Metropolitan Domestic Water Improvement District
Board of Directors Meeting

January 14, 2013

Midyear Review of Fiscal Year 2012-2013 Budget

Synopsis

The Board of Directors is requested to discuss the midyear review of the Fiscal Year 2012-2013 budget. Staff is not recommending any modifications to the budget at this time.

Report

At the June 11, 2012 meeting, the Board approved the Fiscal Year 2012-2013 budget. The current budget was a difficult exercise in balancing between projected revenue and expenditure. In August, the Board of Directors and staff reviewed a detailed Water Rates and Revenue Analysis Report, which showed that actual metered water sales were not keeping pace with projected revenue and that the District's fixed costs, particularly debt retirement, made it difficult to make significant cuts to expenditures. Based on this information and further discussions, the Board of Directors approved a rate increase effective November 1, 2012. The rate increase targeted an increase to the base rate so more revenue could be directed to cover fixed costs. In December, the Board also approved a refinancing and restructuring of part of the District's debt, which is the largest fixed cost for the District.

The overall budget is lean like previous budgets but even more care was given to have the projected expenditures more closely tied with what was actually expected to be expended. The District has been working with its budget for six months and has been thorough in its approval of major expenditures.

This mid-year budget review will focus on five primary areas that will influence the financial health of the District. The primary one is revenue from metered water sales since it affects the other four areas. With the trend of reduced consumption and its direct reduction to the specific amount of revenue to be generated, the District must be vigilant each month to determine if adjustments must be made to stay within a balanced budget. The projected revenue will be discussed in greater detail following a discussion about the refinancing and restructuring of debt, the securing of the WIFA loan to pay for Riverside Well and indirectly the reclaimed line construction; the status of the WIFA loan for the RTA/County waterline relocation projects, and potential expenditure savings.

Refinancing and Restructuring of Debt – At the December 10, 2012 meeting, the Board approved the refinancing of the 2002 Senior Water Revenue Bonds and the restructuring of the 2002 Subordinate

Obligation Revenue Refunding Bonds. The refinancing and restructuring of the debt helps ease upcoming cash restraints for the next five to seven years. The main example is that for the next budget the District will not have to find another $500,000 for additional debt retirement. Regarding the current budget, the refinancing and restructuring means that the District will have $264,072 less in debt retirement.

WIFA Loan for Equipping the Riverside Well (and funding for Reclaimed Line) – At the September 10, 2012 meeting, the Board approved applying for a loan from the Water Infrastructure Financing Authority (WIFA) to finance the equipping of the Riverside Well, which in turn allows the Repair and Replacement Fund to be used to cover the cost of the reclaimed water line construction for the Omni Tucson National Resort. WIFA approved the loan in December 2012. Specifically, the WIFA Loan is for $400,000, which will pay for $400,000 of the Riverside Well. The remaining $208,500 will be paid from the Repair and Replacement Fund. Also, $600,000 from the Repair and Replacement Fund will be used to pay for the construction of the reclaimed line minus Pima County's contribution ($500,000) to the pipeline. Omni Tucson National will then make monthly payments to pay back the District for the construction of that reclaimed line pursuant to an agreement approved at the December 10, 2012 meeting.

Reclaimed Line

$1,100,000	Total Cost
$ 500,000	Pima County paid per agreement with District
$ 600,000	Remaining amount to be paid by District Paid from Repair and Replacement Fund and then repaid by Omni Tucson National

Riverside Well Equipping

$ 608,500	Contract Cost
$ 400,000	Paid through WIFA Loan secured December 2012
$ 208,500	Paid from Repair and Replacement Fund

Repair and Replacement Fund

$1,246,577	Total as of December 2012
$ 600,000	Used for Reclaimed Line
$ 208,500	Used for Riverside Well Equipping
$ 438,077	Remaining Repair and Replacement Fund

The use of the WIFA loan and the Repair and Replacement Fund means that the District is able to cover the costs of both the Riverside well equipping and the upfront cost for the reclaimed water line, which will leave $438,077 in the Repair and Replacement Fund.

