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

April 28, 2014

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

MINUTES

Board Members Present:	Judy Scrivener, Chair Dan M. Offret, Vice-Chair Jim Doyle, Member Bryan Foulk, Member
Board Members Not Present:	Richard Byrd, Member
District Staff:	Joseph Olsen, General Manager Diane Bracken, Chief Financial Officer Charlie Maish, District Engineer Tullie Noltin, Recorder Warren Tenney, Clerk of the Board

Study Session

I. Call to Order and Roll Call

Dan Offret, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Study Session to order at 6:00 p.m. Jim Doyle, Bryan Foulk, and Dan Offret were present. Judy Scrivener arrived at 6:10 p.m. Richard Byrd was not present.

II. General Comments from the Public

There were no comments by the public.

III. Discussion of Requested Fiscal Year 2015 Budget

Mr. Olsen said he and Ms. Bracken are new to the District this budget cycle and leveraged their previous experience in creating a new priority driven budget process. Division Managers were asked to submit requests for capital items, equipment, and any line-item expenditure increases beyond the current team budgets and then they were asked to prioritize them. Once the managers had buy-in, Mr. Olsen and Ms. Bracken took all the priority lists and integrated them into a District-wide list based on the District's mission. These lists can be found in the last two pages of the 2015 Requested Budget book. Mr. Olsen also prepared a Powerpoint presentation about the 2015 Requested Budget.

The items at the top of the priority list are regulatory required, such as water quality testing, and the importance decreases the further you move down the list. Revenue projections for Fiscal Year 2015 assume a 1.1% decrease in consumption. Prior projections had planned for a 2.1% consumption decrease but analysis based on actual consumption data revised that down by half. The funding line was drawn at $406,000 based on revenue projections. Items 1-18 on the priority list are recommended for funding and items 19-38 are recommended as unfunded. About half the requests, or $393,000, are unfunded for Fiscal Year 2015.

Mr. Offret asked if the division managers worked on the priority lists together. Mr. Olsen said each manager prioritized their own requests from their subject matter expertise, and Mr. Olsen and Ms. Bracken combined all lists into one, based on the District's mission.

Mr. Olsen explained a few items are recommended for split funding between this year and the following year. When the next budget process begins about a year from now, unfunded items 19-38 will serve as the starting point for discussions and all new requests will be integrated with these items. Three relatively small dollar items with a pressing need were identified for funding in the current budget. Mr. Olsen noted about $400,000 is above the funding line and about the same amount falls below it.

Mr. Offret asked if the $500,000 reserve account has been touched in the current fiscal year and Mr. Olsen said no.

Mr. Olsen said this is a reset year for capital. The goal is to direct resources according to their intended purpose. For instance, the number one priority on the capital list, is the CMID Effluent Recharge Project, which will be funded with the Water Resources Utilization (WRU) Fee because the project is related to water resources. The generator at Diablo Village 2 will provide resilient capability to operate in power outages. The Ranch House Estates project extends waterlines and relocates service lines. The last item recommended for funding is replacement of Oracle Jaynes Station Well. The District needs to work on its well field but there are not adequate resources in this budget. Oracle Jaynes Station Well can be started next fiscal year and finished in the following fiscal year. There are $7 million in unmet needs below the funding line, besides the $36 million CAP Recharge, Recovery & Delivery Project. Going forward with this prioritization process in place will ensure further progress on the District's needs.

Mr. Offret asked for more information on the Diablo Village 2 generator. Mr. Olsen explained the generator is being relocated from the Bell Well site, which was recently demolished. This is considered a high priority because Diablo Village 2 currently has no backup capabilities. Steve Shepard, Utility Superintendent, said the gas engine at the booster site is being redeployed to another location. Mr. Offret asked if both wells would be inoperable in a power outage and Mr. Maish confirmed, although there is a connection to Tucson Water there.

