

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

June 10, 2013

Fiscal Year 2013-2014 Budget

Synopsis

The Board of Directors is requested to adopt and approve the Fiscal Year 2013-14 budget.

Background

The Board has reviewed with staff the Fiscal Year 2013-14 budget at the April 29, 2013 study session and again at the May 13, 2013 regular meeting. Staff also met with the Finance Oversight Committee to review the initial draft budget including the capital projects and equipment on April 15, 2013 and May 20, 2013. As noted for both the Board and the Finance Oversight Committee, the District is in a better financial standing as it prepares the Fiscal Year 2013-14 budget than it was a year ago.

The primary points noted with the Board is that the projected increase in revenue is due to the November 2012 rate adjustment, not higher water sales, so uncertainty remains with the projected revenues related to water sales. However, the refinancing and restructuring of debt retirement gave the District financial flexibility along with the approved rate adjustment. The other main point involved highlighting the expenditures that had the most changes from the current budget.

Operating & Maintenance Budget

Based on the previous discussions, no change has been made to the expenditures cited in the budget. The budget continues to be a basic, bare bone plan for the District's operation and maintenance; however, increases to the overall expenses do exist. Salaries and Benefits are \$85,000 less than last year despite a projected 50% increase with health insurance benefit costs, a 2% cost of living adjustment and reestablishing the availability of a 2% merit award for deemed employees. However, the savings in Salaries and Benefits is greatly minimized since the salary reimbursement from the Capital Improvement Program will have discontinued. With the amount received in 2012-13 and the savings from no longer having the three CIP positions, the District is actually short \$425,000.

Power costs will increase with a 15% rate adjustment from Tucson Electric Power. The cost for CAP water purchases will be increased in the budget by the customary 5%. \$50,000 is being set

aside in preparation for renewing the land lease for the Avra Valley Recharge Project from State Land Department. There are also some lesser increases with legal fees, contracted electrical service, well maintenance, miscellaneous consulting services, and contingency for sick/vacation payout.

Capital Projects and Items

At the May 13, 2013 meeting, the budget discussion focused on the District's infrastructure as well as capital equipment that are needed for the new fiscal year. The draft budget is projecting \$330,900 in revenue from development fees. It is recommended that those monies be used for capital expenses and then additional funds be used for those identified projects that are not funded by the development fees. Staff would watch closely the collection of the system development funds before proceeding with these projects. The total amount that is listed for both capital projects and equipment is \$1,035,100.

These capital projects and equipment were also reviewed with the Finance Oversight Committee at the Committee's May 20, 2013 meeting.

The following is a list of capital projects and equipment listed based on priority:

Capital Projects – Hub 1A Well

Hub 1A Treatment Media Expansion	\$55,000
Treatment vessel, media expansion allows for the well to be used year round	

Hub 1A Sewer Connection	\$15,000
Makes bathroom facilities possible at this site	

Hub 1A Trailer	\$20,000
Provides office area for District staff to work from	

Total	\$90,000
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With the award amount of the Hub 1A well site improvements being under the engineer's estimate, it is proposed that the remaining funds from the 2007 WIFA loan be used to finance these three projects.

Capital Projects – General

HDR Study for CAP Utilization Program	\$ 78,000
The contract was awarded in April 2013 for \$150,000 and \$78,000 is anticipated to the amount no spent in FY 2012-13.	

Metering Station for Reclaimed Waterline	\$150,000
Complete metering station with Tucson Water for reclaimed waterline site.	

Magee/La Cholla VFD Replacement VFDs/electrical upgrade needed including compliance with ARC flash requirements.	\$150,000
Bell Well Decommission Removal of well, tank and generator at Bell Well site.	\$ 54,000
8" Distribution Main – Camino del Sur Design ready project allows 'C' Zone water to be conveyed into 'B' zone service area to alleviate water deficiencies in area by constructing an 8" distribution main on Camino del Sur from Camino del Plata to Shannon Road.	\$200,000
Testing of Recovery Wells Testing for existing wells that could be used for recovery of CAP water as part of the CAP Utilization Program.	\$110,000
Total	\$832,000

Capital Projects – Water Resources Utilization

CMID Effluent Interconnect Design Design of the interconnect with CMID so that CMID can utilize the District's effluent and the District can then gain 100% credit for its effluent.	\$50,000
Land Acquisition Acquire land for booster station/future treatment site as part of the CAP Utilization Program.	±\$211,088
Total	\$261,088

Monies from the Water Resources Utilization Fee, which is expected to be \$261,088, are targeted to pay for these projects though it is recognized that \$211,088 will probably not be enough for a land acquisition.

Capital Equipment

Since the May 13, 2013 meeting, two additional items have been recommended to add to the capital equipment. Both were discussed with the Finance Oversight Committee along with the other cited equipment. The two additional items are an Air Conditioning Unit for the office building and two handheld meter reading devices. Approximately one air conditioning unit needs to be replaced a year at the office building due to age so this is to actually include in the budget. The two handhelds are to replace two that have become outdated.

Variable Frequency Drive for H. Johnson Res.	\$ 15,000
AC Unit	\$ 11,000
Pressure Tank Replacement (2)	\$ 50,000

HUB Meter Replacement Program	\$ 50,000
Leased Vehicles thru Enterprise (5)	\$ 10,000
Telog Pressure Recorder & Software	\$ 2,500
Water Trailer	\$ 6,000
Road Plates (2)	\$ 2,000
Handheld Meter Reading Device (2)	\$ 11,000
Total	\$146,500

Future Budget Projections

At the May 13, 2013 meeting, the Board reviewed two spreadsheets that projected the District's budgets to Fiscal Year 2017-18. The first one included no rate increases in subsequent years and a continued 2.1% decline in water usage with modest expenditure increases. This first spreadsheet shows ending balances over a \$1 million the first two fiscal years but a \$189,161 deficit at the end of FY 2016-17 and a \$2,197,438 deficit at the end of FY 2017-18. The second spreadsheet factored an annual 2.5% rate increase, a continued 2.1% decline in water usage, and modest expenditure increases. This spreadsheet then shows the year end balances remaining over \$1.5 million with the year-end balance going to \$800,000 in FY 2017-18. Under both scenarios, capital expenditures are almost none existent.

These projections will become more accurate as we see what happens with metered water sales and revenue. They confirm the District's current efforts to remain vigilant with expenditures even if they are included in the budget. Staff would like to discuss these projections further with the Board as the summer progresses to ensure an overall plan for the District's finances beyond FY 2013-14.

Recommendation

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

The budget will be discussed again by the Finance Oversight Committee on May 20, 2013. The Board is then scheduled to discuss and adopt the Fiscal Year 2013-14 budget at the June 10, 2013 meeting unless the Board would like to have another study session scheduled regarding the budget.

Suggested Motion

I move to adopt the Metro Water District operating budget for the Fiscal Year 2013-14 as presented with the total disbursements not to exceed the budgeted amount of \$18,063,303.

OR

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I move to adopt the Metro Water District operating budget for the Fiscal Year 2013-14 as presented along with the following modifications _____ with the total disbursements not to exceed the budgeted amount of \$_____.

Respectfully submitted,

Mark R. Stratton, P.E.
General Manager