

**Metropolitan Domestic Water Improvement District  
Board of Directors Meeting**

**June 8, 2015**

**Adoption of Fiscal Year 2016 Budget**

**Synopsis**

The Board of Directors is requested to adopt the Fiscal Year 2016 budget.

**Background**

In previous years, the District would adopt the budget to be followed a few months later with a revenue review that generally led to a proposed rate adjustment. Best financial practices require establishing available revenue prior to planning expenditures. This year, the District followed the best financial practices by having revenue decisions, including rate adjustments, made before action is taken on the adopted budget. This practice ensures the budget and rates are both in place at the beginning of the fiscal year, to provide financial cycle stability.

During the spring, discussions with the Board of Directors and the Finance Oversight Committee occurred regarding rate and fee adjustments requested to support the Fiscal Year 2016 requested budget. The Board of Directors held a public hearing on May 18, 2015 that approved the recommended rate and fee adjustments.

On March 23, 2015, the requested budget for Fiscal Year 2016 was reviewed and discussed with the Finance Oversight Committee. At that time, the nine-member Committee voted unanimously to recommend the requested budget for Fiscal Year 2016 be forwarded to the Board of Directors for consideration. The Board of Directors held a study session on March 30, 2015 to review and discuss with staff the requested budget for Fiscal Year 2016. Details of the budget were reviewed during that meeting along with responding to questions from Board members.

**Budget Overview**

Budgets have traditionally been developed using an incremental budgeting process where line items increase some amount each year. However, last year and again this year a priority-driven budget process was applied to the development of the District's requested budget. A priority-driven budget process provides a more strategic review and allocates resources to programs or services that support the goals and objectives of the District. In developing the budget, staff followed a process that identified priorities for Fiscal Year 2016, measured results for accomplishing them, gained employee support, and concurrence from the Finance Oversight Committee and Board of Directors on the requested budget. The Board of Directors is requested to adopt the budget for Fiscal Year 2016 providing a financial plan for the District.

In addition to preparing the priority-driven budget, staff has implemented follow-ups and reviews throughout the year to make sure all employees are held accountable for producing the results they promised. A comparison of spending to budget is completed each month to maintain our forward progress.

Included at the end of the budget is the direct and indirect overhead rates based on the methodology approved by the Board at the September 8, 2014 meeting.

Since the requested budget for Fiscal Year 2016 was presented at the March 30, 2015 study session, a few revisions have been made. All revenue projections were updated to be based on the Board's adoption of a new rate structure and fees. No expenditure modifications have been made.

### **Revenue**

The total revenue budget for Fiscal Year 2016 is \$18,557,276, which is \$334,379 higher than the prior year. The estimated reduction in revenue related to the threat of declining water consumption with the current rates has been budgeted at a decline of 1.5% with a growth estimate of 0.10% for a total decline of 1.4%.

The Water Resources Utilization Fee is budgeted at forty cents per thousand gallons for a total of \$907,116, which is a budgeted increase of \$536,669. This is due to the twenty cents increase approved by the Board in October 2014.

Pima County Wastewater revenue is based upon an average of 17,840 sewer accounts at the rate of \$1.14 per account, implemented in September, for a total of \$244,051.

The Water Service Connection Fee revenue is based upon an estimated 33 new connections in Metro Main and Hub and 31 new connections in the Southwest for a total of \$242,289.

RTA Fees are budgeted the same this fiscal year with debt service on financed projects ending in 2021.

Interest Income on a note receivable from Tucson Omni has been added to the budget this fiscal year. This is a repayment on infrastructure costs according to an agreement with interest being earned all year and payments starting in January 2016.

Other Income has been increased \$27,000 with the inclusion of the sale of vehicles as they are replaced with leased vehicles at \$20,000 and the inclusion of the Avra Valley Recharge Project storage fee at \$15.92 for 500 acre feet for an additional \$7,960 from the Arizona Water Banking Authority.

### **O&M Expenditures**

The total Operating Expenditure Budget is \$17,333,551, which is \$125,092 lower than the operating budget requested in Fiscal Year 2015. The decrease is largely attributed to a reduction

in consultants and contracted services and the removal of the bond issuance costs that were eliminated with the implementation of GASB 65.