Mr. Offret said the District has received a few comments about the Casas Adobes area. He asked where those improvements fall on the priorities. Mr. Maish said that area is included with the Oracle Road Corridor Improvements. Mr. Olsen said that project falls below the funding line for the proposed Fiscal Year 2015 budget but once a complete CIP is developed, projects such as this can be accomplished according to their prioritization on a five-year ongoing plan. The 5-Year CIP would not necessarily be related to bond funding but would serve as a planning tool.

Mr. Foulk asked if anything on the priority list is associated with a County project and Mr. Maish said no.

Ms. Scrivener arrived at 6:10 p.m.

Mr. Olsen said he sat down with District staff a few weeks back to go over the priority driven budget. He explained the recommendations for funding requested items and the proposal for facing the challenges of the expected 50% increase in healthcare costs. Mr. Offret asked how the employees responded. Mr. Olsen said they appreciated the transparency and being able to participate in the budget process. Most of their comments on the prioritization were points of clarification. On healthcare, they appreciated the balanced approach to satisfy the needs of the District and the employees. For many years, employees experienced negative paychecks as a result of very few raises during a time of increasing contributions for retirement and healthcare costs. They seem to appreciate the efforts to balance the impacts of rising healthcare costs.

Ms. Bracken went over the requested budget. Metered Water Sales revenue has increased $791,834. Metered Water Sales are being projected differently this year. In addition to looking at the current year collection rates, she also looked at a comparison of consumption and analyzed each category's weighted average. As a result, Metered Water Sales are budgeted at a 1.1% reduction of actual collection through March with the estimated collections for the last three months of the current fiscal year. New connections are budgeted at 50% water consumption with an average of 1,000 gallons to be conservative.

Ms. Bracken said WRU fees are budgeted at 20 cents per thousand gallons for the full year, with no increase included in the budget.

The Pima Wastewater calculation for 17,500 sewer connections at $1.00 per connection could increase, as the District will probably be requesting an increase this year.

Development fees were also estimated differently this year. Ms. Bracken and Engineering staff looked at planned development to arrive at a conservative estimate of 127 new connections located in Metro Main and 65 new connections in Metro Southwest.

Mr. Offret asked about the additional charges the District will have to pay the previous owner for new connections in Metro Southwest. Ms. Bracken said the District is changing how those premium payments are accounted for, which increase every fiscal year for 7.5 years from the date of purchase. In the past, the premiums were netted against development revenue but this year the District will budget these as expenditures.

RTA Fees are based upon the connection size with a $5,000 increase based upon the number of anticipated new connections.

The District is also changing how Central Arizona Project (CAP) water credits are recorded. In the past, credits were applied as abatement against CAP water expenses. This year, both the revenue and expenses have been increased to properly record the revenue and offsetting expenses transparently.

Mr. Offret asked why the auditors did not catch these things. Mr. Foulk recalled the auditors also did not catch the issue with sick leave payouts from two years ago. Ms. Bracken said she does not know why, but the old practice was not totally wrong, just less transparent.

Ms. Bracken said the total revenue is 18,175,720.

Ms. Bracken said salaries and benefits are $213,237 less than the prior year budget, including a potential 50% healthcare increase and a requested 3.6% cost of living allowance (COLA). The reductions are resulting from the reclassification of the Deputy Manager to Assistant Utility Superintendent and reductions in pay for both the Chief Financial Officer and General Manager, who are also waiving District healthcare coverage.

Mr. Foulk asked how healthcare costs will affect the salaries and benefits line item. Mr. Olsen said he would elaborate on that in the presentation. Ms. Bracken said there are additional worksheets on the proposed distribution of the healthcare cost increase projected. Prior year increases to healthcare were budgeted to be fully absorbed by the District. Mr. Foulk asked how healthcare costs are recorded in the budget. Ms. Bracken said they are recorded as expenditures owed to the insurance company, not to the District.

Consultant/Contract Services have increased $359,079. A large portion of the increase is the premium on estimated new connections in Metro Southwest of $82,888.

