

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

April 19, 1995
Wilson Room
Tohono Chul Park
7366 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

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

Management Advisory Committee: W.A. Arbogast
 John Beatty
 Kirby Hamby
 Mike Jacob
 Dan Offret
 Dennis Polley

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

I. Call To Order and Roll Call

- A. The meeting was called to order at 3:36 p.m. by Ms. Barbara Johnson, Chairman of the Board of Directors of the Metropolitan Domestic Water Improvement District (District). Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present. Ms. Marty Cramer was not present.

- B. Mr. Schlegel moved that the Board approves the meeting notice and agenda for the April 19, 1995 special Board meeting. Mr. Doyle seconded and the motion passed unanimously.

II. Introductions

Ms. B. Johnson requested that the members of the Management Advisory Committee (Committee) introduce themselves. Members of the Management Advisory Committee present were Mr. W.A. Arbogast, Mr. John Beatty, Mr. Kirby Hamby, Mr. Mike Jacob, Mr. Dan Offret, and Mr. Dennis Polley. Members of the Committee not present were Mr. Arthur Johnson and Mr. Jim Tripp.

Mr. Mark Stratton introduced District staff present as noted above.

III. Joint Study Session with the Management Advisory Committee

A. Recommendations of the Management Advisory Committee for the Fiscal Year 1995-1996 Budget.

Mr. Stratton explained that at the March 15, 1995 meeting of the Management Advisory Committee, the Committee made specific recommendations regarding the Fiscal Year 1995-1996 budget. Those recommendations were discussed at the March 27, 1995 study session and the April 10, 1995 Board meeting. At the April 10, 1995 Board meeting, Mr. H. Johnson suggested that the Board meet with the Management Advisory Committee in order to clarify a few matter regarding the Committee's recommendations for the budget and proposed rate increase. It was recommended to hold this meeting to ensure that the Board and the Committee were moving in the same direction.

Mr. H. Johnson said that the Board and the Management Advisory Committee do not seem to disagree on the budget as it is proposed, but did have some differences regarding recommendations related to the budget. He was concerned about the time intensive process of having the Board and the Committee meeting at different times and having staff transferring the ideas between the two. The Board and the Committee should cooperate together and act effectively for the District.

Mr. H. Johnson said that two primary items relating to the Management Advisory Committee's recommendation need to be changed. First, since the District's infrastructure requires much improvement, the \$500,000 transfer from the 1994-1995 budget to the construction fund for 1995-1996 budget and revenues from any rate increase should be designated for infrastructure repair and improvements, not solely for the main line replacement program. Second, the Rate Advisory Committee or the Management Advisory Committee should make its recommendations in close cooperation with the Board. At present, the Management Advisory Committee's recommendation suggests that the Board will be excluded from discussions regarding a rate increase with the Chief Financial Officer, the Rate Advisory Committee and the Management Advisory Committee. Mr. H. Johnson noted that the Board authorized the hiring of a Chief Financial Officer in order to explore a potential bond issue and the present rate structures. Various aspects of the rate structure needs to be reexamined to ensure equity for all District customers. A fair fee for fire protection needs to be considered.

Ms. Cramer arrived at 3:48 p.m.

Mr. H. Johnson explained that it is important that the Board and the Management Advisory Committee cooperate together in studying these critical issues. The current recommendations of the Management Advisory Committee lacks that cooperation.

Mr. Dennis Polley noted that he represents Oro Valley District #1 on the Management Committee. Under the intergovernmental agreement between the District and the Town of Oro Valley, the Management Committee was formed to resolve conflicts between the District and the Town regarding the budget. In a spirit of cooperation, the District Board expanded the role of the Management Committee to the Management Advisory Committee. The Management Advisory Committee had no intention to circumvent the Board or not to cooperate with the Board regarding its recommendations for the budget. The Board decides what recommendations to adopt or not. The problem with the Management Advisory Committee's recommendations may be semantics. The designation of funds to the main line replacement program was intended to show customers that the revenue from a rate increase is spent on improving the distribution system.

Mr. H. Johnson said that the Board and Management Advisory Committee should meet together to provide an opportunity to agree mutually on decisions for the District.

