METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE

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

April 21, 2014

MINUTES

Committee Members Present:	Reb Guillot, Chair Jennifer Dussor, Vice Chair Sheila Bowen, Member Barbara Gelband, Member Lee Harbers, Member Doug Hofmann, Member Lee Mayes, Member Tom Ruppenthal, Member Robert Shonka, Member
District Staff Present:	Joseph Olsen, General Manger Diane Bracken, Chief Financial Officer Charlie Maish, District Engineer Tullie Noltin, Recorder Warren Tenney, Assistant General Manager

I. Call to Order and Roll Call

Ms. Dussor called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Ms. Dussor, Ms. Bowen, Mr. Harbers, Mr. Hofmann, Mr. Mayes, and Mr. Shonka were present. Mr. Guillot arrived at 4:01 p.m., Mr. Ruppenthal arrived at 4:02 p.m., and Ms. Gelband arrived at 4:04 p.m.

II. Approval of Minutes – January 27, 2014 Meeting

Ms. Dussor made a motion to approve the minutes. Mr. Harbers seconded the motion. Motion passed unanimously.

Mr. Guillot arrived at 4:01 p.m. and Mr. Ruppenthal arrived at 4:02 p.m.

III. Discussion and Possible Recommendation for the Requested Fiscal Year 2015 Budget

Mr. Olsen said he and Ms. Bracken are new to the District and they bring different perspectives and experiences from their respective previous organizations to the budget process. This year, the budget was created through a priority driven process. Mr. Olsen and Ms. Bracken sat down with each of the division managers to hear their new program requests and discuss any increases in line items over the previous year. Each manager prioritized their requests and then the priorities were compiled and an integrated priority list was formed based on the District's mission of delivering safe, reliable drinking water.

Ms. Gelband arrived at 4:04 p.m.

Mr. Olsen said he and Ms. Bracken looked at revenue projections for the next year based on what the historical consumption and revenue has been to date, as well as what is projected for the remaining months of this year. They determined a more appropriate reduction in consumption of 1.1% compared to the previous projected decline of 2.1%.

Then, a recommended funding line was drawn on the integrated priority list. The top requirements are regulatory required to ensure the District stays operational. New capital equipment requests total about $406,000 in recommended funding. Three small dollar items were identified as having a current, urgent need and those can be funded in the current fiscal year budget. The remaining items, close to $400,000, are valid requirements but fell below the funding line. A year from now, as the budget process begins again, this would serve as the starting point in the prioritization, with new requests building upon the existing list.

This is an austere year for capital project funding but Mr. Olsen is looking at it as a retooling process. The number one priority on the capital project list is the Cortaro-Marana Irrigation District (CMID) Effluent Recharge, which is a pipeline carrying the District's effluent to the CMID groundwater savings facility, generating significant effluent credits, thereby not just paying for the project but also generating revenue for the future. This project will be funded via the Water Resources Utilization Fee.

The Diablo Village generators ensure the District is able to deliver water even when there are power outages. The Ranch House Estates project addresses critical infrastructure needs in a small area experiencing a high failure rate. The last item on the funded capital project list is to start working on well replacements and addressing well capacity issues by redrilling wells where appropriate. The District does not have the resources in the current capital plan to do an entire well replacement program but the proposal is to start with Oracle Jaynes well in Fiscal Year 2015 and complete the work the following fiscal year.

Mr. Olsen said this is an austere year for capital projects but the trajectory is to utilize development fees for capital needs and allocate Water Resource Utilization fees towards projects that will enhance either credit generation or water resources for the District.

Total unmet infrastructure needs are well over $7 million. The plan moving forward is to create a five year capital improvement program (CIP), which would be a planning document to lay out details for the next five years and allow the District more fidelity in the capital program as opposed to planning year to year. The five year CIP would be revenue, not bond-funded, and any future bond-funded programs would be treated separately.

Ms. Bracken went over the budget at a summary level, starting with the slightly different methodology behind metered water revenue projections. Analysis of consumptive volume was done using weighted averages for construction, single family, multi-family, commercial, governmental, and turf consumption. As a result, the District does not need to budget for a 2.1% decline; it is actually much lower, so metered water sales for Fiscal Year 2015 are budgeted at a 1.1% reduction.

