

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

June 11, 2012

Fiscal Year 2012-2013 Budget

Synopsis

The Board of Directors is requested to adopt and approve the fiscal year 2012-2013 budget.

Background

The Board of Directors has addressed the draft fiscal year 2012-2013 budget at the April 30, 2012 study session, May 14, 2012 Board meeting, and the May 29, 2012 study session. Staff has explained the major issues related to the budget.

The Finance Oversight Committee met on May 21, 2012 and discussed the budget. Based on a the Committee's discussion, the Committee approved the following recommendation on a vote 4 to 1: The Finance Oversight Committee recommends that the Board of Directors consider generating revenue by increasing the base rate to cover more of the total operating budget, implement a fee for renewable supplies, give a cost of living allowance to staff, look at alternative outside funding sources for capital improvements, and better educate customers about wastewater charges being separate from water charges.

Report

Attached is the budget for the Board to consider and adopt as the Fiscal Year 2012-2013 budget for the District. As discussed previously, drafting the budget has been a challenge. While the budget satisfies the day-to-day financial requirements for the next fiscal year, it does not provide the necessary financial foundation for a year-end fund balance or meeting water resource and system improvements. The primary challenge has been a continuing decrease in revenue projections. Based on May's number, the projected meter sales for the current fiscal year will be \$14,750,977, this is \$433,923 less than the adopted metered sales budget of \$15,173,900. For the Fiscal Year 2012-2013 budget, the metered sales revenue is now at \$14,442,300, which is \$731,600 less than the current budget. This is based on meter sales staying significantly lower from November through now, which is trend seen throughout Arizona and no indication of this trend changing anytime soon. This has in turn impacted the year-end operating fund balance with it now decreased to \$269,237. Again, this greatly reduces the District's financial flexibility and long-term stability.

General Operating Costs

Staff is prepared to review in detail any of the general operating costs, including those associated with employee salaries and benefits. Total operating budget costs are 1.95 percent higher this year. As explained at previous meetings, the increase in expenditures are in part attributed to inflation, amplifying CAP utilization, bond issuance and regulatory fees, and an overall need to ensure the basic operation and maintenance of the system at a level of quality customer service. Operating costs associated with employees are a primary part of the increase due to health insurance and retirement increases, a recommended 2.4% cost of living adjustment, longevity pay, and establishing a contingency fund for sick leave payout.

Cost of Living Adjustment - Per the direction at the May 29, 2012 study session, the Cost of Living Adjustment is set at 2.4 percent. A 2 percent increase was originally proposed in the draft budget. The 0.4 percent increase is to provide assistance to employees to cover the 0.4 percent increase with Arizona State Retirement System contributions. The 0.7 percent increase to address the 47%/53% change in the ASRS calculation for contribution from the current budget remains in place despite ASRS being required by the courts to convert back to the 50%/50% contribution. The Consumer Price Index is currently at 2.5 percent. With all of this considered, management believes a cost of living adjustment is important for staff and that the 2.4 percent is a generous amount considering the continued overall economic uncertainty.

Contingency for Sick/Vacation Payout – Staff had included in the draft budget a contingency fund for sick leave pay-out in the amount of \$127,000. At the May 29, 2012 study session, Legal Counsel's opinion regarding the sick leave pay-out policy requires the District to prepare for a \$503,447 liability. Under the new sick leave pay-out policy, an additional \$47,123 liability will exist at the end of Fiscal Year 2012/2013. Staff proposed that the contingency fund would be based on 20 percent of the total financial liability from the sick leave pay-out, which is comparable to the original calculation for the payout of possibly six employees within the next two years.

Also at the study session, the Board directed staff to include monies for the vacation payout. Staff did calculate the vacation pay-out liability to be almost \$196,000. Vacation hours that are on the books fluctuate much more than sick leave and are less predictable. For this reason, the contingency amount for vacation hours is calculated at 10 percent. With the combination of both sick leave and vacation pay-out at their respective percentages, the total for the contingency fund is \$129,708, which is \$2,708 more than what was included in the first draft of the budget.

Per Board request, attached is the table showing accrued vacation and sick leave liability as of the end of May and another one as of the end of Fiscal Year 2012-2013.

Longevity Pay - Board member Dan Offret requested to have the longevity pay discussed in the context of the budget finalization. The longevity pay is listed as an agenda item with a separate report.

Capital Equipment and Improvement Projects

The draft budget does include funding for capital equipment in the amount of \$70,483. Two required capital improvement projects totaling \$685,000 are included in the draft 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.

Other needed capital projects totaling \$961,607 are identified but not funded based on operating expenses and the decreases in projected revenues. 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)
Re-roof Maintenance Building	\$ 35,000	
Crack Seal Utility Yard Pavement	\$ 4,798	
Horizon Hills A Zone Waterline	\$325,000	

A few of these projects could be done if a loan can be acquired from the Water Infrastructure Financing Authority (WIFA) to pay for the remaining upfront costs for the required reclaim line construction and then have the 20 year WIFA loan paid by Omni Tucson National. Which projects would be done would be based on the amount of funds available and the current needs of the District. The above listing is in a preferred order but again would need to be revisited when and if funds become available.

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 Herb Johnson Reservoir, 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. A fee dedicated to the use of renewable water supplies may be a viable option to consider.

Revenue Generation

Revenue projections continue to decrease, which obviously has a direct impact on the budget. The District is required to provide the same level of service for its customers including maintaining its system whether there is low or high demands for water to flow through the system. The Board has discussed possible ways to increase revenue. Based on previous discussions with the Board, staff will begin developing possible rate adjustment scenarios to present to the Board by the end of summer with a possible rate hearing scheduled for October.

Recommendation

It is recommended that the Board discuss with the staff and provide direction regarding any last minute alterations to specific line items. In preparing the budget, staff worked to ensure the numbers included were as close to what can be expected for the next fiscal year. While budgets are blueprints for the upcoming year, they are also used in gauging and justifying the need for potential rate adjustments to generate revenue. With the challenges of proposing a rate increase along with the current world wide economic uncertainties, staff recommends that if any additional reductions in expenses can be found that they be used to increase the year end operating fund balance.

It is recommended that the Board adopt the Fiscal Year 2012-2013 operating budget as presented and set a ceiling on the disbursements at \$17,781,874. It should be noted that the total disbursements is \$70,000 more than current budget. Although it will not impact the adopt budget disbursements, staff will continue to monitor current year revenue and expenditures to have the most accurate operating fund balance for the final budget as possible.

Suggested Motion

I move to adopt the Metro Water District operating budget for the 2012-2013 fiscal year as a presented with the total disbursements not to exceed the budgeted amount of \$17,781,874.

OR

I move to adopt the Metro Water District operating budget for the 2012-2013 fiscal year 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