

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

March 28, 2011

**** Board Room ****

**Metropolitan Domestic Water Improvement District
6265 N. La Cañada Drive
Tucson, AZ 85704**

MINUTES

Board Members Present: Bryan Foulk, Chair
Dan M. Offret, Vice-Chair
Jim Doyle, Member
Judy Scrivener, Member

Board Members Not Present: Helen Ireland, Member

District Staff: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Charlie Maish, District Engineer
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

Regular Session

I. Call to Order and Roll Call

Bryan Foulk, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Study Session to order at 5:32 p.m. Bryan Foulk, Dan M. Offret, and Judy Scrivener were present. Jim Doyle arrived at 5:37 p.m. Helen Ireland was not present.

II. General Comments from the Public

There were no comments from the public.

III. Discussion of Draft Fiscal Year 2011-2012 Budget.

Mr. Stratton said the revised draft budget was provided to the Finance Oversight Committee (FOC) which met last Monday, March 21st. There was a good detailed discussion and the overview memorandum highlighted their main concerns. He said that Mike Land, Chief Financial Officer, and Warren Tenney, Assistant General Manager, would go through the key issues and discuss the FOC recommendations. Mr. Tenney said staff met with the FOC about the draft budget twice to date. At the February meeting, they previewed a draft budget. In March, they went over the revised draft with highlighted changes. Mr. Land handed out an updated Operating Budget Summary to correct a few items that had not been carried across to the totals.

Mr. Land said the budget summary shows a bottom line \$2 million ending fund balance for the 2011-2012 budget. Total disbursements last year came to \$15,363,000 and that figure would change to \$16,790,000 for the new fiscal year. The increase of \$1,426,000 is virtually all related to debt service, either in the old debt service principal and interest, the new RTA financing debt service, or the new debt reserve that is required as part of the new financing. That \$1.4 million is mostly related to debt service; the rest of the operating expenditures represent only a \$20,000 increase. He said the nuts and bolts of the operation remains focused on debt service just like last year. Although the debt service has increased, the District is showing revenues \$1 million over last year based on the current year pattern plus historical data. Staff is expecting a healthy operating fund balance carryover of a couple million dollars in available funds.

Mr. Doyle arrived at 5:37 p.m.

Mr. Land said salaries and benefits are down \$70,000 compared with last year. Mr. Stratton's memo speaks to the possibility of a salary adjustment of a 2% COLA or a one-time stipend of \$1200 apiece, totaling around \$70,000. This adjustment would bring salaries and benefits in line with the current year's budget. Most of the savings came from the recent reduction in health insurance premiums when the District moved from Blue Cross Blue Shield to Health Net. An increase in the Arizona State Retirement System (ASRS) this year is definite.

Mr. Land went over some of the proposed changes such as increases for consulting services, well maintenance, and operations and maintenance, and decreases in supplies and regulatory fees. He noted excess supplies could be purchased through the reserve if needed.

Mr. Stratton said that because Metro-Southwest development is on hiatus, there is no immediate need to push for an Assured Water Supply designation. Staff could gather documents in preparation over the next year and submit the \$25,000 permit the following year.

Mr. Land said as part of the CAP water purchase, a column has been added for the Avra Valley Recharge Project (AVRP) operations and maintenance with a figure of \$160,000. When factoring that in, the line item is actually down from the prior year. In another positive turn,

reimbursements from bonds have gone up due to engineering staff working on more RTA associated projects. No new positions are added in the draft budget. Overtime (OT) costs for engineering inspectors are being tapered off to \$10,000. OT costs can be reimbursed through the RTA waterline relocation financing.

Mr. Stratton said the Administration Division salary and benefits category shows a reduction due to four positions being transferred to the Utility Division. Monies for legal and lobbying are included in the draft budget. Mr. Foulk asked if staff was adding \$36,000 back in. Mr. Tenney clarified that the lobbying contract was not renewed in November, though \$36,000 was in the budget for that item. Mr. Stratton said staff did not want to be short-sighted, so the item was left in the budget; however, the monies do not have to be spent.

Mr. Land said staff expanded the details in the appendix for the FOC so this could be the most precise budget the District has seen. AVRPs modifications are included for \$50,000 pending a report by Arizona Department of Water Resources (ADWR). Staff expects a response before the budget is finalized. Some areas like well abandonment were adjusted to zero because nothing was spent last year on that item. If the need arises, funds could be pulled from the reserve fund.

Mr. Land said the appendix shows that bank charges will increase from \$32,000 to \$62,000. This increase is the cost of doing business and covers fees related to credit card transactions. The District currently charges the customer \$1.50 service fee to pay with a credit card by phone, so some costs are recouped. With various service charges and penalties generating well over \$200,000 per year, those bank charges are covered. Mr. Land said other avenues have been examined but the District currently enjoys a reasonably low utility rate.