Mr. Harbers asked if the projected metered water revenue is strictly reflecting consumption without rate increases. Ms. Bracken confirmed requested budget numbers do not include rate increases.

Ms. Bracken said revenue projections reflect 20 cents per 1,000 gallons for the Water Resource Utilization Fee through the end of the current fiscal year.

Pima County Wastewater fees are based upon 17,500 sewer accounts at $1.00 per month. The contract ends in June and the District anticipates requesting an increase of a few cents more per account but that is not included in the requested budget.

Development fees are estimated a little differently this year. Ms. Bracken met with engineering staff to look at plat maps and guess how many new connections will be coming this year. There is a development planned for Metro Main at Shannon and Cortaro and three different developments planned for Metro Southwest, total budgeted 127 new connections.

RTA fees are based upon connection size and a $5,000 increase has been included in the budget based on new connections.

Other income has been increased $380,275 as a result of a change in accounting procedures. In the past, CAP water in-lieu rebates plus the Marana AVRP storage received had been netted against CAP water expenses when they were really revenue. Now they are being recorded as revenue and offsetting expenses.

The total requested revenue budget is $18,113,615.

Ms. Bracken continued with operating expenditures. Salaries and benefits are budgeted with a $213,237 decrease, with the inclusion of a 50% health insurance increase and requested cost of living allowance (COLA) of 3.6%. Reductions are a result of the Deputy Manager being reclassified to the Assistant Utility Superintendent position. In addition, there have been substantial reductions in pay to the Chief Financial Officer and General Manager and they have both waived healthcare coverage. The prior year budget, the District was able to mitigate healthcare impacts with early renewal and absorb the majority of increased costs but the requested budget assumes sharing a portion of the increase with employees. Mr. Olsen will go over additional information on this item.

Consulting and Contract Services is increased by $359,079, largely because of a change in accounting practice on premiums paid out for new connections in Metro Southwest. These premiums had been netted against development revenue in the past. Construction services are increasing by $15,000, corrosion monitoring is increasing by $15,000, and legal services are increased by $25,000. Large meter testing has been added at a cost of $15,000. Water quality testing is increasing by a large portion, due to specific testing that is required under the Unregulated Contaminant Monitoring Rule. Two hundred meter replacements have been budgeted at a cost of $50,000 and $19,000 for is included for water treatment media replacement.

General operating expenses are increasing by $171,135 over the prior year budget, a large portion due to banking fee increases. The fiscal year 2014 budget included a credit for a convenience fee of $1.50 to be charged to customers but was not actually charged because the District ended up with a utility rate that prohibited the fee. The District pays an average of $1.33 per transaction for processing.

An additional $26,000 has been added for a possible election for the Board of Directors.

General liability insurance has been increased by 3.8%.

Communications and telephone expenses have increased by $12,383; however, this increase is being offset by the removal of $13,000 currently being spent on GPS monitoring in vehicles that are not being utilized. The increased telephone costs will be used to purchase cell phones and tablets for use by Utility staff but that will not happen all at once.

Vehicle allowance appears as an increase of $6,000 but it is not actually an increase because it was previously budgeted in the vehicle maintenance account. Vehicle leasing with Enterprise has increased by $60,628, accounting for five vehicles the District has not yet received for the current fiscal year and an additional five vehicles in 2015. With two more rotations, all fleet vehicles will be leased vehicles. After some analysis, the District fleet is being reduced by one.

Security has been increased to include security for all public meetings.

Power purchased has increased by $1,500 to fuel the generator for one of the capital projects requested at Metro Southwest.

Supplies have increased $26,358, including chlorine feeder supplies, supplies for pumps and motors, new meter installs, and safety supplies.

Bond issuance costs and regulatory fees are $23,205 higher than the prior year. This increase is tied to reductions and offsetting increases from the 2013 refinancing, and amortized valuation expenses and premiums not previously included.

The General Managers budget includes debt service descriptions, term dates, and the amount of interest and principal for each loan. The requested budget includes one additional payment on principal to pay off the $400,000 loan in a shorter period. An additional $60,000 principal payment will save nearly $30,000 in interest, and an extra principal payment of $91,731 in 2014 will save $49,717 in interest, for a total of $79,668 in interest saved on that loan.