The Repair and Replacement Fund is a requirement of the 1999 Revenue Bond issuance. The District is required to set aside monthly $8,500 a month ($102,000 a year) that can be used for upgrading the District's infrastructure. If more than $800,000 is in the Repair and Replacement Fund, then the District does not have to set aside $8,500 a month. However, with the remaining amount below $800,000, the District will have to start again to put $8,500 a month ($102,000 a year) in the Repair and Replacement Fund until it is over $800,000 again. This will need to be factored into the next fiscal year budget.

During the budget process, it was hoped that finding another funding source for the reclaimed line would free up monies in the budget to finance some of the identified needed capital improvement projects.

Revenue Bonding for County/RTA Waterline Relocation Projects – The District issued a $6.6 million revenue bond to finance waterline relocation projects tied to the County/RTA road projects. The $3.00 per month County/RTA waterline relocation fee is used specifically to pay the nearly $800,000 annual debt service, which will take until 2020 to pay off. The $6.6 million was to pay for the following projects: Magee-La Cañada to La Cholla; La Cholla – Magee to Overton; La Cañada to River Road; and Magee – Shannon to Thornydale. While these projects are funded under the revenue bond issuance, at least three more road projects could impact the District within this fiscal year and next fiscal year. Those projects are Magee Road – La Cañada to Oracle, Orange Grove Road – Camino de la Tierra to La Cholla, and the Ina & Oracle Intersection. The cost for all seven of these projects are currently estimated at $6,919,740. This does not include the inevitable change orders and close-out costs for all of these projects, which means staff anticipates the final cost to be even higher once all eight projects are completed. The projects are anticipated to be completed by June 2013. It had been hoped that the $6.6 million revenue bond could cover those additional costs.

County/RTA Waterline Relocation Projects

$6,613,258	Available Funds from Revenue Bond Issuance being paid by the $3.00 County/RTA Fee
$6,919,740	Estimated Cost for 7 RTA/County Waterline Relocation Projects.
$ -306,482	Deficit from Revenue Bond Issuance

Based on the estimated costs, the District will need to find at least another funding source for $306,482 to cover required waterline relocation projects that are anticipated to be done by June 2013. More than likely, the deficit will be higher based on the experience from the waterline relocation projects that are completed or almost completed.

Potential funding sources is from the O&M budget, the Repair and Replacement Fund, or a portion of the $400,000 that was anticipated for capital projects.

O&M Expenditures

Staff did a close review of expenditures to determine if any savings or changes have occurred that would allow for a reduction in budgeted expenditures for the remaining six months. As previously stated, the expenditures in the FY 2012-13 budget were already developed based on needs and is a lean budget. In the Utility Team, small reductions could be made on a number of line items that could generate about $40,000 in savings. However, with the unexpected recommendation to purchase a new storage tank for the Lazy B service area in Metro-Southwest, which is also an agenda item for the January 14, 2013 meeting, the $40,000 savings could be used for that storage tank purchase. Therefore, no change to the Utility Team's budget is recommended. Neither is any savings identified in the Engineering Team's budget.

Regarding the General Manager's Office/Administration Team's budget, not having to hold an election saved $26,000. Under Salaries and Benefits, the vacancy of the Safety Officer and Electrician position along with not refilling an Intern position, will produce a $134,900 savings under salaries. With the O&M Expenditures, there is a projected savings of $160,900.

Capital Improvement Projects

Two required capital improvement projects totaling $685,000 were included in the current budget. The projects are the construction and equipping for the Old Magee Trail Well, which replaces the Matter Well, and the completion of the reclaimed line to Omni Tucson National. As previously explained, it was hoped that by obtaining a loan from WIFA to indirectly finance the reclaimed line to Omni Tucson National that monies would be available for some of the identified needed improvement projects. Which projects would be done would be based on the amount of funds available and the current needs of the District.