Water Quality Testing Services increased $163,178 including the UCMR3 test, which is required one time, and SOC's, which are required every nine years.

Meter replacements are estimated at $50,000 for 200 meters, and an additional $19,000 for water treatment media replacement.

General operating expenditures increased $171,135 over the prior year, with $41,830 attributed to increased banking charges. A credit of $38,000 was included the current budget for collection of convenience fees for certain transactions but because the District utilized a utility group rate, the convenience fee could not be charged. The District's average cost is $1.33 per credit card transaction.

Election costs of $26,000 are included in the requested budget.

Communications/Telephone expenses have increased $12,383 and are offset by a $13,000 decrease from the cancellation of GPS units in vehicles, which are not currently being used. Mr. Doyle asked if all GPS units will be removed from vehicles. Ms. Bracken said staff is considering keeping one in the second shift vehicles as a safety precaution. Mr. Olsen said there are many uses for GPS but the District does not currently have the integration or tools to leverage it. Mr. Olsen said the current GPS services are really not used on a daily basis and many of the same uses can be accomplished with a tablet or smart phone. As the vehicle GPS units are not being used, it does not make sense to keep this above the funding line. Mr. Doyle expressed concerns about losing the ability to track abuse in District vehicles. Mr. Foulk asked how much is needed to fully utilize GPS capabilities. Mr. Olsen said the District is a few years away from obtaining the software and tools to dispatch based on the vehicle's geographical location. With a relatively small staff, he is more concerned with efficiencies than abuse. At this time, supervisors and staff work closely together. Mr. Doyle asked if vehicle GPS units might be covered by a Pima County agreement. Ms. Scrivener was uncertain of what is available through County services for fleet services. Ms. Bracken said the $13,000 spent on smart phones and tablets allows more communication between customer service and utility staff in the field.

Ms. Bracken said Vehicle Leases with Enterprise are increasing $60,628 with the addition of five vehicles to be leased in 2014 and another five vehicles in 2015. The District will also be reducing the motor pool by one vehicle based upon analysis of usage.

Ms. Bracken said Power Purchased has increased $1,500 for the natural gas needed to run the generator at Diablo Village 2, a requested capital project.

Bond Issuance Costs/Regulatory Fees are budgeted with a $23,205 increase, resulting from refinancing as well as increasing amortization expenses and offsetting premiums.

Debt service descriptions are included in the budget with term ending dates, amount of interest, and principal. There is a loan for $400,000 that the District financed for 20 years in 2013. An additional $60,000 is budgeted for principal to pay it off in a shorter period which saves the District $29,950 in interest charges. An additional principal payment of $91,731 will be applied in fiscal year 2014, saving $49,717. By making these two payments, the original interest of $121,000 will be reduced to $41,816 and the loan is shortened by 10 years. Ms. Scrivener asked how this impacts the debt reserve. Ms. Bracken said the $91,731 would have been set aside in the debt reserve.

Ms. Bracken said Debt Service Reserve Funding is fully funded at $4,752,936. Only the administrative fee of $400 is budgeted.

Professional Growth carryover was calculated based on the amount anticipated to be spent in fiscal year 2015. This item creates the budget capacity for funds that already exist. Mr. Offret asked what the total fund is, and Ms. Bracken said roughly $10,000.

The Contingency for Sick/Vacation Payout has been budgeted at $95,910 to cover only the anticipated retirees.

The Contingency Fund for Emergencies remains at $500,000.

The total operating expenditure budget is $17,445,466. A new line item on this summary is the total operating revenue which removes the Development Fees that should be used for Capital and the WRU fees that should be used for funding water resource projects. This shows operating expenses are slightly less than operating revenue. The fiscal year 2014 budget was using $497,378 of capital funding to fund operations.

Capital projects requested are equal to the budgeted Development Fees. CAP Funding/Projects are limited to WRU fee income. The projected ending operating fund balance is $3,134,236, made up of five separate balances according to Governmental Accounting Standard Board (GASB) standards.

