

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

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

JANUARY 25, 2021

MINUTES

Committee Members Present: Scott Schladweiler, Chair
John Krempen, Vice Chair
Scott Bugental, Member (Participated Electronically)
Lee Mayes, Member
Robert Shonka, Member (Participated Electronically)
Kip Volpe, Member (Participated Electronically)
Monica Wnuk, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, District Engineer (Participated Electronically)
Diane Bracken, Chief Financial Officer (Participated Electronically)
Steve Shepard, Utility Superintendent (Participated Electronically)
Theo Fedele, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Mr. Schladweiler called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Bugental, Mr. Krempen, Mr. Mayes, Mr. Schladweiler, Mr. Shonka, Mr. Volpe, and Ms. Wnuk were present.

II. Election of Committee Chair and Vice Chair

Mr. Mayes nominated Scott Schladweiler as the Chair for 2021. Ms. Wnuk seconded the nomination. Motion passed by a roll call vote of 7-0.

Ms. Wnuk nominated John Krempen as the Vice Chair for 2021. Mr. Mayes seconded the nomination. Motion passed by a roll call vote of 7-0.

III. Call to the Public

There were no comments by the public.

IV. Approval of Minutes – October 27, 2020 Meeting

Ms. Wnuk made a motion to approve the minutes as presented. Mr. Shonka seconded the motion. Motion passed by a roll call vote of 6-0. Mr. Volpe abstained.

V. Discussion and Possible Recommendation for Mid-Year Review of Fiscal Year 2021 Adopted Budget

Ms. Bracken stated that starting with revenue, the metered water sales are 4% higher than they were at the same point in the prior fiscal year. As of December 31, 2020, 59% of the budgeted meter water sales have been billed. Development revenue for new meters is expected to be higher than planned. We are estimating 250 meters more than planned with additional revenue of \$593,103. Finance will be sending out an invoice this week for the Central Arizona Project (CAP) Conservation Reimbursement of capital cost on 3,500 acre-feet (AF) of water and the Compensated Conservation on CAP at \$50 an AF with a March 1, 2021 due date. Other revenue is higher with the annual CAP water credit of \$174,980 and the COVID tax credits. Pima County Wastewater reimbursements for processing the sewer billing will be higher than budgeted with the approved rate increase occurring after the adoption of the budget, and additional sewer accounts. The billing of the Regional Transportation Authority (RTA) fees ended on December 31, 2020, so the amount billed will be the fiscal year-end total, which is \$17,865 higher than the budgeted amount. Revenue is currently projected to be \$1,434,935 higher than budgeted with 85% of this coming from the metered water sales.

For expenses, Engineering staff time charged to capital projects will be \$75,363 higher than budgeted. With nine employees waiving District health insurance coverage in the first half of the year, all budgeted costs will not be realized. With rate increases taking effect in January, and eight employees waiving coverage in the second half of the year, therefore, the second half of the year costs will be higher resulting in an estimated \$150,683 that will not be spent. All of the budgeted funds on water quality testing are not planned to be spent with the Synthetic Organic Compound (SOC) waivers that were approved, reducing the testing requirements by \$8,000. Bank charges are projected to be \$17,000 over budget. Developers' were submitting requests for several meters at a time and paying for two each day to bypass the \$5,000 per transaction limit. This process has now been changed and all meter credit card charges have to be approved by the Chief Financial Officer (CFO) to avoid the excessive credit card fees. Board members' reimbursements for

seminars and staff education, training, and travel are expected to be lower than budgeted with most conferences canceled or being presented virtually at much lower costs with a combined reduction of \$43,292. The COVID-19 testing is causing an increase in employee screening costs and if the trends continue this account will be over budget by the end of the fiscal year by about \$6,000. The District was not required to hold an election this year, avoiding \$26,000 of expenses. Vehicle fuel is anticipated to be \$18,726 lower than budgeted with fuel budgeted at \$2.75 per gallon and the average cost of gasoline at \$2.36 in calendar year 2020. The cost of the Administration office renovations were under budget by \$7,300 so the building and grounds line item should be lower than budgeted by \$5,800. The reduction comes from plans to add LED lighting in the Admin area, the halls, and restroom, along with replacing the flooring in the Inventory Specialist's office before the end of the fiscal year. The flooring will be purchased with gift cards earned from the American Express credit cards when the accounts were closed out. With 180 new meter applications planned for this fiscal year, installations are projected to be higher than budgeted with 275 meter applications received as of the end of December and an additional 250 estimated to be received by the end of the fiscal year. This will increase the expenses by the cost of the meters and installation by \$109,882.50. Computer related software will be higher than budgeted with the purchase of Visual Lease software for the GASB 87 lease reporting requirements. This will cost \$6,175 with a \$2,000 implementation cost. Half of the yearly cost for the software and the implementation will be expensed this year. In addition, WaterCAD software was not budgeted and one half of the year expenses will be incurred at \$1,918. CAP water costs for the second half of the year were budgeted at a rate of \$253 per AF with expected shortages. The actual rate for calendar year is \$213 per AF, which will be \$200,000 less than budgeted. With the CAP water storage directly correlating to the water storage at Avra Valley Recharge Project (AVRP), if necessary, some or all of this \$200,000 may be spent to accomplish the metering at AVRP to correctly calculate the amount of water stored. AVRP costs are expected to be \$23,900 higher than budgeted with additional water storage. Debt service charges will be \$2,438,826 lower than budgeted with the refunding of one of the 2009 WIFA loans and refunding the 2013 subordinate bonds, which will reduce expenses by \$1,482,020 and \$956,806 that will not be spent this year for the Northwest Recharge, Recovery and Delivery System (NWRDRS) project.

