

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

March 27, 1995
7235 North Paseo del Norte
Tucson, Arizona 85704

STUDY SESSION/WORKSHOP

MINUTES

Board Members Present: Barbara Johnson, Chairman
 Marty Cramer, Vice-Chairman
 Jim Doyle, Member
 Herb Johnson, Member
 Pete Schlegel, Member

District Staff Present: Mark Stratton, General Manager
 Alan Forrest, District Engineer
 Christopher Hill, Utility Superintendent
 Warren Tenney, Clerk
 Sheila Willis, Administration Manager

Others Present: Dan Offret, Customer & Member of Management Advisory
 Committee

I. Call To Order and Roll Call

- A. The meeting was called to order at 5:00 p.m. by Ms. Barbara Johnson, Chairman of the Board of Directors of the Metropolitan Domestic Water Improvement District (District). Ms. Marty Cramer, Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present.
- B. Mr. H. Johnson moved that the Board approves the meeting notice and agenda for the March 27, 1995 study session. Ms. Cramer seconded and the motion passed unanimously.

II. Comments From The Public

There was no comment from the public.

III. Draft Fiscal Year 1995-1996 Budget - Recommendation from Management Advisory Committee

Mr. Mark Stratton reported that the Board had received copies of the draft Fiscal Year 1995-1996 budget. Staff worked with Ms. Cramer and Mr. Doyle of the Business Administration Board Member Committee to develop the budget. The draft budget was then presented to the Management Advisory Committee and discussed in detail. The Management Advisory Committee met again on March 15, 1995 to make recommendations to the Board of Directors. Three recommendations were made. First, the unused \$500,000 in the current budget for CAP water should be transferred to the Construction Fund in the 1995-1996 budget. The transfer of these funds is dependent upon a successful completion of the modification of the Asset Purchase Agreement with the City of Tucson. Second, the Board should establish a rate advisory committee to investigate a recommended 8 percent rate increase. The monies received from the increase are to be specifically used for the main line replacement program. Based on the initial bond prospectus, the projected rate increases necessary to meet the debt requirements of the bond have not occurred as scheduled. The rate advisory committee should investigate a bond program and how a bond would affect rates. A conservation fee should also be examined. Third, based on the identification of at least \$7 million necessary for main line repair and replacement, the Management Advisory Committee recommended that the District establish an in-house construction crew to complete the main line repair and replacement program financed by the construction fund. The Management Advisory Committee made other suggestions related to the format of the budget. Those suggestions and recommendations have been incorporated in new summary sheets of the budget, which have been provided to the Board.

Ms. Cramer asked if Alternative #3 on the budget summary sheet represented the recommended rate increase of 8 percent. Mr. Stratton said that it did. The alternatives provided an example of different rate increases if they were implemented mid-year.

Mr. H. Johnson asked if the transfer of the \$500,000 would be for the main line replacement program and not for the capital improvement program. Mr. Stratton said that due to the limited funds, it would be difficult to accomplish major capital improvement projects.

Ms. Cramer said she was concerned about having a bond election following a rate increase. She asked when the District could schedule a bond election. Mr. Stratton said there are specific dates under the statutes for establishing an election and he would confirm when those dates were.

Ms. B. Johnson asked how the public responded to the most recent rate increase. Mr. Stratton said that there were few complaints. The public wanted the money targeted for main line replacement and installment of flushing and fire hydrants. The Management Advisory Committee was supportive of an in-house construction crew because more main line repair and replacements could be accomplished with the additional revenues gained from a rate increase and also public relations gained from the increased visibility. The public could be shown exactly how the proposed rate increase would be spent. The rate advisory committee and the Chief Financial Officer could work together to examine different rate structure alternatives.

Mr. Schlegel noted that as a Board member he felt it important to question how the monies were being spent and to obtain justification for the budget items. He said he wanted to preface all of his remarks by saying that his comments were not intended to question staff's abilities. He only wanted to consider each alternative to ensure the District monies are being spent properly and set priorities for spending the money. Mr. Stratton said that he had envisioned the study session as an opportunity to have the Board openly review the budget in detail and try to note ways to improve it.

Ms. B. Johnson said that the District was fortunate to have received input from the Management Advisory Committee and commended them for the attention given to the budget.

