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

MONDAY, MARCH 26, 2018

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

MINUTES

Board Members Present:	Bryan Foulk, Vice-Chair Jim Doyle, Member Helen Ireland, Member Dan M. Offret, Member
Board Members Not Present:	Judy Scrivener, Chair
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

Bryan Foulk, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Study Session Meeting to order at 5:31 p.m. Jim Doyle, Bryan Foulk, Helen Ireland, and Dan M. Offret were present. Judy Scrivener was not present.

II. General Comments from the Public

There were no comments by the public.

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

IV. Discussion of Requested Budget for Fiscal Year 2019

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 2019 are interrelated and therefore will be discussed together.

For the last four years, the topic of discussion has been revenue stability including the importance of revenue stability and having the fixed cost recovery close to 90% which allows for better planning and more accurate predictions on future revenue. With the 0% increase last fiscal year, the average rate increase to customers is only 2.5% annually over the last four years. Other water providers are trending closer to a 7-8% annual increase while not working toward revenue stability.

The three elements in the proposed rate adjustments include the WRUF, adjustments to the tier blocks, and miscellaneous fees. The WRUF is used for projects, such as the Northwest Recharge, Recovery, and Delivery System (NWRRDS), to utilize the District's renewable water resources in the most efficient manner. In 2014, the WRUF was 20 cents per 1,000 gallons with a plan for the next four years to incrementally raise the rate up to 70 cents per 1,000 gallons. The Intergovernmental Agreement with the Town of Marana and the Town of Oro Valley on the NWRRDS provides infrastructure contributions of roughly $15 million, which reduced the planned 70 cents per 1,000 gallons down to 60 cents per 1,000 gallons. The WRUF is currently at 50 cents per 1,000 gallons so the recommendation is to only go up to 60 cents per 1,000 gallons and remain there unless there are other critical water resource related initiatives.

The first 3,000 gallons of consumption is what many water providers refer to as sustenance water or the minimal consumption amount. The first tier of consumption begins at 3,001 gallons to 10,000 gallons with the first 3,000 gallons included on the base rate. The average customer utilizes less than 8,000 gallons, therefore, having tier one go up to 10,000 defeats the conservation message. One of the recommendations is to adjust the tiers and have the first tier go up to 8,000 gallons which is above the approximately 7,500 gallons of monthly consumption for the average Metro Main and Metro Hub customer.

The goal of the miscellaneous fees is to capture the cost of service to avoid other customers subsidizing these fees. There are four such fees that are proposed to be updated based on the cost of service including the backflow inspection fee, the initial connection fee, private fire service line monthly fee, and the plan review fee.

Ms. Bracken stated that the total revenue from operations is $21,523,034 with fixed revenue totaling $9,651,977, or 45% of the revenue, and variable revenue totaling $11,873,136, or 55% of the total revenue. When calculating the metered water sales, the rate model was tied to the actual water sales from Fiscal Year 2017, which totaled $17,263,784, and the proposed changes to metered water revenue are projected to increase by $173,315. Fixed meter water revenue from the availability fees is projected at $9,075,434 and the variable metered water revenue from consumption is projected at $8,361,665. The meter equivalency ratio on 4" and 6" meters has been updated to the 2017 American Water Works Association (AWWA) standards. The block rate structure change requested is just above the District average consumption at 8,000 gallons. The Tier rate per 1,000 gallons is requested to increase on Tiers 2, 3, and 4 by 5 cents, 10 cents, and

15 cents respectively with no proposed increase in Tier 1. The proposed WRUF increase of 10 cents per 1,000 gallons of water will generate an estimated $257,000 per year. The private fire service line monthly fee was adopted in November 2010 and was updated in May 2015 to add 8" lines. The proposed rates have been calculated with a one-inch line equivalent capacity to arrive at the monthly service fee. The increase would generate about $11,600 of additional revenue per year. The Initial Service Connection Fee of $15 has been in place since the start of the District. A cost of service calculation was completed and the proposed Initial Connection Fee would increase to $30 to cover the cost of customer service staff in the office and the field. Development revenue is presented with an estimation of 76 new connections in Metro Southwest and 121 new connection in Metro Main. Revenue includes water storage for Marana of 495 acre-feet (AF), the City of Phoenix water storage estimated at 3,500 AF, and sale of 250 AF of effluent long-term storage credits for the Central Arizona Groundwater Replenishment District (CAGRD). The increase to the backflow inspection fee from $95 to $110 per backflow device is requested to cover the actual cost to provide the service. There is a new Master Plan review fee of $531 for the first submittal and $144 for each additional resubmittal while the Design Plan review fee is recommended to decrease.

Two lines have been added to the funding in the amount of $620,000 of income for project reimbursements from the Town of Marana and the Town of Oro Valley for the NWRRDS. In addition, the same amount has been added to show the non-cash expenditures that will occur. These lines will offset each other and provide a way to show only the District's portion of the NWRRDS expenses in the capital budget request.

