

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE**

**Metropolitan Domestic Water Improvement District
Board Conference Room
6265 N. La Cañada Drive
Tucson, AZ 85704**

March 21, 2011

MINUTES

Committee Members Present: Sheila Bowen, Chair
 Reb Guillot, Member
 Lee Mayes, Member
 Jeffrey Ratje, Vice-Chair
 Jim Stevenson, Member
 Clare Strom, Member
 Tim Thomure, Member
 Bernie Wiegandt, Member

District Staff Present: Mark R. Stratton, General Manager
 Warren Tenney, Assistant General Manager
 Mike Land, Chief Financial Officer
 Charlie Maish, District Engineer
 Tullie Noltin, Recorder

I. Call to Order and Roll Call.

Sheila Bowen of the Metropolitan Domestic Water Improvement District called the Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Ms. Bowen, Mr. Guillot, Mr. Mayes, Mr. Ratje, Mr. Stevenson, Ms. Strom and Mr. Thomure were present. Mr. Wiegandt arrived at 4:01 p.m.

II. Status of Capital Improvement Projects and County Road Projects.

Charlie Maish, District Engineer, talked about the various phases of the waterline relocations associated with the Pima County/RTA road improvement projects.

Mr. Wiegandt arrived at 4:01 pm.

Mr. Maish said the District continues to try to accommodate the Pima County roadway schedule but continuous changes and delays pose challenges. Ms. Bowen asked if Pima County is expected to seek compensation for delays. Mr. Maish said preliminary information indicates delay claims will be filed; however, the validity of claims will have to be proven. Previous claims that were found to be invalid were not paid.

III. Discussion and Direction for Draft Fiscal Year 2011-2012 Budget.

Mark Stratton, General Manager, commended Mike Land, Chief Financial Officer, and Warren Tenney, Assistant General Manager, for their work on the draft budget. Mr. Tenney said changes from the last discussion were highlighted and the Board has received the same draft. The Board will have a study session next week and staff does not plan to change it between now and then. A memorandum with FOC comments and recommendations will be provided to the Board.

Mr. Land said the draft budget reflects an overall increase and is broken down by division. The General Manager Division shows the biggest change. Debt service is increasing by \$793,000 due to the 2010 financing. Legal and lobbying shows an increase of \$33,000. Another \$25,000 was added under regulatory fees for the Avra Valley basin modification permit, as noted in the appendix.

Mr. Land said the Engineering Division reflects a drop in overtime (OT) from current year level of \$37,000 to \$10,000. Ms. Bowen asked if there was any concern about the need for available OT with the large number of upcoming projects. Mr. Maish said he has always been of the opinion that it is best to have someone on site when work is being done. Contractors typically work long days during daylight hours so each day could require 1-2 hours of overtime. Mr. Stratton added that with right-of-way (ROW) permits, the County plans to have their own ROW inspector on site, so some work unrelated to the actual installation can be monitored by the County. Mr. Land noted a reduction in OT and an increase in design and survey. Many times both design and survey can be charged straight to a project.

Mr. Land said the Utility Division shows an increase because of budgeting for the South Shannon operation and maintenance. The last few years this item has been funded by the State, and there is some uncertainty about whether Water Quality Assurance Revolving Fund (WQARF) funding will survive budget cuts. Mr. Stratton said he is hopeful the State will have a budget by the time the District is ready to finalize its budget. If the State will continue funding the WQARF program, this line item can be removed. Mr. Mayes asked if a \$5,000 reduction in the Utility Division budget for supplies for motors and pumps is risky. Mr. Stratton said there have been a lot of new motors and pumps installed in the last few years and the system has been upgraded as part of the capital program as well, so it is hoped that the District can now sustain with less operating costs.

Mr. Land said the Metro-Southwest Division budget is increasing. One of the main concerns is the debt service. The operating expenditures were more than covered by the revenue. The biggest change was related to regulatory expenses. As the Metro-Southwest Division settles into regular operations, staff will get more efficient at tracking costs.

Ms. Bowen asked about the contingency fund. Mr. Land said the \$500,000 contingency is shown right after the operating expenditures in the summary. Ms. Bowen wondered whether the contingency would cover such things as additional inspections or unreimbursed expenses at South Shannon, and Mr. Stratton said it would. Mr. Land said the fund could be used for unbudgeted expenses and emergency purposes. Mr. Tenney added the District also has the

reserve account that was established by the Board at the FOC's recommendation. The reserve account is in place to help with capital projects, such as waterline relocations that exceed estimates.

Mr. Ratje asked if the \$100,000 increase in metered sales revenues is a direct result of the rate increase. Mr. Land confirmed the increase is a result of the November 2010 rate increase, and added there is no new rate increase built into the draft budget for 2011-2012. Mr. Ratje asked if the \$10,000 increase in investment income is from the reserve fund, and Mr. Land confirmed. Mr. Land noted the projected revenue from new installations is lean; the District will only hit around 50 this year.