Salaries and Benefits have an increase of \$80,780 with the inclusion of a 15% proposed increase in health care, a \$6,400 increase in workers compensation, one position upgrade at \$6,000, a requested COLA of 2%, and one half year of a 2% merit increase for eligible employees.

Services have decreased by \$172,406 largely attributed the water quality testing that is not required this fiscal year, a reduction in legal fees, and a reduction in contracted electrical work.

General Operating expenses are \$6,770 lower this fiscal year and no change is requested for power purchases. There is an increase in supplies in the amount of \$5,498 largely attributed to an increase in the budgeted chlorine costs. Other expenditures are \$56,973 lower with the removal of bond issuance costs.

Debt service principal and interest is \$7,807 lower than the prior fiscal year. The Riverside Well Equipment loan for \$400,000 was financed for 20 years and the requested budget includes an additional \$60,000 for principal to pay the loan off in a shorter period of time. With the extra payments the remaining principal for the Riverside Well Equipment loan will be about \$95,000 with plans to have this 20-year loan paid off in 5 fiscal years saving close to \$100,000 in interest payments. The Debt Service Reserve Funding account has a balance of \$4,992,916.38 as of April 30, 2015. The required balance in this account is \$4,575,975, so no additional contributions are needed in Fiscal Year 2016, only the administrative fee and the charge for completing the audit confirmations which are included in bank charge.

Contingency for sick and vacation payouts has been budgeted at \$80,310 to cover anticipated retirees and 15% of the vested sick liability. The contingency fund for emergencies has remained at \$500,000 as in prior years.

### **Capital Revenue and Expenditure**

Capital Equipment totaling \$381,723 will be funded along with an increase of \$5,400 for OSHA training, and \$120,000 for the meter replacement program included in the operation and maintenance budget. If the budget is adopted as requested, all future capital equipment requests will be new since all capital equipment requests for Fiscal Year 2016 have been included in the requested budget.

Funding for capital projects is derived from budgeted development fees of \$242,289, along with the development fees exceeding the budget in the prior fiscal year less unbudgeted projects for an additional \$66,807. In February of the current fiscal year, the actual development revenue received has exceeded the budget and \$274,463 has been added to the Fiscal Year 2016 plan for capital projects for a total of \$597,822. In order meet more of our infrastructure needs, the budget includes the transfer of an additional \$601,525 to fund projects.

Since presenting the requested budget in March, staff recognized that the District will be reimbursing in Fiscal Year 2016 some of the development revenue collected in Fiscal Year 2015 for meters that were paid for and not yet installed as of July 1, 2015 when the rates will change for multi-unit meter installations. This means identifying one of the capital projects, the Hub Storage Expansion-Retaining Wall, to complete at least the design work in Fiscal Year 2016 and then defer until the mid-year budget review to determine if the actual construction of the project can be completed in Fiscal Year 2016.

Water Resources Utilization Fee revenue has a restricted use for projects relating to leveraging the District's water resources and they have been accounted for in a separate account. The CAP Recovery, Recharge and Delivery System project will move forward with land acquisition with a budget of \$2 million dollars. In addition, wheeling charges will be paid for with Water Resource Utilization Fees.

The following is a list of the capital projects that are included in the Fiscal Year 2016 budget:

Oracle Jaynes Station Replacement Well - \$288,000 in FY 2016; \$500,000 in FY 2017

The replacement of the Oracle Jaynes Station well began in Fiscal Year 2015 with initiation of acquiring the adjacent property. In Fiscal Year 2016, an exploration test well will be drilled; obtaining a required hydrology flood study and permit; and the existing septic tank on purchased property will be removed. The following fiscal year will involve the drilling and equipping of the replacement well.

Lazy B-Tucson Water Wheeling Agreement Interconnect - \$55,000

Construction of the interconnect between Tucson Water and the District's Lazy B service area will provide the District with recovered CAP water to be delivered to Lazy B to reduce the pumping and arsenic treatment costs at the Lazy B well site.