Debt service reserve funding has a balance of $4,752,936 as of March 31, 2014. The required balance has been met, so no additional contributions will be needed in 2015, only the administrative fee of $400.

Employee professional growth funds have been carried over in the past. This is already funded so this line item represents the budget capacity for funds expected to be spent this fiscal year.

The contingency sick/vacation payout of $95,910 covers anticipated retirees but the exact number is not known. The District revised its policy in 2012 but old sick time accumulated prior to 2012 must be paid out according to the original policy.

The contingency fund for emergencies remains $500,000.

The total operating expenditure budget is $17,445,466.

A new line item appears that has not been there in the past, is total operating revenue. This removes Development Fees that should be used for capital, and Water Resource Utilization Fees that should be used for funding Water Resource Utilization Fee projects. The District is within budget and all operation costs are being funded with operational revenue. Capital items and equipment were prioritized and some appear in the operating budget, depending on how they are used. Items not funded this fiscal year will be brought forward again next year. Capital projects requested are tied directly to total development fees. Mr. Olsen went over those items previously.

The projected ending operating fund balance is $3,134,236 but that does not mean it is available to be spent. The projected ending fund balance is comprised of five categories: the non-spendable fund balance includes prepaid expenses, recharge credits, and inventory; the restricted fund balance is amortization on premiums and discounts; the committed fund balance consists of Water Resource Utilization projects we have committed to, Non-Indian Agricultural Priority CAP Water allocations, and AVRP state land lease easement set-aside; the assigned fund balance includes items self assigned to the District, such as the repair and replacement fund; and the unassigned fund balance is funds available to be spent, estimated at $43,253.

Depreciation expense was not included in the operating budget in years past. This is a non-cash expenditure, so only budget capacity is required to cover these entries. In order to balance the budget, the fund balance will offset these expenditures.

Ms. Bracken concluded with a grand total for all revenue and projected beginning fund balance of $21,526,241. The total for all expenditures, cash and non cash, is $21,472,459 leaving $43,782 as unplanned for expenditures.

Mr. Olsen said one of the constraints is the projected 50% increase in healthcare costs. Currently, the rates are split between the District and employees. The most beneficial PPO full family coverage currently costs the District $11,000 and the employee about $3,000. The projected 50% increase will have a substantial impact and the appropriate split must be determined. Many entities split such increases 50-50 but the District must balance its needs with the impact to employees. It is recommended to fund 65% of the increase to the PPO costs, and 72% of the HSA increase. Employees on the PPO receive a higher benefit, so they would pay little more of the increase. For years, employees received no raise and the impact of increasing benefit contributions significantly would result in negative paychecks. The previous budget included a 2% COLA, based on the consumer price index (CPI), and up to a 2% merit increase. Because of the pressures of this new budget, Mr. Olsen is not recommending a merit increase this year. Healthcare costs are really an increase in the cost of living, so a higher COLA is recommended. Mr. Olsen explained the analysis behind the proposed 3.6% COLA, which includes healthcare increases, the CPI, and a small amount for the increase in Arizona State Retirement. The exact numbers may be different but this is the recommended methodology. Under this plan, about 92% of staff will receive neutral or slightly higher paychecks and about 8% of staff with full family PPO and lower salaries will see an average decrease per paycheck of $7.50. After looking at many scenarios, staff believes this is the best methodology to mitigate the impacts of significant healthcare cost of living increases.

Mr. Guillot said he is impressed with the way staff is going about the budget process. It shows a lot of foresight about the direction the District is trying to go and helps escape the uncertainty of metered water sales. Mr. Guillot said the objective of the FOC is to come up with some type of position staff can forward to the Board and he believes staff has come up with a very nice package. Mr. Olsen said the Board Study Session is next Monday, April 28, 2014.

Mr. Ruppenthal said 37-38% healthcare increases just occurred in his company and they offered all employees a choice to keep their really good healthcare plan and pay the increase, or switch to a lesser catastrophic plan and have the increase completely covered by the company. He believes the District is going down right path and the recommended methodology is correct.

