METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE

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

MARCH 14, 2018

MINUTES

Committee Members Present:	Charlie Maish, Chair Lee Mayes, Vice Chair Barbara Gelband, Member Robert Shonka, Member Richard Sarti, Member Scott Schladweiler, Member (arrived at 4:02 p.m.)
District Staff:	Joseph Olsen, General Manager Sheila Bowen, District Engineer / Deputy General Manager Diane Bracken, Chief Financial Officer Steve Shepard, Utility Superintendent Theo Fedele, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Mr. Maish called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Ms. Gelband, Mr. Shonka, Mr. Mayes, Mr. Sarti, and Mr. Maish were present. Mr. Schladweiler was not present.

II. Call to the Public

There were no comments by the public.

III. Approval of Minutes – January 22, 2018 Meeting

Ms. Gelband made a motion to approve the minutes as presented. Mr. Shonka seconded the motion. Motion passed unanimously.

IV. Discussion and Possible Recommendation on Proposed Rate Adjustments

V. Discussion and Possible Recommendation on Requested Fiscal Year 2019 Budget

Mr. Schladweiler arrived at 4:02 p.m.

Mr. Olsen stated 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 were discussed together.

Mr. Olsen stated that over the past four years the importance of achieving revenue stability has been discussed numerous times. For the District, revenue stability meant that 90% of the fixed costs were covered by the fixed revenue from the monthly water availability rate. Revenue stability significantly enhances reliability in planning including long range capital improvements program, the water resources portfolio, and to predict future budgets and rate models. After achieving the 90% fixed cost recovery, the District was able to keep the promise made to customers of a 0% rate increase in Fiscal Year 2018. The District's average annual rate increase has been less than 2.5% over the past four years while other providers in the region have had increases of around 7-8% annually. This is really a testament to the numerous financial initiatives and the priority driven budget process.

In looking at the fixed cost recovery goals as well as the financial needs for Fiscal Year 2019, there were three proposed elements for the FOC to consider recommended to the Board of Directors including the Water Resource Utilization Fee (WRUF), adjusting the consumption Tiers, and miscellaneous fees.

The WRUF was created as a revenue stream to address projects such as the Northwest Recharge, Recovery, and Delivery System (NWRRDS) to utilize the District's renewable water resources. Roughly four years ago, the fee was increased by 20 cents per 1,000 gallons to 40 cents per 1,000 gallons with the plan to increase that fee on a step wise process for the next four years to ultimately get to 70 cents per 1,000 gallons. The partnerships with the Town of Oro Valley and the Town of Marana associated with the NWRRDS reduces the total infrastructure costs. The recommendation is for only a 10 cent increase, resulting in 60 cents per 1,000 gallons instead of 70 cents per 1,000 gallons. That 60 cents per 1,000 gallons is the last step associated with the NWRRDS and there no planned increases to the WRUF in the near future. Since the average customer utilizes less than 8,000 gallons of water, that means a 10 cent increase is a less than 80 cent increase to the average customer.

In FY 2017, the first 3,000 gallons of consumption was moved into the water availability rate, also known as the monthly service charge, creating the first tier of consumption from 3,001 gallons to 10,000 gallons. The tier block structure promotes conservation because the higher tiers have a higher rate and ensures that cost of service is captured. The average District customer consumes less than 8,000 gallons and having the first tier of consumption 2,000 gallons higher than the average customer's monthly demand does not make sense to promote conservation. The recommendation is to change the first tier of consumption to 3,001 gallons to 8,000 gallons and have the tiers adjust from there. There is also proposed small consumption increases in Tiers 2, 3, and 4 but no cost change for the first tier. Therefore, the average customer will not be impacted by a tier adjustment.

Mr. Maish asked for clarification on the first tier of consumption. Mr. Olsen stated that the first tier is currently 3,001 gallons to 10,000 gallons and the recommendation is to go to 3,001 gallons to 8,000 gallons.