Mr. Foulk asked if the District was actually receiving the funds from the Town of Marana and the Town of Oro Valley. Ms. Bracken stated that the District will incur the liability for the full amount of the expense and the actual funds will be received. The costs will be invoiced and then the authorization is made to draw the funds to pay the invoices. Mr. Olsen stated that when drafting the intergovernmental agreement, the Town of Marana's attorney stated that split invoicing was not permitted based on Arizona Revised Statutes. The compromise was to establish these escrow accounts to draw down from.

Ms. Bracken stated that the total requested Operating Budget is 2.54% or $470,629, higher than the Fiscal Year 2018 Operating Budget. The requested budget includes a total increase of 5.84% or $250,951 for Salaries and Benefits. These requested changes include:

- An Industrial Electrician position that was not included in the prior fiscal year.
- A 2% Cost of Living Adjustment (COLA) increase effective the first pay period in July. Based on the consumer price index (CPI), the COLA may increase to 2.5%, which will be an additional $8,075 in wages and $1,545 in taxes and Arizona State Retirement System (ASRS) for a total of $9,620.

- A 2% potential merit increase in January for eligible employees. If the COLA increases to 2.5%, the merit will adjust to 1.5% so the total of the COLA increase and the merit increase does not exceed a combined 4%.
- A projected 10% increase in health care coverage.
- A projected 5% increase in dental coverage.
- Workers' Compensation includes an increase of $22,593.
- An increase in the ASRS pension contributions from 11.34% to 11.64%; with no change to the ASRS long term disability, which is at 0.16%, for a total of 11.8%.
- Other changes include moving the Inventory Specialist into the Administration team, which is now included in the General Manager's budget group.
- The Engineering Team expanded from eight full-time equivalent positions and one intern to 9.1 full time equivalent positions and one intern. The FOC asked the number of employees included in the budget which is 54 employees, or 51.88 FTE's.

The Consultant/Contract Services are $8,669 lower with the addition $80,000 for Hydrogeologic Studies at Metro Main and Hub, $16,000 for Corrosion Monitoring and the reduction of $56,480 in water quality testing requirements for Fiscal Year 2019, $10,000 for the meter replacement program for meters with high usage with 529 planned meter replacements, and a $38,650 reduction for water treatment media replacement that will not be needed in Metro Southwest.

The General Operating Expenses are requested with an increase of $68,237 or 5.88%. The changes include a $30,940 increase for bank fees associated with increased credit card usage and fees associated with the usage. Pima County Regional Wastewater Reclamation Department (RWRD) is covering $56,858 of the annual banking fees associated with sewer billing via the cost of service allocation used to arrive at the cost per account billed

The Supplies requested are higher by $124,369 or 20.36% including increases of $28,028 for planned new meter installations with an additional $10,000 for failed meter replacements, $28,891 for computer and software maintenance, $26,000 to reconfigure the Engineering work area with $10,000 of the carpet replacement costs paid with the 1% earning the District receives from the American Express Vendor Pay Card, $17,100 for right-of-way permits, and $10,600 for small tools and minor equipment.

The cost for the election of the Board of Directors is $25,000. The request for Power is not changing from the prior year. The requested Other Expenditures are $4,469 lower than the prior fiscal year.

Debt Service is $31,819 higher with the increasing coupon rate on the 2009 Senior Bond lien from 3.5% to 3.62%. The final payment of the 2009 Senior Bond lien will be made on January 1, 2019,

which will free up $1,591,000 of debt service reserve funds. Since the District bonds were set-up as non-callable, the debt service reserve funds will be used to make a defeasance payment on another bond. This will trigger the release of additional debt service reserve fund in the amount of $663,000 that will be used to process another defeasance on another outstanding Bond debt. This will satisfy an additional $2.25 million dollar of District debt. In addition, the Hub Water Purchase will be paid in full at the end of Fiscal Year 2019. Defeasance is a financial tool that can be used to retire outstanding bonds. Cash is used to purchase government securities with the principal and the difference between the current coupon rate on the bond and the rate of interest earned on the government security. Essentially, reducing the interest to be paid on this outstanding debt while making this outstanding bond debt completed both legally and financially in accordance with Generally Accepted Accounting Principles and complying with the outstanding bond document requirements.

Mr. Foulk asked when the current debt will be ending. Mr. Olsen stated that there are three upcoming debt payoffs in Fiscal Year 2019 and the final payment for the Regional Transportation Authority (RTA) is in 2020.

Ms. Bracken stated that there is an $8,391 increase in the requested contingency for Sick and Vacation payouts. The vested sick leave liability is $252,857 this year. If approved, this would fund $97,051.75 of the vested sick time liability or 38.38%.

