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 27, 2019

MINUTES

Committee Members Present:	Scott Schladweiler, Chair Charlie Maish, Vice Chair Ralph Churchill, Member Lee Jacobs, Member Robert Shonka, Member Kip Volpe, Member
Board Members Not Present:	Lee Mayes, Member
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. Schladweiler called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Churchill, Mr. Jacobs, Mr. Maish, Mr. Schladweiler, Mr. Shonka, and Mr. Volpe were present. Mr. Mayes was not present.

II. Call to the Public

There were no comments by the public.

III. Approval of Minutes – January 22, 2019 Meeting

Mr. Jacobs made a motion to approve the minutes as presented. Mr. Churchill seconded the motion. Motion passed unanimously.

IV. Discussion and Possible Recommendation to the Proposed Rate Adjustments

V. Discussion and Possible Recommendation to the Requested Budget for Fiscal Year 2020

Mr. Olsen stated that the Discussion of Proposed Adjustment of Rates and Fees and Scheduling a Public Hearing and Discussion of Requested Budget for Fiscal Year 2019 are interrelated and were discussed together.

Ms. Bracken stated that the requested budget includes a 95¢ increase to the monthly water availability fee for a 5/8" meter. With this change, the projected annual metered water revenue would increase $371,279. The District has not changed the water availability fee for three fiscal years with the implementation of the break-even point analysis of fixed and variable costs. With the requested change, the District would maintain a fixed cost coverage of 89.57%. Without any revenue changes, the fixed cost coverage would drop to 86.25% based upon the planned expenses in the requested budget.

Mr. Volpe asked if the 95¢ was an increase for the average customer. Mr. Olsen stated that the increase is for the residential customer or average customer with a 5/8" meter and the increase of 95¢ is only to the water availability rate and the consumption rates along with the Water Resources Utilization Fee (WRUF) will not be increased. For the average customer in Metro Main and Hub this is an increase of 1.92%. Over the past five years with the various initiatives including revenue stability, WRUF as well as generating non-ratepayer revenue streams, the average annual increase at Metro Main and Hub is 2.07%, at Diablo Village is 2.04%, at E&T is 2.4%, and Lazy B is less than a percent. Across the service areas, other than Lazy B, this is about a 2% average annual increase while other water providers who have not yet achieved revenue stability are seeing closer to an 8% increase.

Mr. Shonka asked when it was anticipated that the Regional Transportation Authority (RTA) fee would end. Mr. Olsen stated that the RTA fee will end halfway through Fiscal Year 2021.

Mr. Jacobs asked what percentage of the meters are 5/8" meters. Mr. Olsen stated about 90% of the District customers have a 5/8" meter. Ms. Bracken stated that approximately 75-80% of customers fall into the average customer category with 5/8" and using 7,500 gallons of water or less.

Mr. Schladweiler asked how many dual meters the District has. Mr. Olsen and Ms. Bracken stated about 30. Mr. Schladweiler asked are those above and beyond the average customer over the 7,500 gallons per month. Mr. Olsen stated that for a customer with extensive outdoor watering the dual metering will lower the winter average and wastewater bill as opposed to having a separate irrigation service line but adequate demand is needed to justify that 1/3 water availability rate, therefore, it would be more on the higher end of the demand scale.

Mr. Maish moved that the Finance Oversight Committee recommend that the Board of Directors approve the requested change to the Water Availability Rate and dual meter fee to be effective July 1, 2019 for Fiscal Year 2020 as presented by staff at the Committee's March 27, 2019 meeting. Mr. Shonka seconded the motion. Motion passed unanimously.

Ms. Bracken stated that the budgeted investment income increased $230,000 with CD’s purchased at higher fixed interest rates and other active cash management activities. The revenue for providing sewer billing services is based upon the current rate of $1.42 per account per month. A cost of service allocation was provided to Pima County and the rate increase of 10¢ per customer account per month, based on the 18,698 accounts billed in February, was agreed upon. Since the intergovernmental agreement (IGA) has not yet been signed, the additional $22,437 of revenue has not been included in the requested budget. Development fees were budgeted at $683,150 based upon a projection of 108 new 5/8” meter applications in Metro Southwest and 180 new 5/8” meter applications in the Metro Main and Hub service areas. The requested budget includes the Town of Marana storing 500 acre-feet (AF) of water in calendar year 2020. Revenue includes water storage of 3,500 AF by the City of Phoenix at the District’s Avra Valley Recharge Project.