Ms. Cramer asked how an 8 percent rate increase compared with Tucson Water's rate structure. Mr. Stratton noted that currently the District is approximately \$3 per month lower than Tucson Water. The City is expected to raise its rates, which would mean that the District would still have lower rates. Mr. Schlegel said that at the Groundwater Users Advisory Council (GUAC) meeting, the discussion indicated that the City of Tucson would not have a water rate increase during an election year. The likely recommendation to the City Council is that during the next 5 years, a 20 to 30 percent rate increase will be needed, which will be approximately an 8 percent increase each year.

Mr. Schlegel noted that the recent District survey indicated that customers would be willing to support a justified rate increase. Ms. B. Johnson questioned if the survey cost was included in the budget. Ms. Sheila Willis said that a separate item for the survey had not been included in the 1994-1995 budget. Mr. Schlegel said that the District may want to consider hiring a public relations firm to keep customers informed. While the District newsletter has been successful, it may be more advantageous to have a firm, rather than staff, be able to place more input into producing the newsletter and do other public relations for the District.

Ms. B. Johnson requested that Mr. Stratton outline the items listed on the budget summary for the Fiscal Year 1995-1996 budget.

Mr. Stratton noted that under revenues, the metered sales were figured with a 3 percent growth rate. Several new apartment complexes and other development will likely increase the revenue from metered sales.

Mr. H. Johnson suggested that the District reexamine its basic rate structure in order to increase the equity between residential and multi-family/commercial customers. Mr. Stratton said that he has done some investigation of basic rate structures based on dwelling units versus meter size.

Mr. Schlegel asked if the system development fee was tracked separately under the budget. Mr. Stratton said that is done so that the District can show how the monies were spent.

Mr. Stratton said interest income on the budget summary was projected low for 1994-1995. The item for Pima County Wastewater is expected to generate income in July 1, 1995. Inclusion of the County's sewer billing with the District bills has taken longer and been more difficult to

implement than expected. The intergovernmental agreement between the District and the County will be requested to amend in order to adjust for the postage increase. Mr. Schlegel suggested that if the County does not meet its obligations under the IGA, the District should request payment for the equipment and software that we have implemented to meet our obligations.

The item for miscellaneous service revenue included charges accrued such as reimbursement of expense, illegal water draw and other small revenue items. System development fees and the connection fees are tied to growth and expansion of the District. If rates increase, the system development fee should also be considered.

The service line/main line installation has been reduced because developer financed main line installations have not recently occurred and not expected to occur within the near future. Existing District crews are needed for District projects. Mr. Schlegel suggested that the District explore including a multiplier or fee along with recouping cost if the District does any similar activity in the future.

The bond service reserve fund interest had been projected low for the current fiscal year. The figures for Fiscal Year 1995-1996 are based on the current interests received by the District.

Mr. Stratton noted that an error in the fund balance (reserve for operations) had been corrected from the original draft given to the Board. The fund balance (reserve for operations) should equate with the ending balance for 1994-1995. The total revenue listed is \$7,231,484; however, if the transfer of the CAP water fund and the reserve for the operations are subtracted, the District revenues would be \$6,279,734.

Regarding expenses, Mr. Stratton noted that operation expenses include all expenditures necessary to operate the daily activities of the District. The debt service will remain constant for the next eighteen years. The construction fund would include the \$500,000 transfer from the 1994-1995 CAP water funds and would be dedicated to the main line replacement program. The CAP water fund for 1995-1996 would meet the requirements under the modification to the Assist Purchase Agreement. The contingency fund is a reserve for emergencies. The total expenses for 1995-1996 would be \$6,844,734.

Mr. Stratton noted that Mr. Dan Offret of the Management Advisory Committee suggested that the reserve for operations fund be increased due to the volatile nature of water utilities. Mr. Offret noted that emergencies are unpredictable and that the fund balance should be seven or 10 percent of the expenditures. Mr. Schlegel, Mr. Stratton, Mr. H. Johnson and Ms. Cramer discussed exploring an inclusion to the District's insurance policy coverage for emergency situations. Such a policy could be less expensive than trying to increase the contingency fund.

