

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

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

May 20, 2013

MINUTES

Committee Members Present: Tim Thomure, Vice Chair (via telephone)
Sheila Bowen, Member
Jennifer Dussor, Member
Jim Stevenson, Member

Committee Members Not Present: Jeffrey Ratje, Chair
Reb Guillot, Member
Lee Mayes, Member

District Staff Present: Christopher W. Hill, Deputy Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Warren Tenney, Assistant General Manager

I. Call to Order and Roll Call

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

II. Approval of Minutes – April 15, 2013 Meeting

The Committee postponed approval of the April 15, 2013 Minutes because the draft minutes were not included with meeting materials.

III. Status of Capital Improvement Projects and County Road Projects

Mr. Maish said all Pima/County RTA related waterline projects are now complete. The District is still closing out two contracts but all construction is complete. The only capital improvement project currently in progress is the Riverside Well site. The Board approved the contract for the Hub 1A Well at the last meeting and construction will commence in a month or so.

IV. Draft Fiscal Year 2013-14 Budget

Mr. Tenney said the Board did not make any changes regarding expenditures in the operation and maintenance at their meeting last week. They reviewed capital items and the identified projects. The Board did say they would specifically like to hear comments or suggestions from the FOC regarding capital items. When staff gathered to talk about the capital projects and items, we focused on needs rather than wants.

Improvements at the Hub 1A Well, near Fruchthendler School, include a treatment media expansion for arsenic and a new trailer with sewer connection. There might be some monies left from the 2007 WIFA loan, as improvements from that loan came in under our original estimate. Ms. Dussor asked for clarification on the estimate. Mr. Land said the 2007 WIFA loan was for the Hub 1A project but was totally separate from the currently proposed improvements. She asked if this would be a permanent trailer, where someone would be working 40 hours a week. Mr. Maish explained this would be a trailer similar to the one we have at Metro Southwest, which is a 20 x 40 office space with storage and a restroom. Currently, there is an old trailer at Metro Hub without restroom facilities that has been there since the Hub system was acquired 13-14 years ago. Ms. Dussor asked if the trailer would remain in place in the future and Mr. Maish confirmed. Ms. Dussor asked if it would be better to use a permanent septic tank and have it pumped and maintained. Mr. Maish explained sewer access is very close to the site, so the District has opted to go in that direction.

Mr. Tenney continued with general capital projects. The HDR Study for the CAP Utilization Program is ongoing. About \$78,000 of the \$150,000 is to be spent in the current fiscal year.

The District also needs to complete the metering station portion of the reclaimed water line project. The line connects with Tucson Water's reclaimed system and runs from Thornydale Road down Cortaro Road to Omni Tucson National Resort, near the bridge at CDO Wash. The reclaimed waterline is in place so that Tucson National can take reclaimed water for its newest nine holes. This also allows the District to obtain credits and puts to full use the reclaimed water delivered to them. Since our reclaimed waterline connects to Tucson Water, we have an agreement with them to take our portion of effluent through their line. Tucson Water will construct and the District will pay the bill.

Mr. Tenney talked about the needs for electrical upgrades and replacement of VFD at Magee/La Cholla and electrical upgrades, the decommissioning of Bell Well, the 8 inch distribution main at Camino del Sur from the 'C' Zone to the 'B' Zone, and the testing of recovery wells. Mr. Stevenson asked about the terms "recovery wells" and "recharge wells" in the reports. Mr. Tenney explained the District is referring to recovering CAP water recharged at AVRVP.

Mr. Tenney said the general projects would be funded under capital projects. Right now \$330,100 is budgeted from development fee funds to cover the first part. The rest would be funded from the year-end fund balance of this year's budget.

Ms. Dussor asked about the HDR study. She asked if there have been any evaluations to identify any potential for cost sharing to offset the costs of the study or subsequent land acquisition. Mr. Tenney said the District has been having discussions with the Town of Oro Valley to look at how they could benefit. Oro Valley has been talking about doing something similar. The District has had really good relationships with Oro Valley, Flowing Wells Irrigation District (FWID) and the Town of Marana. Right now, FWID and Marana do not have a need for this but Oro Valley does have an interest. If the timelines are the same, economies of scale are always less expensive. Ms. Dussor asked if Tucson Water has any interest in a District/Oro Valley tie-in. Mr. Tenney said at this point, Tucson is focused on the Southern Avra Valley Recharge Project but we do have a good relationship with them. Mike Block, Water Resources Manager, said with AVR, the District did approach Tucson Water regarding use of the BKW recovery wells because their groundwater savings project gives them first right to use those and they gave us approval.

Ms. Dussor asked if the recommendations of potential sites for pump stations or pipeline alignment are fully vetted and viable. She has seen projects before where final potential sites turn out to not be viable but provided a final delivery product, so to speak. Mr. Maish said the District has an agreement with HDR, which has located at least three potential sites. As far as conveyance alignment, a few years ago the alignment was investigated from Thornydale Road to I-10 and Tangerine Road. A few years ago, they came up with two alignments involving Oro Valley as a partner, and one without.

