

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

May 12, 2014

Adoption of Fiscal Year 2015 Budget

Synopsis

The Board of Directors is requested to adopt the draft Fiscal Year 2015 budget.

Background

The Board of Directors held a study session on April 28, 2014 to review and discuss with staff the requested budget for Fiscal Year 2015. Details of the budget were reviewed during that meeting along with responding to questions from Board members. On April 21, 2014, the requested Fiscal Year 2015 budget was reviewed and discussed with the Finance Oversight Committee. At that time, the nine-member Committee voted unanimously to recommend that the requested Fiscal Year 2015 budget be forwarded to the Board of Directors for consideration.

Both Board members and Committee members expressed support for the new priority-driven budget process used to develop the budget. The General Manager and Chief Financial Officer, both new to the District, utilized this budgetary process by asking team leaders to explain their increases and decreases in operation and maintenance (O&M) expense requests as well as capital increases, and to prioritize their requested requirements. With this information, the General Manager and Chief Financial Officer compiled a District-wide prioritization list to determine which expenditure increases and capital requests could be included in the requested Fiscal Year 2015 budget based on the projected revenue.

Revenue

Regarding revenue, the overall projected revenue is \$18,222,897. For the requested Fiscal Year 2015 budget, it was determined that revenue is to match the appropriate expenses that it is intended to fund. Therefore, the metered water sales will fund O&M expenses, development fees will fund capital needs, and the Water Resources Utilization Fee will fund projects utilizing CAP water and effluent.

Metered water sales are projected to increase to \$15,658,071, which is a 5.33% increase from the current year. This increase is not due to higher water sales but because of the November 1, 2013 rate adjustment and revenue from new connections that are planned to come on line in Fiscal Year 2015. A 1.1% decrease in annual water consumption was factored in to project metered

water sales for Fiscal Year 2015. The District will continue to monitor closely annual water consumption since the impact of metered water sales will affect the revenue generated to be used for fixed and variable costs.

The Water Resources Utilization Fee is projected to generate \$370,477 based on the 20¢ per 1,000 gallon fee as of November 1, 2013. This revenue is only to be used for projects that utilize the District's CAP water and effluent.

Development fees are projected to generate \$312,827. This was developed by looking at what developments are expected to be built in Fiscal Year 2015 rather than comparing to actual revenue from development fees. This revenue is planned to fund capital projects, as had been previously recommended to the Board.

Operating Expenses

The District's total operating expenditures for the Fiscal Year 2015 budget are requested at \$17,458,643, which is a 3.84% increase from the current budget. This includes expected increases for the Central Arizona Project water, insurance increases, higher communication charges, and a rise in costs for supplies. Other increases were anticipated including the scheduling for the November Board of Director election, leasing of vehicles through Enterprise, and accounting for the premiums paid for new connections in Metro-Southwest. Total operation expenditures also includes the \$5,711,485 for debt service, \$792,500 for debt service for the RTA related waterline relocation, and the \$500,000 contingency fund for emergencies.

An additional item has been added to the Metro Southwest budget for \$41,177 to purchase water credits stored by Metro Main. These water credits would be used to offset groundwater pumping in the Diablo Village service area and avoid paying the higher replenishment costs through the Central Arizona Groundwater Replenishment District (CAGR). Metro Southwest budget expenditures were then reduced by \$32,500 to help offset this addition.

There has been a sizeable decrease in salaries and benefits based on recent retirements. The budget does include funding the unfilled Electrician position, and the Water Quality Specialist position has been moved from the Utility Team to the Engineering Team. However, considerable pressure is being put on this category due to increases to benefits, particularly a projected 50% increase in health insurance costs. For Fiscal Year 2015, staff will be asked to absorb part of the increase in health insurance costs. However, to mitigate that increase and avoid decreasing salaries, a cost of living adjustment calculation was applied based on calculating the anticipated increase to an employee with family coverage under a Health Savings Account, the Arizona State Retirement System increase, and the annual Consumer Price Index from when the budget was drafted, minus the medical care portion of the Consumer Price Index. Based on this calculation, a 3.6% Cost of Living Adjustment is included in the budget, effective the first full pay period of Fiscal Year 2015. No merit awards for staff are included in the budget.

