

NOTE: The Finance Oversight Committee was dissolved by the District's Board of Directors on January 9, 2023. These are the Draft Minutes from the January 5, 2022, Finance Oversight Committee Meeting and have not been approved by the Committee.

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

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

JANUARY 5, 2022

MINUTES

Committee Members Present: Robert Shonka, Chair
Monica Wnuk, Vice Chair
Peter Abraham, Member
Scott Bugental, Member (Participated Electronically)
Lee Mayes, Member
Kip Volpe, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, District Engineer
Diane Bracken, Chief Financial Officer (Participated Electronically)
Steve Shepard, Utility Superintendent
Wally Wilson, Water Resources Manager
Theo Fedele, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Mr. Shonka called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Abraham, Mr. Krempen, Mr. Mayes, Mr. Shonka, Mr. Volpe, and Ms. Wnuk were present.

II. Election of Committee Chair and Vice Chair

Ms. Wnuk nominated Robert Shonka as the Chair for 2022. Mr. Shonka seconded the nomination. Motion passed by a roll call vote of 6-0.

Mr. Shonka nominated Monica Wnuk as the Vice Chair for 2022. Ms. Wnuk seconded the nomination. Motion passed by a roll call vote of 6-0.

Mr. Olsen stated that Scott Schladweiler resigned from the Committee as he was appointed to the Board of Directors to finish out Judy Scrivener's term as she moved out of the District and resigned her position. Also John Krempen resigned his position on the Committee as he was moving out of the District. The FOC has a new member. Peter Abraham was appointed by the Board to the Committee last month.

The January meeting is normally held later in the month but this meeting was moved so we could have a discussion regarding potential debt issuance for Northwest Recharge, Recovery and Delivery System (NWRRDS) prior to the January Board meeting. Hence, our mid-fiscal year is based off July to November financials as December was not yet closed. That's why we refer to the item as update on Fiscal Year 2022 budget versus a mid-year review.

III. Call to the Public

There were no comments by the public.

IV. Update on the Fiscal Year 2022 Adopted Budget as of November 30, 2021

Ms. Bracken stated that with 41.67% of the year completed, billed revenue is at 44.67% of the budget. A couple of increases, in addition to the metered water sales, are contributing to this 3% increase in revenue including the sale of the North and South Lattimore well sites to Pima County and 551.73 acre-feet (AF) of water storage credits held by the Central Arizona Groundwater Replenishment District (CAGRDR) since 2004 were not returnable for the Metro Main Service area and they were liquidated at \$178.50 per AF when the District withdrew from this agreement.

Operating expenditures as of November 30, 2021, were at 37.49% of the budget. All operating expenditures are under budget except for the electricity costs, which are at 47.27% or \$67,744 higher than a straight-line projection, and regulatory fees appear to be higher with the annual transfer between Metro Main and Metro Southwest completed. With revenue and expenditures close to the budgeted amount, no operational budget changes are being requested.

Mr. Olsen stated that there were 12 investments to support the District mission that was included in the Fiscal Year 2022 Adopted Budget. Staff has done a fantastic job in executing these items in the first half of the fiscal year with 9 of the 12 items already completed. The remaining items are the Fixed Network upgrade, which is anticipated to be finished by the end of the month, and the quotes are being finalized for the Record Management Software. The funds allocated for the archiving of various engineering files will not be spent as it was determined through a detailed records review that the items were already scanned. The fact that the majority of the investments

to support the District mission have already been successfully executed highlights that there was indeed a pressing need for these items and initiatives.

Discussion ensued and staff answered questions regarding the update on the Adopted Budget.

V. **Discussion and Possible Recommendation Regarding the Capital Improvement Program and an Amendment to the Fiscal Year 2022 Adopted Budget**

Ms. Bowen provided an update on the Capital Improvement Program for Fiscal Year 2022 including the NWRRDS Project, the NWRRDS Metro-only portion, the Arizona Department of Transportation (ADOT) Oracle Road Pavement/Drainage Upgrades, the Avra Valley Recharge Project (AVRP) Improvements, E&T22 Well Replacement, the Large Meter Vault Replacement, and the Ironwood Blend Well.