In prior years, Depreciation expense was not included in the operating budget. This is a non-cash expenditure, so only budget capacity is required to cover these entries. In order to balance the budget, the fund balance will offset these expenditures.

Mr. Olsen returned to his presentation. He stated that he previously walked through the healthcare challenges with all staff and that the insurance broker is estimating a 50% increase in healthcare costs. The current cost ratios for a PPO full family plan have the District paying $11,000 and the employee paying approximately $3,000 per year in premiums. In prior years, the District absorbed the increases but it is pretty standard for other entities to split increases with employees 50-50. Negative paychecks are not something a healthy workforce exhibits, so different ratios were examined to find the right balanced approach. In previous budget discussions, merit awards and COLAs based on the consumer price index (CPI) were included with placeholders of 2% each, for a total of 4% annually. In this case, it does not make sense to award merits because the Fiscal Year 2015 healthcare increases are related to the cost of living. The middle of the road HSA full family plan was used to arrive at a 3.6% COLA, which includes a slight adjustment for rising pension contributions. The CPI from February was figured in while subtracting the healthcare CPI component. Analysis was done on the potential impacts to employee paychecks and the majority of staff, about 91%, would see an increased or neutral paycheck. About 9% of employees, those with lower salaries on the PPO full family plan, would see an average $7.50 decrease per paycheck. Staff understands the difficult challenges and is very appreciative of the information.

Mr. Olsen said FOC discussions on the 3.6% COLA produced positive feedback. The FOC felt this was the right approach. The FOC also voted 9-0 for moving the requested budget forward with the priority driven budget process and COLA methodology.

Mr. Offret asked if this process will be used every year. Mr. Olsen said the priority driven budget process will be used every year but the proposed COLA methodology to address healthcare costs is more of a one-time solution. Healthcare increases, while expected in the future, are not likely to be this large.

Mr. Foulk asked if the priority list itself will be kept for next year. Mr. Olsen explained the items not funded this year will serve as the starting list next year. New requests will be incorporated and reprioritized each year. The budget meetings also included managers and staff who will support its execution.

Mr. Foulk said he will be interested to compare the first three years of lists to identify trends. The process will be beneficial to staff and will generate discussion on priorities. Open dialogue helps all staff. Mr. Foulk said he likes the program and thinks it is great to ask staff down the line how they would prioritize items, carrying the information up. He agrees with this approach. This is a good thing the District has never done before and he likes the idea of including more input from the bottom up.

Mr. Maish said it is important to note the capital project list does not include projects approved by the Board several years ago. Those are still priority projects but are not included in the capital request list. Mr. Olsen said the goal is to arrive at an updated prioritized unmet infrastructure list as well as a 5-Year CIP to serve as a planning tool.

Mr. Foulk thinks it is very important to pay down the debt and he is glad to see the District putting money aside ahead of time and paying things off. Mr. Olsen said, as was discussed at the last board meeting, the District is making efforts to pay down the debt burden and increase the WRU fee by potentially 20 cents per 1,000 gallons to revenue fund the land purchase and design activities for the CAP Recharge, Recovery & Delivery System Project.

Ms. Bracken added the division managers will get better at prioritizing each year, giving it more time and thought. The District is giving division managers ownership of their budgets as some managers have never seen them before. The new process is fiscally responsible. Mr. Foulk said it is human nature, people do not think of the little stuff unless they have ownership. He agreed this is a better process.

IV. Future Meetings

Mr. Olsen said considering the positive discussion, the budget can be on the next Board agenda. The next Board Meeting will be held on May 12, 2014. An Executive Session to discuss current litigation will start at 5:00 p.m. The Board should bring their budget books to the May meeting for reference.

V. General Comments from the Public

There were no comments by the public.

VI. Adjournment.

The meeting adjourned at 6:54 p.m.

____
Judy Scrivener, Chair of the Board

____
Warren Tenney, Clerk of the Board