

**BOARD OF DIRECTORS
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
PIMA COUNTY, ARIZONA**

TUESDAY, APRIL 2, 2019

****BOARD CONFERENCE ROOM**
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
6265 N. LA CAÑADA DRIVE
TUCSON, ARIZONA 85704**

MINUTES

Board Members Present: Judy Scrivener, Chair
Bryan Foulk, Vice-Chair
Jim Doyle, Member
Richard Sarti, Member

Board Members Not Present: Dan M. Offret, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, Deputy General Manager / District Engineer
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility Superintendent
Theo Fedele, Clerk of the Board

Study Session

I. Call to Order and Roll Call

Judy Scrivener, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Study Session Meeting to order at 5:30 p.m. Jim Doyle, Bryan Foulk, Richard Sarti, and Judy Scrivener were present. Dan M. Offret was not present.

II. General Comments from the Public

There were no comments by the public.

III. Discussion of Proposed Adjustment to Rates & Fees and Scheduling a Public Hearing

IV. Discussion of Requested Budget for Fiscal Year 2020

Mr. Olsen announced that the Discussion of Proposed Adjustment of Rates & Fees and Scheduling a Public Hearing and Discussion of Requested Budget for Fiscal Year 2020 are interrelated and therefore will be discussed together.

Ms. Bracken stated that the requested budget includes a 95¢ increase to the monthly Water Availability Fee for a 5/8” meter. With this change, the projected annual metered water revenue would increase \$371,279. The District has not changed the Water Availability Fee for three fiscal years with the implementation of the break-even point analysis of fixed and variable costs. With the requested change, the District would maintain a fixed cost coverage of 89.57%. Without any revenue changes, the fixed cost coverage would drop to 86.25% based upon the planned expenses in the requested budget.

Mr. Olsen stated that there have been discussions at previous Board meetings related to additional revenue streams including the Drought Contingency Plan (DCP) Compensated System Conservation agreement that both the Board and the Central Arizona Water Conservation District (CAWCD) Board unanimously approved. The revenue streams from this agreement includes the offsetting or cost avoidance for 3,500 acre-feet (AF) per year of the Central Arizona Project (CAP) water the District will not be paying delivery charges in Fiscal Year 2020, which is \$152 per AF, or \$638,000. The District will also be reimbursed \$68 per AF, or \$238,000, for the capital charges, which are a cost per AF that must be paid regardless if the water is taken or not. The DCP agreement also provides the District \$50 per AF for water that will not be ordered, which is \$175,000 for next fiscal year. The District also has a purchase agreement to sell a portion of the long-term storage credits of recycled water that is discharged into the Santa Cruz Managed Recharge Project to CAGR. Fortunately, with recent statute changes, the 50% cut to the aquifer has been eliminated and is now only a 5% cut to the aquifer for recycled water delivered to managed recharge projects. Therefore, in future fiscal years, the District will be increasing the quantity of AF sold to CAGR, which increases the District’s revenue as well as benefits the Tucson region with an additional source of renewable resources to meet obligations for current replenishment and development needs.

Over the last five years there have been various revenue increases including adjustments to the Water Resource Utilization Fee (WRUF) and the revenue stability initiatives. If those increases are divided up over the last five years, the average customer at Metro Main and Hub who used approximately 7,500 gallons per month had a 2.07% average increase each year. At Diablo Village, the average customer uses approximately 5,200 gallons per month and had a 2.04% average increase per year. The demand at E&T is higher at 7,800 gallons per years for an average increase of 2.4% per year. Lazy B has an average demand of 6,200 gallons per month for an average increase of 0.76% per year. In nine years since Lazy B was acquired, the base rate and the consumption rate have not increased up until the proposed 95¢ increase.

The rate inserts with the rate tables will be mailed to District customers and will demonstrate how customers throughout the District using average water have seen an average increase of roughly 2% per year while other water providers in the region who have yet to reach the revenue stability

goals or to embrace the non-ratepayer revenue like the District are seeing close to 8% rate increases. As presented at last year's information meeting and rate hearing, the District's rates would be higher without the additional revenue streams, using what we have wisely, and revenue stability.