Mr. Olsen stated that in addition to revenue stability, the priority driven budget process, and seeking non rate payer revenue streams, the District has recently completed an agreement with the Central Arizona Project (CAP) related to the Drought Contingency Plan (DCP). The goal of the DCP is not to prevent shortage but to prevent catastrophic Tier 2 or 3 levels of shortage on Lake Mead. There is no shortage in 2019 but there is 57% chance there will be a Tier 1 shortage in 2020. One item under DCP is finding mitigation water that would go to lower priority users such as agricultural users or non-Indian agricultural users when they are shorted under a Tier 1 shortage. Without this mitigation water, meeting demands for agricultural and non-Indian agricultural users becomes exceedingly difficult. The District’s allocation is an M&I which is a higher level of priority beyond agricultural and non-Indian agricultural. The District has been taking the entire 13,460 AF of CAP allocation every year using only half of to meet the current customer demands and the other half is stored for future needs. Discussions began with CAP for a Compensated System Conservation agreement to benefit District ratepayers and Arizona with DCP. Currently with 13,460 AF of CAP allocation and using about 7,000 AF per year, the plan is to take 3,500 AF of the District’s allocation that is being stored for the future and have that deployed under the

Compensated System Conservation agreement with CAP to mitigate their lower priority needs. In turn, the District will not be paying delivery charges in Fiscal Year 2020, which is $152 per AF, or $638,000. The District will also be reimbursed $68 per AF, or $238,000, for the capital charge, which is a cost per AF that must be paid regardless if the water is taken or not. The DCP agreement also provides the District $50 per AF, or $175,000, for water that will not be ordered for next fiscal year. This agreement is planned to go into effect for water order year 2020 through the term of DCP which is 2026. Both the District's Board and Central Arizona Water Conservation District (CAWCD) Board have approved the agreement. This pathway going forward helps the District with a new revenue stream and also helps a critical statewide initiative on DCP.

Mr. Schladweiler asked if there is an escalator over the next six years for the $50 and $68 being reimbursed. Mr. Olsen explained that the capital charges change year to year for example the published capital rate structure is $68 in 2020 and $74 in 2021 based on the federal repayment requirements from the construction of the CAP canal. The $50 is a flat rate throughout the seven years of the DCP agreement.

Mr. Volpe asked if this was the current allocation not the long-term storage credits. Mr. Olsen stated that this is the annual allocation and the District is still storing water for the future. In the past, almost a full year of future demand was stored each year and with this agreement less than half a year of future demand will be stored. However, the revenue will allow for additional investment in infrastructure and enable the support of the statewide wide initiative.

Mr. Maish asked how many years the District has stored. Mr. Olsen stated about six to seven years of current demand can be met with just CAP long-term storage credits; this is not including additional water resources in the District's portfolio.

Mr. Olsen stated that this proactive agreement is the first type of compensated system conservation agreement under this model. CAP is planning to have more of a public solicitation process for other water providers following this collaborative model. The other item for revenue streams is the sale of storage credits for effluent each year. The District, depending on the demands, generates between 4,000 – 4,400 AF of effluent that is treated at the metropolitan wastewater treatment plants and discharged in the Santa Cruz River. The Santa Cruz is considered a managed recharge project because that water is put into the streambed to restore the aquifer. The District receives a portion of the water delivered to the managed recharge back as long-term storage credits. An agreement with the Arizona Department of Water Resources (ADWR) states half the water delivered to the managed recharge project is cut or left for the aquifer. However, if the water is put it into a basin like the Avra Valley Recharge Project (AVRP) then 95% is received. As part of the discussions with DCP and looking at innovatively using the water resources throughout the state, there is a legislative change that was supported by all parties to eliminate the 50% cut to the aquifer and have only a 5% cut to the aquifer. The District has an agreement with the CAGRD to take a portion of the effluent credits that have been accrued each year and sell them to CAGRD roughly indexed on CAP's delivery cost. This has created a revenue stream of roughly $50,000 and $60,000 per year and adjustments to the 50% cut to the aquifer will enable the increased sale of long-term storage credits. All of the effluent that is accrued is not being sold as a portion is left in the District's water resource portfolio each year. The District does not have a currently active reclaimed system and is not using the effluent other than in the water resource portfolio. This is an ability to deploy that water to have the revenue stream to directly invest back in the infrastructure while each year increasing our effluent water resource portfolio. The benefit to the region is CAGRD has replenishment obligations for development that occurs outside a water provider that has a designation of assured water supply. This provides CAGRD stable and renewable water resources to be able to meet those water replenishment obligations ensuring that Tucson AMA remains sustainable on the water resource front.

