

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

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

January 25, 2016

MINUTES

Committee Members Present: Reb Guillot, Chair
 Lee Harbers, Vice Chair
 Sheila Bowen, Member, via telephone
 Barbara Gelband, Member
 Tom Ruppenthal, Member
 Robert Shonka, Member

Committee Members Not Present: Lee Mayes, Member
 Danny Sargent, Member

District Staff Present: Joseph Olsen, General Manager
 Diane Bracken, Chief Financial Officer
 Charlie Maish, District Engineer
 Tullie Noltin, Clerk of the Board
 Steve Shepard, Utility Superintendent
 Warren Tenney, Assistant General Manager

I. Call to Order and Roll Call

Mr. Guillot called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Guillot, Ms. Gelband, Mr. Harbers, Mr. Ruppenthal, and Mr. Shonka were present and Ms. Bowen was present by telephone. Mr. Mayes and Mr. Sargent were not present.

II. Election of Committee Chair and Vice-Chair

Ms. Gelband nominated Reb Guillot for Chair for 2016 and Mr. Harbers seconded the nomination. Ms. Gelband moved to close nominations and Mr. Shonka seconded. Motion to elect Mr. Guillot for Chair passed unanimously.

Ms. Gelband nominated Lee Harbers for Vice-Chair for 2016 and Ms. Bowen seconded the nomination. Ms. Gelband moved to close nominations and Mr. Shonka seconded. Motion to elect Mr. Harbers for Vice-Chair passed unanimously.

III. Call to the Public

There were no comments by the public.

IV. Approval of Minutes – June 15, 2015 Meeting

Mr. Harbers made a motion to accept the minutes as presented. Ms. Gelband seconded the motion. Motion passed unanimously.

V. Discussion and Possible Recommendation for Mid-Year Review of Fiscal Year 2016 Budget

Mr. Olsen said the current financial plan was first discussed in March 2015 with the FOC and approved by the Board in May 2015. The fiscal year has now reached the halfway point. One key item that staff said would be brought back in the mid-year budget review was the Metro Hub retaining wall. When revenue was projected, everything appeared to line up but staff wanted to exercise caution with this revenue-funded capital project until meter connection fee projections could be determined. Staff is comfortable with moving forward with the retaining wall as planned in the budget. This is phase one of a greater project to be able to enhance storage at Metro Hub in future fiscal years.

Mr. Olsen talked about revenue stability and the Fiscal Year 2016 Budget. At the last meeting, Ms. Gelband asked if the decline in consumption is a bad thing. This fiscal year, steps were taken to achieve revenue stability by shifting revenue from the first tier to the monthly service charge so that 83% of fixed costs were covered by fixed revenue. During the first six months of operating under this model, the District has experienced an average 3.5% decline in consumption compared with the previous fiscal year but revenue is only down by about 0.6% compared with the projected 1.4% revenue decrease. Revenue stability measures have allowed the District to stay on track despite declines in consumption without penalizing customers. The average customer bill increased by less than one dollar to realize this level of revenue stability. Other providers in the industry are looking at taking similar steps and the District demonstrated the concept's effectiveness.

Ms. Bracken went over the mid-year status of revenue, expenses, management of certain line items and minor variances, as detailed in the mid-year budget report. Mr. Olsen recognized staff efforts to judiciously manage ratepayer money.

Mr. Olsen explained a recent change on customer bills that breaks out fixed and variable charges, which will enhance understanding by providing direct tangible ties during future rate discussions. Ms. Bracken said the FOC previously requested a split of fixed and variable costs in the budget process and this change to billing statements will make it easier to align actual numbers with the budget.

Mr. Shonka made a motion that based on the Committee's mid-year review of the Fiscal Year 2016 budget that staff proceed with the budget as planned. Ms. Gelband seconded the motion.

Mr. Harbers asked if there are any unexpected expenses hiding in the weeds. Mr. Olsen said any time a project, item, or other requirement comes up that is not in the budget, it is carefully tracked on a spreadsheet. By that same regard, any time there is a savings, it is also tracked to identify trends. Once a trend is identified, discussions take place about what can be done to address unplanned requirements. Mr. Maish noted that variances in the economy have impacted bid ranges on construction projects. Bids have been somewhat unpredictable with fewer contractors.

Motion passed unanimously.

VI. Discussion and Possible Recommendation for RTA Fee

Mr. Olsen said the RTA Fee is a topic that frequently comes up in discussions about rates and budgets. Customers often ask when the fee will end. Mr. Olsen reviewed the background of the fee, including the rapid succession of RTA projects that prompted its establishment. The RTA Fee is scheduled to sunset at the end of 2020, which coincides with the final payment of the debt service paying off the \$6.6 million bond associated with construction of the RTA waterline relocation projects. Meetings, discussions, and customer publications have reiterated the planned expiration of the fee at the end of 2020.

There are additional requirements associated with future RTA projects, which are estimated to have a \$1.5 to \$2 million impact on the District in the next year to year and a half. The specific timing and scope of those projects is uncertain.

Staff looked at two options to address the future requirements. One option is to pay off the current bonds in 2020 and then continue collection of the RTA Fee to fund the future projects through reimbursement to the operating fund. The second option is to honor the commitment made to District customers and to have the fee sunset with the final payment of the bonds in 2020, revenue-funding future projects without reimbursement from the RTA Fee.

There are many pros and cons but staff is heavily recommending the FOC make a recommendation to the Board that the RTA Fee sunset at the time frame the District has previously stated. This would require prioritization and revenue-funding of RTA waterline relocation projects just like any other capital project. It would not be beneficial to do the alternative and extend the fee because that would be going back on what the customers have come to expect and the reimbursements related to future RTA projects would occur several years after their completion.

