

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

May 13, 2013

Draft Fiscal Year 2013-2014 Budget

Synopsis

The Board of Directors is requested to continue to review the draft Fiscal Year 2013-14 budget and to provide direction.

Background

At the April 29, 2013 study session, the Board reviewed with staff the initial draft Fiscal Year 2013-14 budget. Staff had met two weeks earlier with the Finance Oversight Committee to review the initial draft budget. 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 discussion at the April 29, 2013 study session, 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 \$80,000 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 \$428,000.

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.

The only modification that has been made is regarding the projected revenue. Based on water consumption during the first four months of 2013, projected revenue is based on a 2.1% decline in water usage rather than the 1.9% that had been used.

Capital Projects and Items

Staff reviewed and discussed what improvements are needed this new fiscal year for the District's infrastructure as well as capital equipment that are needed. The draft budget is projecting \$330,100 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. The total amount that is listed for both capital projects and equipment is \$1,039,500.

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
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	<\$150,000
The contract was awarded in April 2013 for \$150,000 but the full amount will not be 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	\$150,000
VFDs/electrical upgrade needed including compliance with ARC flash requirements.	
Bell Well Decommission	\$ 54,000
Removal of well, tank and generator at Bell Well site.	
8" Distribution Main – Camino del Sur	\$200,000
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.	
Testing of Recovery Wells	\$110,000
Testing for existing wells that could be used for recovery of CAP water as part of the CAP Utilization Program.	
Total	\$814,000

Capital Projects – Water Resources Utilization

CMID Effluent Interconnect Design	\$50,000
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.	
Land Acquisition	\$ unknown
Acquire land for booster station/future treatment site as part of the CAP Utilization Program.	
Total	\$227,400
Monies from the Water Resources Utilization Fee can pay for these projects though it is recognized that \$225,000 will probably not be enough for a land acquisition.	

Capital Equipment

Variable Frequency Drive for H. Johnson Res.	\$ 15,000
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
Total	\$135,500

Staff believes these capital projects and equipment are important and beneficial for the District. Staff is preparing the one page summaries for each of these capital requests that will be distributed at the May 13, 2013 meeting.

Future Budget Projections

Attached are two spreadsheets that project the District's budgets to Fiscal Year 2017-18. This is done so that the Board and staff have a general concept of the direction of the District's finances. One spreadsheet includes 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 factors 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 and the direction of the District's finances in greater detail later in this summer.

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.

Respectfully submitted,

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General Manager