure we are able to maintain water service, whether it be a pandemic plan for staff or major infrastructure issue. The District is privileged to have a member of our staff, Steve Shepard, as Chair of the AZ Water Arizona Water Agency Response Network, which is the advisory network of water entities throughout the State that are able to leverage resources to support one another should a disaster strike. Mr. Shepard said there are currently 21 members signed up to provide resources and support in an emergency.

Mr. Ruppenthal asked if the District has interconnects with Tucson, Marana, or others so that water could be transferred during a serious disruption. Mr. Olsen said there are emergency interconnects in the various service areas geared towards serving as a short term solution to restore service. Mr. Olsen said the wheeling agreement in process for Metro Southwest will provide more of standard base flow as well, beyond the emergency environment.

Ms. Gelband asked about situations like what is happening in the northern part of the country, where water is contaminated. Mr. Olsen said we are fortunate because we know the challenges in our service areas and we have treatment systems in place, whether it be arsenic treatment or removal of volatile organic chemicals at South Shannon. The District is on top of the situation.
The number one funded initiative approved by the FOC and Board this fiscal year was the Unregulated Contaminant Monitoring Rule 3 and that is an ADEQ required battery of tests for unregulated contaminants. The testing helps us determine what is present and that data along with the other data from reporting agencies is compiled to arrive at new contaminant levels and thresholds. The District is not just concerned about regulated contaminants but is looking forward to be an active participant in identifying unregulated contaminants and working toward treatment processes for the future.

Mr. Olsen said more information regarding the CIP will be provided when the FOC meets again in preparation for the financial plan.

VIII. Future Meeting Dates and Agenda Items

Mr. Olsen said the next Finance Oversight Committee meeting is scheduled for March 23, 2015 at 4:00 pm. That meeting will take approximately an hour and a half because there are a few large items to discuss, including revenue funding the capital program, a new methodology for capacity base connection fees or meter connection fees, revising the plan review fees that developers pay when they submit plans to do any modifications to the system, and finally, a discussion about balancing fixed and variable revenue when demands are continually declining. Mr. Olsen, Ms. Bracken, and others have spent a significant amount of time looking at the methodology as more of a wholesale change to secure higher fixed revenue by increasing the monthly service charge, while at the same time decreasing the cost on the volumetric side. That will result in much more stable revenue regardless of demands and put the District in a much more solid position moving forward.

Mr. Shonka said the City of Seattle has a very big conservation program and when people began using less water, their revenue took a nose dive which prompted a 20-25% rate increase in one year and resulted in public outcry. Mr. Olsen said by shifting the revenue from one portion of the bill to the other and increasing the base rate at the same time the consumption charge is decreased, the bottom line of the bill will not be significantly increased.

Ms. Gelband mentioned other economic changes that impact Pima County residents and Metro Water. Customers feel the cumulative effect of all increases combined.

Mr. Olsen said when the FOC met several months ago, the discussion was about water resource stability and the 20 cent increase to the Water Resources Utilization Fee (WRUF) followed by three annual increases. Also discussed was revenue stability and financial plan stability. At the March FOC meeting, everything will be folded together in a discussion on rates and revenue adjustments, as well as the financial plan. The goal is to have the FOC recommendation folded into the proposed financial plan, as opposed to what the District had been doing for a number of years, of having an approved financial plan and then proposing a rate adjustment three or four months later.
Ms. Gelband asked if the new entrance cost the District anything. Mr. Olsen said the additional parking lot was paid for by the District but the roadway was not. Mr. Maish said road improvements were paid for by the Regional Transportation Authority (RTA) and Pima County.

Mr. Guillot suggested a future agenda topic about the security of our water supply and how that relates to Homeland Security.

IX. Call to the Public

There were no comments by the public.

X. Adjournment

The meeting adjourned at 5:13 p.m.

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Reb Guillot, Chair
Finance Oversight Committee