

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

**March 30, 2015**

**Requested Budget for Fiscal Year 2016**

**Synopsis**

The Board of Directors is requested to review with staff the requested budget for Fiscal Year 2016 and to provide direction.

**Budget Overview**

The requested budget for Fiscal Year 2016 was distributed to Board members previously when the Board was copied with the information provided to the Finance Oversight Committee for the Committee's March 23, 2015 meeting.

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 budget request. 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 and Finance Oversight Committee stakeholder agreement, and would now like to obtain stakeholder agreement from the Board of Directors and customers. In addition, those improvements that cannot be funded in Fiscal Year 2016 have still been included as a priority ranked list of all unfunded CIP projects located on pages 74-76 of the requested budget.

In addition to preparing the priority-driven budget, staff has implemented follow-up and review through-out 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.

On September 8, 2014, the Board approved the fringe benefit and the indirect overhead rates. Part of the approval included adding this calculation using the same methodology to subsequent adopted financial plans. The results of this calculation of direct and indirect rates can be found on page 77.

The following explains in additional detail the primary strengths, weaknesses, opportunities and threats (SWOT) that impact the requested budget for Fiscal Year 2016. SWOT is part of a six sigma process improvement evaluation we have been applying over the past year.

## **Revenue**

The total revenue budget with current rates is \$17,949,578, which is \$273,319 lower than the Fiscal Year 2015 budget with metered water revenue declines. With requested rate changes, 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 2.4% less along with a 0.10% growth for a total of 2.3%. With the opportunity to implement rate adjustments to cover a larger percentage of the fixed cost, the revenue is estimated at a decline of 1.5% with the same growth estimate of 0.10% for a total decline of 1.4%. This will strengthen and stabilize the District's revenue from metered water sales.

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. No adjustment to the Water Resources Utilization Fee is planned for Fiscal Year 2016.

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 \$256,552 with current rates, and \$242,289 with proposed rates. The reason for a decrease in the projection with rate changes is that the current system development fee for multi-unit residential complexes includes an additional \$819 per unit. With the proposed rate schedule, water service connection fees would be based solely on the meter size without any designation for customer class. Therefore, the projection with the rate changes is less because a planned multi-family development will not have the additional fee to pay.

RTA Fees are budgeted the same this fiscal year with debt service on financed project 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 a prior agreement.

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 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 a decrease of \$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 comments on page 16 include the original loan term ending date, along with the amount of interest and principal for each loan. The Riverside Well Equipment loan for \$400,000 was financed for 20 years and the 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 \$106,600 with plans to have this 20-year loan paid off in 5 years saving close to \$100,000 in interest payments. The Debt Service Reserve Funding account has a balance of \$4,818,363 as of February 28, 2015. The required balance in this account is \$4,575,975, so no additional contributions are needed in FY 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**

A schedule of capital equipment funded in the adopted budget for Fiscal Year 2015 can be found on page 38 with all items received or ordered. The bottom half of this page lists capital equipment and additional funding requests that were submitted in the prior year but are no longer a District priority. This list includes a comment as to why the items are no longer included in the prioritization of requested items.

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. A list of equipment is located on page 36. All future capital equipment requests will be new since all of the additional funding and capital equipment requests for Fiscal Year 2016 are included in the requested budget.

Funding for capital projects is derived from budgeted development fees of \$256,552 with no rate change and \$242,289 with rate changes, 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. Since the current system development fees are not able to keep up with infrastructure needs, with no change in rates, an additional \$290,262 of funding would be available for capital projects. With the requested rate change, an additional \$601,525 would be allocated to fund projects. The elimination of the current \$819 per unit charge on multi-unit buildings, results in slightly lower development revenue projections with one of the planned developments consisting of 130 units.

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 proposed to be funded in Fiscal Year 2016 with no rate change:

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.

With proposed rate adjustment, the following capital projects will be included in the Fiscal Year 2016 budget:

**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.

**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**

This year's Operating Budget includes two projected ending balances, one with no rate changes and one with rate changes. The projected ending balances are \$3,863,238 without rate changes and \$4,173,936 with approved rate changes. The budget includes spending down the accumulated balance by \$2.7 million dollars without rate adjustments or \$2.4 million with rate adjustments. The accumulated balance reduction is from 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 requested budget for Fiscal Year 2016 is balanced. The requested 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. A full list of all capital improvement projects in priority order starts on page 74. By reducing expenditures in the prior year, the savings have been carried forward as available funding for District needs in this requested budget.

### **Finance Oversight Committee**

At its March 23, 2015 meeting, the Finance Oversight Committee reviewed with staff the requested budget for Fiscal Year 2016. Committee members' questions focused on the capital projects in the budget. Based on those questions, it was clarified that the capital projects are for Fiscal Year 2016 with the Oracle Jaynes replacement well and the expansion of Hub storage projects involving more than one year. A question was asked about the waterline replacement projects to which Committee members agreed that those projects needed to be constructed as soon as possible due to the age of the pipes. Another question was asked regarding RTA projects and the associated fee. It was noted that there is a planned expansion of La Cholla Boulevard north of Overton to Tangerine and the District would be responsible for mainline replacements between Overton and Lambert. The RTA fee will be in place until 2021 when the debt associated with the RTA waterline replacement projects will be retired.

Based on the Committee's recommendations regarding rates and fees for revenue stability, the Finance Oversight Committee voted 8-0 to recommend to the Board of Directors to consider adopting the requested Fiscal Year 2016 budget that incorporates the proposed revenue adjustments.

### **Recommendation**

It is recommended that the Board of Directors review and discuss with staff the Fiscal Year 2016 requested budget and direct if any adjustments should be made. 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. The requested budget for Fiscal Year 2016 will be presented to the Board for consideration to adopt at the June 8, 2015 Board meeting.

Respectfully submitted,

I concur with the recommendation.

Respectfully submitted,

Diane Bracken  
Chief Financial Officer

Joseph Olsen, P.E.  
General Manager