Frazier Mainline Extension - \$5,000

Line extension will increase the line from 4" to 6" and provide a looped system to E&T service area customers to sustain service during outages and repairs.

Nanini Drive Waterline Replacement - \$186,000

Casas Adobes Drive Waterline Replacement - \$158,000

Andrea Doria Drive Waterline Replacement - \$169,000

These waterline replacements are in the Casas Adobes area southeast of the Oracle Road/Ina Road intersection. These projects will reduce the number of calls due to leaks on these waterlines that were constructed in the early 1960s.

La Cañada Drive Air Release Valves, Fire Hydrant and CTS Completion & Adjustments - \$50,000

This project will complete the installation of air release valves, make adjustments to fire hydrants, and corrosion test stations (CTS) along La Cañada Drive due to the RTA financed road improvement project and construction of La Cañada Drive "A" Zone Transmission Main.

**Hub Storage Site Expansion-Retaining Wall - \$185,000**

The construction of the retaining wall at the Metro-Hub storage site will prepare the site to accommodate the installation of a larger above ground storage tank in the future that will provide the District with the ability to better meet the water demands of the Metro-Hub service area. The mid-year budget review will determine if more than the design work of this project can be done in Fiscal Year 2016.

**Gold Canyon PVC Service Line Replacements - \$22,000**

These infrastructure upgrades would help to prevent failures and interruptions in service to the shopping center at Thornydale Road and Ina Road by upgrading the service lines from PVC to copper.

**Ironwood Meadows PRV Installation - \$25,000**

**Stiller PRV Installation - \$20,000**

These PRV installations would open lines to create alternate supply and looped systems to feed residents to improve water quality and service.

**Valve Install-West Side Shannon - \$25,000**

This valve installation provides an alternate feed to residences on the west side of Shannon Road to provide system redundancy to help ensure customers are not impacted by a failure the existing single source feed.

**Metro Water District Office Sign - \$20,000**

With the new entrance driveway to District office as part of the La Cañada Drive road improvements, a new sign is needed to designate the location of the office. A wall was constructed that blocks the existing sign.

**Operating Balance & Non-Cash Expenses**

The operating budget for Fiscal Year 2016 includes a projected ending balance of \$4,173,936. The budget includes spending down the accumulated balance by \$2.4 million. The accumulated balance reduction includes approximately \$600,000 going toward capital infrastructure investments, approximately \$400,000 toward capital equipment requirements, and more than a million dollars for CAP Recharge, Recovery & Delivery System land acquisitions that are funded by the Water Resources Utilization Fee.

Depreciation expenses and amortization of assets totaling \$3,168,102 have been included in the budgeted expenditures; however, they are non-cash related entries requiring only budget authority.

**Summary**

The budget for Fiscal Year 2016 is balanced. The budget does not fund all of the capital infrastructure projects the District has identified as important for the system; however, it does keep the District in a strong financial position to meet the day-to-day operations and to address

customers' needs. The budget includes the proposed list of capital improvement projects to be funded this year in priority order. By reducing expenditures in the prior year, the savings have been carried forward as available funding for District needs in this requested budget. A budget is a plan for the future, and staff will continue to monitor activities including the mid-year budget review with The Finance oversight Committee.

### **Recommendation**

It is recommended that the Board of Directors review and discuss with staff the requested budget for Fiscal Year 2016 and direct if any adjustments should be made. Staff's recommendation is that the Fiscal Year 2016 budget provides a solid roadmap for the District to follow while meeting its operational needs during the next fiscal year. It is recommended that the Board of Directors adopt the budget for Fiscal Year 2016.

### **Suggested Motion**

I move to adopt the Metro Water District budget for the Fiscal Year 2016 as presented with the total disbursements not to exceed the budgeted amount of \$24,098,376.

OR

I move to adopt the Metro Water District budget for the Fiscal Year 2016 as presented along with the following modifications \_\_\_\_\_ with the total disbursements not to exceed the budgeted amount of \$\_\_\_\_\_.

Respectfully submitted,

Diane Bracken  
Chief Financial Officer

I concur with the recommendation.

Respectfully submitted,

Joseph Olsen, P.E.  
General Manager