Mr. Foulk asked if this data will be available during the information meeting. Mr. Olsen stated that the data would be available.

Ms. Bracken stated that the budgeted investment income was increased \$230,000 with CD's purchased at higher fixed interest rates along with other active cash management increasing this income. The revenue for providing sewer billing services is based upon the current rate of \$1.42 per account per month. A cost of service allocation was provided to Pima County, and the rate increase of 10¢ per customer per account per month, based on the 18,698 accounts billed in February, was agreed upon. Since the intergovernmental agreement (IGA) has not been signed, the additional \$22,437 of revenue has not been included in the requested budget. Development Fees were budgeted at \$683,150 based upon a projection of 108 new 5/8" meter applications in Metro Southwest, and 180 new 5/8" meter applications in the Metro Main and Hub service areas. The requested budget includes Marana's purchase of long-term storage credits for 500 AF in calendar year 2020. Revenue includes water storage of 3,500 AF by the City of Phoenix. The total budgeted revenue from operations is \$22,914,792, which is an increase of 6.47% or \$1,391,758 when compared to the Adopted Budget for Fiscal Year 2019. With \$371,279 or 26.68% of the planned revenue increase coming from a rate change, the District is planning to receive \$1,011,174 of additional revenue from the following:

- Active cash management, investment income accounts for \$230,000 or 16.53% of the total revenue increase.
- Development revenue increased by \$207,779 or 14.93%.
- The new CAP reimbursement for CAP capital charges that will generate \$238,000 or 17.10% of the increased revenue.
- The new compensated conservation CAP revenue is \$175,000 or 12.57%
- Sale of effluent storage credits increased revenue by \$160,395 or 11.52%

Reimbursements from Northwest Recharge, Recovery, and Delivery System (NWRDRS) partners is budgeted at \$1,494,460. The Operating Revenue is \$22,914,792 with the protected fund balance, and with the NWRDRS Partners contributions the total funds available \$36,460,718. The carry forward balance of WRUF revenue with usage restriction included in the fund balance is projected to be \$5,819,466 at the beginning of Fiscal Year 2020.

Mr. Olsen stated that with the 2% increase to rates that roughly $\frac{1}{4}$ of the increased revenue for fiscal year 2020 would be coming from rate payers and the remaining $\frac{3}{4}$ would be coming from other revenue sources. Without those other revenue sources to get the same revenue bottom line, the rate increase would be closer to an 8% adjustment. These ratios show how important these other initiatives directly impact ratepayer's pocket books.

Ms. Bracken stated that the requested salaries and benefits are \$433,438 or 9.52% higher than the prior fiscal year. The adjusted total salaries and benefits amount is \$4,985,148, which is a 9.52% increase. The substantial increase to salaries and benefits includes:

- Salaries, which are \$142,963 or 4.23% higher with the addition of 1.45 full-time equivalent (FTE) position for a total of 53.33 FTE's. This includes 52 full-time positions and two part-time position.
- Engineering staff planning a 59.56% reduction of time spent working on capital project for an \$110,440 increase to the operating budget.
- Health and Dental insurances budgeted with potential increases of 10% and 2% respectively.
- Workers Compensation insurance costs increase to \$115,632 for an increase of 40.65%. The insurance renewal occurs in April and the costs starting April 2019 will be \$112,513 with potential increases occurring again in April 2020.
- With increased Salaries, Arizona State Retirement System (ASRS) costs are 8.30% higher, ASRS Long-Term Disability costs are 12.15% higher, and this includes a rate increase of 0.31%.
- The Utility Team's taxes on the Cost of Living Adjustment (COLA) and merit increase was incorrectly entered as \$37,725 instead of \$3,770.25. This will be corrected in the adopted budget reducing Salaries and Benefits by \$33,954.75.