As part of the specific performance objectives for 2021, the Board of Directors included the upgrades at AVRP to include new metering infrastructure in order to eliminate Central Arizona Project (CAP) storage and billing discrepancies.

Ms. Bowen stated that at the February 8, 2021 meeting, the Board of Directors authorized to complete the upgrades. The cost for the upgrades is approximately \$530,000. At the May 10, 2021, Board meeting, the completion date was extended to June 30, 2022. The Budget was already adopted for Fiscal Year 2022 prior to the approval of the project extension. Staff are requesting to spend an additional \$330,000 from fund balance, the previously approved budgeted amount for the AVRP improvements of \$149,749, and savings on the Creeger Mainline Replacement for the total project amount of \$530,000.

Staff are recommending combining the E&T Well Replacement and Ironwood Blend Well projects into a single procurement and delaying the well drilling activities until next fiscal year. While the cost of drilling these wells will be increased with inflation, it is anticipated that combining the two projects into a single bid will be more competitive. This does not require any action but staff wanted to inform both the Finance Oversight Committee and the Board of Directors about this planned change.

Discussion ensued and staff answered questions regarding the Capital Improvement Program.

Mr. Bugental moved to recommend the Board of Directors authorize an amendment to the Fiscal Year 2022 Capital Improvement Program Budget to increase the funding for the AVRP Recharge project from \$149,749 to \$530,000. Mr. Abraham seconded the motion. Motion passed by a roll call vote of 6-0.

VI. Discussion and Possible Recommendation on the Northwest Recharge, Recovery, and Delivery System Project Funding

Ms. Bracken stated that with the Infrastructure Investment and Jobs Act Bill, funding is planned to be passed through the State Revolving Fund. Exploring the available funding opportunities would be fiscally proactive including submitting a Water Infrastructure Finance Authority of Arizona (WIFA) loan application that will serve as a placeholder to obtain a project priority ranking position with WIFA.

When speaking with the Director of WIFA, he suggested that the sooner the District submits the project the better to obtain a place in the funding prioritization list. Projects will be accepted through June 30, 2022, with funding determined a couple of months after that, and we were told that there is still current year funding available. The WIFA website indicates that Green projects could currently receive up to 20% principal forgiveness, however, during the conversation with the Director of WIFA, it was mentioned that a limited amount of funding was available for principal forgiveness and needed to be distributed to many organizations.

The challenge with a WIFA loan is not knowing how much principal forgiveness will be offered to the District until later in the funding process.

Ms. Bracken provided the following examples:

If \$1 million of principal forgiveness is offered, that would reduce the debt to \$14 million. At an estimated 2%, the interest for 10 years would cost \$1,280,112. With the principal forgiveness covering \$1 million of these interest costs, this debt scenario would cost the District \$280,112 in interest costs, plus issuance costs, and any additional costs associated with Davis Bacon Wages and the Made in America/Build America Acts.

If \$2 million of principal forgiveness is offered, that would reduce the debt to \$13 million. At an estimated 2%, the interest for 10 years would cost \$1,188,675. With the principal forgiveness covering all of the interest costs, the District will have an additional \$811,325, that could be used to cover the issuance costs, and any additional costs associated with Davis Bacon Wages and the Made in America/Buy American Acts.

If \$15 million of Revenue Bonds at 1% for 10 years were obtained, the total interest cost would be \$680,506. When this is compared to the first example this would cost the District an additional \$400,394 in interest costs and when compared to the second example it would cost the District an additional \$1,491,831 in interest costs.

This is why staff are requesting concurrence on a Resolution authorizing to proceed with requesting debt in the amount not to exceed \$15 million from WIFA, Bonds, or other funding options that may become available for the NWRRDS Partners Project and the NWRRDS Metro Recover System Booster Facility, Recovery Pipeline and Program Support project.

