

**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 16, 2020

MINUTES

Committee Members Present: Scott Schladweiler, Chair
Lee Jacobs, Vice Chair
Lee Mayes, Member
Robert Shonka, Member (Participated Electronically)
Kip Volpe, Member (Participated Electronically)

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. Schladweiler called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Jacobs, Mr. Mayes, Mr. Schladweiler, Mr. Shonka, and Mr. Volpe were present. Mr. Churchill has resigned from the committee.

II. Call to the Public

There were no comments by the public.

III. Approval of Minutes – January 27, 2020 Meeting

Mr. Mayes made a motion to approve the minutes as presented. Mr. Jacobs seconded the motion. Motion passed by a roll call vote of 4-0. Mr. Shonka abstained due to not being present at the January 27, 2020 meeting.

IV. Discussion and Possible Recommendation regarding the Proposed Fee Adjustments

Mr. Olsen stated that staff has previously discussed with the FOC the sunset of the Regional Transportation Authority (RTA) fee of \$3.00 for the average residential customer at the end of calendar year 2020. Even though there are RTA projects yet to be completed, those projects will be accomplished via the capital improvements program (CIP) based on priority. After reviewing what adjustments and proposed revenue were needed for Fiscal Year 2021, the recommendation is that the Water Resource Utilization Fee (WRUF), consumption charges and the water availability rate all remain the same, the RTA fee will sunset, and an infrastructure rehabilitation fee would be created, which would be \$.95 for the average residential customer and indexed up for larger meter sizes on a flat per month basis. This fee would be a dedicated revenue stream addressing CIP projects. Currently the only direct funding for the CIP program is the new meter capacity based connection fee known as the system development fee. Over the past five years, we have been working to invest in recapitalizing our infrastructure. This infrastructure rehabilitation fee is a start to provide non-growth based funding to augment the capital improvements program.

The recommendation is for the infrastructure rehabilitation fee to begin January 2021. For Metro Main and Hub customers who currently have the RTA fee, when the RTA fee goes away, the new fee is created, which is an over \$2.00, or 4.1 %, decrease to the average customer's bill. The Metro Southwest service areas do not have the RTA fee so they will be seeing a 95 cent increase for the average residential customer, which would be a 2.3% increase at Diablo Village, a 2.4% increase at E&T, and 1.7% increase at Lazy B. A rate insert will be sent out to all customers advertising an information meeting and public hearing as well as the five-year rate increases for each of the service areas. The average increase over the past five years is less than a percent increase at Main and Hub with the 4.1% decrease, an average increase of 1.9 % at Diablo Village, an average increase of 2.3% at E&T, and an average increase of roughly 1% at Lazy B.

Ms. Bracken stated that the Customer Deposits amount has not changed since May 2004. The requested increase to the residential customer deposit is \$132.00, which is the equivalent to 2.5 times the average customer's monthly bill based on average consumption. This will cover the time period the customer had not paid the bill and will help reduce the amount for bad debt. The renter deposit is requested to be standardized to \$200 as well as set the deposit for Multi Family, Bulk Meters, and Commercial accounts at \$1,500. This is not much of a change in those areas since that is what they already are but to standardize them to the same rate.

Mr. Jacobs asked if the deposit was only for new customers. Ms. Bracken stated that the deposit was only for new customers and current customers would not be impacted.

Mr. Schladweiler asked if the bulk meters included a backflow device. Ms. Bracken stated the bulk meters are set up with a back flow preventer though some customers install their own back flow preventer. The \$1,500 is a flat deposit to cover the repair and parts if the meter comes back damaged. Mr. Shepard stated that in most cases it is required by the contractor. The fixed bulk stations have backflow prevention on them already. Contractors will find out if they are using a tanker truck that has air gap or they will need to put the back flow preventer on the hydrant themselves.

Mr. Jacobs moved to recommend to the Board of Directors to approve the creation of the Infrastructure Rehabilitation Fee to be effective with the first billing in January 2021 as presented by staff at the Committee's March 16, 2020, meeting. Mr. Mayes seconded the motion. Motion passed by a roll call vote of 5-0.

V. Discussion and Possible Recommendation regarding the Fiscal Year 2021 Requested Budget

Ms. Bracken stated that the total revenue from operations is \$22,575,716, which is a 1.48% decrease when compared to the Adopted Budget for Fiscal Year 2020. The Requested Budget includes \$7,579,705 of Northwest Recharge, Recovery and Delivery System (NWRRDS) project funding from the Town of Marana and the Town of Oro Valley along with \$2,844,479 of proposed new debt funding for the NWRRDS project. The projected beginning fund balance of \$13,816,623 for a total of \$46,816,523 of available funding.

