METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE

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

February 28, 2011

MINUTES

Committee Members Present:	Sheila Bowen, Chair Reb Guillot, Member Lee Mayes, Member Jim Stevenson, Member Clare Strom, Member Bernie Wiegandt, Member
Committee Members Not Present:	Jeffrey Ratje, Vice-Chair Tim Thomure, Member
District Staff Present:	Mark R. Stratton, General Manager Warren Tenney, Assistant General Manager Mike Land, Chief Financial Officer Charlie Maish, District Engineer Tullie Noltin, Recorder

I. Call to Order and Roll Call.

Sheila Bowen of the Metropolitan Domestic Water Improvement District called the Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Ms. Bowen, Mr. Guillot, Mr. Mayes, Mr. Stevenson and Mr. Wiegandt were present. Clare Strom arrived at 4:05 p.m. Mr. Ratje and Mr. Thomure were not present.

Mr. Stratton said the Board of Directors appointed Reb Guillot at their February 14th meeting to fill the vacant seat left by Barbara Gelband. Mr. Guillot was welcomed to the FOC. Mr. Stratton thanked him for his willingness to serve and acknowledged his former service on the Board.

II. Status of Capital Improvement Projects and County Road Projects.

Mr. Maish said many of the capital improvement projects are currently on hold due to the number of waterline relocations associated with road improvement projects. The only active CIP work is a portion of the Shannon Road transmission line being completed with another construction project. The waterline relocation projects are in various stages and the County's timing is somewhat uncertain.

III. Preview and Direction for Draft Fiscal Year 2011-2012 Budget.

Ms. Strom arrived at 4:05 p.m.

Mr. Land went over the handouts for the initial draft budget. He pointed out the transition to Health Net reduced the salaries and benefits category. The District's debt service has increased. The CAP water purchase is down $85,000 and the revenue stream is currently $1 million higher than last year. AVRP maintenance is separate from the CAP line item but it could be combined.

There was a lengthy discussion on salaries and benefits in light of the current pay freeze. Mr. Land said there are no new positions but the meter readers have been shifted from Admin to the Utility Division. The draft budget does not incorporate any COLA or merit increases, and this is at the Board's discretion. Mr. Land said salary adjustments could impact future revenue needs, and therefore also impact future rate adjustments. The Board will ultimately make those decisions. The Arizona State Retirement System (ASRS) will be going up to 10.75%. Four positions are being left unfunded but will still appear in the budget.

Ms. Strom reiterated her concerns that it is important to consider staff morale. Everyone has been grateful there have not been any furloughs or layoffs. Ms. Strom suggested the District could consider providing a salary stipend equal to the increase in ASRS, like her employer offers. She explained a step-progression program at her workplace in which employees' appraisals are given a letter grade ranging from A-F, and that translates to money for professional training and certifications or pay increases.

Ms. Bowen noted the recent rate increase did not include any allowance for salary or benefit increases. Ms. Bowen would like to look at cutting other areas before increasing salaries.

Mr. Guillot recalled the Board was planning to reconsider salary increases at the mid-point so the revenue stream would be known. Since the revenue stream has increased slightly, he wondered whether the Board had discussed a token bonus or award to acknowledge staff. Mr. Land confirmed there had only been discussions of budget reallocations in January. Mr. Guillot feels it is very important for staff to have pay incentives and wondered how long salaries and benefits could be on hold before employees wander. He favors bonuses in cautious times because they are one-time expenditures. He feels it is important to show the employee the District has an interest in retaining them as an investment.

Mr. Tenney talked about the Board's action at the mid-year review, based on the recommendations of the FOC, to fund certain unfunded projects and place the remaining monies into a reserve account for upcoming capital projects in case waterline relocations come in higher than planned. The Board did say they would reassess staff increases during the budget process and would take FOC recommendations into consideration. The three distinct reasons for the rate increase explained to the ratepayers were: bond-debt ratio, catch up on operations and maintenance needs, and fund capital projects.

Mr. Wiegandt said the recent rate increase was passed to make us compliant with bond covenant and questioned the wisdom of using the increase in revenues for another reason. He would like to be cautious and determine how much of the revenue stream increase is attributed to volume versus rate. Mr. Wiegandt noted one Board Member, Dan M. Offret, recently said he would like to see no rate increases for five years, so he would like to use caution with pay increases unless there is a substantial change in growth within the District.

Mr. Stratton said the District's professional growth funds were suspended three years ago but employees were able to use what they had already accumulated. This was not a costly benefit but was just an easy area to reduce. Those types of benefits are attractive to everyone and every employee received the same amount, regardless of salary. He is hoping the Board will consider resuming that program soon because he feels it would have a positive impact on staff. The increased revenues are being met with cautious optimism because they are influenced by variables that cannot be controlled such as weather, whereas expenditures can always be cut back. If Spring revenues are good, it might be possible to cut areas that free up monies to accommodate additional benefits to staff. Mr. Stratton said the Metro Southwest has the highest potential for growth but is currently stagnant. Mr. Stratton said that is why he favors resuming the professional growth program at a cost less than $20,000. The Board is likely to consider a bonus rather than a COLA.