Mr. Offret said that he was concerned about the perceptions expressed at the April 10, 1995 Board meeting regarding the budget and the Management Advisory Committee's recommendations, which had not been intended by the Committee. In order to avoid future misconceptions, the Board may want to consider formalizing a budget development process. One possible process would have the Rate Advisory Committee work with the Board to consider the revenue available for the next fiscal year. Then the Board would work with the Management Advisory Committee to determine the expenditures according to those revenues. This process could be done under Board direction over a four to six month period.

Mr. H. Johnson noted that the bond issue must be looked at soon in order to agree upon a sensible strategy and give information to our customers. Promoting a bond issue will need uniform support from the Board and Management Advisory Committee.

Mr. W.A. Arbogast said that the recommendation to designate the \$500,000 transfer and revenue from a rate increase to a main line replacement program was not intended to hamstring the Board. The intention was that by designating the monies to a main line replacement program, the District can show the public that their monies are being used specifically to repair and improve the infrastructure.

Mr. Stratton said that some word choices in the recommendations may have caused the misperception of the Management Advisory Committee's intention. While funds are needed for the main line replacement program, other aspects of the District's infrastructure may require attention, such as well maintenance. The recommendation for designating the \$500,000 transfer and the revenue from a rate increase should perhaps be more general infrastructure needs.

Mr. Offret said that if the Board raises rates, the revenue from the increase should be segregated to show what the monies are being expended for.

Mr. H. Johnson said that having a joint meeting provides an opportunity to discuss different issues. Some issues take longer to resolve than others, but efforts should be made to move the process forward.

Ms. Cramer asked if the Board needs to revise the wording of the recommendations of the Management Advisory Committee or how it should proceed. Mr. Stratton said that the Board can act as it chooses. The current discussion was to seek an understanding with the Management Advisory Committee regarding its recommendations; however, the Board can modify any aspect of the recommendations as it so decides. While discussing these issues, the Board may want to discuss other related items with the Management Advisory Committee.

Mr. Offret said that regarding the merit increase and cost of living increases included in the budget, he questioned if a survey of similar utilities had been done to establish that the District's salaries are commensurate. He noticed that some job classifications appear to have a wide salary range. Mr. Offret also asked if performance appraisals will be used to justify any merit increases. Mr. Stratton said that such a survey of salaries had been done in January 1994. Salary ranges for City of Tucson, Pima County, City of Peoria, City of Flagstaff and Southwest Gas were examined. The wide range under some job classifications is due to the broad scope of functions and responsibilities performed by a person within that classification. Also, some employees worked a number of years with Metropolitan Water Company and so they are at the high end of the pay scale compared to recently hired employees. Mr. Stratton said that performance appraisals have been conducted this spring and will be used for justifying any proposed merit increases.

Mr. Polley said that the Board should be lauded for including in the budget merit increases and cost of living increases. The District has made progress by putting together a good staff and needs to retain them. The District's strength is in its personnel. Mr. Offret also commended the Board for including funds for conferences and professional development.

Mr. Schlegel said that the District has benefited from the broad participation it has received since its formation. He appreciated the Management Advisory Committee's efforts and the opportunity to discuss these matters together. By gaining a mutual understanding of the issues, members of the Board and the Management Advisory Committee are better able to explain to District customers the reasons for the District's policies. Being able to explain the "whys" to the public helps to gain support and create less animosity. He appreciated the interaction between the Board and the Committee.

Mr. H. Johnson noted that the District has been holding firm in its negotiations with the City of Tucson. Mr. Polley said that the Committee was supportive of the Board's efforts.

Mr. Mike Jacob said that with agreement on the issues that had appeared to cause the questions of concern, the Board should take action and move the process forward.

The Board agreed to move to Item IV.

IV. Open Session - Item for Discussion and Possible Action

A. Fiscal Year 1995-1996 Budget.

Mr. H. Johnson made the motion to accept the recommendations of the Management Advisory Committee regarding the Fiscal Year 1995-1996 budget as revised relating to the use of the \$500,000 transfer of CAP funds and as revised to allow the Board open discussion with the Chief Financial Officer regarding any financial matter, and accept the recommendation of an eight percent increase. Ms. Cramer seconded the motion.

