

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

August 28, 1995  
7235 North Paseo del Norte  
Tucson, Arizona 85704

**MINUTES**

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

Board Member Not Present:       Herb Johnson, Member

District Staff:                   Mark Stratton, General Manager  
                                         Michael Land, Chief Financial Officer  
                                         Warren Tenney, Clerk of the Board

**I.     Call To Order and Roll Call**

Ms. Barbara Johnson, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the study session to order at 3:05 p.m. Ms. Marty Cramer, Mr. Jim Doyle and Mr. Pete Schlegel were present. Mr. Herb Johnson was out-of-town.

Seven people were in the audience.

**II.    Recommendation from Rate Advisory Committee for Proposed Rate Structure**

Mr. Mark Stratton, General Manager, reported that at the August 14, 1995 Board meeting, the recommendation from the Rate Advisory Committee was presented to the Board. The Board requested that a study session be scheduled for staff to provide additional information about the recommendation and to address any questions or concerns. The Board may elect to submit an alternative rate structure if it has many concerns about the Rate Advisory Committee's proposal. Mr. Mike Land, Chief Financial Officer and a member of the Rate Advisory Committee, has looked at more specifics regarding the rates including a required bond debt ratio if the District pursues a bond election.

Mr. Land noted that he had provided handouts to the Board. The handout dealing with the rate increase requirements examines how the proposed rate structure would meet the District's needs outlined in the Fiscal Year 1995-1996 budget and projected needs for the following four fiscal years. The analysis indicates that the District requires a 14.69% increase in revenues for operations, construction projects, and debt service coverage. The Rate Advisory Committee

(Committee) discussed three key areas in developing the proposed rate structure. The three areas are conservation, construction, and remaining on groundwater. Conservation is critical due to the Arizona Department of Water Resource's (ADWR) \$10,000 a day fine if the District does not adhere to the targeted gallons per capita per day. The proposed rate structure calculates about an overall rate increase higher than the 14.69 percent because the conservation component of the rate structure is projected to reduce water usage by 4 percent. Another rate increase is not projected for two years with then small increases for the following two years. This would provide a bond debt ratio of 1.2 for the last two years based on a bond sale of \$4 million each year. If the proposed rate structure is not adopted, the District will need rate increases much sooner.

Mr. Land explained that the next handout deals with the residential usage for the past year and the revenue generated by the current rate structure and the proposed rate structure. The proposed rate structure keeps the base rate the same, raises the commodity rate, and includes a summer conservation rate and a high user rate. The proposed rate structure will generate an approximate increase of 18.67 percent; however, the average residential customer will experience only an 8 percent increase. The District began on August 24, 1995 to send customers an insert with their bills that describes the proposed rate structure and invites them to the September 21, 1995 public hearing. Since then, the District has received only three phone calls regarding the proposed rate structure.

Mr. Land said that a comparison of the District's current rate structure and proposed rate structure with Tucson Water's rate structure indicates that the District's rates, including the proposed one, are less than Tucson Water's for usage above 12,910 gallons. While a high user will experience a noticeable increase under the proposed rate structure, monthly bills will be considerably less than Tucson Water's. The District may be concerned about addressing complaints of high water users under the proposed rate structure; however, the District needs to meet ADWR requirements.

Mr. Land and Mr. Stratton explained that the rates for multi-family residential and commercial users are based on a factor for larger meters developed by American Water Works Association. The factor is based on how much flow can go through a larger meter in comparison to a 5/8 inch meter. Using the factor indicates that multifamily and commercial users will still have the same overall rate increase as residential customers.

Mr. Land noted that some variations of the prices within the rate structure were examined. For example, if the proposed commodity rate is lowered from \$1.78 to \$1.70, the overall rate increase will drop by 2 percent. The prices could be altered if the Board has concerns. However, the Committee concluded that the rate structure with the conservation components was reasonable and appropriate.

Mr. Schlegel said that the information provided for the study session, in comparison with the August 14, 1995 Board meeting, has increased his understanding about the proposed rate structure. With those explanations, he was impressed with the Committee's and staff's accomplishments. It will be important to sell the proposed rate structure at the public hearing because people will want to know why the District needs a rate increase.

Mr. Schlegel asked why the base rate was not increased. Since 600 of the 13,000 District customers pay only the base rate, they will not experience any increase to their bill and other users may complain. Ms. Johnson explained that the Committee was concerned about increasing the base rate when it was already quite high in comparison with other water utilities in the region. Ms. Cramer noted that many customers paying only the base rate are senior citizens on fixed incomes and are already conserving. The Committee had examined raising the allowance for water included within the base rate, but concluded that it would not make much difference psychologically to the customer.

Mr. Schlegel asked how the Committee determined the numbers for the rate structure. Mr. Land said that the proposed \$1.78 commodity rate is a 15 percent increase from the current commodity rate. The summer conservation rate and the high user rate are tiered percentage increases from the commodity rate.