Regarding the VFD replacement for the Magee/La Cholla site, Ms. Dussor asked how the District would manage the liability in the absence of the upgrade or before it is implemented. Mr. Hill explained this is one of our first VFDs and it is past its life expectancy. This VFD is called a multiplexer because it has three separate parts and one broken link could lead to catastrophic failure. If one goes down, we would lose the entire station's pumping capacity and fire protection, so the upgrade is critical. Additionally, it cannot be worked on without shutting the whole site down, so that is the reason for the high price. Staff prefers to contract the job and have the work completed as a package. Funding for design was included in the current budget.

Mr. Tenney said the next capital projects on the list are to be funded through the Water Resources Utilization fee. The District has a design and an agreement in place for an interconnect with Cortaro-Marana Irrigation District (CMID). They can take our effluent, use it instead of groundwater, and we receive credit for the effluent. Right now, a determination is being made about the status of an old connection between the Ina Road wastewater treatment plant and the CMID system.

The next unknown figure is regarding land acquisition tied with the future booster station treatment site. Based on the cost of land right now, staff feels it would be prudent to secure that land as soon as possible. It will probably cost more than the balance of \$227,400.

Ms. Bowen asked if the District's CAP allocation is sufficient, or if there is a need to supplement with credits. Mr. Tenney said at this moment we have plenty but we do not want to put all our eggs in one basket, so we are developing our effluent and working on the possibility of obtaining

Non-Indian Agricultural water. Ms. Bowen said the reason for her question was the order of priority. She wondered if the land acquisition for the pumping station may be of a higher priority than the CMID interconnect. Mr. Tenney said they are of somewhat equal priority. With land costs such as they are, it is wise to secure land now. On the flip side, putting to use our effluent involved with managing the recharge project allows us to obtain 50% credit. If we were able to get 100%, it would be well worth our investment. Ms. Bowen asked if the District were able to get 100% effluent, would it take that much less in CAP. Mr. Tenney replied we would not but would try to maximize the effluent because we are obtaining credits for the future. Mr. Block noted CAP will only get more expensive.

Mr. Tenney ran down the list of capital equipment, totaling \$135,500. The list includes a VFD for Herb Johnson, two pressure tanks, continuing the Metro Hub meter replacement program, leasing five fleet vehicles through Enterprise, a pressure recorder and software, a water trailer, and road plates used during maintenance.

Mr. Land said there are two others that were recently added after the list was distributed, which include an air conditioning unit for the building and two handheld meter devices. The building was built in May 1999 and historically, we have gone through at least one unit per year, so we see the need to budget \$7,500 for a unit this year. Handheld meter devices are needed because the current system will no longer be supported after June. The price is \$9,000 for two. The dollar amounts for the AC unit and the handhelds are not yet included in the draft numbers. Ms. Bowen wanted to make sure there will not be a need to change the meters themselves with the new devices, and Mr. Land confirmed. Ms. Dussor asked if the fourth old handheld we still be a viable, functional backup and Mr. Land said it will be kept as a spare.

Ms. Dussor asked if Bell Well will be abandoned in the decommissioning, or just taken out of use. Mr. Block said the pump will be removed from the well so there will be no repercussions from ADWR for future use. Mr. Block will also change the status from production to monitoring well. Mr. Land pointed out there could be opportunities to use storage space at the location.

Ms. Bowen asked if the new trailer at Metro Hub could be substituted with a rental in the area. Mr. Maish said it will not be staffed full time so we do not need a permanent office location. It is more for responding to emergencies, carrying out work orders, and providing a computer connection, telephone, etcetera for monitoring the SCADA in the enclosed well site. Ms. Bowen said it makes more sense knowing the SCADA is there. She was wondering about the need if it was just office space.

Mr. Tenney said future year budget projections have been given to the Board and FOC. This is something that was done last year and we are continuing this year, to give a sense of the future outlook in advance of discussions about rate adjustments. Projections through the 2017-18 budget cycle, with and without rate adjustments, are shown. The compounding effect of small, regular rate increases is the preferred approach, rather than trying to avoid adjustments and then having to catch up with large increases. The District is looking at a projected continued decline in water usage. If that decline bottoms out, as we are hoping, that would impact revenue. Staff

would like the FOC and Board to be aware and further discussion will be on the agenda at the end of the summer, before consideration of any rate adjustments.

Ms. Bowen said there appears to be a growth element in the projections. Mr. Land said 50 new connections per year are figured in. Metered sales have dropped 2.1% each year. The salaries category will jump due to increases in health insurance benefits. Electric costs are going up and a consistent increase in CAP water is assumed. Ms. Bowen asked why the 15% TEP increase is represented in the District budget as a 5% impact. Mr. Hill said staff is hoping to add more interruptible sites to minimize the TEP impact.