Mr. Thomure apologized not being present at the last meeting. Last summer as rate adjustments were being discussed he expressed significant concern about freezing salaries. He continues to wonder how long that trend will continue. He read the previous meeting minutes, at which there was quite a discussion about incentives and how to ensure the employees feel valued and stay with the District. He looked at the \$1.4 million projected increase in cash at the end of the fiscal year, and figured out what a salary adjustment means in terms of dollars: in a \$3-4 million dollar payroll, a 4% salary increase would come to about \$150,000. He believes a salary increase is a good investment of that money. The notes indicate that is something the Board will discuss and decide. From his point of view, the employees seem willing to weather the storm with the District but there is a risk of losing the talent if salaries are stagnant for an extended period of time. When he sees this kind of change in cash in hand, he can think of few things that are worth investing in more than the employees who have made this District strong all along.

Ms. Strom concurred with Mr. Thomure.

Mr. Guillot added he understands the concerns about committing to salary increases and then struggling if something happens later. He suggested again, as he did at the last FOC meeting, that perhaps a one-time bonus at the end of a review period would show the employees the company is looking after them. Mr. Thomure agreed and said in light of the \$1.4 million increase since last year, the Board may want to opt for a one-time bonus rather than a recurring increase.

Ms. Bowen asked where the professional growth fund stands in the revised draft budget. Mr. Land said line item 54075 includes \$12,316 needed to reinstate the professional growth program. Some people already have accumulated the maximum \$1,050 but any employee with less than the maximum could get \$350 in new monies.

Ms. Bowen observed there are no merit increases or cost of living allowances (COLA) planned in the draft budget, and Mr. Stratton confirmed. Ms. Bowen said the challenge is the rate adjustment that is hitting all of the rate payers. Mr. Stratton said historically the budget has been presented to the Board without any salary increases and the Board can take the initiative if they feel increases are appropriate. He said staff has typically avoided recommending adjustments of this kind. It is one of those last minute adjustments to budget based upon how the revenues versus expenditures end up. Ms. Bowen thanked Mr. Stratton for the clarification. She had not realized that staff refrained from recommending adjustments to salaries and found it helpful knowing the Board makes that decision. Mr. Stratton said that the FOC can choose whether to

make a recommendation on this matter. Ms. Bowen noted this seems to be a recurring theme of discussions.

Mr. Thomure suggested a recommendation that full consideration be given to some type of monetary increase for the employees, whether it is in the form of a salary increase or in the form of a bonus, based on fact that the bottom line shows an improvement in cash on hand, that seems to indicate that there is capacity in the budget to accommodate that. Ms. Bowen noted the FOC does not normally take formal motions but she would entertain that as a motion. Ms. Strom seconded the motion.

Ms. Bowen asked if this recommendation should also include professional growth funds. Mr. Thomure said he is in favor of reinstating professional growth but it is his feeling is that type of incentive should only be part of the consideration and not the end point. He feels there needs to be a direct monetary value to the employee.

Ms. Strom pointed out that in the appendix of the General Manager's budget there is an explanation on line item 54070 about education and travel to different conferences set aside for the safety, human resources and information technology positions. She questioned why some positions get specialized training while others do not, and how that plays into the professional growth fund. Mr. Stratton said when there is a direct benefit to the District, is when the expense is set aside, whereas professional growth funds may or may not be of direct benefit to the District. For example, if an individual wants to take a computer or language course, it will enhance their own abilities and could help them move to a different position. Specific training, such as operator certification or expenses related to membership organizations that are necessary or required to carry out the duties of their current position are generally included in the budget.

Ms. Strom asked about the rules governing professional growth funds. She asked if an employee could use those funds for education and books. Mr. Stratton said it is fairly open ended; the funds could be used for education or books. The way it is structured, an employee can spend the funds in small increments or save up to a maximum of \$1,050 to go to a more costly conference.

Ms. Strom recommended, in line with what Mr. Thomure stated, that the District keep the subject of a stipend or bonus separate from professional growth because it is too convoluted. Some employees have remaining balances or maximum balances and selected employees already receive opportunities for ongoing training for their position. She feels professional growth should be addressed as a separate issue because not all employees will benefit from its reinstatement. Mr. Stratton said it is unclear why some individuals have not used their previously accumulated professional growth funds.

Ms. Strom noted the District did a good job mitigating the changes in medical costs but there will be an increase in Arizona State Retirement (ASRS) this year, so employees are already going to see less money in their paychecks. She supports an across-the-board increase for all employees.