Mr. Maish asked if it was effective immediately. Mr. Olsen stated that it was effective when the legislation went through which was near the end of January. Depending on how it is interpreted the District will realize eleven months at 95% and one month at 50% in the current water year.

Ms. Bracken stated that the total budgeted revenue from operations is $22,914,792, which is an increase of 6.47% or $1,391,758 when compared to the Adopted Budget for Fiscal Year 2019. With $371,279 or 26.68% of the planned revenue increase coming from a rate change, an additional $1,011,174 will also be obtain from other non-ratepayer revenue sources. Investment income accounts are $230,000 higher from active Cash Management accounting for 16.53% of the total revenue increase. Development revenue increases are adding $207,779 or 14.93%. The new CAP Reimbursement for Central Arizona Project (CAP) capital charges will generate an increase of $238,000 or 17.10%. The new Compensated System Conservation agreement with CAP is $175,000 or 12.57%. The sale of effluent storage credits increased revenue by $160,395 or 11.52%. The reimbursements from Northwest Recharge, Recovery, and Delivery System (NWRRDS) partners is budgeted at $1,494,460.

Mr. Olsen stated that without proactively and innovatively seeking non ratepayer revenue streams the increase of only 2% would be closer to 6 or 7 % but having these other revenue stream offsets and minimizes the amount the District is asking from ratepayers.

Ms. Bracken stated that the operating revenue is $22,914,792. With the fund balance and NWRRDS Partners contributions, the total revenue is $36,460,718. The carry forward balance in the fund balance includes the Water Resource Utilization Fee revenue and is projected to be $5,819,466 at the beginning of Fiscal Year 2020.

The requested salaries and benefits are $433,438 or 9.52% higher than the prior fiscal year. The adjusted total salaries and benefits amount is $4,985,148, which is a 9.52% increase. The substantial increase to salaries and benefits includes:

- Salaries, which are $142,963 or 4.23% higher with the addition of 1.45 full-time equivalent (FTE) position for a total of 53.33 FTE's. This includes 52 full-time positions and two part-time positions. When assembling the materials for this meeting a typo was discovered under the Utility Team's taxes on the Cost of Living Adjustment (COLA) and merit increase was incorrectly entered as $37,725 instead of $3,770.25. This will be corrected in the adopted budget reducing Salaries and Benefits by $33,954.75.
- Engineering staff planning a 59.56% reduction of time spent working on capital project for an $110,440 increase to the operating budget.
- Health and Dental insurances budgeted with potential increases of 10% and 2% respectively.
- Workers Compensation insurance costs increase to $115,632 for an increase of 40.65%. The insurance renewal occurs in April and the costs starting April 2019 will be $112,513 with potential increases occurring again in April 2020.
- With increased Salaries, Arizona State Retirement System (ASRS) costs are 8.3% higher, ASRS Long-Term Disability costs are 12.15% higher, and this includes a rate increase of 0.31%.

The planned expenses for Consultants and Contracted Services have increased 0.41% or $38,318. An additional $10,000 has been requested for Corrosion Repairs along with a $4,000 increase for Corrosion Monitoring. Legal fees have been reduced by $10,000. Requested Storage Tank Rehabilitation is $64,000 higher for internal coating of the Hardy Storage Tank. Well Maintenance expenses are expected to be $25,000 lower with Diablo Village # 2 work planned and developer contributions sharing these costs. The meter replacement program has been budgeted at $120,000 with a $10,000 reduction in the Fiscal Year 2019 adopted budget. Miscellaneous Consulting Services are $82,000 lower this fiscal year with the prior year including the one-time costs for hydrogeological studies in Metro Main and Hub. The plan is to have one San Miguel student working at the District in Fiscal Year 2020, reducing this line item expense by $5,550 when compared to the Adopted Budget for Fiscal Year 2019. Public Relation expenses will be $12,900 lower with the use of electronic distribution for the Consumer Confidence Reports and the quarterly newsletters for paperless customers and multi-family customers. Water quality testing services are $60,041 higher than the prior fiscal year with the UCMR-4 testing requirements. No well abandonment funding was requested in the operations and maintenance (O&M) budget for a $12,000 reduction; however, there is $25,000 for removal of obsolete district facilities in the requested Capital Improvement Program (CIP) budget. Water treatment media replacement costs are planned to be $9,000 higher than the prior fiscal year.

