

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 March 16, 2021, 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**

MARCH 16, 2021

MINUTES

Committee Members Present: Scott Schladweiler, Chair
John Krempen, Vice Chair
Scott Bugental, Member (Participated Electronically)
Lee Mayes, Member
Robert Shonka, Member (Participated Electronically)
Kip Volpe, Member (Participated Electronically) left at 4:36 pm
Monica Wnuk, Member

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

Regular Session

I. Call to Order and Roll Call

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

II. Call to the Public

There were no comments by the public.

III. Approval of Minutes – January 25, 2021 Meeting

Discussion ensued and staff answered questions regarding the January 25, 2021 meeting minutes.

Mr. Bugental made a motion to approve the minutes as presented. Mr. Krempe seconded the motion. Motion passed by a roll call vote of 7-0.

IV. Discussion and Possible Recommendation regarding the Proposed Rates and Fee Adjustments

Mr. Olsen stated one of the initiatives this fiscal year is to consider a multi-year rate package, which will provide greater budgeting certainty for District residents along with increased fidelity on capital infrastructure and water resource planning.

The recommendation for the Committee, and hopefully the Board, is an increase in the Water Availability Rate and an increase in the water consumption charges in Fiscal Year 2022 with only an increase to the Infrastructure Rehabilitation Fee in Fiscal Year 2023.

With Metro Main and Hub as an example, the proposed rate adjustment would increase the Water Availability Rate by 90-cents for a 5/8-inch meter and would increase water consumption charges in the first consumption tier by 30-cents per 1,000 gallons and by 15-cents in the second, third, and fourth consumption tiers. For the average customer in Metro Main and Hub this would be a 5.1% increase. These adjustments would go into effect on July 1, 2021.

For Fiscal Year 2023, the recommendation is to only increase the Infrastructure Rehabilitation Fee by 55-cents, bringing the fee to \$1.50. The Infrastructure Rehabilitation Fee is to provide a focused stream of revenue specifically for investment in District infrastructure as the Capital Improvement Program (CIP) that was previously reliant on growth via new meter connection fees, and transfers from the operating fund. While the Infrastructure Rehabilitation Fee at \$1.50 would not fund the entire annual CIP, the fee would provide a solid financial foundation that does not rely on the new development. This 55-cent increase results in a 1.1% increase to the average customer.

These two years together results in an average annual increase of less than \$1.50 per month or 3.1% for the average customer. As a reference, the past five years, the average rate increase for water utilities across the Country was approximately 7.5%-8% annually, the District's service areas have averaged between a 1% and a 2.5% increase.

For Metro Southwest – Lazy B, follows a similar trajectory as Metro Main and Hub except that Lazy B's water consumption charges are higher than the other service areas so their water consumption charges would not increase.

For Metro Southwest – Diablo Village also follows a similar trajectory as Main and Hub except that the specific increases in the consumption charges are 10-cents per 1,000 gallons in the first consumption tier and 20-cents per 1,000 gallons in the second through fourth tiers.

The Metro Southwest – E&T service area has water consumption charges that are lower than all the other service areas. In order to move that service area closer to parity, the recommendation is to increase the Water Availability Rate and water consumption charges in both Fiscal Year 2022 and 2023 to more closely align E&T rates with that of the other service areas. Even with these adjustments, this results in the average customer seeing approximately a 5% increase per year while bringing their rates into alignment to cover costs, a goal staff have been progressively moving toward over the past seven years.

Discussion ensued and staff answered questions regarding the funding for Capital Improvement Projects, the Infrastructure Rehabilitation fees, the average District's rate increases over the past five years, the increase in the water consumption charges, and the differences in the Tier structure by service area.

Mr. Shonka moved to recommend that the Board of Directors approve a two year rate plan as presented by staff at the Committee's March 16, 2021, meeting. Mr. Bugental seconded the motion. Motion passed by a roll call vote of 7-0.

V. **Discussion and Possible Recommendation of the Fiscal Year 2022 Requested Budget**

Ms. Bracken stated that Metered Water Sales are based upon the proposed rate increases as discussed for Fiscal Year 2022 that were calculated using a rate model with the actual customer account data for Fiscal Year 2020, which had \$18,477,814 of revenue not including the bulk meters. Fiscal Year 2021 Metered Water Sales were budgeted based upon Fiscal Year 2019 actual water consumption, which was much lower. With the lack of rain, consumption was higher than planned in Fiscal Year 2020 and consumption continues to be high so far in Fiscal Year 2021.