Mr. Ratje said he would support an increase that was performance-based and not a COLA across the board. He noted that times are still very hard and if rates have to go up in the future it is

going to be a hard sell. He feels employees should not get raises just because they are here. He would rather it be based on recognition for doing a good job, even in hard times.

Mr. Thomure said he is not opposed to what Mr. Ratje said; he is also in favor of merits over COLAs, but he wanted to know more about the flexibility of the different types of raises. Mr. Stratton said historically COLAs have ranged from 1.5-3.0 percent and merit increases were an average of 2.75-3.0 percent, with a maximum of 4 percent. The District never spent the entire amount because not every employee earned the 4 percent. There is the ability to differentiate based on performance under the merit system. Mr. Thomure said that if everyone is in favor of that concept he would like to provide an incentive tied to performance.

Mr. Tenney said he and Mr. Land have talked about merit awards versus COLAs, and he understands and agrees on the benefits of a performance based incentive, but from a budgetary perspective, a COLA would have less of an impact on the District. COLAs would be in the range of 1.0-2.0 percent but if get into the realm of performance based raises up to 4 percent it is human nature to recommend the full amount and the District ends up potentially spending much more. If a one-time 2 percent COLA bonus was given, it would come to about \$80,000 and would not be permanently impacting the salary budget every year.

Ms. Bowen said she feels the FOC is on a good track and she supports recommending a consideration of the economy we are in, and the financial impacts to staff and customers while still allowing flexibility in implementing what the Board thinks is best. She feels in a utility it may be harder for some positions to shine as the super-employee. There may be reason to give the Board some flexibility to work within that spectrum.

Mr. Guillot said his feelings are pretty close to what Mr. Tenney had just said about merits versus COLAs. The District would be telling people who have not had a raise or promotion for the last couple years "we are in financial straits but we appreciate that you have stuck with us all this time." He believes that in hard times it is better to give a one-time bonus that is unrelated to merit. The District does not employ a bunch of slackers and every employee who receives it would be deserving. He would like to see a pool of money divided equally among the employees.

Mr. Wiegandt said that as he mentioned last time, the recent rate increase was solely brought about because of a debt service need. He feels it is wrong to the rate payers to talk about salary increases at this point; that should have been presented as part of the rate increase. Now that the District has available resources, of which the rate increase has been identified as being part, to raise salaries is unfair to the ratepayers. The marketplace is still fragile and ratepayers have not necessarily seen increases to their livelihood. He said he was very much put off by the process of looking at salary increases when the District should have been looking at doing it six months ago. He said he understands it, and maybe if we were talking about an effective date of June 2012 he could support it, but six months ago it was not talked about at all. He feels the next time there is a rate increase customers will have a right to complain.

Mr. Thomure responded that he does not disagree with that concept; however, the issue of salary freezes was brought up and discussed six months ago. At that time it went into the budget as a zero percent change. He feels Mr. Wiegandt has a valid point about where the money came from

but he stood behind his earlier statements supporting an effort to provide incentives to staff. He feels it should be considered by the Board and he would fully endorse it. Mr. Thomure noted that when discussions about the budget and rate adjustment were occurring last year, he does not remember talking about the \$125,000 GAC replacement at South Shannon either but as a business expense it now needs to be budgeted. He does not see a stipend to the employees as being any less of a valid business expense than GAC replacements at South Shannon.

Ms. Strom agreed that a one-time stipend or award or bonus would not need to be tied to salary and if that is the differentiation that needs to be made, then the FOC should do that. She is very concerned about a continuation and succession plan for employees. Training should be kept up and the employee should be valued. Staff works in a very technical way that not everyone understands and there is a lot of seniority and commitment among employees of the District. She wondered how deep it has to get before staff is afforded some relief. She would like to be able to say to staff that even though their salaries are not being adjusted, the void in their pay is recognized and a one-time stipend will be given.

Mr. Land clarified that justifications for the rate increase did include operations and maintenance costs, and staffing costs could be considered part of that. As an employee, Mr. Land said he is grateful there have been no salary cutbacks, layoffs or furloughs. On the other hand, there have been small increases to things such as ASRS. He feels covering those increased costs could be justification for a small one-time bonus.

Mr. Ratje asked if the FOC would be more inclined to say they endorse some type of increase within a specific amount, rather than making a recommendation. Mr. Thomure said it was his intent that the committee simply make it known to BOD that they support a financial incentive in whatever form the Board decides. He feels it is important to convey the nature of the different arguments for and against, and the Board will see all of the detailed arguments and discussion in the minutes leading up to the recommendation. He feels the employees are due for something and that it is a valid use of the money in the budget.