Mr. Stratton said the draft budget will be affected by what the Division Managers propose, and will go back and forth between staff, the FOC, and the Board several times before it is final. Some line items will be highlighted which reflect a contractual obligation and cannot be changed. Historically, the final budget is brought up at the May meeting and acted upon in either May or June. He reminded the FOC this is the operating budget only; capital item recommendations are made after this process is complete. Mr. Tenney said more detail will be provided in advance of the March meeting. Comments can then be forwarded to the Board the following week for their study session.

Mr. Land talked about billing outsourcing. Data will be provided about how that change affects certain line items such as purchasing paper supplies, staff time, and printer cartridges. Mr. Mayes wondered if customers can choose not to receive a paper bill because Metro Water's is the only paper bill he receives. Mr. Land said there is a way to stop receiving paper bills but most customers are not aware of it. Customers may need more notification that this is an option.

Mr. Guillot noted that fuel prices were lower when the draft budget was prepared. Mr. Land said the figures will have to be adjusted on the next version.

There was a discussion about how the acquisition of AVRP and ADWR permitting will affect the budget. One of the four AVRP basins had been previously backfilled and will need to be modified because it is not recharging as quickly as the others.

Mr. Land said consulting services for the Utility Division had dropped $136,000 down to $338,000. Well maintenance costs should be increased in the coming year. Ms. Bowen asked about well maintenance. Mr. Land said the utility budget included monies that were not spent but there had been emergency distribution system repairs and electrical supply repairs. Mr. Stratton said the GAC change-out reimbursements by ADEQ for the South Shannon facility are expected to continue but the final decision had not yet been handed down from the State. Mr. Land mentioned water quality testing needs and media replacement needs vary. The division managers will revise those numbers according to the schedules and regulations.

Mr. Land noted the San Miguel students are very helpful to the office staff.

Mr. Land said an increase in bank fees for credit card transactions is expected due to the rising number of transactions. Almost 40% of the customer base uses this form of payment. Mr. Wiegandt suggested renegotiating the rate or finding a lower rate with a different processor. The District currently charges a $1.50 convenience fee to the customer and could consider increasing that to recover more of the fees the processor charges per transaction. Tucson Electric Power uses a company called Checkfree. Mr. Land said he would follow up on it. He noted the District currently banks with Canyon Community Bank, and staff has developed an excellent rapport with them.

Mr. Land said an increase is expected for equipment lease rental. Ms. Bowen noted an increase in insurance for fleet vehicles. Mr. Stratton said the solar equipment lease should have a net savings of $8,000 per year. The plotters being used by Engineering were originally on the capital equipment list but the Board asked for them to be leased instead. Well site security will likely decrease now that a strong level of security has been achieved. Mr. Land was contacted by someone who claims fleet maintenance could be provided at a lower cost, so he will be meeting with them to find out more. Supplies and inventory line items are usually estimated based on historical data but might vary due to the large number of projects occurring simultaneously.

There was discussion on Metro Southwest purchased water costs, which far exceeded budgeted levels last year. The issue has been addressed, and the estimate of $20,000 could turn out to be high for the coming budget because the arsenic treatment vessels should be in place by the end of March.

Mr. Land said a new line item was established for AVRP operations and maintenance. There was a brief discussion on energy costs, operations, and the agreement with BKW Farms. Staff costs, energy costs, and regulatory expenses are some of the new items to consider when budgeting.

Mr. Land said the debt service category shows a $540,000 increase since the refinance. The new loan did not appear on the draft budget so that will be corrected.

Ms. Bowen recapped. The staff and division managers will refine the numbers, and then the draft budget will come back to the FOC. The Board will then have a study session with consideration of FOC comments. The FOC will discuss the revisions in April, and may give comments to the Board for their second study session in April. Mr. Stratton noted the Board has historically accepted recommendations from the FOC. The Board has a little more familiarity with each line item, and certain areas are easier to reduce than others. Ms. Bowen asked if changes can be highlighted for the next meeting, so that FOC members can quickly identify them. Mr. Stratton reiterated that contractually-obligated items will also be highlighted. He said revenue numbers will probably not be brought into discussion until April, so that more actual data can be gathered.

IV. Future Meeting Dates; Future Agenda Items.

The next meeting will be held on Monday, March 21, 2011 at 4:00 p.m.

Mr. Stratton noted Ms. Strom was not present at the last meeting to receive her award of recognition for her service on the Bond Oversight Committee. He thanked her for her contributions to the District.

V. Adjournment.

The meeting adjourned at 5:23 p.m.