Mr. Land noted billing is being outsourced by a Phoenix firm but the District is going out for bid, so that could switch to a local firm. Costs for forms, printer supplies and staff time have dropped due to outsourcing. He pointed out that fuel prices have been revised since the FOC meeting and are now factored in at \$4 per gallon. Fuel used by the meter readers is now allocated to the Utility Division and not the Administration Division.

Mr. Land explained expenditures are up \$175,000, the majority of that being the new line item added for Avra Valley operations and maintenance. There are some changes in the schedules for the loans refinanced in 2009. Debt service is the biggest change with the new loan of \$793,000. The RTA Fee revenues of \$880,000 will offset the debt service. In response to Mr. Foulk's question, Mr. Land said funds will be allocated to the debt service reserve at the rate of about \$52,000 per month for four more years. The debt service reserve amounts to about \$626,000 per year. There are funds available for professional growth. There is a \$500,000 line item for contingencies or emergencies. Mr. Foulk asked if the District spent any monies from the

contingency fund in the past year, and Mr. Stratton said contingency funds were not used; unspent operating costs were reallocated to capital items.

Mr. Offret asked how the money from the recent sale of water credits was deposited. Mr. Land said those proceeds are shown in the total general operating balance. The \$2.6 million carryover includes the \$348,000 in other income.

Mr. Land said the reduction in health insurance premiums resulted in an overall reduction in salaries and benefits. Mr. Foulk asked how the change to Health Net is working so far. Mr. Land said he has had a couple of issues personally but overall there have been no major problems.

Mr. Land said Mr. Maish has driven down the Engineering Division budget on several line items. He assigns a percentage of his staff's time to each project they work on. Salaries and benefits increased \$42,000, mostly in OT costs. The supplies category was substantially reduced through a plan to fund some items through the secured financing.

Mr. Land went over the Utility Division figures. That budget has gone up roughly \$108,000 in salaries and benefits, mostly due to the transfer of the four positions mentioned earlier. The Metro Southwest area has two positions and some half-time is being allocated. Mr. Land corrected one budgeted position associated with Metro Southwest that he forgot to move back over to the Utility Division. The actual budgeted amount is \$140,000, which is higher than shown in the draft, and the latest summary sheet does incorporate that. The OT category for the Utility Division will be reduced by reinstating the second shift schedule next week. Consultant contract services for six wells are included and one more will be reimbursed by Pima County.

Mr. Offret asked if increasing the storage capacity of the Hub reservoirs is still planned. Mr. Stratton said that was part of the unfunded bond projects. Mr. Maish said those projects were originally on the Board-approved ten year CIP program but they remain suspended. Mr. Stratton said staff was looking at the hydraulics of the distribution system and there is a definite benefit to having a larger fill line because the wells are competing against each other for capacity.

Mr. Stratton talked about the decision to leave in the consultant contract services expenditures for South Shannon GAC replacements in the draft budget until the State has passed a budget. It is rumored that funding could be knocked down to half of existing levels, so there is a lot of uncertainty surrounding this item.

Mr. Land said well site security has been dropped down. He talked about slight increases in purchased power. Christopher Hill, Deputy General Manager, noted that Tucson Electric Power did have a rate increase over the last year of about 7%. A monthly environmental "green fee" of \$150 has also been added to each of the District's electric meters. Mr. Land asked if that 7%

increase should be factored in to the new budget. Mr. Hill said there has been a lot of planning in this area with regards to natural gas and interruptible power, so he thinks it will be fine. There are ten sites on interruptible power and it will benefit the District to keep adding more.

Mr. Land talked about meter purchases. Mr. Foulk asked about replacing radio-read meters (ERTs). Mr. Land said ERTs generally have a ten year lifespan and some are starting to fail. Mr. Hill added the meter replacement program has been on hold due to budget restraints but keeping up with meter replacements is beneficial in the long run. He stressed the need to keep meter inventory up in anticipation of reinvigorating that program. Mr. Land said newer meters have a positive impact on revenues because they read more accurately. He noted the draft budget lists 50 meters but if construction picked up there would be a spike in meters and a spike in revenues.

Mr. Offret asked how the parking lot reconfiguration next year will impact the budget. Mr. Stratton said that project is part of the capital budget, which staff will meet about tomorrow, March 30, 2011.