- Metered Water Revenue is budgeted based upon the Fiscal Year 2019 actual customer consumption data.
- With the processes in place to identify private fire risers when they are installed, the number of accounts billed has increased again this year from 253 accounts to 292 accounts increasing this planned revenue by \$11,530.
- Water Resource Utilization Fees are budgeted \$30,907 lower than they were in Fiscal Year 2020 based upon the consumption levels from Fiscal Year 2019.
- Penalties/Service Charges has increased by \$20,000 to \$250,000, based upon the Fiscal Year 2018 actuals of \$240,404 and Fiscal Year 2019 total of \$286,454.
- Investment income has been reduced with WRUF's CD maturing and not being reinvested along with a lower interest earning rate.
- Bond interest has also been reduced with lower yields and a debt service reserve requirement of \$2.3 million down from prior balance requirement of \$4.62 million with debt being paid and defeased.

- Pima County Sewer Billing revenue is based upon 19,000 accounts at the current rate of \$1.50 per account. This is an increase of \$29,265 when compared to the prior fiscal year.
- Development revenue is based upon 60-5/8” meters in Metro Southwest and 180-5/8” meters in the Metro Main and Hub service areas.
- The RTA fee has been budgeted for only one-half of the fiscal year for a revenue reduction of \$422,500.
- The proposed Infrastructure Rehabilitation fee of \$0.95 per month for the average customer in all service areas has been included in the budgeted revenue with a total of \$152,692.

The total revenue of \$22,575,716 from operations is \$339,076 lower than the Adopted Budget revenue in Fiscal Year 2020. Revenue from the NWRRDS Partners and proposed debt funding total is \$10,424,184, and the projected beginning fund balance is \$13,816,623, for a total available revenue of \$46,816,523.

The total Expenses included in the Requested Budget are \$34,878,707, which is an increase of \$6,266,974 with NWRRDS project costs increasing \$8,276,135 when compared to the Adopted Budget for Fiscal Year 2020.

The General Manager and Administration Team’s requested budget is \$1,717,411 lower than it was in the prior fiscal year. With Central Arizona Project (CAP) water costs increasing \$154,531, wage and benefits cost increasing \$111,518, and includes \$956,806 for new debt service costs for the NWRRDS project, all being offset by the \$2,978,538 reduction in debt payment with only four remaining outstanding debt obligations.

The Engineering Team’s requested budget is \$28,765 higher than the Fiscal Year 2020 Adopted Budget with wage and benefits increasing \$77,731 being offset with a \$20,000 increase in hours being charged directly to CIP projects. This Requested Budget includes a \$20,000 reduction in Corrosion Monitoring, a \$21,000 reduction for Miscellaneous Consulting Service, and the IOC/SOC waivers were completed in Fiscal Year 2020 removing \$13,000 from the budget.

The Utility and Southwest Utility Teams’ requested budgets are \$429,988 higher than the Fiscal Year 2020 Adopted Budget. Wages and benefits are \$145,745 higher. The storage tank rehabilitation is \$168,000 higher with work planned for the Magee La Cholla South storage tank, recoat of 25,000-gallon storage tank at E&T 22, and tank modifications and cathodic protection test at Diablo Village #1. Well maintenance cost have increased \$35,000 and the requested meter replacement budget is \$80,000 lower to offset some of the cost increases. Regulatory fees and Southwest water purchases are increasing by \$65,184. Grounds maintenance support was hired for well sites increasing the budget by \$21,000 and additional electricity cost totaling \$34,000 with a planned rate increase.

Mr. Olsen stated that each year investments are funded to invest in the District and enhance capabilities to support the District mission. This year, based on the prioritizations and discussions with all the teams, the number one recommended item is replacing the iPerl meters at Metro Hub. The meters at Metro Southwest and Hub have been notoriously difficult as it relates to the amount of adjustments needed and failure rates that are significantly higher than industry average. The meters at Southwest are being replaced this fiscal year and Metro Hub will be completed in Fiscal Year 2021. The next two items are replacing Windows servers and upgrading virtual machines. Another item is the valve machine, which is about 20 years old, and is used to exercise valves. The last item above the funding line is the variable frequency drive (VFD) for the South Shannon well. The South Shannon well is a remediated treatment site and needs to operate with the Wildwood and Deconcini wells to blend at the Deconcini tank to get below the health advisory levels for 1,4-dioxane. The challenge is if Deconcini or Wildwood are offline then Shannon is off and no water is remediated.

Mr. Schladweiler asked where the water is blended. Mr. Olsen stated that there is a storage tank at Deconcini. Wildwood, Shannon, and the Deconcini well are pumped to the Deconcini storage tank before blended water is conveyed out in the system. The sampling is done here for blending below the health advisory level. Having the VFD provides flexibility to continue to operate as opposed to last year when Shannon was down almost half the year due to maintenance activities on the other two wells.

Mr. Mayes asked about the horsepower of the VFD. Mr. Shepard stated the VFD has 60 horsepower at 535 gallons per minute.

Mr. Volpe asked if the VFD is automated or will need to be changed manually. Mr. Shepard stated that the VFD would be a combination of the two. The VFD would turn on and off via automation with a set point to operate off a 0-60 hertz range with a cap that correlates to the gallons per minute (GPM) range. If one of the blending wells goes down, staff would change the hertz cap to achieve the desired GPM rate.