Ms. Cramer and Mr. Schlegel discussed clarifying the Management Advisory Committee's second recommendation regarding the Rate Advisory Committee's role and a rate increase. A suggested percentage for a rate increase should not be included until after various aspects of a rate increase is discussed by the Rate Advisory Committee. Also, designation of the funds from the increase for only infrastructure repairs could cause a problem if an emergency occurred. Mr. Schlegel said that he does not want to rush to have a rate increase without receiving the justification and background from a Rate Advisory Committee. Mr. Stratton suggested that the recommendation be modified to establish simply a Rate Advisory Committee to develop a strategy for a rate increase.

Mr. Polley noted that the specifics of the recommendation regarding a rate increase had included a target date for September 1995 in order to act quickly to inform the public and begin generating revenue to make the needed improvements to the infrastructure or to float revenue bonds. Mr. Polley and Mr. Arbogast noted that the District has infrastructure problems that need to be addressed immediately with revenue from a rate increase. A revenue bond is costly and could take at least a year to receive the bonds. To underwrite the bond, the District will need to demonstrate that revenues are being used specifically to improve the infrastructure. Revenue from a rate increase would address the operation, maintenance and repair needs of the infrastructure and that the bond would be used for the large capital improvement projects.

Mr. H. Johnson said that the Management Advisory Committee's recommendations provide a summary of what to consider, but they are too comprehensive to approve at this time without the necessary discussion. A primary item though that needs to be considered so that the budget can be referred is that the funds not be specified to solely the main line replacement program but to include all infrastructure repairs. Another recommendation from the Management Advisory Committee that should be accepted is that funds allocated for approved projects that are not completed in 1994-1995 should be rolled over to the 1995-1996 budget with the funds remaining designated for the completion of those projects.

Mr. Doyle suggested that the recommendation regarding the rate increase be modified to that the Board of Directors establish a Rate Advisory Committee to develop a strategy for rate increase targeted for September 1995. The revenues generated by the rate increase would be committed to infrastructure repair and improvement.

Mr. Schlegel said that flexibility is needed rather than designating the money solely for infrastructure improvements and questioned if they should be broadened to include the capital improvement program. Mr. Stratton explained that the monies would be used for the immediate needs of the infrastructure such as repair and replacing main lines, fixing wells, and other maintenance costs for the existing system. The capital improvement program is for long-term infrastructure improvement that would be part of a bond program.

Ms. B. Johnson requested that the Clerk read the motion with the included suggested revisions. Mr. Warren Tenney said that the motion is to accept the recommendations of the Management Advisory Committee regarding the budget with no changes to the first recommendation, the second recommendation would be revised to establish a Rate Advisory Committee to develop a strategy for a rate increase targeted for September 1995 with the revenues generated being designated for infrastructure repair and improvements.

Mr. H. Johnson questioned if the infrastructure improvements would have funds from an eight percent rate increase or from the \$500,000 transfer noted in the first recommendation. Mr. Tenney said that the Management Advisory Committee's recommendations indicated that the \$500,000 would be transferred to the construction fund, which is used for infrastructure repair and improvements, and the revenues generated from a rate increase would be designated for infrastructure repair and replacement.

Mr. H. Johnson, Mr. Doyle and Ms. B. Johnson discussed that the Fiscal Year 1995-1996 budget has been reviewed with only questions raised regarding the Management Advisory Committee's recommendations. The budget can be adopted whether or not a specific rate increase is included.

Ms. B. Johnson said that the discussion regarding the motion on the table needs to be resolved. Mr. Tenney noted that the Board can amend the language of the motion and state the Management Advisory Committee's recommendations in words that serve the purpose of the Board. The current motion is unclear in the meaning of "as revised" regarding the Committee's recommendation. The primary recommendations of the Management Advisory Committee are that 1) the unused \$500,000 for CAP water in the 1994-1995 budget be transferred to the construction fund for the 1995-1996 budget for infrastructure improvements, 2) establish a Rate Advisory Committee and the revenue generated from a rate increase would be for infrastructure improvements; and 3) to maximize the monies for the infrastructure improvements, an in-house construction crew would be established to complete those improvements.