Mr. Land said staff is still trying to track the Metro Southwest area effectively. There are 1.5 positions, comprised of a half-time supervisor and two half-time workers. Mr. Offret asked if someone is on duty every work day, and Mr. Hill said there is. Mr. Land said consultant contract services is budgeted for one well and a total of \$40,000 is budgeted for maintenance of wells. Miscellaneous consulting is pegged at \$54,000 and \$50,000 of that is anticipated for a groundwater flow model needed for the Assured Water Supply application. As Mr. Stratton noted, that application could be delayed until next year. Those two line items, \$40,000 for wells and \$50,000 for consultant services, make up a \$90,000 increase. General operating expenses for the Metro Southwest budget will drop due to a drastic reduction in purchased water. Over the last year, \$111,000 was spent and only \$40,000 was budgeted. Now that issues have been resolved, only \$5,000 in purchased water is budgeted. Mr. Foulk asked about the arsenic treatment system. Mr. Stratton said the arsenic treatment is not complete yet but the Diablo Village II well is online. Mr. Hill said the arsenic system will be complete in about 60 days and the wells are interconnected. Mr. Offret asked if Metro Southwest revenues exceed its total budget. Mr. Land confirmed revenues do exceed expenses in excess of about \$30,000-\$40,000 after debt service.

Mr. Land said staff has gone through the draft budget and made cuts three times and the FOC has made some recommendations. Mr. Tenney said staff will start working on the capital budget and the Board will have that for the next study session.

Mr. Stratton said the FOC had an interesting dialogue regarding salaries for staff. Although most FOC members advocated a salary adjustment, it was not unanimous. Some members do not feel the time is right, mainly because of the last rate increase. There was discussion about reinstating the Professional Growth program and providing a one-time bonus as being a potential solution

without a recurring cost. It was explained to the FOC that until the budget is nailed down and revenue projections are conclusive, salaries and benefits are usually the last item to get the Board's attention. The FOC felt strongly about passing the recommendation along to the Board. Mr. Foulk said he agreed with what they said. He feels Professional Growth is a more palatable term, whereas bonuses or raises might be met with resistance.

IV. Discussion and Direction Regarding the Replacement of Matter Well

Mr. Stratton said the County submitted a second offer to the Matters. A tentative breakdown of associated costs was provided. Mr. Maish had initially noticed the severance portion was large for the District to assume. The total cost to the District for the well site and temporary construction easement was \$31,125 but the severance damages were an additional \$47,000, greater than the value of the property.

Meanwhile, the property on the west side has been sold. Mr. Maish has been in contact with the broker to see if the new owners would be willing to sell a portion of the property to the District. Mr. Maish said that if the District removed just over half an acre for the well lot, there would still be a good amount of drainage property on the south end that would be of no use, so it is assumed the District would have to acquire that portion as well. The new owners would be left with about 1.5 acres, which is still bigger than most lots in the subdivision. Mr. Maish made contact with the owner's broker but has not heard back yet, as they are located out of state.

Mr. Offret asked what the west side property purchase price was. Mr. Maish said the exact price is unknown but it had been on the market for \$150,000 and a quarter of that would be in the \$30,000 range.

Mr. Offret recalled the west side parcel was better suited for the District. Mr. Maish confirmed it would be easier installation and construction and power exists on that side of the road as well. Both sides of the road have drainage issues that would have to be engineered in.

Mr. Foulk said he supports pursuing the parcel that was just sold. Mr. Stratton agreed.

Mr. Offret said he was frustrated that the County had not moved fast enough. The right of eminent domain is held by both entities and he would like to encourage the County to move quickly. Mr. Stratton noted the County brought up the idea of the west side property back in November but never followed through with it. Mr. Stratton said the County's real estate division is not working very hard to secure a site. The location at Magee La Cholla is also a viable site but they have often not to even bring that up because of the neighborhood association.

Mr. Foulk repeated he favors pushing for the west side property, as it could be appealing to the new owners to sell some of it. Mr. Foulk recalled an experience in which one of his own personal properties was condemned and he was paid a sum much larger than the value of the property.

Mr. Offret noted the market value of the west side property has just been established so court proceedings would be simplified but this is not a money issue in his eyes. He is frustrated by the lack of progress by the County and feels it is not the District's responsibility to push the ball uphill.

Mr. Stratton said he does not disagree. He is concerned the County may wait until the eleventh hour and pay the District the value of the well and leave us to find a location and build it. Mr. Foulk said in that case, eminent domain could still be utilized but the County would be negotiating with the District's money and would have no real stake in the matter.

Mr. Offret favored a two-pronged approach, to include contacting the new owners and also contacting the County Administrator. Mr. Offret hoped the Matters may realize the District is trying to buy the west side property and reduce their severance figure.

IX. Adjournment.

Mr. Foulk made a motion to adjourn. The meeting adjourned at 6:36 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board