

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

April 28, 2014

Draft Fiscal Year 2015 Budget

Synopsis

The Board of Directors is requested to review with staff the draft Fiscal Year 2015 budget and to provide direction.

Budget Overview

Developing the budget with staff over the last month and a half has provided the General Manager and the Chief Financial Officer, both new to the District, an opportunity to thoroughly understand each line item of the budget and how they apply to the workings of the District. The preparation and approach to the budget has varied from previous years since both the General Manager and the Chief Financial Officer are bringing their own expertise and perspective to the District.

In developing the budget, team leaders were asked to present their team's budgetary requests. Their requests were compiled onto spreadsheets that showed the amount of increase or decrease that each line item had in comparison to the current fiscal year budget. Team leaders and staff met with the General Manager and Chief Financial Officer to explain their increases and decreases in operation and maintenance (O&M) expenses as well as capital requests. At these meetings, the team leaders were asked to prioritize those increased O&M expenses and capital requests. With this information, a District-wide prioritization list was developed to determine which expenditure increases and capital requests could be included in the requested Fiscal Year 2015 budget based on the projected revenue.

The following explains in greater detail the primary issues that impact the requested Fiscal Year 2015 budget.

Revenue

The overall projected revenue of \$18,175,720 is the combination of different revenue sources. For the requested Fiscal Year 2015 budget, it was determined that revenue needed to match the appropriate expenses that it was intended to fund. Therefore, the metered water sales will fund O&M expenses, development fees will fund capital needs, and the Water Resources Utilization Fee will fund projects utilizing our CAP water and effluent.

For this requested budget, metered water sales were projected by looking at consumption rates of single family, multi-family, commercial, governmental, and construction customers along with reviewing actual revenue comparisons. By comparing consumption rates, a more reasonable and still realistic 1.1% decrease in metered water sales was factored to project the water sales. Even with the 1.1% decrease, metered water sales are projected to be \$15,658,071, which is a 5.33% increase from the current year. This increase is attributed to the November 1, 2013 rate adjustment and revenue from new connections that are planned to come on line in Fiscal Year 2015.

The Water Resources Utilization Fee is projected to generate \$370,477 based on the 20¢ per 1,000 gallon fee as of November 1, 2013. This revenue is only to be used for projects that utilize the District's CAP water and effluent.

Development fees are projected to generate \$312,827. This was developed by looking at what developments are expected to be built in Fiscal Year 2015 rather than comparing to actual revenue from development fees. This revenue is planned to fund capital projects, as had been previously recommended to the Board.

In other income, the requested budget includes the fees collected by the District from the in-lieu of recharge projects and the Town of Marana's CAP water storage at the Avra Valley Recharge Project. Previously, this income had been reduced out of the expenditures related to both the groundwater savings projects and Marana's storing at AVR. The budget shows the total revenue collected with the offsetting expenditures.

O&M Expenditures

Salaries and Benefits – \$3,911,523 in FY 2015 / \$4,124,760 in FY 2014

Overall, there has been a sizeable decrease in this category based on recent retirements. A request has been included to fund the unfilled Electrician position, and the Water Quality Specialist position has been moved from the Utility Team to the Engineering Team. However, considerable pressure is being put on this category due to increases to benefits, particularly a projected 50% increase in health. The largest one is health care insurance projected to increase by 50 percent. No merit awards are recommended for staff; however, a 3.6% Cost of Living Adjustment is included as a means to mitigate the increased health insurance cost to employees.

As previously mentioned, team leaders were asked to prioritize their requests for capital equipment and increased operational expenses. A District-wide prioritization list was then compiled by the General Manager and Chief Financial Officer. The following are the 18 capital equipment and increased operational expenses from the prioritization list that were included in the Fiscal Year 2015 budget:

Water Quality Testing - \$226,663 in FY 2015 / \$79,358 in FY 2014

The reason for the large increase is that in addition to regular water quality samplings, the District is required to complete a battery of tests for 30 contaminants under the EPA-directed

Unregulated Contaminant Monitoring Rule 3 (UCMR-3) and to perform Synthetic Organic Compounds (SOC) testing, which is required every nine years. By doing these expensive tests, and hopefully having non-detectable results, the District is able to receive a three-year monitoring waiver for these constituents.

Water Demand Study for Metro-Main - \$15,000 in FY 2015 / \$0 in FY 2014

ADWR requires a Designated Provider to be re-designated every ten years. The District will need file for Metro-Main and Metro-West to have its Re-Designation of Assured Water Supply in Fiscal Year 2015. A water demand study is required to demonstrate to ADWR the demand that is projected for those service areas. A consultant will be hired to complete this study.