Mr. Schlegel noted that the information prepared on the proposed rate structure does not explain the references to a bond election. Mr. Stratton said that if the District does not pursue bonds, more money will be needed to pay for the capital improvement program. Revenue will be required whether the District pursues the bond election or not.

Mr. Schlegel said that he was concerned that the proposed rate structure does not address the impact to the District that could occur if the District loses its law suit with the City of Tucson. Ms. Johnson noted that the Fiscal Year 1995-1996 budget includes \$815,000 for the purchase of CAP water and that \$500,000 was carried over from the previous fiscal year for the same purpose. Mr. Stratton said that the District could pursue some short-term financing to pay off the remaining amount if required by the court to pay Tucson.

Mr. Stratton noted Mr. Gary Woodard of the Rate Advisory Committee and some members of the Management Advisory Committee, who recommended a rate increase, were in the audience and may have some questions.

Mr. Jim Peterson of the Town of Oro Valley questioned if commercial customers will still have the 2,000 gallon allowance. Mr. Stratton said they will; however, their base rate is calculated on the size of the meter and that factor determines the levels for the conservation rate and high user rate. For example, a two inch regular meter would be charged the summer conservation rate for any water usage more than 120,000 gallons.

Mr. Bud Dooley, a customer, asked if the Committee had considered the original bond pro forma, which had projected rates substantially less. Mr. Stratton said that the District has not raised the rates as quickly as the bond pro forma had recommended. The timing and amount of the increases are about 3 to 4 percent more than the bond pro forma specified; however, the bond pro forma included assumptions that differ from what has actually happened. One main difference has been the assumption that the District operations would be performed the same as Metro Water Company. The District has pursued a more aggressive approach to its operations through main line replacements, flushing hydrants, repairs, and minor incidentals, which the engineer for the bond pro forma had not taken into account. The course of action that the District pursued with its operations can be justified. Mr. Dooley said that view point is

understandable; however, some customers may question that the rate increase would not be needed if additional staff had not been hired. Since the District has exceeded what was in the original bond pro forma, the District must now pay for those activities. Staff has doubled in size and expenditures may have been made that were not necessary. The Board needs consider seriously this matter. Mr. Dan Offret of the Management Advisory Committee noted that the bond pro forma had an interest miscalculation of \$900,000 that was not anticipated and has to be considered when referring to the pro forma.

Mr. Stratton said that Mr. Dooley's comments have merit in examining if the rate increase is occurring before it is needed. Staffing levels have increased based on Board direction to pursue capital projects. However, funds would have been expended whether staff or consultants pursued the projects. Mr. Schlegel said that the District has accomplished many projects at less expense since they hired staff rather than using consultants. Mr. Dooley said that he understands these issues; however, the Board needs to recognize and be able to explain the District's direction.

Mr. Schlegel questioned if the rates could be less and still encourage conservation. He did not know the elasticity for the rates to encourage conservation. Mr. Woodard explained that studies indicate that for every one percent the rates go up, the usage will fall by a quarter of a percentage. However, the characteristics of the District indicate the demand is not elastic. Those characteristics include a high income level and that water is lower than other utilities and other commodities. With a cost of living increase of 3 percent, an overall 18 percent increase is really only a 15 percent increase in comparison with what people are buying. Customers may cut their water usage by 5 to 6 percent, but with the savings from operations, the District will net about a 13 to 14 percent overall revenue increase. Mr. Woodard noted that the Committee had looked at deciding how much revenue was needed and then changed the rate structure to obtain that revenue. Additionally, the concept of conservation should not be over emphasized as a measure being imposed forcefully upon customers.

Mr. Dooley noted conservation may be overemphasized. ADWR has not yet created standards that appear to be fair and uniform. Water usage needs to be measured more accurately.

Mr. Peterson asked if the 2,000 gallons included in the base rate were eliminated if it would affect the revenue. Eliminating the 2,000 gallons may be a means to help reduce water usage. Mr. Stratton said that if the base rate was not reduced, eliminating the 2,000 gallons would add another \$3.56 to a customer's bill. Eliminating the 2,000 gallons in the base rate or raising the base rate may seem fair and equitable, but it greatly impacts those trying to conserve.

Mr. Schlegel inquired if the Board wanted to present alternative rate structures at the public hearing. Mr. Stratton said that the Committee had only the one recommendation for a rate structure; however, alternative rates can be presented. The Committee did discuss having the same overall 18 percent increase but using the current rate structure, which would have a greater impact on low water users and would show that they subsidize high water users.

Mr. John Beatty of the Management Advisory Committee noted that people will want to know how the new rate structure will affect them. Customers may have a hard time calculating their

cost based on their current usage and the new rates and staff may need to be prepared to figure those new costs.

Mr. Doyle said that the Rate Advisory Committee had done a lot of work examining the needs of the District for the next few years. He did not think another alternative rate structure is necessary to present to the public. If a customer at the public hearing thinks of an alternative, then that person should express it. The hearing is an opportunity to inform customers about the proposed rate structure and then to receive feedback from them.