The non-cash expenditure for depreciation has been increased by $50,000 based upon the current depreciation and the capitalization of Oracle Jaynes Station well and the Valencia Road RTA project. This section also includes the additional $620,000 for NWRRDS mentioned previously.

The fixed revenue covers 90% of the fixed cost in the requested budget and $9,651,977 or 45% of revenue are fixed and $11,873,136 are variable revenue. Planned expenditures include $10,712,308 or 45% of fixed costs with $13,356,298 or 55% of variable costs.

The Indirect Labor Costs and Overhead Rates have been calculated based upon the requested budget and will decrease from 217.16% to 214.71% with a Fringe Benefit rate of 58.5% and an indirect rate of 156.21%.

Mr. Olsen stated that the Monthly Status of the District reports have shown around 11.3% fiscal year-to-date demand and Fiscal Year 2018 has been an anomalous year for demands. Therefore, when analyzing projections for the Fiscal Year 2019 budget as well as future years, Fiscal Year 2018 will be normalized a bit to be conservative in planning and not assume a much higher revenue

This year the priority driven budget process includes 14 Capital Equipment requests that were validated to enhance the ability to achieve the District's mission and to ensure a safe accomplishment of tasks. There is a limited amount of money for capital equipment and the more spent on capital equipment means less is spent on capital infrastructure and vice versa. Each District division prioritizes their needs and those priorities are integrated into one list. The funding line is drawn where the items above the line get funded and the items below do not get funded at this time but are considered in the subsequent fiscal year budget. For Fiscal Year 2019, the number one item is the vacuum excavator which was budgeted for the current fiscal year but was deferred for more pressing needs including hiring an electrician. The dump truck will also be replaced.

Mr. Doyle asked if this was the large, 10 wheeler dump truck. Mr. Olsen stated it is a 10 wheeler, 15 yard dump truck to replace one of the current dump trucks.

Mr. Olsen stated there are a number of items related to Information Technology (IT) infrastructure that will ensure full backup of the District's servers including virtual machines and network upgrades. The audio for the board room has also been an area of concern. This is not just a need for the Board meetings and FOC meetings but the District also hosts many water collaborative meetings including Groundwater Users Advisory Council (GUAC) and the Safe Yield Task Force (SYTF) so it's important to have the audio capabilities to support those needs. The items that are not funded are also critical needs but may require additional analysis prior to moving forward in funding. Those needs will be re-evaluated during the mid-year budget review.

This is the first time sharing a five year capital improvements program and it shows the activities that are occurring each year. Each of the project lines are broken down for the planning and design elements, land acquisition, and construction for the next five years. The number one capital infrastructure priority item is the NWRRDS. Other items include the two RTA projects, the Hub storage tank expansion, the Old Nogales Highway main line replacement, and smaller projects such as infrastructure adjustments, joint replacements, proactive well siting studies, and improvements to AVRP. The last item on the list is demolition and removal of the old facilities which will never be prioritized. The recommendation is to do a baseline funding at $25,000 per year for these facilities and sites that are in the District's inventory with no plans for usage. The FOC had questions regarding funding for the capital improvements efforts. The capital improvements program has been revenue funded since Fiscal Year 2014.

The FOC also inquired about the District's CAP allocation, which is a high priority allocation so a shortage will not occur unless Lake Mead drops below 1,025 foot of elevation. At that point, even with potential reductions, the District will still have a pretty substantial portion of the CAP allocation. Mr. Foulk asked if 1,025 foot of elevation is Tier 3. Mr. Olsen stated that Tier 1 is below 1,075 foot of elevation and that hits excess water pool and agricultural users. Tier 2 is 1,050

foot of elevation which is a deeper cut to agricultural. Tier 3 is below 1,025 foot of elevation and would mean reductions for everybody. Mr. Foulk asked if the Town of Marana, the Town of Oro Valley, and the District are receiving the same or getting part of their respective allocation. Mr. Olsen stated all have the same priority of resources within the Municipal and Industrial CAP pool.

Staff requests that the Board consider scheduling a rate hearing, if there are no questions or concerns related to the budget and the proposed rate adjustment. An insert will be mailed to customers informing them of the different changes to the tier structures, the water resource utilization fee, and how the average customer would be impacted by less than 80 cents or 1.95% per month as well as notifying them of the information meeting and the rate hearing. The information meeting is an opportunity to educate customers on all the initiatives that have been accomplished. The rate hearing will be on May 14, 2018 at 5:30 p.m., prior to the regular Board meeting.

Ms. Ireland moved to schedule a public hearing for May 14, 2018 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. Offret seconded the motion. Motion passed unanimously.

The Board is welcome to attend the May information meeting and any customer questions and inquiries will be shared with the Board at the rate hearing

V. General Comments from the Public

There were no comments from the public.

VI. Adjournment

The meeting adjourned at 6:25 p.m.

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Judy Scrivener, Chair of the Board

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Theo Fedele, Clerk of the Board