Miscellaneous fees ensure the costs of service are captured to avoid other customers subsidizing these fees. These fees include the backflow inspection fee, the initial connection fee, and private fire service line monthly fee. Historically, when a developer wishes to build a subdivision they submit a Design Plan and staff will hydraulically model the plan to determine the ability to meet a fire flow and peak demands for that development without impact to the existing customers. A new proposed Master Plan review fee will be required before the Design Plan. The Master Plan review fee allows for the initial conceptual hydraulic modeling to determine the infrastructure requirements and the long-term costs before getting too far along in the process. The Master Plan review process will accomplish some of the Design Plan tasks therefore the Design Plan fees will decrease.

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. Schladweiler asked if a third party was used to calculate the plan review fees. Mr. Olsen stated that an analysis was completed by staff to determine the fees. The fees were then based on the amount of hours associated with the activities, the classification of the employee accomplishing the work and equipment utilized. The Design Plan review fee was then updated. For the Master Plan review fee, a new analysis was completed internally based on the hours associated with each of the activities.

Mr. Maish asked if the Southwest - Lazy B water rates received from the customers satisfy the costs to Tucson Water and to maintain the existing well site. Mr. Olsen and Ms. Bracken stated that the budget included the Southwest area as a whole and would need to review the numbers to compare the revenue from Lazy B compared to the Southwest. Mr. Olsen stated that the wheeling cost was for roughly 4 AF of water because Lazy B is a relatively low demand service area. There are some cost savings associated with receiving wheeled water from the City of Tucson including less media change outs. There is an established rate per acre foot with the City of Tucson. Earlier this fiscal year the Lazy B well was not operational for a number of months so having this connection kept Lazy B customers in service without costly water hauling operations.

Ms. Bracken stated that the requested budget includes a total increase of $250,951, or 5.84% 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.

Ms. Gelband asked how many employees are there. Ms. Bracken stated that the employees included in the budget is 54 employees, or 51.88 full-time equivalents.

The requested Consultant/Contract Services are $8,669 lower than in the prior fiscal year with the inclusion of Hydrogeologic Studies for Metro Main and Hub at a cost of $80,000, an addition of the Corrosion Monitoring at a cost of $16,000, a reduction of $56,480 in water quality testing requirements for Fiscal Year 2019, a $10,000 reduction in the meter replacement program for meters with high usage, which includes 529 planned replacements, and a $38,650 reduction for water treatment media replacement in Metro Southwest.

General Operating Expenses are requested with an increase of $68,237, or 5.88%, including $25,000 for the planned election for the Board of Directors and $30,940 for bank fees associated with an increase in 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.

Mr. Schladweiler asked what percentage of the customers pay with a credit card or online. Ms. Bracken stated that about 30% or more are paying by credit card.

The request for Power is not changing from the prior year. The Supplies requested are higher by $124,369, or 20.36%, with an increase of $28,028 for planned new meter installations and an additional $10,000 for failed meter replacements. A $28,891 increase is requested for computer and software maintenance. An increase of $26,000 is requested to reconfigure the Engineering work area including replacing the carpet, however, $10,000 of the carpet replacement costs will be paid for with the 1% earnings the District receives when the AMEX Vendor Pay Card. Right-of-way permits have been added to the budget in the amount of $17,100. An additional $10,600 is requested for small tools and minor equipment.

The requested Other Expenditures are $4,469 lower than the prior fiscal year with a $23,360 decrease in CAP water purchases, a $15,853 increase in regulatory fee, and a $2,038 increase in the CAP Credit purchase from Metro Main to Metro Southwest.

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 this 2009 Senior Bond lien will be made on January 1, 2019. This payment will free up $1,591,000, of debt service reserve. Since the District bonds were set up as non-callable, the debt service reserve dollars 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, which will be used to process another defeasance on another outstanding Bond debt. This will satisfy an additional $2.25 million 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.

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, or 38.38% of the vested sick time liability.

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 an additional $620,000 for NWRRDS partners.

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 priority driven budget process is completed each year for the capital equipment items. Each of the District's teams evaluate their needs for capital equipment and submit a prioritized list of requests. All of the team's requests are integrated into one priority list of items that support the District's mission. 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. The proposed capital equipment funding line for Fiscal Year 2019 is roughly $362,870 and the items above the line get funded and the items below are carried through to be reevaluated at the mid-year budget review or during the next fiscal year process. For Fiscal Year 2019, the number one item is the vacuum excavator which can be used on main breaks to remove the mud around the break to necessitate the repairs. The dump truck will also be replaced. Various upgrades on the Information Technology (IT) infrastructure to ensure full backup of the District's servers are also proposed. Upgrading the audio capabilities of the Board Room, which date back to when the building was constructed, are recommended to ensure functionality for Board meetings as well other regional water discussion groups. The items not funded are also important but may require additional research prior to moving forward in funding. Those needs will be re-evaluated during the mid-year budget review.