Mr. Maish said there are two RTA projects remaining on the schedule in the District's service areas. The biggest project is La Cholla between Overton and Tangerine. The District would need

to relocate about one mile of waterlines along a portion of that project. The other project, which will not impact as much, is in Metro Southwest – Diablo Village. That one is not earmarked for another year and a half; whereas, the La Cholla project is expected to start sometime in 2017. Staff will not know the exact requirements until the designs are received but a historical costs have been \$800,000 to \$1 million per mile of waterline relocation. There have already been smaller projects beyond the \$6.6 million that were completed with revenue funding.

Ms. Gelband asked if the District would take out any new bonds for future RTA projects and Mr. Olsen said no.

Mr. Ruppenthal made a motion that the Committee recommend continuing collection of the RTA Fee as previously approved by the Board of Directors through the year 2020 to pay off existing District debt associated with past RTA projects and that the fee not be extended beyond what was previously authorized. Mr. Shonka seconded the motion.

Mr. Shonka agreed it would be a public relations disaster to go back on the District's word. He asked about having another RTA Fee start in 2020 just to pay for those projects. Mr. Olsen said that would not be his preferred plan. It would be tough to justify creating another fee as a retroactive reimbursement mechanism for RTA projects that already occurred.

Mr. Harbers asked about the impact on capital improvement projects that might be put at risk if future RTA projects are revenue-funded. Mr. Olsen said the number one priority capital project next fiscal year is the completion of the Oracle Jaynes Well. The plan is to do hydrogeological testing this year and then drill and equip the new well next year. The number two priority capital project is the demolition of one of the storage tanks in Metro Hub, followed by the construction of the larger storage vessel, which is being facilitated by the retaining wall currently moving forward. Looking at dollar amounts, it would make sense that one of those projects, likely Hub storage, would be delayed a year to make room for RTA requirements beyond our control. These two particular projects serve different needs: storage capacity and well production. Several members had questions and Mr. Olsen talked about some of the many factors, which help determine the prioritization of differing capital projects.

Mr. Harbers asked if all customers are paying the RTA Fee. Ms. Bracken said Metro Southwest does not pay the RTA Fee because at the time it was established, they were not impacted by RTA projects in the Metro Main and Metro Hub service areas. Ms. Gelband asked about Metro Hub customers. Mr. Tenney recalled the fee was set up for both Metro Main and Metro Hub, anticipating that there may or may not be projects in each service area.

Motion passed unanimously.

VII. Discussion on Financial Plan, Revenue Needs and Rates

Mr. Olsen said District staff recently held the annual budget kickoff meeting. Prioritization happens throughout the year but this was the formal kickoff for the new fiscal year to begin identifying, justifying, and prioritizing the requirements into an integrated list of capital equipment needs. There are a couple items being built into the rate models, which aligns with the priority-driven budget process. Staff is preparing to go into detail about rates and revenue projections at the March 21, 2016 FOC meeting.

Some of the concepts being considered are centered on the inverted rate structure, which promotes conservation. There have been some concerns in the water community about how the upper tiers are justified within inverted rate structures. The first tier users should be acknowledged for their careful conservation efforts and one way to do that, is to incorporate a portion of the first tier usage into the Water Availability Rate, or base rate. Staff has some ideas on how to accomplish that while giving some relief to those first tier users.

Two years ago, staff talked with the FOC about the need for water resource stability and with the FOC's recommendation, the Board of Directors voted on a 20 cent increase to the Water Resources Utilization Fee (WRUF), bringing that fee to 40 cents per thousand gallons. During that FOC discussion, it was made clear that ultimately the fee would need to be increased up to 70 cents to incorporate the efforts of leveraging the District's effluent to be able to get 100% credits, move forward with the CAP Recharge, Recovery, and Delivery System (CAP RRDS) to address the two foot annual decline in Metro main, and accomplish a host of other water resource efforts. Tentatively, it was discussed to have no increase the following year and a 10 cent increase in subsequent years to eventually get to 70 cents. Mr. Olsen has been having discussions with other entities about partnering on the District's CAP RRDS project that could bring cost savings but those partnerships will not be known for about another six months. Another 10 cent increase to the WRUF this year would be appropriate to continue on the trajectory laid out two years ago.

Staff is also looking at how to give customers a break from rate increases. Even though increases have only been a couple percentage points per year for the average customer compared to other water and wastewater entities that have had substantially larger increases, they have been occurring almost every year. Staff is looking at a biennial model to see if there is a possibility of planning for a zero percent increase in Fiscal Year 2018, to build in some water rate relief to customers.

These are some of the goals and initiatives. Staff will continue to build models and go through dozens of iterations before bringing the information to the FOC for discussion and insight. Now that bills are broken out for fixed and variable revenue, staff can better identify costs that need to be addressed based on future planning. Mr. Olsen is looking forward to presenting the work and seeing what the FOC recommends to the Board in March.

Mr. Olsen said Mr. Tenney has accepted a position as the Executive Director of AMWUA, where he will be able to influence water policy across the State. Mr. Olsen thanked him for 22

years of service to the District. He will be missed. Ms. Noltin will be taking over Mr. Tenney's duties in the interim until the General Manager's office can be reorganized. The Committee expressed their gratitude to Mr. Tenney and congratulated him.

VIII. Future Meeting Dates and Agenda Items

The next Finance Oversight Committee meeting is scheduled for March 21, 2016 at 4:00 p.m. Ms. Bowen said she will be out of town during the next meeting.

IX. Call to the Public

There were no comments by the public.

X. Adjournment

The meeting adjourned at 5:27 p.m.

Reb Guillot, Chair
Finance Oversight Committee