The budget identified but did not fund other needed capital projects, which total $921,809. Listed in preferred order, those projects include:

CAP Utilization Program	$150,000	
Pressure Tank Replacement	$ 50,000	
Productivity Improvement Project	$100,000	(Possibly less could be used to initiate the program)
Hub Meter Replacement	$155,000	
Removal of Obsolete Facilities	$ 91,809	(Six sites are identified but less could be done)
Effluent Interconnect Design	$ 50,000	(Dependent on when ADWR issues permit)
Horizon Hills A Zone Waterline	$325,000	

As stated during the budget development, the main capital improvement project is the CAP Utilization Program due to its importance for the District's future. Staff believes the next important step is to select a consultant to perform a pipeline route analysis for a CAP Recharge/Recovery System from Avra Valley Recharge Project to the recommended transmission main identified in an earlier report conducted by Westland Resources, location citing for pumping station(s) and possible future treatment facility, cost estimates, and most importantly, financing options for the needed improvements. Staff believes the District needs to continue moving forward with its CAP Utilization Program because of its long-term importance of using directly a renewable water supply and minimize future groundwater depletion.

The District did secure the loan from WIFA, which theoretically ought to make available $400,000 for a portion of the identified but not funded capital improvement projects. However, the challenge is determining if those available monies due to the loan will fully be available.

Projected Revenue – In 2012, Metro-Main used 7,367 acre-feet of water compared with 7,758 acre-feet in 2011. That is a 5.04% reduction in 2012 from 2011. It is a 9.5% reduction from the historical usage of 8,137 acre-feet. In Metro-Hub, the reduction is 7.0% in 2012 from 2011.

In comparing the first six months of the current fiscal year with the same time period in the previous fiscal year, Metro-Main had a 4.0% decrease and Metro-Hub had a 9.2% decrease in water usage. However, under revenue generated, there is a 2.0% decrease for the first six months.

The current budget projected revenue at $16,000,800. To provide a new projection of what the revenue will be at the end of the fiscal year, staff looked at the first six month actual revenue, factored a 2% decrease continuing for the last six months, plus a 6.2% generated from the rate increase. With those factors, the projected revenue is now at $16,280,800, which is an overage of $280,400. It should be emphasized that the overage could be quickly diminished or disappear if water consumption declines below 2%.

Revenue

$16,000,800	Projected Revenue from FY 2012-13 Budget
$ 255,200	Increase in Metered Sales due to 2% decline and 6.2% rate increase
$ 25,200	Increase from new IGA with Wastewater
$16,280,800	Estimated Projected Revenue at end of FY 2012-13

Remaining Six Months of FY2012-13 – The following provides a summary of the items discussed in this report.

	Budget	Mid-Year Review Projection	
Revenue	**$16,000,800**	**$16,280,400**	**$ 280,400**
<u>Expenditures</u>			
O&M Expenditures	$ 8,653,433	$ 8,492,533	
Debt Retirement	$ 7,091,577	$ 6,827,505	
Other	$ 1,281,381	$ 1,281,381	
Total Expenditures	**$17,026,391**	**$16,601,419**	**$ 424,972**
RTA/County	**$ 6,613,258**	**$ 6,919,740**	**$ -306,482**
WIFA Loan (Riverside Well)		**$ 400,000**	**$ 400,000**
End Balance			**$ 798,890**
Capital Projects		**(unknown)**	**$ -unknown**

Based on this mid-year budget review, the District ought to finish the fiscal year with a positive balance. Obviously, the actual revenues from metered water sales will be a large determinant along with what the final cost will be for the waterline relocation projects. Based on current projections, the District ought to have an end balance of $798,890. This includes the $400,000 from the WIFA loan for the Riverside Well equipping, which had been hoped to finance a few of the unfunded capital projects, particularly the $150,000 for work on the CAP Utilization Program. This will involved further discussion.

In August 2012, the Board discussed the Water Rates & Revenue Analysis Report. That report denoted the financial challenges facing the District, particularly in looking ahead to the Fiscal Year 2013-14. In that report, the year end fund balance for the current fiscal year was projected to be $334,346. The projected balance of $798,890 is almost double that amount and the District did have a rate increase. However, it does not mean Fiscal Year 2013-14 budget will be a simple task. It is important to acknowledge with this midyear budget review and looking forward to the Fiscal Year 2013-14 budget, the District will need to remain extremely vigilant with its finances, continue to watch expenditures and look for creative approaches, and also be prepared to make difficult decisions.

Staff Recommendation & Suggested Motion

No action is required for this agenda item. It is recommended that the Board of Directors discuss the midyear budget review and provide direction regarding the Fiscal Year 2012-13 budget.

Respectfully submitted,

Mark R. Stratton, P.E.
General Manager