Included in the proposed budget is a five year capital improvements plan (CIP), which lays out the proposed plan for capital infrastructure for the next five years and includes the components of the discreet tasks such as planning and design, acquiring associated land, and construction. The top item is the NWRRDS project and the $500,000 for year 1 in the CIP is for completing the property acquisitions.

Mr. Maish asked if the property acquisitions will be completed in Fiscal Year 2019. Mr. Olsen stated that the goal is to complete the property acquisitions Fiscal Year 2019. Each month, 3-4 easements are completed. The Arizona State Land Department process has been moving forward with the review process and ongoing communication.

The intergovernmental agreement with the Town of Marana and the Town of Oro Valley brings in revenue that offset expenses so rate payers would get a benefit of up to $15 million on capital infrastructure as well as $4.9 million savings on interest by not taking on additional debt. There are projects that are associated with the NWRRDS that are the District's responsibility only including integrating NWRRDS into our system to convey recovered water five miles to the Herb Johnson reservoir. The RTA project was delayed therefore $1.6 million will carry into Fiscal Year 2019. There is also a smaller RTA project that will be completed in Fiscal Year 2019.

Another planned project is increasing the storage capability of the Hub reservoir by deconstructing the smaller reservoir and replacing it with a larger reservoir to increase storage. The plan is to complete the project during the low demand period so there is minimal impact to the customers.

During the mid-year budget review, the Hub reservoir and the Old Nogales Highway mainline was discussed and approved to move forward with the design activities in the current fiscal year and then begin the construction in Fiscal Year 2019. The last item on the list is demolition and removal of the old facilities. 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.

Ms. Gelband asked how we are affected by what has been in the news regarding the CAP allocations. Mr. Olsen stated that the District's CAP allotment is a high priority allocation in the Municipal and Industrial pool. If Lake Mead is to go below 1,075 feet of elevation, the excess water pool and agricultural users are affected. Below 1,050 feet of elevation is a deeper cut to agricultural and then below 1,025 feet of elevation would mean reductions for other pools. If we are in a shortage declaration, the unit price of CAP water would go up. CAP has fixed costs to recover so the unit cost per acre foot will go up because there is less water being sold due to the shortage.

Mr. Schladweiler asked if all the projects are covered through rates and fees with no other funding sources other than the NWRRDS. Mr. Olsen stated that the District has been revenue funding capital projects since 2014. The goal was to enhance the debt service ratios by paying off debt to and achieve the best financial position possible for when we do go out for debt. The NWRRDS project has been revenue funded through the WRUF on all land and design activities with no planning to finance anything except the construction.

Ms. Gelband asked about the plan to present the information to the rate payers. Mr. Olsen stated that each year the District hosts an information meeting, which includes an overview on the proposed rate changes. In previous years, the information presented related to revenue stability. Through achieving revenue stability, future increases would be on a lower scale including the 0% last fiscal year and the 1.6% for Fiscal Year 2019. The rate payers will receive an insert in their monthly bill, which includes the impact on the average customer. The Information Meeting is scheduled on May 8, 2018. The rate hearing will then be on May 14, 2018 immediately prior to the regularly scheduled Board meeting.

Mr. Shonka moved to recommend that the Board of Directors approve the requested changes to the rate and fee structures effective July 1, 2018 for Fiscal Year 2019 as presented by staff at the Committee's March 14, 2018 meeting. Ms. Gelband seconded the motion. Motion passed unanimously.

Mr. Schladweiler moved to recommend the Board of Directors adopt the Requested Budget for Fiscal Year 2019 as presented by staff at the Committee's March 14, 2018 meeting. Ms. Gelband seconded the motion. Motion passed unanimously.

VII. Clerk of the Board Updates; Future Meetings

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

VIII. Call to the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 5:03 p.m.

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Charlie Maish, Chair
Finance Oversight Committee