

## MEMORANDUM

**DATE:** January 22, 2014

**TO:** Finance Oversight Committee

**FROM:** Mark R. Stratton, General Manager

**RE: FY 2013-14 MID-YEAR BUDGET REVIEW**

Please find attached the spreadsheets for the mid-year budget review. The Finance Oversight Committee is requested to discuss the midyear review of the Fiscal Year 2013-2014 budget and consider making a recommendation to the Board of Directors regarding this review. Staff is not recommending any modifications to the budget at this time except for one item to improve the District's oversight of its maintenance efforts.

At the June 10, 2013 meeting, the Board of Directors approved the Fiscal Year 2013-2014 budget. The budget continued to be a basic, bare bone plan for the District's operation and maintenance; however, necessary increases to the overall expenses were included. A main area that the District was able to increase from recent previous budgets was capital equipment and projects, which was made possible by a projected increase in development fees and the establishment of the Water Resources Utilization Fee. Overall, all the District was able to adopt a solid working budget because of the debt refinancing and restructuring as well as the November 1, 2013 rate increase.

Six months into the budget, the District remains financially solid with revenue from metered water sales continuing to be the key uncertain factor. The following highlights key issues from the spreadsheets.

***Operating Expenses*** – Overall operating expenses are on track six months into the fiscal year. The only large exception is the \$168,613 spent to date under the legal line item, which is budgeted for \$125,000. The increased costs are tied primarily to the District's lawsuit with AECOM, which initially also included Pima County. The litigation regards who should be responsible for the extra work, which was not necessary, that the District did for the Magee Road Phase I mainline replacement project.

The well maintenance line item has six wells funded for maintenance this fiscal year at a cost of \$270,000. As of the mid-year, \$132,086 has been spent, which is nearly half. In previous years, the well maintenance line item was not fully used and provided some extra budget capacity; however, all six wells are expected to be maintained this year.

One additional expense that could be recommended is for training and a pilot study for Reliability Centered Maintenance. In September 2013, the Board favorably received a presentation regarding the District's efforts to have an active Reliability Centered Maintenance (RCM) program. RCM is a process used to determine the maintenance requirements of an asset in its current operating context. It is a scientific and systematic approach to ensure that the right maintenance task is done at the right time, not too early or not too late, and that maintenance dollars are applied in the most effective manner. To initiate the training and pilot study this fiscal year would cost \$41,000, which is requested to be included in the current operating expenses.

**Capital Projects** – Shortly following the FY 2013-14 budget's approval, the District recognized that the 2007 loan from the Water Infrastructure Finance Authority of Arizona (WIFA) had unallocated funds. The Board approved staff to pursue with WIFA the ability to finance some of the FY 2013-14 budget's capital project with the remainder of the 2007 loan. WIFA did approve funding the Magee La Cholla VFD Replacement; 8" Mainline Replacement for Camino Del Plata to Shannon Road; Hub 1A Well Arsenic Treatment Media Expansion; Sewer Connection for Trailer Office at Hub 1A well site; and the Trailer Office for Hub 1A well site. These projects totaled \$440,000.

At the January 13, 2014 meeting, the Board approved the purchase of a second vessel of the Layne Arsenic treatment system for the Diablo Village Well No. 1 at a cost of \$161,410. The second vessel will allow the well to continue operations during the regeneration process and provides additional redundancy in the event of a failure on the other vessel. This project is now listed under the Capital Projects on the mid-year budget spreadsheets.

Those projects related to the CAP Water Recharge, Recovery & Delivery System are not anticipated to be spent this year except for the HDR Study that analyzed the CAP System and was completed last month. District staff is developing a timeline for how to best accomplish the various steps that need to be completed before the design of the project can be started. Since those monies will eventually be spent for the CAP System project, if not this year, there is no recommendation to add any other capital projects at this time but to budget the dollars next fiscal year budget.

**Revenue** - The first six months of revenue generated has been overall favorable for the District. While revenue are moving in the right direction, they do need to be viewed from a cautious perspective. The \$2.00 increase to the Water Availability Fee and the 10¢ increase to the Water Resources Utilization Fee that the Board approved for November 1, 2013 have generated additional funds. Also, within the first six months, the District has collected nearly as much as it did last year for the System Development Fee. Connection fees are already double the amount collected last year.

The cautious issue with revenues is that the increase in metered water sales is due to the 2012 and 2013 rate increases. Actual water consumption for the first six months of FY 2013-14 is 3,823,600 gallons less than the first six months of FY 2012-2013. Plus, the District is moving into the low consumption months of the year. For this reason, the District ought to maintain its budget and not add anything other than possibly the Reliability Centered Maintenance Program.

**Recommendation** – It is recommended that the Finance Oversight Committee review the attached

mid-year budget spreadsheets and discuss with staff any issue regarding the mid-year review. Staff proposes that the Finance Oversight Committee recommend to the Board of Directors that the Fiscal Year 2013-14 budget remain as is for the financial planning of the District with the possible addition of \$41,000 to initiate the Reliability Centered Maintenance Program training and pilot study.