The handout to the Committee included the estimated Water Resource Utilization Fees (WRUFs) that are available and the funding that will be needed. There are three accounts because funds have been invested until needed to cover project expenses. By investing these funds, as of the end of November, these funds have earned an additional \$509,730.06 in interest earnings.

The original plan was to have funding in place by October 2022, but if we will be utilizing WIFA funds, that requires the District to pay the invoices and request reimbursement for the invoices. With this in mind, it is suggested that funding be in place in September 2022, which would provide the District with about a \$4.5 million reserve of WRUF's to use for advance payment of invoices. And reimbursement from WIFA could take about three weeks once submitted.

The NWRRDS projects have been cash funded up to this point and will continue to be cash funded with WRUFs until we have secured funding, however, we will need additional funding by the second quarter of Fiscal year 2023.

We are requesting to add NWRRDS projects to the WIFA Project Priority List (PPL) by using our online application tool. Once the application is submitted, the project will be assigned a project manager and a fiscal services representative to help us through the rest of the process.

Currently the District has two outstanding WIFA loans, with a total principal balance of \$5,547,382.12. The District has one outstanding bond with a remaining principal balance of \$7,235,000 for a total of \$12,782,382.12 of principal debt. Adding this \$15 million would increase the total District outstanding principal balance to \$27,782,382 in Fiscal Year 2023.

The seven-year debt schedule included in the FOC meeting materials shows the estimated annual payments. When this information is tied to the District's 5-year financial plan, the Debt Service Coverage Ratio would go down to 1.84 in Fiscal Year 2025 with no additional debt. If proposed debt is added for the Herb Johnson Reservoir, the debt Service Coverage Ratio would drop to 1.53 in Fiscal Year 2025 and then start going back up in the next year.

Discussion ensued with questions answered by staff.

Mr. Abraham moved that the Finance Oversight Committee recommend the Board of Directors approve the request to enter into a debt agreement to fund the Northwest Recharge Recovery & Delivery System (NWRRDS) and the NWRRDS Metro Recovery System Booster Facility,

Recovery Pipeline and Program Support projects in an amount not to exceed \$15,000,000. Mr. Mayes seconded the motion. Motion passed by a roll call vote of 6-0.

VII. General Manager's Update

Mr. Olsen state that he takes a series of Specific Performance Objectives (SPO) to the Board, which are meant to provide special focus on initiatives to augment the delivery of safe, reliable water to our customers. This year there are two SPOs that are relevant to the committee: to continue implementation of the 5-year security and 5-year IT improvements plans.

As I have previously briefed the committee, in 2019 the District entered into a compensated system conservation agreement with Central Arizona Project (CAP) to support the drought contingency plan through 2026. Until recently, we were the only party to such an agreement with CAP as this was based on a model the District and CAP created. Under the agreement, we forgo 3,500 AF, or approximately 25% of our annual CAP allocation, in return for compensation at the rate of \$50 per AF, plus reimbursement for capital expenses, and of course no charge for O&M costs since this water is not delivered to the District.

Recently, the 500-plus plan was unveiled by Arizona, California, and Nevada which called for 500,000 AF of voluntary compensated conservation annually to be saved for Lake Mead in an effort to prevent the Lake from dropping to below a catastrophically low elevation of 1,020 feet above sea level. Under this new agreement, the compensation offered per acre-foot is \$261, or approximately \$150 higher than our current agreement. As the 500-plus plan was largely modeled on the District's agreement, and in the interest of fairness and equitability, our current agreement will shift to the 500-plus terms, which will generate approximately \$550,000 in additional revenue each year of the agreement. This is an ongoing collaboration with CAP in how the District is supporting the Lower Basin State's voluntary conservation goals while also generating non-ratpayer revenue.

Discussion ensued with questions answered by Mr. Olsen.

Mr. Wnuk departed at 5:15 p.m. and returned at 5:17 p.m.

VIII. Clerk of the Board Updates; Future Meetings

The next Finance Oversight Committee meeting will be scheduled in March.

IX. Call to the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 5:26 p.m.

Chair
Finance Oversight Committee

DRAFT