Mr. Olsen said the healthcare methodology was shared with District staff a few weeks ago in the interest of transparency, with the disclaimer that everything is pending FOC and Board review. Staff understands the challenges and seems supportive of the proposed path. Mr. Mayes asked if there has been any feedback from staff on the prioritized funding lists. Mr. Olsen said staff has expressed appreciation for the transparency in the prioritization process. While fifty people are going to have fifty different lists, staff does now have an understanding of what is being recommended and have an appreciation for the strategy behind it. Overall, staff has provided positive feedback. Mr. Harbers asked if the feedback is a result of anticipation of difficulty or something else. Mr. Olsen explained staff acknowledges the difficulties of the coming year and there is willingness across the board to do the needed work to make the District successful. It is not about painting a rosy picture but showing the reality, which will mean a greater comprehension. Ms. Bracken said staff has also thanked her for presenting the information.

Mr. Hofmann said his company also recently dealt with rising healthcare costs. There is some expectation to share the burden of costs and he feels the District's plan is pretty fair.

Mr. Shonka asked if there is a cap on sick/vacation payout. Ms. Bracken explained vacation payouts are on a prorated formula. When the policy changed in 2012, it could not be changed retroactively but everything earned after that point is figured according to the new rules. Employees can accumulate a maximum number of sick hours and a certain number of vacation hours per year. If someone terminates or retires, they could receive a payout of more than the maximum if they had more before the policy changed. Mr. Tenney said in 2012 the Board tried to tighten generous payouts because it was impacting the budget too much when long term employees retired.

Mr. Shonka asked about professional growth funds. Mr. Olsen explained these funds were previously accumulated but the program is not funded anymore. All employees had a certain dollar amount of professional growth funds for training or appropriate use and some have exhausted the funds while others have not. Mr. Shonka asked if there are training requirements employees must meet every year. Mr. Olsen said operators do have certain continued educational requirements.

Ms. Dussor asked if the numbers for Oracle Jaynes Station replacement well include equipping and permitting. Mr. Olsen said it includes the full well replacement.

Ms. Dussor asked if the air monitor being funded replaces existing ones, and if so, what is being done with those taken out of service. Mr. Olsen said the District recently implemented a surplus disposal process that is not really appropriate for items like air monitors but is being used for things like computers and furniture. The surplus disposal process is used for low dollar items but is not appropriate for something like an air monitor that has aged beyond its useful life. Ms. Bracken said the leasing agent is assisting with old vehicles taken out of service by reselling them in return for a discount on the leased vehicles.

Ms. Dussor asked where water demand study consultant fees are recorded. Mr. Tenney said that is part of the requirements for re-designation of Assured Water Supply (AWS) so it is included with that. Mr. Guillot asked about AWS for Metro Hub. Mr. Olsen explained Metro Hub does not have an AWS because it was mostly built-out when the District acquired it and an AWS was never obtained. New development in the Metro Hub area falls under the Central Arizona Groundwater Replenishment District.

Mr. Shonka asked how much of metered water sales is the base rate. Mr. Olsen said Mr. Shonka hits on a topic of lengthy future discussions. The District's fixed costs are not currently covered by fixed revenues, or monthly base charges, so the goal is to eventually get them closer together. Last year, many discussions on this topic took place and an increase in the base rate was approved.

Mr. Harbers asked about how many of the items on the prioritized list are repeating annual needs. Mr. Olsen said if one looks at the exception column on the priority list, where sometimes a larger dollar amount is requested than what the District is able to do in one year, such as corrosion monitoring, some of those could be viewed as repeatable. The most appropriate example would be meter replacements as they continually need to be replaced after reading a certain age and volume.

Mr. Harbers expressed support for applying extra to the principal on debt service but asked if it is smarter to do that, than include the next items on the prioritized list. Mr. Olsen said that is a good perspective. The principal payment on the $400,000 note generates $30,000 this particular year and those are savings we do not have to spend in the future. Mr. Harbers said that is what he wanted to hear. Ms. Bracken said the District had taken out a $400,000 loan and would pay $121,000 interest on that amount. She does not happen to agree with doing that. Paying interest does not benefit the District. Spending $60,000 will save $29,950.89 since the interest is front-end loaded on this loan.