Mr. Peterson questioned if the District can assure people there will not be another rate increase until 1998 as shown on the five year projection. Mr. Stratton said it is dependent upon the success of a bond election.

Mr. Schlegel asked if staff could examine a 3 percent increase to the base rate as a possible alternative.

Ms. Cramer said that staff could prepare different scenarios that could be discussed if someone at the hearing raises the issues. This would assure people that the District has explored those issues. Additionally, people could be shown what would happen if the District adopted the City of Tucson's rates. The City will probably increase its rates after the election. Even with the proposed rate structure, the District has lower rates for the average residential customer, and much lower when looking at high users. Mr. Peterson said that the District should also remind its customers of other issues they would be confronted with if the City had purchased Metro Water District.

Mr. Woodard suggested that a graph be made to show a corrected pro forma over time in comparison with what the District has done. The graph would probably show that the District's actions have not varied much from the pro forma.

Mr. Land noted that the rates could be lowered slightly now and then have a smaller increase the following year. This would still provide the necessary bond debt ratio. Mr. Schlegel agreed that smaller increases may have less of an impact upon customers or include a cost of living increase to regularly be implemented.

Mr. Woodard said that the Committee had considered a slower implementation of the rate increase, but decided that starting the rates in November allow people time to become accustomed before summer. A rate increase should not be started in the spring or summer. Mr. Woodard noted that the Board can vote a rate increase that can be spread out over a few years so that the increase can still meet the bond debt ratio.

Mr. Stratton said staff could examine different alternatives and implementations of the proposed rate structure and provide that information at the September 11, 1995 Board meeting.

Mr. Stratton noted that the Rate Advisory Committee recommended a 50 percent increase to the system development fee. The Board will need to take action on the system development fee



after the public hearing. The Committee suggested giving the public an opportunity to make comments on the percentage for the increase to the system development fee. Many ratepayers have been vocal about controlling development and would probably like an opportunity to voice their concerns about growth paying its fair share.

### **III. Rehabilitation of Stiller Well and Storage System - Discussion and/or Possible Action**

Mr. Christopher Hill, Utilities Superintendent, reported that Far West Pump Company performed a second pump test on Stiller well. It had been determined that between 400 and 500 gallons per minute would justify putting the well back in service and meet current as well as future needs in that area. After sonar jetting the well, the second pump test maintained 400 gallons per minute. Deepening the well may increase the pumpage. To reequip and deepen the well will cost approximately \$125,000 to \$145,000.

Mr. Stratton noted that the current depth of the well does not provide for significant room between the pump assembly and the end of the well. Over time, the well will need to be deepened due to declining water level, so deepening it now would be beneficial. ADWR requires \$10 for the permit, and can provide the permit in two weeks. ADWR has no restrictions to deepening the well and no impact analysis to adjoining wells is necessary because the well was grandfathered.

Mr. Doyle asked the depth of the well. Mr. Hill said it is 450 feet currently and to be deepened to about 700 feet. Mr. Doyle asked about the draw down. Mr. Stratton said that 500 gallons per minutes is anticipated. Mr. Doyle asked if it will supplement the area. Mr. Hill said that there should be more potential from Stiller well due to the positive condition of the aquifer. Mr. Doyle asked about the cost to lift the water. Mr. Hill projected that the cost should be the same even if the well is deepened. Mr. Doyle asked the size of the motor used now to do the pump test. Mr. Hill said that it is an auxiliary diesel pump with 600 horse powers, utilizing only 150 horse power for the well test.

Mr. Stratton said that staff has not concluded if the water from Stiller well should be put directly in the system or placed into storage. If the District requests bids, alternative bids should be sought to decide the most economical means to put the water into the system. He would recommend that the Board approve a request for bids and then award the bid at a future meeting. Mr. Stratton noted that receiving bids does not obligate the District but assists in helping to determine the true cost to rehabilitate the well, which should be around \$120,000. Mr. Hill noted that the bids for drilling a new well were more than \$250,000.

Mr. Doyle asked about the condition of the well casing. Mr. Hill said that televising of the well showed that the casing has good structural integrity.

Mr. Schlegel said that cost savings appear from rehabilitating the well, but he questioned if the well is needed. Mr. Stratton said that another well besides the New Linda Vista storage system is needed in the northwest area of the District due to the growth occurring. With at least two years before the completion of the Linda Vista Reservoir, no backup exists and more capacity

is needed. Mr. Schlegel asked if the well would be in competition with Tucson National. Mr. Stratton said no because Stiller well is about three quarters of a mile away.

Ms. Cramer made the motion to direct staff to proceed with obtaining bids for the rehabilitation of Stiller well. Mr. Schlegel seconded the motion and it passed unanimously.

Mr. Stratton noted that it will probably be the October or November Board meeting before staff can give a report on the bids to the Board. Mr. Schlegel asked if the well would be operating before next summer. Mr. Stratton said it should be operating in the winter.

#### **IV. Adjournment**

The Board adjourned at 4:33 p.m.

  
Barbara L. Johnson, Chair

ATTEST:

  
Clerk