

**Metropolitan Domestic Water Improvement District
Board of Directors Study Session**

April 29, 2013

Draft Fiscal Year 2013-2014 Budget

Synopsis

The Board of Directors is requested to review with staff the draft Fiscal Year 2013-14 budget and to provide direction.

Overview

Metro Water District is in a better financial standing as it prepares the Fiscal Year 2013-14 budget than it was a year ago. This has been accomplished through a combination of efforts including the refinancing and restructuring of debt retirement, adjusting the rates, establishing the Water Resources Utilization Fee, and keeping a close watch on expenditures during the current fiscal year. The unknown factor remains revenues from water sales, which continue to be unpredictable in whether the decline in water usage has leveled out or not.

Most significantly, the District refinanced and restructured its debt retirement gave the District some financial flexibility. Also, the Board approved a rate adjustment for November 1, 2012 and established the Water Resources Utilization Fee to be effective March 1, 2013. The District has remained financially strong through its existence; however, the last few years have been difficult with a convergence of the Great Recession, County/RTA waterline relocations, and a reduction in water consumption. The purpose of this report is to provide an overview or big picture of the key factors impacting the District for developing the Fiscal Year 2013-14 budget. It is hoped that this report will provide a better understanding for staff's budgetary recommendations.

For the 2013-14 budget, revenues are projected to be \$16,908,600, which is an increase of \$907,800 from the current budget. However, it should be noted that the increase is due not to an increase in water sales but due to last year's rate adjustment, the Water Resources Utilization Fee, and projected increase in development fees. Water sales are still projected to decline based on recent annual trends. Expenditures have also increased under this budget by \$866,023 compared to the current budget. The reasons for these expenditure increases are detailed below. The District continues to have a tight, lean operating budget that is based on needs, not wants. The increase in expenditures are in a large part due to inflation, amplifying our CAP utilization, proposed electrical rate increase, health insurance and retirement increases, bond issuance and regulatory fees, and an overall need to ensure the basic operation and maintenance of the system at a level of quality customer service.

Staff has not included capital projects yet into the overall budget until after getting direction from the Board if the operating and maintenance budget was appropriate.

In preparing the budget, an overall objective has been to meet the day-to-day operational needs of the District and ensure that the District is able to move forward and accomplish its future water resource and system needs. This draft budget moves the District closer in that direction.

Issues

The following explains in greater detail the primary issues that have affected the drafting of the Fiscal Year 2013-2014 budget.

Revenue

Water Resources Utilization Fee – \$277,400 in 2013-14 / \$96,800 in 2012-13

Having the 10¢ water resources utilization fee in place for a full 12 months means \$277,400 will be collected this next fiscal year. Those funds are to be used only for CAP and effluent related projects, which is why there is corresponding line item under Capital Expenditures.

Development Fees – \$330,110 in 2013-14 / \$163,100 in 2012-13

With an anticipated increase in construction, development fees are expected to double this year. It is recommended that those fees be set aside for capital projects and not included in operating expenditures.

Expenditures

Salaries and Benefits - \$4,130,148 in 2013-14 / \$4,210,356 in 2012-13

With the Capital Improvement Program winding down, three positions that were part of the CIP will not be continued. Monies have been included to possibly fund another Utility Technician position. A 2% cost of living adjustment is included for the full year and a 2% merit award has been included for half the year. Insurance benefits are projected to increase by 50%.

Salary Reimbursement from CIP - \$ 0 in 2013-14 / \$507,871 in 2012-13

The CIP projects factored in a reimbursement for salaries directly with and associated with the CIP plus an overhead factor of 105% of the salary costs. With the CIP finishing up, this reimbursement will discontinue. With the amount received in 2012-13 and the savings from the no longer having the three CIP positions, the District is actually short \$428,000. This is one of the key reasons for the increase to Operating Expenditures for 2013-14.

Purchased Power - \$1,100,000 in 2013-14 / \$1,026,000 in 2012-13

The increase is due to TEP having a 15% rate increase effective in July.

CAP Water Purchases - \$1,700,615 in 2013-14 / \$1,619,633 in 2012-13

A 5% increase to CAP water purchases has been factored based on previously anticipated increases to CAP water rates. However, it should be noted that CAP is considering a significant increase to its rates in order to counter the negative impact that the energy market has had on CAP. If CAP rates do go higher, it means that the District will be purchasing less water with what is budgeted unless the District wants to increase the amount.

State Land Lease of AVRVP - \$50,000 in 2013-14 / \$0 in 2012-13

The Avra Valley Recharge Project is on land leased from the State Land Department. The lease expires in December 2014 and can be renewed for a 10 year lease with the cost based on an appraisal of the land. The previous appraised value was \$105,000. With land costs low, it is anticipated that the District will need to pay approximately \$100,000 to State Land Department to lease the AVRVP land for another 10 years. It is recommended that the District set aside \$50,000 in 2013-14 in preparation for the new lease occurring in December 2014.

Legal Fees - \$125,000 in 2013-14 / \$100,000 in 2012-13

With the lawsuit against Pima County regarding the unnecessary relocating of waterlines on the Magee Road project is in its very early stages, it is hard to know what will transpire. If the complaint can be mediated and resolved out of court, then less legal fees will be expended. However, if it goes to court and depending how complex the case could become, the increase to legal fees in the budget may or may not cover the expenses.

Contracted Electrical Services - \$65,000 in 2013-14 / \$20,000 in 2012-13

The District needs to upgrade and replace a number of electrical systems. This increase will allow the District to hire outside contractors to perform some of the maintenance, repairs, and upgrades needed for the electrical systems. In Metro-Southwest, some electrical systems are not code compliant. This increase is to allow the District to contract out for the much of the work to be accomplished, which would still be recommended even if another electrician position is filled.

Well Maintenance - \$270,000 in 2013-14 / \$230,000 in 2012-13

This last year, the District noticed that well maintenance costs have been increasing. For this next fiscal year, the District estimated the average cost per well to be \$40,000 rather than \$35,000. Six wells are targeted for well maintenance in Metro-Main as was done this current fiscal year, plus one in Metro-Southwest.

Miscellaneous Consulting Services - \$40,100 in 2013-14 / \$9,500 in 2012-13

\$30,000 in miscellaneous consulting services is added to continue to do work on the Productivity Improvement Project.

Contingency for Sick/Vacation Payout - \$163,806 in 2013-14 / \$129,703 in 2012-13

The increase is due to a better understanding of which employees will most likely be retiring during Fiscal Year 2013-14. The \$163,806 is to be added to what was collected in this contingency for this year.

Capital Expenditures –

The revenue from the Water Resources Utilization Fee and Development Fees are recommended to be used solely for capital expenditures. A complete list of proposed capital projects is being developed; therefore, it is anticipated that additional costs will be included under capital expenditures.

The Finance Oversight Committee reviewed and discussed with staff the draft budget at its April 15, 2013 meeting. Individual Committee members had questions and comments regarding the budget. Further clarification was given regarding some of the above-noted increased expenditures. None of the members had any specific changes to recommend. The Chair of the Committee summarized that he was pleased to see a reasonable budget, was pleased to see funds for merit awards included, and acknowledged the concern about the revenue. Attached is a copy of the draft minutes of the Finance Oversight Committee meeting.

Recommendation

Staff recommends that the Board of Directors discuss with staff the draft Fiscal Year 2013-2014 budget. It is recommended that the Board provide direction to staff to complete the budget process including identifying potential capital items and projects that could be completed in the next fiscal year.

Respectfully submitted,

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General Manager