Mr. Ruppenthal noticed the "second year" is referred to several times, and asked if the District has ever considered adopting a two year budget, as some other utilities have done. Mr. Olsen replied that he and Ms. Bracken are new to the District and have established a new budgeting process, or methodology. If the FOC and BOD concur with this methodology, perhaps that discussion can occur in the future. Mr. Olsen would like to see the District move towards planning five years in advance for CIP.

Ms. Gelband asked if the District asks for more money from the County for sewer billing, would it be absorbed for the consumer or for the District. Ms. Bracken said it is counted as revenue. The District would be requesting additional revenue of about $20,000-$30,000.

Ms. Gelband asked if there are transaction fees when customers pay by check. Ms. Bracken said there are administrative expenses associated with check payments but no bank fees. A large portion of District customers are paying by credit card and more people are going paperless, which saves the District a considerable amount by eliminating the need to generate paper bills and pay or postage. About 100 people have gone paperless in the past two months. Customers can view and pay their bills online.

Mr. Hofmann asked how the District encourages customers to go paperless. Ms. Bracken said it is sometimes mentioned in the newsletter. Customer Service staff also talk to customers and suggest going paperless to seasonal residents leaving town for the summer.

Mr. Ruppenthal asked if the $1.33 per transaction bank charge is the same regardless of the amount of the transaction. Ms. Bracken said $1.33 is the average and different cards have different fees. Usually, banks charge a flat fee plus a percentage of the transaction.

Mr. Guillot asked about bank charges on automatic payments. Ms. Bracken said autopay customers have their monthly charges automatically takes from their bank account. The District does not pay a transaction fee but does pay banking fees.

Ms. Bowen asked about the $1.50 convenience fee. Ms. Bracken said there is no convenience fee charged to customers at this time. The District was able to get a lower utility rate with a condition that this type of fee cannot be charged. Mr. Shonka said the utility he used to manage faced the same problem.

Ms. Gelband asked how much longer the RTA Fee would be in place and Mr. Olsen said about seven years until the associated RTA bond is fully paid off.

Mr. Guillot said he is hearing general agreement on the budget methodology. There has not been a rejection of any part of the requested budget and the FOC seems to agree it is fine.

Mr. Ruppenthal made a motion to take this proposed budget to the Board. Mr. Shonka seconded the motion.

Mr. Harbers, Mr. Hofmann, and other Members expressed their appreciation for staff's detailed work on the requested budget.

Motion passed unanimously.

Mr. Ruppenthal asked about rounding numbers in a budget this large. Ms. Bracken explained numbers representing projections are generally rounded. When actual numbers are known, it is better to use exact numbers for calculations.

Mr. Shonka asked if the District is looking at acquiring liquefied natural gas (LNG) or compressed natural gas (CNG) vehicles. Mr. Olsen said staff looks at the maintenance costs associated with each vehicle, staff needs, number of starts and stops, and multi-purpose uses rather than modifying fuel costs. There needs to be a balance of maintenance, costs, and performance for the District. Mr. Shonka said in some instances there are credits offered for buying these types of vehicles under certain conditions.

Mr. Ruppenthal asked if old meters that have been replaced program are disposed of as obsolete, sold, or donated. Mr. Olsen said old meters contain a significant amount of brass, so they are salvaged for credit. Some older meters with lead based brass cannot be reused. Mr. Ruppenthal said many small rural water utilities would love to take a pile of meters. Mr. Olsen said the meters being replaced generally have substantial rebuilding costs associated, as they have aged past their useful life.

Mr. Shonka mentioned he is glad to see the District testing its large meters because they can lose a lot of water.

IV. Call to the Public

There were no comments by the public.

Mr. Olsen said the next FOC meeting is tentatively set for May 19, 2014. If the Board does not have additional needs regarding the budget in the month of May, the next meeting will be July 21, 2014. Staff will send an email to the FOC after the April 28, 2014 Board study session to confirm. The FOC meets when needed, on matters related to the financial plan, budget, mid-year budget review, and rates. The Board may have other special requests but generally the FOC meets about three or four times per year, not necessarily quarterly but at key decision points tied to District finances.

V. Adjournment

The meeting adjourned at 5:17 p.m.

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Reb Guillot, Chair
Finance Oversight Committee