

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

February 10, 2014

Mid-year Review of Fiscal Year 2013-2014 Budget

Synopsis

The Board of Directors is requested to discuss the mid-year review of the Fiscal Year 2013-2014 budget. Staff is not recommending any modifications to the budget at this time except for one item to improve the District's oversight of its maintenance efforts.

Report

At the June 10, 2013 meeting, the Board approved the Fiscal Year 2013-2014 budget. The budget continued to be a basic, bare bones plan for the District's operation and maintenance; however, necessary increases to the overall expenses were included. A main area that the District was able to increase from recent previous budgets was capital equipment and projects, which was made possible by a projected increase in development fees and the establishment of the Water Resources Utilization Fee. Overall, all the District was able to adopt a solid working budget because of the debt refinancing and restructuring as well as the November 1, 2012 rate increase.

Six months into the budget, the District remains financially solid with revenue from metered water sales continuing to be the uncertain factor. The following highlights some key

Operating Expenses -- Overall operating expenses are on track six months into the fiscal year. The only large exception is the \$168,613 spent to date under the legal line item, which is budgeted for \$125,000. The increased costs are tied primarily to the District's lawsuit with AECOM, which initially also included Pima County. The litigation regards who should be responsible for the extra work, which was not necessary, that the District did for the Magee Road Phase I mainline replacement project.

The well maintenance line item has six wells funded for maintenance this fiscal year at a cost of \$270,000. As of the mid-year, \$132,086 has been spent, which is nearly half. In previous years, the well maintenance line item was not fully used and provided some extra budget capacity; however, all six wells are expected to be maintained this year.

One additional expense that could be recommended is for training and a pilot study for Reliability Centered Maintenance. In September 2013, the Board favorably received a presentation regarding the District's efforts to have an active Reliability Centered Maintenance (RCM) program. RCM is a

process used to determine the maintenance requirements of an asset in its current operating context. It is a scientific and systematic approach to ensure that the right maintenance task is done at the right time, not too early or not too late, and that maintenance dollars are applied in the most effective manner. To initiate the training and pilot study this fiscal year would cost \$41,000, which is requested to be included in the current operating expenses.

Capital Projects – Shortly following the FY 2013-14 budget's approval, the District recognized that the 2007 loan from the Water Infrastructure Financing Authority of Arizona (WIFA) had not been completely spent. The Board approved staff to pursue with WIFA the ability to finance some of the FY 2013-14 budgeted capital projects with the remainder of the 2007 loan. WIFA did approve funding the Magee La Cholla VFD Replacement; 8" Mainline Replacement for Camino Del Plata to Shannon Road; Hub 1A Well Arsenic Treatment Media Expansion; Sewer Connection for Trailer Office at Hub 1A well site; and the trailer office for Hub 1A well site. These projects totaled \$440,000.

At the January 13, 2014 meeting, the Board approved the purchase of a second vessel of the Layne Arsenic treatment system for the Diablo Village Well No. 1. The second vessel will allow the well to continue operations during the regeneration process and provides additional redundancy in the event of a failure on the other vessel. This project is now listed under the Capital Projects on the mid-year budget spreadsheets.

Those projects related to the CAP Water Recharge, Recovery & Delivery System are not anticipated to be spent this year except for the HDR Study that Analyzed the CAP System and was completed last month. District staff is developing a timeline for how to best accomplish the various steps that need to be completed before the design of the project can be started. Since those monies will eventually be spent for the CAP System Project, if not this year, there is no recommendation to add any other capital projects at this time.

Revenue - The first six months of revenue generated has been overall favorable for the District. While revenue are moving in the right direction, they do need to be viewed from a cautious perspective. The \$2.00 increase to the Water Availability Fee and the 10¢ increase to the Water Resources Utilization Fee that the Board approved for November 1, 2013 have generated additional funds. Also, within the first six months, the District has collected nearly as much as it did last year for the System Development Fee. Connection fees are already double the amount collected last year.

The cautious issue with revenue is that the increase in metered water sales is due to the 2012 and 2013 rate increases. Actual water consumption for the first six months of FY 2013-14 is 3,823,600 gallons less than the first six months of FY 2012-2013. Plus, the District is moving into the low consumption months of the year. For this reason, staff believes the District should maintain its budget and not add anything other than possibly the Reliability Centered Maintenance Program.

Finance Oversight Committee –The Finance Oversight Committee met on January 27, 2014. The Committee reviewed with staff the mid-year budget spreadsheets. Based on the discussion, the Committee members expressed support for staying the course with the budget and not deviating from

it at this time. Support was also expressed for the Reliability Centered Maintenance.

Recommendation

It is recommended that the Board of Directors review the attached mid-year budget spreadsheets and discuss with staff any issue within the spreadsheets. Staff recommends that the Fiscal Year 2013-14 budget remain as is for the financial planning of the District with one addition of \$41,000 to initiate the Reliability Centered Maintenance Program training and pilot study.

Suggested Motion

I move that based on the mid-year review of the Fiscal Year 2013-14 budget that no modifications be made to the budget except for the addition of \$41,000 to initiate the Reliability Centered Maintenance Program training and pilot study.

Respectfully submitted,

Diane Bracken
Chief Financial Officer

I concur with the recommendation.

Respectfully submitted,

Joseph Olsen, P.E.
General Manager