Mr. Stratton reported that he expected the operation expenses to remain relatively consistent following this fiscal year, except inflation and some increases to the cost of CAP water. The primary expense will be funding for the construction fund, which will pay for the main line replacement program. Future rate increases will primarily supplement the construction fund and the CAP water cost. The District is not far away from when its rates can accommodate for

inflation and a bond program. The District is gaining a better control of its expenditures. An approximate 4 percent rate increase could fund a \$3 million bond debt retirement. Repeated 5 years, the rate increases could fund the recommended \$15 million/five year capital improvement program. The District could minimize the increases to maximize the benefits. The District is potentially in a very favorable situation to meet its future needs. Mr. Schlegel said that was good news. He had been concerned about the budget and was now pleased to see the District moving in such a favorable direction.

Mr. Stratton noted that the operation expenses for the District did not include any merit increase or cost of living increase for staff. Mr. H. Johnson and Ms. B. Johnson inquired as to the reason. Mr. Stratton explained that when staff drafted the budget, the monies for construction funds were so minimal, he decided to not include an increase for staff until funds could be obtained for construction. Staff received a 3 percent cost of living increase in December 1994.

Mr. H. Johnson noted that the public may ask if the District was top heavy on administration. Mr. Stratton said that administration is carrying a large work load. Each District division could use additional staff. No position has been created where the output has not matched the workload. Despite the large work load, staff has been quite productive. When visiting the Elmira Water Board, they have four times the staff level of the District and only double the customers. Mr. H. Johnson agreed that personnel is productive. Mr. Schlegel noted that compared to Tucson Water, the District's staff ratio to customers is lower.

Ms. B. Johnson said she would like a budget alternative developed that included a minimum cost of living increase. Regular cost of living increases are important to ensure that the District maintains good staff. Mr. H. Johnson said it would be appropriate for the budget to include a cost of living increase based on the most recent national average cost of living increase. The Board would then approve any additional merit increases budgeted for staff.

Mr. Schlegel questioned why the bond debt service expense appeared to have increased by \$50,000 due to the bond issue expenses and bank charges. Mr. Stratton and Ms. Willis explained that the bank charges include the monthly expenses charged by Bank One for the District's five different accounts regarding the bond issue. The bond issue expense had always been included as part of the debt retirement but the auditor had requested that it be a separate item.

Mr. Stratton noted that the proposed staff positions include a meter reader and a civil engineer. Mr. Schlegel asked if a lower level engineer or a technician could be considered for the civil engineer position. Mr. Stratton said that the civil engineer would be entry level, an individual who did not have yet an engineer's stamp. Tucson Water's position for a civil engineer with a professional engineer's license is \$38,000. The proposed \$32,000 for the civil engineer would help to ensure employing and retaining a quality individual. Mr. Schlegel suggested considering also a retired individual.

Mr. Stratton explained the expenditures under the operation budget for the Administration Division. The payroll taxes, health insurance, workers compensation and retirement contribution

had included the total amount for each division. Based on a recommendation from the Management Advisory Committee, those funds have been divided to each division. Material and supply costs are projected higher to accommodate maintenance of the office site.

Mr. Stratton noted that funds were included for an election due to the possibility of a bond election. The same amount as last year is projected for the new budget because the exact cost for a special election is unknown. Also, the election monies could be used for public relations related to the election. He noted again that he would check the dates for an election so that the District could plan a strategy to have a sellable product before going to the voters. Mr. Schlegel agreed that all aspects of the bond election must be justified prior to the election.

The Directors' insurance had been increased to provide adequate coverage in case of any potential liability issues revolving around the Board of Directors.

Mr. Stratton said that the operation budget for the Administration Division had an increase in salaries due to the hiring of a Chief Financial Officer and the proposed meter reader. The additional meter reader is needed due to the increase of approximately a thousand meter connections during the last two years. With three meter readers, the Utilities Division will no longer need to assist with turn ons and turn offs and other meter reading activities. It will also create greater efficiency.