The investment requests not funded for Fiscal Year 2021 includes a three person maintenance crew. One of the specific performance objectives was identifying the items the Utility team are not getting accomplished on a daily, monthly or annual basis such as valve exercising at regular intervals, full break down maintenance of pressure reducing valves, ensuring functionality of fire hydrants, and other preventative activities. A three person team with one lead utility technician and two utility technicians would need to be added to accomplish these tasks. Other items includes the parking lot, having more data points in the historian system, additional equipment for the utility team, and records management software.

Discussion ensued regarding the addition of the three person maintenance crew and tasks being performed as well as the records management software.

Mr. Olsen stated that one of the items that caught us a bit by surprise was the Oracle Road work. Originally, the Oracle Road project was going to have a relatively modest impact to the District infrastructure and over time that dramatically changed as the scope of the waterline relocations increased. The majority of the next fiscal year's Capital Improvements Program will be used to effectively move District infrastructure and address the impacts.

Ms. Bowen reviewed the Capital Improvements Program items. The Arizona Department of Transportation (ADOT) Oracle Road Project also includes replacement of an existing waterline that has reached the end of its useful life and was experiencing numerous failures. While this was not part of the relocation work necessitated by ADOT, staff determined to move forward with the replacement at the same time as it was in the same area.

The NWRD project's key tasks include drilling three recovery wells, the final design of the transmission main and forebay, starting final design of the recovery wells, completing a portion of the final design of the supervisory control and data acquisition components, starting construction on the transmission main, and working with TRICO Electric regarding power to the well sites and the forebay.

Mr. Jacobs asked if the costs would be shared with the Partners. Ms. Bowen stated that the cost would be shared with the Partners.

Ms. Bowen stated that the key tasks for the NWRD Metro-only Project include program support and consultant design of the booster station and transmission main from the forebay to Blue Bonnet Road, and District staff completing the design of the transmission main from Blue Bonnet Road to Herb Johnson. For the RTA La Cholla Boulevard Project, Oro Valley's contractor has completed the removals of the existing abandoned waterlines and the adjustments are dependent upon the completion of the road work. The Avra Valley Recharge Project (AVRP) Recharge Improvements experienced increases in the cost estimate for the total project, which necessitated splitting the project. The work in Fiscal Year 2021 includes the new turnout off the BKW canal plus a new metering station and future work includes reconfiguring the basins. The schedule was revised for the E&T22 well and the tasks in Fiscal Year 2021 include site improvements and land acquisition services. One large meter vault will be replaced in Fiscal Year 2021; there are a total of 13 vaults to complete.

Mr. Schladweiler asked if the AVRP project was split due to higher than expected costs or due to the Oracle Road project. Mr. Olsen and Ms. Bowen stated it was for both reasons. Ms. Bowen stated that the cost went up considerably due to material costs, fencing, and road reconstruction.

Mr. Jacobs moved to recommend to the Board of Directors to adopt the Fiscal Year 2021 Requested Budget as presented by staff at the Committee's March 16, 2020, meeting. Mr. Mayes seconded the motion. Motion passed by a roll call vote of 5-0.

VI. Discussion on the Potential Northwest Recharge and Recovery Delivery System Debt

Mr. Olsen stated that based on market conditions, rates are presently lower than anticipated. Since the plan was to already go out for NWRD debt, staff looked at possibly moving forward sooner rather than later, which could provide substantial savings to the District. This is initial discussion and no motion is required.

Ms. Bracken stated that previously, when getting ready to go out for debt, staff met with the District's financial advisor and set up a schedule of 16 steps to complete the debt process. Some items can be completed now to be prepared to respond quickly if rates continue to stay low. As of today, the Municipal Bond rate was at 1.6%. When planning for debt, an interest rate of about 4% was used. If the debt was financed at a 1.6%, based on an estimated \$21.3 million to fund the NWRD project Partner portion and the Metro-only portion that is not being cash funded, this would be a savings of \$5.5 million. Moving forward with the items now will allow the flexibility to move quickly and take advantage of the opportunities when they occur.

VII. Discussion and Possible Recommendation on the District's Investment Policy

Ms. Bracken stated that the Investment Policy is something every organization should have in place to outline the delegation of authority of investment responsibility and investment restriction. The District operates under the Arizona Revised Statutes, Title 35, Chapter 2, Handling Public Funds, and this procedure documents this process and all the requirements. This is one of the procedures the rating agency will check if an organization is going to go out for any new debt.

Mr. Schladweiler asked if the policy would be renewed annually. Ms. Bracken stated that the policy would not need to be renewed on an annual basis. Mr. Olsen stated if we were to go out for debt in future years, all these associated policies would be reviewed again at that time.

Mr. Jacobs moved to recommend that the Board of Directors approve the Investment Policy. Mr. Mayes seconded the motion. Motion passed by a roll call vote of 5-0.

VIII. Future Meeting Dates and Agenda Items

The next Finance Oversight Committee meeting is scheduled for October or November of 2020.

IX. Call to the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 5:07 p.m.

Scott Schladweiler, Chair
Finance Oversight Committee