Mr. Schladweiler asked how many auxiliary power engines the District has. Mr. Shepard stated that we have roughly seven generator setups and three gas driven pumps.

Ms. Bracken stated that general operating expenses are requested with a decrease of $17,101 or 1.39%. With no election planned in Fiscal Year 2020, this reduces the budget by $25,000. Postage costs are $5,000 lower by utilizing electronic distribution of information to customers. Water purchases are planned to be $9,240 lower. The site security budget is $19,900 higher to implement some improvement prior to the Risk and Resilience Assessment that is being requested in the supporting investment or capital section of the requested budget. The total requested supplies are $13,175 or 1.79% higher than the Fiscal Year 2019 adopted budget. The larger items behind this change are the planned costs for building and grounds are $18,060 lower with the paint and flooring for the Utility offices included in the requested budget. New meter installations have been budgeted based upon the planned development revenue previously discussed and are $26,308 higher. Increased use of computer equipment and software maintenance support cost have increased by $6,880.

The total other expenses are requested at $128,181 or 4.07% higher this fiscal year. The cost to purchase CAP Water is planned to increase by $91,189. The cost of the Arizona State Land easements is $12,400 per year higher with the additional easements that were added for the NWRRDS project. The Amortized Premiums for the 2002, 2009, and 2011 bonds have ended with the payoff and early defeasance of these debt instruments. Since premiums were a credit, this increases the budget in this area by $32,744. Regulatory fees are $10,952 lower in this requested budget.

The $516,511 requested budget increase to operating expenses includes the Salaries & Benefit cost increases of $433,438, CAP Water and Avra Valley Recharge Project (AVRP) O&M costs increase of $128,181, and a decrease of $45,108 in all of the other areas of operation.

Mr. Jacobs asked if a few meters were being replaced every year and if installation is being completed by staff. Mr. Olsen stated the item on the capital equipment list is a proactive meter replacement of meters that were deployed a few years ago to two service areas. The inaccuracy in the reads can be very problematic and there has been a significantly high failure rate well beyond industry standards on these meters. The billing meters will be proactively replaced with a positive displacement meter starting with Metro Southwest and continuing to Metro Hub in the following fiscal year.

Ms. Bracken stated that Debt Service is $561 higher than the prior adopted budget and includes funding to pay off the 2013 Senior Bonds four years early with the final payment on July 1, 2019.

Once this early payoff is completed, the District will have four remaining debt obligations. There were ten active debt obligations when Ms. Bracken began at the District. Two of the ten debt obligations would have been paid off as of July through the normal payment process. The District has paid off four of the debt obligations early freeing up $2,970,743 of restricted funds, and avoiding interest payment by $369,843.67 for a total benefit to the District of $3,340,587. To put this into a relatable perspective, this is equal to the amount of revenue that would be received from nine rate increases just like the one requested for Fiscal Year 2020.

Other budgeted items are $744 higher than the prior year for sick and vacation payouts. The total requested budget disbursements are $28,489,733 including non-cash expenses and the NWRRDS Partners portion of the project expenses.

Mr. Olsen reviewed the priority driven budget process including the prioritization process for the Capital Equipment items. A total of 13 Capital Equipment items are proposed to be funded in Fiscal Year 2020 budget for a total of $459,822. These items include the safety and security upgrades for the main office lobby to ensure a safe working environment for the staff who work here. The appropriate climate control and air conditioning in the server room is important to protect District investments in the cyber domain. For the mobile meter reading system, the hand helds are going out of date so the hand helds will be replaced with software and technology to effectively and efficiently read meters and have that data integrated for billing purposes. Other information technology (IT) upgrades include network switches. A risk and resiliency assessment is required by the United States Environmental Protection Agency (EPA) under the America's Water Infrastructure Act requiring all water providers to do a full risk and resiliency assessment on the physical and cyber infrastructure. This must be completed by June 2021 for the District and includes bringing in an expert consultant to do the analysis assessment and subsequent activities. This ties into the District's specific performance objectives of doing a site by site security review and assessment of all of the production facilities. The meters at Metro Southwest will be replaced with the positive displacement meter with automatic meter infrastructure (AMI) that communicate back to the office.

Mr. Maish asked if the new meters were with a different manufacturer. Mr. Olsen stated that the meters were being replaced with Badger Meters. There are two items that were not funded this fiscal year: the meter replacement at Metro Hub, which will hopefully be completed next fiscal year, and the build a box for trenching, shoring and protection as adequate shoring exists and staff are investigating appropriate upgrades instead.