Mr. Schlegel questioned if meter reading could be done every other month. Mr. Stratton said that Tucson Water had explored such a program. The main problem is that customers want to know when their meter was read exactly and not have an estimated bill. Mr. Stratton and Mr. Schlegel noted that new technology for meter reading may make the process much more efficient and cost effective in the near future. Ms. Cramer asked if combining forces with another utility to have meters read jointly had been considered. Mr. Stratton said that it had been explored, but no other entity was interested primarily due to accountability issues.

Funds were included in the operation budget for the Administration Division for conservation efforts. Along with participation in the Seniors Helping Seniors Program and establishing a toilet rebate program, the District is developing a conservation program to encourage customers to reduce water usage especially during peak demand. Efforts are underway to educate our customers about peak demand.

The consultant/contract services for the Administration Division has been reduced with the most notable item being legal services. It is anticipated that with the negotiations with the City of Tucson nearing resolution that fewer monies will be needed for legal services.

Mr. Stratton outlined the operation expenses for the Engineering/Hydrology Division. The salary increase is tied to the Civil Engineer position and also that the District is using student interns. The overall expenditures are straightforward.

Mr. Schlegel inquired if the District would participate in the summer job program again. Mr. Stratton said that three students may be sought for help with the front office as well as keeping well sites clean.

Mr. Doyle noted that the District may want to consider using individuals required to provide community service to clean up the well sites. The community service program could cost the District nothing other than providing some supervision.

Mr. Stratton said that the annual service contracts for the Engineering/Hydrology Division are relatively straightforward. The District will need to seek a new contract regarding miscellaneous design services since the present contract has almost depleted the funds. The annual service contract that needs to be considered is the Replenishment Program and using Mr. Mark Myers' services. Mr. Myers' services may not be needed to the same extent as the current year as the District enters the feasibility stage of the replenishment program; however, the District must consider the implications for losing the continuity gained from Mr. Myers that may be needed when funds are sought for the actual construction of the projects. One option to consider is to have Mr. Michael Block, District Hydrologist, become more involved with the replenishment program since the feasibility study will be quite technical. An entry level hydrologist could be hired to handle many of the day-to-day routines normally done by Mr. Block.

Mr. H. Johnson said that he had anticipated participation from the Northwest Water Alliance for the funding of the replenishment program, especially the entities that would directly benefit from the Cañada Del Oro replenishment project. He also noted that Mr. Myers has a number of influential contacts, which are quite beneficial for such a program. Ms. Cramer suggested that the same level of involvement from Mr. Myers may not be necessary. Mr. Schlegel noted that Mr. Myers has always represented the District well. Mr. Johnson said that Rancho Vistoso Water Company, Cañada Hills Water Company, Oro Valley and the District should each contribute a fourth of Mr. Myers' contract. Ms. B. Johnson noted that retaining Mr. Myers would be less of a commitment than the commitment involved when hiring a new employee. Mr. Stratton said that he would leave the budgeted amount the same but request funds from the Northwest Water Alliance.

Mr. Stratton reviewed the consultant/contract services under the Engineering/Hydrology Division. Well vulnerability is for assistance received from the Pima Association of Governments (PAG) to obtain monitoring waivers with the Arizona Department of Environmental Quality (ADEQ) for future Phase II and V monitoring. The funds for well abandonment will help begin a program to properly abandon and seal wells no longer in use. Matching funds for the USGS study is to continue the CDO basin safe yield monitoring program established through an ADWR augmentation grant. The hydrological study is nearing completion, a report will be completed for ADWR and then a request made for a designation of an assured water supply.

The capital expenses for the Engineering/Hydrology Division were primarily office furniture, computer hardware and software for the civil engineer and interns. The video recorder would

be used to record a site before any work being done at that site to protect the District from any liability issues.

Mr. Stratton reviewed the operation budget for the Utilities Division. The increase for salaries is due to the transfer of the blue stake technician and back flow specialist from the Engineering/Hydrology Division to the Utilities Division as well as the hiring of two staff during the middle of the current fiscal year. Chlorine purchase has risen due to District's proactive chlorine program. Purchased water is included in the budget in case the District has difficulty meeting its peak demand, similar to the problems experienced last year. He noted that Mr. Christopher Hill and Mr. Alan Forrest had identified areas within the District's infrastructure that could allow for greater flexibility for the moving water. The category of materials and supplies has been subdivided to enable better tracking of the purchase of the various items.