The budget for Water Resource Utilization Fees is being increased based upon the increased water consumption over the past two years.

For Development Revenue, new meter connections are estimated at 60 new 5/8" meters in Metro Southwest, and 180 new 5/8" meters in Metro Main for a total of \$569,292, which is the same as the prior fiscal year.

All other revenue includes:

- Private Fire Risers at \$126,530, which is lower by \$11,073,
- Penalties and service charges at \$275,000, which is higher by \$25,000,
- Investment and interest income at \$170,000, which is lower by \$30,000,
- Pima County Wastewater billing services at \$374,400, which is higher by \$32,400,
- Infrastructure Rehabilitation Fees at \$308,997 for full year in place of a half year that was \$152,692,
- Water Storage at \$359,795, which is lower by \$130,295 with no storage credits from Marana,
- Central Arizona Project (CAP) capital and Compensated System Conservation are \$350,000, which is lower by \$56,000,
- Effluent Sale of Storage Credit is \$117,300 for 500 acre-feet (AF), which is lower by \$14,280,
- Other income is \$100,000, which is lower by \$50,000, and
- Transfer between Metro Main and Metro Southwest at \$86,000, which is lower by \$40,280.

The total requested budgeted revenue is \$23,097,622. The projected beginning fund balance for Fiscal Year 2021 is \$18,527,686 based upon mid-year projections. Northwest Recharge, Recovery and Delivery System (NWRD) funding from the Towns of Marana and Oro Valley is budgeted at \$4,032,318. Resulting in total operating funds of \$45,657,626.

The total Requested Operating Budget is lower than the prior year Adopted Budget by 7.42% or \$1,350,288 with the:

- Debt Service \$1,050,065 lower,
- Regulatory, CAP, and Avra Valley Recharge Project (AVRP) planned expenses \$682,300 lower with the first half of the year budgeted at \$213 AF and a potential shortage in the second half of the fiscal year budgeted at \$248 AF.
- Reduction in O&M costs associated with 3,500 AF for the Compensation System Conservation Agreement with CAP
- Reduction of \$45,000 in AVRP operating costs, and
- Reduction in CAGR annual membership costs.

The base operating Budget for each expense category, not including the expenses associated with Investments to Support the District, includes:

- Salaries and Benefits accounting for 33%
- Debt Service accounts for 21%
- Regulatory/CAP/AVRP account for 17%

- Consultants and Contracted Services accounts for 9%
- General Operating Expenses accounts for 8%
- Power/Electric/Gas accounts for 7%
- Supplies accounts for 5%

Mr. Olsen stated that this is a back to basics budget, with a focus on funding initiatives that are critical to the operation of the District moving forward. The Investments to Support the District's Mission include: Information Technology upgrades including a server for telemetry for SCADA and a fixed network software upgrade; lease buyouts for the Sharp copiers and plotters to ensure compliance with Government Accounting Standards Board (GASB) 87; a three-person preventative maintenance crew; Metro Main Office parking lot pavement overlay; variable frequency drive (VFD) replacement for Northeast Reservoir Booster Station (NERBS); motor for the warehouse roll-up door; Historian tag license; records management software and scanning; and floor tile replacement in the crew room.

Ms. Bowen reviewed the one-year CIP requested for Fiscal Year 2022 including: NWRRDS, the Partner component as well as the Metro-only portion of the project; the Arizona Department of Transportation (ADOT) Oracle Road pavement and drainage upgrades; the AVRVP recharge improvements; E&T22 well replacement; the large meter vault replacement; the Ironwood blend well; Skyline Ranchos mainline replacement; Creeger mainline replacement; and Orange Grove Road mainline replacement.

Ms. Bracken stated that as a summary revenue will exceed the operating expenses by \$6,248,190.

Discussion ensued and staff answered questions regarding the items in the Requested Budget for Fiscal Year 2022.

Ms. Wnuk moved to recommend to the Board of Directors to adopt the Requested Budget for Fiscal Year 2022 as presented by staff at the Committee's March 16, 2021, meeting. Mr. Shonka seconded the motion. Motion passed by a roll call vote of 6-0 (Mr. Volpe left at 4:26 p.m.).

VI. Clerk of the Board Updates; Future Meetings

The next Finance Oversight Committee meeting is scheduled for the fall.

Ms. Wnuk requested a tour of District facilities.

VII. Call to the Public

There were no comments from the public.

VIII. Adjournment

The meeting adjourned at 5:23 p.m.

N/A

Chair
Finance Oversight Committee

DRAFT