The planned expenses for consultants and contracted services have increased by 38,318. General Operating Expenses are requested with a decrease of \$17,101. The total requested supplies are \$13,175 higher than the Fiscal Year 2019 adopted budget.

The total other expenses are requested at \$128,181 higher this fiscal year. This includes: the cost to purchase CAP water, which is planned to increase by \$91,189, the cost of the additional Arizona State Land Easements for the NWRD project which are \$12,400 per year higher, and the Amortized Premiums for the 2002, 2009, and 2011 bonds have ended with the payoff and early defeasance of these debt instruments. Since premiums were a credit, this increases the budget in this area by \$32,744, and regulatory fees are \$10,952 lower in this requested budget.

To summarize, the requested budget increase of \$516,511 for operating expenses includes an increase of \$433,438 in salaries and benefit costs, an increase of \$128,181 for CAP water and Avra Valley Recharge Project (AVRP) operations and maintenance (O&M) costs, and all of the other areas of requested operation budget added together equal a decrease of \$45,108.

The budgeted Debt Service is \$561 higher than the prior adopted budget for Fiscal Year 2019 and this includes funding to pay off the 2013 Senior Bonds four years early with the final payment planned for July 1, 2019. Once this early payoff is completed, the District will have four remaining debt obligations. There were ten active debt obligations when Ms. Bracken and Mr. Olsen began at the District. Two debt obligations were paid off through the normal payment process and four debt obligations were paid off early freeing up \$2,970,743 of restricted funds, and avoiding interest payments by \$369,843.67 for a total benefit to the District of \$3,340,587. To put this into a relatable perspective, this is equal to the amount of revenue that would be generated from nine rate increases just like the one being requested for Fiscal Year 2020.

The total requested budget disbursements are \$28,489,733 including non-cash expenses and the NWRRDS Partners portion of the project expenses.

Mr. Olsen reviewed the priority driven budget process including the prioritization process for the Capital Equipment items. A total of 13 Capital Equipment items are proposed to be funded in Fiscal Year 2020 budget. These items include the safety and security upgrades for the main office lobby to ensure a safe working environment for the staff who work here. The appropriate climate control and air conditioning in the server room is important to protect District investments in the cyber domain. For the mobile meter reading system, the hand helds are going out of date so the hand helds will be replaced with software and technology to effectively and efficiently read meters and have that data integrated for billing purposes. Other information technology (IT) upgrades include network switches. A risk design assessment is required by the United States Environmental Protection Agency (EPA) under the America's Water Infrastructure Act requiring all water providers to do a full risk and design assessment on the physical and cyber infrastructure. This must be completed by June 2021 for the District and includes bringing in an expert consultant to do the analysis assessment and subsequent activities. The meters at Metro Southwest are automatic meter infrastructure (AMI) that communicate back to the office. The metering technology is a magnetic meter and not a physical positive displacement meter. The inaccuracy in the reads can be very problematic and there has been a significantly high failure rate well beyond industry standards on these meters. The billing meters will be proactively replaced with a positive displacement meter. Replacing these meters at Metro Hub is currently an unfunded priority. Mr. Doyle asked what the original meter was. Mr. Shepard stated the meters that are used at Metro Southwest and Hub have a magnetic meter technology that is 100% electronic. The concerns

experienced include strange readings and reverse readings. Mr. Olsen stated the District has done a lot of billing adjustments where applicable to give the benefit of the doubt to the customer.

There are a couple changes that occurred after the budget book was printed because the budget is a plan that is continually refined with more valid data. For NWRRDS, there is one condemnation continuing longer than anticipated. To ensure the budgetary capacity to continue the condemnation efforts, \$120,000 was added under the NWRRDS land easement acquisition in Fiscal Year 2020. There are a lot of unknowns but staff will continue to work with legal counsel to continue to bring that condemnation process to resolution. Also, the second Herb Johnson reservoir, which will be added for redundancy, will be shifted back one year to level the debt service payments as well as ensure NWRRDS is finished before embarking on another large capital project.