The annual service contracts for the Utilities Division were reviewed. The electrical contract was not used last year, but this year it will be utilized for more complex electrical work that staff is unable to do. The annual service contract for excavating has been deleted because of the purchase of the backhoe. Construction waste is a new item for hauling away trash. Mr. Hill completed an analysis that showed it more cost effective to pay for the construction debris to be hauled away rather than having staff make trips to Tangerine Landfill. Mr. Schlegel suggested that staff consider having the waste material be stored at the Hardy site than hauled away weekly with the District's new dump truck.

Mr. Stratton reviewed the capital projects listed by staff. He noted that the list is a "wish list" because the funds are not available; however, it provides a list of necessary work to be completed within the District.

The capital project entitled water quality remediation would be used if a well, such as South Shannon, must be shut down and the area requires service from another area. Mr. Schlegel asked if Pima County has been contacted about what caused the contamination problem near South Shannon. Mr. Stratton said that while it probably was part of the El Camino del Cerro Landfill area, the County would contend that other reasons could have caused the problem. However, Tucson Water is now showing reduced contamination levels at its well south of South Shannon and District tests of South Shannon have shown a reduction in contaminants as well.

Mr. H. Johnson asked if Oro Valley Improvement District #1 was receiving its fair share of the capital improvement projects. Mr. Stratton said that he believed so. All of the wells that service Oro Valley Improvement District #1 have been refurbished.

Mr. H. Johnson noted that the monies for projects not completed during 1994-1995 should have the same monies allocated specifically for the completion of those projects during 1995-1996. Mr. Stratton said that the Management Advisory Committee had wanted to be certain the projects not completed before the end of the fiscal year are rolled over in to the Fiscal Year 1995-1996 budget with those monies remaining designed for the completion of those projects.

Mr. Stratton and Mr. H. Johnson noted that the list of capital projects suggests what could be accomplished if funds were available. The list is the beginning of all the items noted in the water system improvement program. The Board will need to decide which projects to fund first.

Mr. Stratton said that he will work with the Chief Financial Officer to try to secure funds for the Linda Vista Reservoir even prior to a bond election. The Linda Vista Reservoir is needed and perhaps different funding mechanisms could be used so that the reservoir could be constructed.

Mr. Stratton said that the Management Advisory Committee had recommended the establishment of an in-house construction crew to be solely dedicated to the main line replacement program. Mr. Hill had provided a memorandum that provided justification and showed that more could be accomplished for the cost if the work is done in-house rather than contracting out the work. The in-house construction crew would gain expertise and efficiency as it works together solely on main line repairs and replacements. Using an in-house crew will also be more cost effective and time efficient by not being required to advertise for bids, review, and seek Board approval. In addition, if an emergency arose, the Utilities Division would have adequate staff to resolve the emergency. Mr. Johnson said that if the cost comparison was done according to the contractor's cost and not solely our cost, that actually more money would be saved with an in-house construction crew. The Board responded favorably toward the concept of an in-house construction crew.

Mr. Stratton said that he would be pleased to discuss any questions or comments that a member of the Board may have regarding the budget before the April 10, 1995 Board meeting. If there are no major changes, the budget will be presented to the Board for its approval at the April 10, 1995 Board meeting. Mr. Stratton complimented staff's efforts in developing the budget. Ms. B. Johnson thanked staff for their efforts in putting together a quality document for the budget.

IV. Other Issues Relevant to District Operations - General Discussion

Mr. H. Johnson noted that he had read in the newspaper that a former manager for the County was denied severance pay because the new Board did not approve his contract. To avoid any similar problems regarding contracts or resolutions approved by the former District Board, Michael McNulty should be asked to make a list of all District contracts and determine if all or certain ones should be ratified by the present Board.

Mr. Schlegel noted that he had requested a copy of the list of the present Board Member Committees so that each Board member is aware of the responsibilities of the Board Member Committee he or she has been assigned to and provide focus.

V. Future Meeting Dates

The next meeting of the Board will be the regular Board meeting on April 10, 1995.

VI. Adjournment

The study session adjourned at 7:45 p.m.


Barbara L. Johnson, Chairman

ATTEST:


Clerk