Mr. Mayes asked how much ASRS is increasing. Mr. Wiegandt said it will be going up 0.9% to employee and 0.9% to the employer as well. Ms. Bowen noted medical and dental premiums had also gone up since salaries were frozen. Ms. Strom added it is important to consider the compounding effect of not having raises in a couple of years. There was a substantial increase to ASRS last year alone, so the increase this year might be small but it has grown to 10% out of their checks. Ms. Strom agreed with Mr. Thomure, that the FOC should recommend some type of adjustment to all employees in the form of a one-time amount, and see where the Board goes with it. She said the main point from the beginning of the discussion is that the employees should be valued as an asset, just as a backhoe or fuel is. People are a key asset to the operation. Ms. Bowen agreed that operating within the knowledge of the rate increase and the economic conditions, the point is that this FOC values the employees. The Board will decide what is best.

The motion passed 6-2. Mr. Stevenson and Mr. Wiegandt opposed.

Ms. Bowen asked if lobbying had been decreased because staff was now doing the lobbying or because of budget reasons. Mr. Stratton said the lobbying budget had been consistent for 10

years and is being supplemented through Southern Arizona Water Users Association (SAWUA). Mr. Tenney said the lobbyist was discontinued not because of any performance issues but because there was not a lot of legislation expected and that was one way to save money. The lobbyist contract was not renewed last December because it appeared to be one way to save money and not a lot of legislation was projected. The lobbyist funds do appear in the draft budget because staff recognizes the need to increase legal and lobbying. All indications are that there will be more water-related legislative activity next year. Mr. Stratton would like to err on the side of caution and have the funds available if they are needed.

Mr. Wiegandt said cities and towns normally have an obligation when they do their budget to work under a limit of expenditures, and asked if the District is limited or restricted in such a way. Mr. Land said the District is not bound by certain ceilings but limits itself voluntarily. Mr. Wiegandt said if the need arises the budget could be expanded by Board action, and Mr. Land confirmed. Mr. Wiegandt surmised that there is really no need for a contingency except that it is functionally prudent to do so. Mr. Stratton said one of the things the Board has talked about in the past is whether or not the unused portion of the contingency fund should go into a reserve fund to start paying for capital projects as they are needed. Instead of having a carryover from the last year's budget, the District could start banking some away for capital programs to prevent the need for future financing. He anticipates that discussion will occur at the next Board meeting.

Ms. Strom asked for further clarification on why the Engineering OT was reduced so drastically. Mr. Stratton explained the Pima County inspectors will be there due to a change in their policies on permit fees. Ms. Strom asked if the County inspectors meet the District's standards, and Mr. Stratton said the District is required to meet County standards. The District inspects as the backfill is being done and the pipe is being installed. The back fill must meet certain compaction criteria under roadway requirements, so it is their standard that we are to meet. The real concern is with the installation of pipe itself and the rest is roadway management.

Ms. Bowen asked if inspection overtime costs were covered in RTA fee justifications. Mr. Maish said that in the past inspection costs have been included in the CIP under construction management and inspection. Estimates for the RTA improvement projects did include project management and inspection fees based on estimates. Mr. Thomure asked if it is correct that the question now is the duration of the RTA fee not whether to raise it; if there are less expenditures the fee would be stopped, not go up or down. Mr. Land confirmed the RTA fee covers the debt service of \$6.6 million for a nine year payoff. He said if something happens and costs exceed the amount borrowed the District would have to fund the rest with operating revenues. One project came in a half million dollars over the estimate and the following project came in less, so there is some room for adjustment.

Ms. Bowen asked if the County is accepting responsibility for the pipeline installs they inspect. Mr. Maish said the District is responsible for the pipeline so if there is a failure the District is responsible, even if the County inspector watched it. Ms. Bowen asked if there is any reason to take out planned OT other than bringing that budget line item down. Mr. Maish said it is a difficult time because the RTA projects are so active; by the end of the calendar year there will be four simultaneous projects underway. There was a short discussion about whether it would be

more cost-effective to subcontract inspectors. Mr. Maish said consultant inspection would be more costly than overtime hours. It would also be difficult to ask a contractor on call for one or two hours per day. Ms. Bowen prefers to recommend the inspection overtime be covered. There was general consensus that in-house inspectors would do a better job than outside inspectors.

Mr. Stratton said that staff will report back to the FOC on what the Board decides at their study session. Capital items and projects will also be reviewed in the interim. The current draft includes \$100,000 for capital items and \$500,000 for capital projects but a more definitive idea will be provided at the next FOC meeting.

IV. Future Meeting Dates; Future Agenda Items.

Ms. Bowen said the FOC will look forward to the budget update and the information on the capital items. The next meeting will be held on Monday, April 18, 2011 at 4:00 p.m.

V. Adjournment.

The meeting adjourned at 4:58 p.m.