Mr. Schlegel questioned if too much money was being designated for the construction fund and if it was possible for the District to spend all of that money. Mr. H. Johnson noted that there is plenty of work needed and if in-house crews are unable to complete the work then the work could be contracted.

Ms. B. Johnson noted that the Board appeared unable to agree to the motion on the table or to a possible amendment of the motion. With no objection, the motion was postponed indefinitely.

Mr. H. Johnson said that the Board received the draft Fiscal Year 1995-1996 budget as presented by staff and considered it item by item. The only objection has been based on recommendations by the Management Advisory Committee that have tried to resolve all related problems. The recommendations should be revised to only what is related to the budget so that the Fiscal Year 1995-1996 can be adopted.

Mr. H. Johnson made the motion to approve the Fiscal Year 1995-1996 budget and accept that part of the Management Advisory Committee's March 15, 1995 recommendation as follows: 1) The \$500,000 for CAP water in the Fiscal Year 1994-1995 budget should be designated for the construction fund for the Fiscal Year 1995-1996 budget. However, this transfer of funds is only if an adequate resolution to the modification of the Asset Purchase Agreement with the City of Tucson is completed within that time frame. Otherwise, the \$500,000 may be needed to meet the District's obligations under the current Asset Purchase Agreement. 2) The Board of Directors establishes a Rate Advisory Committee to develop a strategy for a rate increase. The Rate Advisory Committee should work with the District's Chief Financial Officer and the Board to examine various aspects of the rate increase to include a conservation fee, late payment fee, as well as system development fees. It is recommended that the rate increase be designated primarily to fund infrastructure repair and replacement. 3) To maximize the monies available for the infrastructure repair and replacement, it is recommended that an in-house construction crew be established to complete the infrastructure repair and replacement financed by the construction fund. 4) The funds allocated for projects in Fiscal Year 1994-1995 and not completed before the end of the Fiscal Year are rolled over into the Fiscal Year 1995-1996 budget with those monies remaining designated for the completion of those projects. 5) Additional recommendations made by the Management Advisory Committee should be examined further. Ms. Cramer seconded the motion.

The members of the Board discussed the aspects of the motion regarding the rate increase and the designation of the \$500,000 and revenues from the rate increase. Mr. Stratton noted the construction fund is not tied primarily to infrastructure repair and replacement but can include capital improvement projects as directed by the Board.

Mr. H. Johnson noted the history of the 1994 rate increase in which two rate proposals were presented to the customers. Customers were supportive of the higher alternative because they realized the importance of receiving good service. The same approach should be done this year so that the customers know what improvements are possible with different rate alternatives as noted in the budget.

Ms. Cramer said she had to leave the meeting but that she had hoped to approve today the Fiscal Year 1995-1996 budget as presented and was prepared to vote for it. Ms. Cramer left the meeting at 5:17 p.m.

Ms. B. Johnson noted that no rate increase alternative has to be designated in the approval of the Fiscal Year 1995-1996 budget. It may be prudent for the public to be able to see the ramifications of the different rate increases. Mr. Stratton noted that the budget provides four alternatives regarding revenue, one with no rate increase and three with various degrees of an

increase. The Board at a later date, based on recommendations of a Rate Advisory Committee and going through the appropriate public hearing process, can establish a rate increase.

Ms. B. Johnson called for a vote for the motion regarding the approval of the Fiscal Year 1995-1996 budget. The motion passed unanimously with the members present.

Mr. Schlegel made the motion to direct staff to develop a budget adoption process. Mr. H. Johnson seconded the motion and it passed unanimously with the members present.

Mr. Stratton said the members of the Board and the Management Advisory Committee should suggest potential items that they want to discuss together.

Mr. H. Johnson requested that at the May 8, 1995 Board meeting alternative members to Board member committees be considered.

V. Comments From The Public

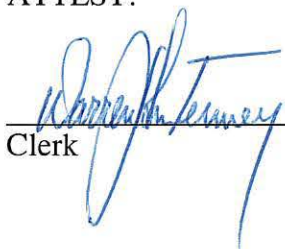
There was no public comment.

VI. Adjournment

The meeting adjourned at 5:25 p.m.


Barbara L. Johnson, Chairman

ATTEST:


Clerk