SCADA Upgrade - \$70,000 in FY 2015 / \$0 in FY 2014

The Supervisory Control and Data Acquisition (SCADA) system provides critical notification and control of the District's production facilities including operational and security alarms. A new telemetry service and three desktop computers are necessary to install the new SCADA platform and transfer the current SCADA programming to the new platform. An outside consultant will be utilized to perform the necessary integration.

Safety Training - \$7,300 in FY 2015 / \$4,000 in FY 2014

This is to ensure that all District staff has the necessary training to keep safety a top priority.

Water Treatment Media Replacement in Metro Southwest - \$42,000 in FY 2015 / \$8,000 in FY 2014

The District has arsenic treatment at Metro Southwest Diablo Village and Lazy B that requires new media treatment to ensure continued compliance with EPA's arsenic rule.

Automated External Defibrillator (AED) - \$2,000 in FY 2015 / \$0 in FY 2014

Under the safety supplies, the acquisition of an AED will increase preparedness and response capability at the District office.

Pressure Tank - \$25,000 in FY 2015 / \$50,000 in FY 2014

This capital equipment request is to replace a pressure tank that has been identified as below tolerance. One is included in the requested budget with the intent to replace two more in FY 2016. Two pressure tanks were purchased in the current fiscal year.

Well Maintenance in Metro Southwest - \$35,000 in FY 2015 / \$20,000 in FY 2014

This will be the first maintenance activity for the Metro Southwest Diablo Village #1 well.

Meter Testing - \$15,000 in FY 2015 / \$0 in FY 2014

The District is capable of testing small meters but not large meters. By having 4" and 6" meters tested, the District increases the accuracy of readings from those meters and potentially increases the revenue generated by accurate meters.

Two QRAE Air Monitors – \$4,200 in FY 2015 / \$0 in FY 2014

These monitors are used to monitor air for confined entries that staff must do periodically. The monitors are to replace existing ones.

GPS Unit for Valve Locating Program - \$6,600 in FY 2015 / \$0 in FY 2014

Obtaining GPS coordinates on valves prior to roadway projects allows Utility staff to find valves during the construction process, when valves are typically not visible, for line locating and during emergency shutdown situations.

Construction Repair Hydrant, ARV, and Corrosion Testing Stations - \$15,000 in FY 2015 / \$0 in FY 2014

Under the construction repair services in the Engineering budget, monies are included to allow for the hydrants and air release valves (ARV) that are left elevated due to road construction to be lowered. Most of this work will be done along La Cholla Blvd. and La Cañada Drive, once the road construction is completed. In addition, this line item allows for those corrosion testing stations that are not operating in transmission lines to be repaired so they can be accurately monitored in the future.

Corrosion Monitoring - \$15,000 in FY 2015 / \$0 in FY 2014

When the new transmission lines were constructed, testing stations were installed within the lines to allow for monitoring of corrosion. A consultant is hired every five years to monitor the testing stations and determine the corrosion status of the transmission lines.

Meter Replacements - \$50,000 in FY 2015 / \$0 in FY 2014

Approximately 200 meters are planned to be replaced to start implementing automated reading meters in Metro Main with the program targeted to be significantly increased in FY 2016.

Communication Tablets & Cell Phones - \$10,000

By having additional tablets and cell phones in the field, the communication efficiency between Utility staff and Administration staff will increase.

Property Sales/Easement Acquisition for Right of Way - \$10,000 in FY 2015 / \$0 in FY 2014

Under miscellaneous consulting services in the Engineering budget, this line item allows for the District to complete the sale of the Ranch House Estates well and to acquire an easement in the Lazy B service area.

Dump Trailer - \$10,000 in FY 2015 / \$0 in FY 2014

A second dump trailer is proposed for purchase to add to the District's one dump trailer being shared with all crews. The use of a dump trailer is preferred since it does not require a CDL driver for use where as a dump truck does. After hours repairs require materials to be hauled in and out, which can more easily be done with a dump trailer.

IT Support Contract - \$10,000 in FY 2015

This line item is to hire a consultant to provide emergency computer and network support in the event that District staff is unable to address the IT issue.

Capital Projects

The requested Fiscal Year 2015 budget separates capital projects based on their funding source: General Capital Projects funded with Development Fees or Water Resources Projects funded with the Water Resources Utilization Fee.

General Capital Projects total \$312,827 and are the following:

Diablo Village 2 Generator Installations - \$60,000

The used generator from the Bell Well site will be installed at Diablo Village 2 Well site to provide backup power during a power outage to increase reliability of the Diablo Village system.

Ranch House Estates Waterline Extension and Private Water Service Relocation - \$75,000

This project will add a new four inch waterline to allow existing water service connections to be relocated and connected. Multiple failures have been occurring along the existing two inch waterline.

