

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

**May 14, 2012**

**Draft Fiscal Year 2012-2013 Budget**

**Synopsis**

The Board of Directors is requested to provide direction to staff regarding the draft fiscal year 2012-2013 budget.

**Background**

The Board reviewed the draft fiscal year 2012-2013 budget at the April 30, 2012 study session. Staff presented a report detailing the major issues related to the budget. No specific changes were requested by the Board so staff has only updated the projected numbers for the draft budget. The Board report from the April 30, 2012 study session can be used as a reference for this agenda item.

**Report**

Staff's primary concern with the draft budget as presented at the April 30, 2012 study session was the projected ending operating fund balance of \$36,975. While this satisfied the day-to-day financial requirements for the next fiscal year, it did not provide much of a financial cushion. Following the study session, additional financial data was generated through the end of April. This allowed staff to revisit projected revenues and expenditures for this year, which obviously than impacts next year's budget. After updating the numbers, the draft Fiscal Year 2012-2013 budget's year end operating fund balance is now at \$353,589. The following is what has caused that change in the year end fund balance amount:

First, revenue projections continue to decrease. Based on April's numbers, the projected revenue for the current fiscal year is now even \$80,400 less than the April 30<sup>th</sup> draft budget. The cost for capital projects is now projected to be actually less than originally thought. The significant factor is accounting for the settlement of the Northeast Booster Station lawsuit that increased the cash balance by \$193,233 after legal costs. For the Fiscal Year 2012-2013 budget, a slight increase was made for the overall projected revenues. Also, purchased power is now budgeted for the same amount as this year's budget, which reduces the draft budget's expenditures.

While the \$353,589 amount is definitely more than what staff originally projected, the year end fund balance is still not at the amount that previous budgets have had. In addition, the budget In

addition, the budget does not provide the necessary foundation for the District to move forward with critical water resource and system improvements.

The agenda item for the budget is divided into three areas: General Operating Costs, Capital Equipment and Improvement Projects, and Revenue Generation. This is meant to allow the Board to discuss and to provide direction regarding specifics within those areas.

### *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 1.87 percent higher this year. As explained at the study session, the increase in expenditures are in part attributed to inflation, amplifying our 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 2% cost of living adjustment, longevity pay, and establishing a contingency fund for sick leave payout.

The April 30<sup>th</sup> draft budget had projected an increase in purchase power costs; however, staff believes that can be readjusted because projected power expenditures are much less than the budgeted amount. This is in correlation with the reduced water consumption. Also, upon closer analysis, staff has determined that TEP is not proposing a rate increase this year but bills have increased due to the elimination of a credit TEP was giving ratepayers for money the utility collected under non-defunct competitive rules. Even with this increase, next year's projected power costs should be at the same budgeted amount as this year. This brought a \$59,000 savings to the District and reduced overall expenditure increases for next fiscal year budget.

### *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 \$921,809 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)
Horizon Hills A Zone Waterline	\$325,000

As discussed at the study session, staff has talked with the Water Infrastructure Financing Authority (WIFA) about acquiring a loan that would allow the District 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. The loan could be from \$300,000 to \$400,000, which would then free up monies in the budget to then finance 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 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.

*Revenue Generation* – Since the study session, revenue projections have decreased further where as meter sales are projected slightly less than the April 30, 2012 draft.

As discussed at the April 30, 2012 study session, it is recommended that the Board consider having a rate hearing later this year to ensure the District is fiscally solid to meet its current responsibilities and has the necessary foundation to move forward with critical water resource and system improvements. While there is time to develop different rate scenarios for the Board to consider, it is important to have a sense of the amount of revenue that the Board would want to have generated based on the draft budget. Staff believes there are three key areas for generating revenues: First, the importance of increasing the year-end balance closer to at least a minimum \$500,000 but preferably to a higher amount to provide a greater cash flow and financial stability. Traditionally, the District has budgeted on average a year-end fund balance between \$1 million and \$1.2 million. Often the actual year-end fund balance is well over \$2 million. This has ensured a strong financial health for the District, which remains important for having a higher year-end fund balance. Second, the need to have funds to continue critical water resource and system improvements, particularly regarding the CAP Utilization Program. Third, to provide financial stability for as costs continue to increase, particularly in the purchase of CAP water. The rates for CAP water has increased at a higher percentage than anticipated, which means if the District is going to recharge as much CAP water as it had planned, it needs to prepare to have more money.

Attached is a table of potential rate modifications involving the base rate and/or establishing a fee for a specific purpose, such as a renewable water fee. This is meant to give the Board an idea of how much revenue could be generated by such rate adjustments.

**Recommendation**

Staff recommends that the Board discuss with the staff and provide direction regarding the draft Fiscal Year 2012-2013 budget. This would include providing direction to adjust specific line items as well as providing direction regarding the amount of additional revenue that Board would like to target to be generated.

Respectfully submitted,

Mark R. Stratton, P.E.  
General Manager