New requests for capital equipment and increased operational expenses were included in the operating expenditure budget based upon a process that generated an integrated priority list. Per the prioritization list, the first 18 capital equipment and increased operational expenses were included in the Fiscal Year 2015 budget. Another 20 items were not included in the budget but will provide the starting point for the Fiscal Year 2016 budget. Some of the major capital equipment and increased operational expenses include a required battery of tests that are to be conducted for 30 contaminants under the EPA-directed Unregulated Contaminant Monitoring Rule 3 (UCMR-3) and to perform Synthetic Organic Compounds (SOC) testing, which is required every nine years, and a water demand study required for Metro-Main and Metro-West to file for its Re-Designation of Assured Water Supply in Fiscal Year 2015. Other capital expenses include an upgrade to the Supervisory Control and Data Acquisition (SCADA) system, water treatment media replacement in Metro Southwest, a pressure tank, and a dump trailer.

Capital Projects

The District's total capital expenditures for the Fiscal Year 2015 budget are requested at \$936,539. This budget separates capital projects based on their funding source by having General Capital Projects funded with Development Fees and Water Resources Projects funded with the Water Resources Utilization Fee.

The General Capital Projects total \$312,827, which is the amount anticipated to be collected from Development Fees. These projects include the Diablo Village 2 Generator Installations; Ranch House Estates Waterline Extension and Private Water Service Relocation; and starting the Oracle Jaynes Station Replacement Well.

The Water Resources Capital Projects total \$512,112, which includes Water Resources Utilization Fees collected. These projects include the CMID Effluent Recharge Project; Non-Indian Agricultural (NIA) Priority CAP Water Reallocation; Land Acquisition for CAP Recharge, Recovery & Delivery System; and tentative Wheeling Costs for Metro Southwest.

Operating Fund Balance & Non-Cash Expenses

The Fiscal Year 2015 budget has projected an ending operating fund balance of \$3,168,236. Over the years, the ending operating fund balance has fluctuated. The fund balance consists of excess revenue over expenditures; however, this is not the amount of cash available. This amount is made up of five categories: nonspendable fund balance (inventories); restricted fund balance (limited by creditor, grantors, contributors, or legal regulations); committed fund balance (self-imposed limitations); assigned fund balance (limitations resulting from intended use); and unassigned fund balance (estimated at \$77,000), which is the total fund balance excess of the first four described balances and is the amount that can be allocated to other uses. The proposed fund balance in the requested budget ensures that those objectives are met.

The requested budget also includes non-cash expenses totaling \$3,090,454, which specifically refer to the depreciation and amortization of assets. It is important to include budget capacity for the depreciation and amortization of assets.

Summary

The Fiscal Year 2015 budget closely ensures that expenditures made through Fiscal Year 2015 are less than or equal to the revenue collected and the available fund balance in the same year. The budget does not cover all the projects that the District has identified as important for the system; however, it does keep the District in good financial standing to meet the day-to-day operations and address the needs of customers. By tightening the overall expenditures and working within the collected revenue, the District is positioning itself for a stronger future.

Recommendation

It is recommended that the Board of Directors review and discuss with staff the requested Fiscal Year 2015 budget and direct if any adjustments should be made. Staff's recommendation is that the Fiscal Year 2015 budget provides a solid roadmap for the District to operate while meeting its needs during the next fiscal year. It is recommended that the Board of Directors adopt the Fiscal Year 2015.

Suggested Motion

I move to adopt the Metro Water District operating budget for the Fiscal Year 2015 as presented with the total disbursements not to exceed the budgeted amount of \$21,485,636.

OR

I move to adopt the Metro Water District operating budget for the Fiscal Year 2015 as presented along with the following modifications _____ with the total disbursements not to exceed the budgeted amount of \$_____.

Respectfully submitted,

Joseph Olsen, P.E.
General Manager