Mr. Tenney said with the revenue side down, the District stresses the importance of vigilance in watching expenses. Mr. Stratton is very slow to approve purchases, even if they are in the budget because we want to make sure they are needed.

Ms. Bowen asked how staff arrived at a total of 5% increase for staff salaries and benefits including the COLA and merit adjustments. Mr. Land said 5% grand total includes a 2% COLA, a 2% merit, and health insurance increases could be astronomical. The District does whatever it takes to try to keep expenditures at a minimum, whether by allowing positions to go unfilled or by different avenues.

Ms. Dussor asked if we have confirmation the Metro Hub meter replacement program is earning its keep. Mr. Hill said water losses at Metro Hub have been historically higher than in Metro Main and water losses went down in Metro Main with a similar program. The program is a precursor to a fixed network system and the meters are good for 20 years rather than 10. The stewardship on the resource itself is worth a high premium too.

Ms. Dussor asked if the 2.1% decline is what the District actually sees or the market average. Mr. Land said that figure is what the District sees but it is also consistent with declines in other locations. Ms. Dussor asked if there is any potential for that number to increase and if there has been a study to find out what could bump it higher. Mr. Block said there is a study underway by Gary Woodard to determine what is going on and how to predict for the future, as most utilities do not know the causes or when this will end.

Ms. Dussor pointed out that capital expenditures are almost non-existent in the reports. Mr. Tenney said the District has historically spent about \$1 million on capital projects but since 2009 that number has decreased, based on trying to keep system operating and wells maintained during the economic downturn. All the road projects created the need for the RTA Pima County Waterline Relocation Fee and those projects were not part of our capital improvements. The lines were not necessary to move, so since that time, the District had not factored in large capital expenditures.

Mr. Maish and his staff have a list of unfunded capital needs. Ms. Bowen asked if those projects should be listed too. Mr. Land said the entire list has been provided in prior years, broken down by funded and unfunded items. Ms. Bowen said that might be helpful to show in demonstrating

the need for a rate increase later. Mr. Tenney said a water system management plan was prepared years ago by outside consultants and Mr. Stratton wants to update it internally. Mr. Maish said small projects can be designed in house separate from the capital improvement program. Staff will be evaluating and updating the list of needs and based on the decline in water, may be able to reduce it slightly. Ms. Bowen had previously suggested adding the half million dollars back in to pay for capital needs. She asked if there is a need for even more than that and Mr. Maish said yes. Ms. Bowen suggested it would be better to show capital needs when recommending rate adjustments and she thinks 4% is reasonable and within expectations.

Mr. Tenney asked the FOC if they have any formal recommendations or comments regarding capital projects or the budget as a whole. Mr. Stevenson said he was ready to accept the staff recommendation and had nothing specific to add. Ms. Bowen said she supports what staff has shown but would like to see the capital program revisited at a later date. The consensus was that staff's recommendation is reasonable. Mr. Thomure agreed, pending the outcome of the internal study on the capital program, saying the proposed items look good at this point and are reasonable for this cycle. Mr. Land said he will continue to update the draft budget as revenues for April and May come in.

Ms. Dussor cautioned against allowing vacant positions to remain vacant too long from a cost savings position. She encouraged the District not to get used to using that as a crutch because it is hard for the employees, both management and staff. In an ideal world, there would be an overlap between positions but she realizes that gold standard is hard to achieve. With regards to budgeting, she would encourage consideration of eliminating as much of that gap as possible because the District is operating in a lean matter already and that type of interruption stresses the whole system, in her experience. Mr. Tenney said the point was well taken.

Ms. Bowen said she would like the capital program to be on a future agenda, specifically what the program originally was, what has been done, what is needed, and what has been deemed unnecessary. She would like the FOC to have a good understanding of the District's capital needs before the next budget year.

Ms. Dussor suggested a future agenda item regarding staffing. More money and better benefits is not necessarily her battle cry but streamlining and trimming the fat is always very burdensome to staff. She would like to see that discussed somewhere down line because she has been to contentious Board meetings before, when staff was fighting for their benefits and pay. Frustrations often have more to do with job satisfaction and workload distribution than pay. Ms. Bowen pointed out there is a program underway focused on efficiency and reducing paperwork, which will help the District address staffing issues and needs. Some positions left vacant through attrition are no longer needed. Mr. Tenney said the draft budget funds 47 employees and 2 other positions. Also included in the report was a request for an additional position in Utilities. The District wants to make sure staff is not spread too thin but also make sure people have enough work to stay busy. Mr. Hill said the District looks for other ways to deal with staffing issues, such as working with City of Tucson contractors through their procurement process for electrical projects and sometimes that works out better than full time staff.

The Committee will hold the next meeting August 19, 2013, skipping June and July.

V. Call to the Public

There were no comments from the public.

VI. Adjournment

The meeting adjourned at 5:14 p.m.

Finance Oversight Committee