The new permit for the AVRP for 11,000 AF operational capacity, which is currently around 8,000 AF, has been received. The physical AVRP improvements to operationally achieve the higher recharge capacity include various grading, collapsing basins together, and sloping. With the DCP compensation system conservation agreement, the 3,500 AF that would be put in the facility is not going into the facility which will allow the construction activities to be completed while still honoring the inter-AMA firming agreement with the City of Phoenix.

A consultant was utilized to complete independent cost estimates for three projects per the District's debt management policy: the Herb Johnson reservoir, the Pantano transmission main, and the South Shannon transmission main, which will help move and convey NWRRDS water throughout the system. Those costs and annual escalators of the projects that are three or four years from now are applied to all other projects throughout the Capital Improvement Program (CIP) for a valid, cohesive five-year CIP plan with validated costs throughout. The other items of note include finalizing of the Old Nogales Highway mainline replacement and starting on some well rehabilitation activities to ensure the production capacity and minimize more expensive costs of hauling water or wheeling particularly at the E&T service area.

This was a high level discussion regarding the budget and the rate adjustments for the upcoming fiscal year. The next step would be to set a public hearing. The District will hold an information meeting and feedback received will be folded into the discussion at the public hearing. The budget and the rate adjustments were also discussed with the FOC who unanimously recommended the consideration by the Board of Directors.

Mr. Foulk moved to schedule a public hearing for May 13, 2019 at 5:30 p.m. for the purpose of discussing and possible adoption of an adjustment to the District's water rates and fees as discussed. Mr. Sarti seconded the motion. Motion passed unanimously.

V. **Approval of Price Modifications and Minimum Purchase Quantity to Utilize the City of Tucson Cooperative Purchasing Contract for Residential and Commercial Water Meters**

Mr. Olsen stated that the Board did approve the use of the Cooperative Purchase Contract with the City of Tucson but since then there have been other items that developed.

Mr. Shepard stated that after the Board approved the use of the City's Cooperative Purchase Contract, staff began working with Badger Meter/National Meter. The City of Tucson is using the Badger positive displacement meter with a register that is in cubic feet as well as electronic. There have been some concerns utilizing the electronic registers with all electronic components, electronic issues, and an internal battery. At some point the battery is going to fail and the meter will have a zero reading. A mechanical register was requested from Badger since the mechanical register has a standard odometer style reading with no internal battery, will always be able to get a read, and will still have the appropriate remote read electronics. The concern is that Badger can produce the electronic circuit boards for the electronic meters cheaper than the mechanical function for that register so the City of Tucson is getting a very good price for the meters. After some research, staff uncovered methodologies that have worked with other entities and Badger Meter/National Meter is willing to sell the District the mechanical register meters with a price modification. The smaller size meter is \$5.50 more per meter and the 2-inch meter is about \$7.00 more per meter. Even with the price modification it is still a beneficial price for those meters. This is a very good meter with a very good price.

Mr. Doyle asked if it is called a totalizer. Mr. Shepard stated that the register has a totalizer on the unit itself and on top is the register for it.

Mr. Olsen stated the importance to deploy the right metering technology. The District is facing the concerns with the meters at Metro Southwest and Hub and to go through the effort of replacing all of those meters it is best to replace them with not just meters that are accurate but with meters with substantial longevity to recoup the investment. The Board had already approved this purchase vehicle but is requested to amend for a special price modification that is a slight departure from the City's cooperative purchase contract core document.

Mr. Sarti stated that he is a City of Tucson employee and was involved in the Tucson Water meter study so he would recuse himself from voting.

Mr. Foulk to approve the pricing modifications and minimum quantities requested by Badger Meter (dba National Meter & Automation) for the District to utilize the City of Tucson Cooperative Purchasing Contract for Residential and Commercial Meters. Mr. Doyle seconded the motion. Motion passed 3-0 with Mr. Sarti recusing himself from voting on this item.

VI. General Comments from the Public

There were no comments from the public.

VI. Adjournment

The meeting adjourned at 6:08 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board