Mr. Volpe asked about the plan for website design. Mr. Olsen stated that the current website was designed under older technology. Discussion ensued regarding the website, customer portals, analytics, and online payments.

Mr. Shonka asked if the replaced meters would be sold to a recycler. Mr. Shepard stated that depends on the meter. Most of the meters that are being replaced are brass meters and those will be recycled. Other meters are plastic meters and will not have any recycle value.

Mr. Schladweiler asked, since the meter replacement at Metro Southwest will be AMI, if there a plan to convert other areas to AMI. Mr. Olsen stated that the outlying facilities currently are AMI and the only one that is not is Metro Main. Mr. Shepard stated that meters that are either replaced or part of new development have the capability for AMI. Metro Main is planning to move towards utilizing AMI. Mr. Schladweiler asked if the AMI was cellular or fixed based. Mr. Shepard stated the meters use repeaters and are on a fixed network.

Mr. Olsen stated there are a couple changes that occurred after the budget book was printed. In Fiscal Year 2020, $120,000 was added under the NWRRDS land easement acquisition. There is one condemnation continuing longer than anticipated. There are a lot of unknowns but staff will continue to work with legal counsel to continue to bring that condemnation process to resolution. Ms. Bracken stated that this item is funded with WRUF. Also, the second Herb Johnson reservoir, which will be added for redundancy, will be shifted back one year to level the debt service payments as well as ensure NWRRDS is finished before embarking on another large capital project.

Mr. Maish asked if the second reservoir was five million gallons. Mr. Olsen stated that the second reservoir is 2.5 million gallons. Carollo performed cost estimates for 2-2.5 million gallons reservoirs and this project is one of the 2.5 million gallon reservoirs, which does not provide full redundancy, but does provide reliability.

Mr. Olsen stated that the permit for AVRP is for 11,000 AF but that the operational capacity is currently around 8,000 AF. The physical AVRP improvements to operationally achieve the higher recharge capacity are planned to be accomplished in the requested budget. Mr. Volpe asked if other entities' water will be recharged as well. Mr. Olsen stated that currently 3,500 AF of the City of

Phoenix' water through the inter-AMA firming agreement is recharged and the other half of operational capacity has been the District's water. The plan in the execution year is to continue to take the 3,500 of the City of Phoenix water and to not put the District's water in AVRP but instead upgrade the facility. The 3,500 AF that we would have put in AVRP will go to the Compensated System Conservation. In subsequent years, the additional capacity opens the door for other water storage agreements that could generate revenue for the District and helps to raise the aquifer level.

Mr. Maish asked what improvements were to be done at AVRP. Wally Wilson, Water Resources Manager, stated that there is some work on the basins to reconfigure the geometry, replacing all of the metering equipment that are currently weirs, upsizing the delivery pipeline to accept the volume of water, and accurately metering with magnetic meters.

Mr. Olsen stated that consultant was utilized to complete independent cost estimates for three projects per the District's debt management policy: the Herb Johnson reservoir, the Pantano transmission main, and the South Shannon transmission main, which will help move and convey NWRRDS water throughout the system. Those costs and annual escalators of the projects that are three or four years from now have been applied to all other projects throughout the CIP for a cohesive five-year CIP plan with validated costs.

Mr. Maish asked if the South Shannon transmission main was included in NWRRDS in the 5-year CIP. Mr. Olsen stated that South Shannon will be included in years following the five year plan. First NWRRDS will go online and then is the second Herb Johnson reservoir. In year six or seven will be the South Shannon transmission main, which increases the ability to convey water through the system.

Mr. Churchill asked about the increase in worker's compensation. Mr. Olsen stated that workers' compensation has steadily increased over the years. The challenge is that the District is at a construction multiplier rate, which is a higher rate. The employee base at 50-55 employees is relatively small so 1-2 workers' compensation claims creates an impact on rates. The incidents were through no fault to the employee or the safety culture but resulted in high dollar claims.

Mr. Jacobs moved that the Finance Oversight Committee recommend that the Board of Directors adopt the Requested Budget for Fiscal Year 2020 as presented by staff at the Committee's March 27, 2019 meeting. Mr. Maish seconded the motion. Motion passed unanimously.

VI. Clerk of the Board Updates; Future Meetings

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

VII. Call to the Public

There were no comments from the public.

VIII. Adjournment

The meeting adjourned at 5:23 p.m.

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Chair
Finance Oversight Committee