Discussion ensued and staff answered questions regarding the mid-year review of the Fiscal Year 2021 Adopted Budget.

Ms. Bowen reviewed the items from the Capital Improvement Program (CIP) with planned over or under variances including the NWRDRS project, the NWRDRS Metro-only portion, La Cholla Boulevard RTA project, E&T 22 well replacement, and the RTA Valencia Road valve and meter adjustments project.

Ms. Wnuk moved that, based on the Committee's mid-year review of the Fiscal Year 2021 Adopted Budget, staff proceed as presented. Mr. Shonka seconded the motion. Motion passed by a roll call vote of 7-0.

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

Mr. Olsen stated that the District has had a Board approved Procurement Policy since 1999 to provide formal guidance to staff on matters relating to procurement processes to include approval thresholds and check signatures. Over the past six years, the Policy has been modified a couple times to incorporate current practices and procedures as well as provide transparent guidance to staff.

Since the Policy was last modified in 2018, there have been a number of items identified that would add clarity and functionality to the policy. These items include:

- Authorizing the General Manager to be the second signature on checks that would normally require two Board Members. This was implemented in March 2020 with the onset of COVID to reduce exposure to the Board and staff. At least one Board Member's signature is required first before the General Manager would sign but increases the flexibility of check signatures.
- Annual maintenance contracts, in particular the Maintenance of Wells contract, are annually approved by the Board to a qualified contractor and the relevant budget is approved by the Board in the Adopted Budget. While normally each well maintenance interval would exceed the General Manager authority in the Procurement Policy, often a need arises to rapidly shift work between a well that was originally planned for maintenance to a well where maintenance has become more pressing. This has been addressed in the Procurement Policy edits where individual task orders that exceed the Procurement Policy threshold on such maintenance items are authorized by the General Manager provided that the Board has already approved the relevant annual contract and that the overall tasks does not exceed the Adopted Budget.
- The threshold levels on purchase order approvals, Board approvals, and check signatures have not been adjusted since the Policy was created in 1999. Given the inflation over the past 21 years, this has now resulted in an increase in normal maintenance items requiring Board approval. As such, the thresholds in the policy were increased to adjust for inflation over the past 21 years as well as rounded to ensure ease of Policy implementation.

The remaining edits were minor corrections or clarifications. It is recommended that the FOC recommend the Board approve the updated Procurement Policy to ensure the District has a functional formal guidance document for such matters.

Discussion ensued and staff answered questions regarding the Procurement Policy and the District's procurement processes.

Mr. Mayes moved to recommend that the Board of Directors approve the Procurement Policy as updated and discussed. Mr. Krempe seconded the motion. Motion passed by a roll call vote of 7-0.

VII. General Manager's Update

The former Vice Chair of the FOC, Lee Jacobs, resigned from the FOC earlier this month. With the passing of Dan M. Offret in October of last year, Mr. Jacobs volunteered to fill the vacant Board position. On January 11, 2021, the Board appreciated Mr. Jacobs's desire to carry on the Mr. Offret's legacy of service and acknowledged Mr. Jacobs's uniquely relevant skill-set by appointing him to the Board for a term that lasts through December 31, 2024. While Lee Jacobs is no longer on the FOC, his service to the District will certainly continue.

One of our objectives for the current year is to explore the potential for a two-year rate setting process to increase the efficiency of staff efforts and to provide greater financial certainty to District residents. Many other utilities follow a similar approach where they bring a multi-year package of rates to their governing body for consideration to enable a more holistic and complete assessment of strategic needs on the capital and water resources front as opposed to a year-by-year snapshot. During the next FOC meeting in March, we will review a 2-year rate proposal, where the second year's rate increase, if approved by the Board, would not go into effect until the second year. At the next meeting, we will also discuss the Proposed Fiscal Year 2022 Budget.

VIII. Clerk of the Board Updates; Future Meetings

The next Finance Oversight Committee meeting is scheduled for March 15, 2021.

IX. Call to the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 5:15 p.m.