Oracle Jaynes Station Replacement Well - \$177,827 in FY 2015; \$522,173 in FY 2016

The current Oracle Jaynes Station well continues to lose capacity and the pump is nearly at the bottom of the well. A deeper replacement well is needed to supply a sufficient amount of water for the southern Metro Main service area. This project will start in Fiscal Year 2015 with completion in FY 2016.

Water Resources Capital Projects total \$512,112 and are the following:

CMID Effluent Recharge - \$220,000

The District has been working with Cortaro-Marana Irrigation District (CMID), Pima County, and Bureau of Reclamation to take effluent from the Tres Rios Wastewater Treatment Facility and pump it into CMID's pipeline and deliver to farms for crop irrigation. The District would then earn 100 percent recharge credits on its effluent supply. Due to various factors, including a new I-10/Ina Road interchange, impacting both the delivery line from the Tres Rio Wastewater Treatment Facility and the existing CMID pipeline, the District would like to put in place a temporary pump station and delivery line from the Treatment Facility so that 100% effluent credits can start to be received. The cost for the temporary solution is estimated at \$120,000 with the design for the permanent pump station estimated at \$100,000.

Non-Indian Agricultural (NIA) Priority CAP Water Reallocation - \$185,112

ADWR has recommended a 299 acre-feet allocation of NIA Priority CAP water for the Metro Southwest – Diablo Village service area. Assuming that the Secretary of the Interior concurs with ADWR's recommendation, the District will need to pay for the M&I back charges on that water, which is \$1,288 per acre-foot and totals \$385,112. The District plans to set-aside \$200,000 at the end of FY 2014 for the NIA water with \$185,112 in FY 2015. By setting aside money for when the NIA water becomes available, the District will save between \$30,000 and \$60,000 in interest charges.

Land Acquisition for CAP Recharge, Recovery & Delivery System - \$100,000

The initial step for the CAP Recharge, Recovery & Delivery System is the land coordination and acquisition for the booster station, forebay, and the recovery wells. A consultant firm would be used to help the District complete this task.

Wheeling Cost for Metro Southwest – Lazy B - \$7,000

The District would like to wheel a small portion of its CAP water to Metro Southwest - Lazy B to reduce overall operational expenses, particularly related to the arsenic treatment system. This would cover the direct energy and delivery costs for wheeling the water through Tucson Water's system.

Operating Fund Balance & Non-Cash Expenses

The requested Fiscal Year 2015 budget has a projected ending operating fund balance of \$3,095,789. Over the years, the ending operating fund balance has fluctuated. Yet, the fund balance is a critical indicator of the District's overall financial health. The fund balance consists of excess revenue over expenditures; however, this is not the amount of cash available. This amount is made up of five categories: nonspendable fund balance (inventories); restricted fund balance (limited by creditor, grantors, contributors, or legal regulations); committed fund balance (self-imposed limitations); assigned fund balance (limitations resulting from intended use); and unassigned fund balance (approximately \$43,000), which is the total fund balance excess of the first four described balances and is the amount that can be allocated to other uses. The proposed fund balance in the requested budget ensures that those objectives are met and avoids having the beginning operating fund balance used to finance expenditures.

The requested budget also includes non-cash expenses, which specifically refer to the depreciation and amortization of assets. It is important show budget capacity to show the depreciation and amortization of assets.

Finance Oversight Committee

The requested Fiscal Year 2015 budget was reviewed and discussed with the Finance Oversight Committee on April 21, 2014. All nine members of the Committee were present. The Committee voted unanimously to recommend that the requested Fiscal Year 2015 budget be forwarded to the Board of Directors for consideration. Committee members cited that the priority-driven process for developing the budget was sound and concurred with the approach taken. There was also support given for how the budget dealt with the increased health care costs by balancing an appropriate shared contribution between the District and employees while mitigating the impact to employees with the recommended cost of living adjustment. Committee members did have questions to clarify different line items but no changes were recommended.

Summary

The requested Fiscal Year 2015 budget closely ensures that expenditures made through Fiscal Year 2015 are less than or equal to the revenue collected in the same year. The requested budget

does not cover all the projects that the District has identified as important for the system; however, it does keep the District in good financial standing to meet the day-to-day operations and address customers' needs. By tightening the overall expenditures and working within the collected revenue, the District will be positioning itself for a stronger future.

Recommendation

It is recommended that the Board of Directors review and discuss with staff the requested Fiscal Year 2015 budget and direct if any adjustments should be made to it. Based on the Board's discussion, staff will be seeking direction as to whether the Board would like further information and discussion of the budget at future meetings or if the requested budget could be considered for final discussion and possible approval at the May 12, 2014 Board meeting.

Respectfully submitted,

Joseph Olsen, P.E.
General Manager