

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

February 22, 2000

**** Board Room**
Metropolitan Domestic Water Improvement District
6265 N. La Cañada Drive
Tucson, AZ 85704**

MINUTES

Board Members Present: Marlene Wright, Chair
 Pete Schlegel, Vice-Chair
 Jim Doyle, Member
 Dennis Polley, Member
 Sam Ray, Member

District Staff: Mark R Stratton, General Manager
 Doug Lemke, Legal Counsel
 Warren J. Tenney, Clerk of the Board

I. Call to Order and Roll Call

Marlene Wright, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Public Hearing to order at 7:00 p.m. Pete Schlegel, Jim Doyle, Dennis Polley and Sam Ray were present.

II. Presentation Regarding the Proposed Water Rates & Fees

Ms. Wright welcomed the audience, indicated that District staff would make a presentation on rate increases and then the floor would be opened for public comment and questions. There were 10 individuals other than staff in the audience.

Mark Stratton, General Manager, said that the proposed rate increase was the third in a series of five that was approved by voters during the bond election in 1997. He stated that the proposed rate increase was for 4% and would be used to retire the debt service on the approved bonds and that none of the rate increase would be used for operating and maintenance expenses. Mr. Stratton introduced Mike Land, Chief Financial Officer, to explain the numbers and bond covenant requirements and Charlie Maish, to discuss the bond funded capital projects.

Mr. Land stated that the District previously established the need to have five years worth of 4% increases and subsequently sold bonds in February 1999. He indicated that the financial

projections predicted in 1997 have held true and that the 4% increase proposed would be the third adjustment in a five-year plan. Mr. Land outlined the proposed base rate increases as \$11.06, up from \$10.63; commodity rates to increase to \$2.00 per thousand gallons as opposed to the current \$1.92; the summer conservation rate to increase to \$2.66 per thousand gallons up from \$2.56 and the high user rate to increase to \$3.35 per thousand gallons from \$3.22. He explained that based on an average use of 12,000 gallons per month, the increase would be \$1.29 per month. If a customer used 50,000 gallons a month, that increase would be \$6.12 per month. Mr. Land said that this increase was fairly minimal compared to other utility company's increases.

Mr. Land explained the reason for the 4% increase was to cover the debt service on the bonds previously approved by District voters. He detailed the debt service structure of the Senior Debt, the Junior Lien Obligations and the Tucson Settlement. He added that there has been no increase attributed to operating expenses since 1995. Mr. Land said that the operating budget for the District is around \$4.2 million and commended staff and the Board for trying to keep those costs down.

Mr. Land told the audience that the District sold \$13 million in bonds in February 1999 to be used for Capital Improvement Projects. He said the projects included installation of transmission mains, mainline replacement, well modification and production, auxiliary power, telemetry installation and other projects both within the Metro-Main and Metro-Hub service areas. Mr. Land indicated that the total bonds sold equaled \$23 million and the District would be issuing \$10 million in bonds in the next few years. He explained the reduction in the bond issuance costs and that the District was able to obtain a surety bond because of the bond ratings. He stated that the total cost of the principal and interest on the \$23 million bonds totaled \$40.6 million at 4% and the District would be subsidizing the interest for many years.

Charlie Maish, District Engineer, told the audience about the Capital Improvement Projects (CIP) for the District. He stated that a number of transmission mains are in different stages of design and construction and others are being prepared for bid. He indicated that staff is also evaluating wells in order to improve production and so far there are six well modifications in design with three of those being out to bid. He stated that the Board of Directors recently awarded a contract last month for the Tucson National well. Mr. Maish said that most of the projects included in the first bond issuance phase were to be constructed within the next two years. He added that there have been improvements made to existing well sites including backup generators to four key well sites and staff is designing auxiliary power projects for two well sites in the Hub-Metro area. Mr. Maish said that the District has installed a telemetry system in five sites to help with communications and repair and plans call for the addition of five more sites this year. Mr. Maish stated that the main emphasis of the CIP has been on main line replacement with approximately 8 mainline projects having been designed and waiting to go out for bid. He stated that the plan is to design and construct two or three projects per year until the bond funds are depleted.

Chris Hill, Deputy Manager, stated that the District has other fees for water service outside the regular rate structure. He said that the District was proposing to increase rates in three already established areas and establishing a new category.

Mr. Hill explained the meter fee rate used for the purchase and installation of new meters. He said the District is implementing the use of radio read meter reading, which has an ability to provide more efficiency and accuracy in reading meters. He said the proposed fee increase would be \$140 which would be included in the fee charged to developers for mainline replacement.

Mr. Hill stated another fee considered for proposed increase was the fees charged for use of construction water. He indicated that the high growth in this area required a lot of water to be used for dust control for air quality purposes. Mr. Hill said that the District supplies water for drinking, potable use and irrigation. He stated that contractors do have the option of using reclaimed water from the Ina Road Treatment Plant instead of groundwater. The District wants to be creative in managing its resources. The District is proposing contractors pay three times the base rate plus three times the high user rate for commercial bulk water. This way the contractor will pay a premium price for groundwater and the District can encourage use of reclaimed water by contractors and conservation efforts.

Another fee proposal described by Mr. Hill was the fee for illegal or unauthorized use of water. He stated that people have been known to attach their trucks to District hydrants and take water without paying for it. He said that the District does have a penalty clause in existence and proposes increasing the penalties to \$500 for the first offense, \$1,000 for the second offense and \$1,500 for the third offense. Mr. Hill also stated the District has an incentive program for customers who report illegal water usage. These customers can receive a \$100 credit on their water bills.

Mr. Hill said the District wanted to propose a \$60 annual fire hydrant fee for the use and maintenance of all fire hydrants in its boundaries. He stated that this \$60 annual fee per hydrant was based on each hydrant using approximately 3,000 gallons of water for flow testing, and operation and maintenance, administrative and customer service costs such as ancillary main repairs, dirty water and cloudy water customer complaints as well as future permit fees to be required of the District.

III. Comments from the Public Regarding Proposed Water Rates & Fees

Ms. Wright opened the floor for public comment.

George Good, District Chief of Rural Metro and representing North Linda Vista Ranch Fire Department, addressed the Board members. He stated that as a representative of the two above fire departments, he was strongly opposed to any rate structure that would include fees for fire service providers. He stressed the benefits of having fire hydrants to all end users, residential and business, who have water meters within the District. Included in these benefits is water for use from the hydrants to put out any fires and ISO insurance premiums are lowered. He felt that

the end users should be assessed this hydrant fee through their water bills as the fire districts would receive no financial benefits. Mr. Good stated there was inequity in this rate structure as currently presented as Tucson Water also provides water service to some residents of the fire districts. He said that on March 8, 1998 he spoke at a public hearing and endorsed the passage of a bond election for the District. At no time was there any discussion of any of those bond monies not covering the use of fire hydrants by fire departments and his name was used in publications and newsletters supporting the bond election. He felt that the District should assess this fee on the people who receive direct benefit from the hydrants.

Jim Grasham, Northwest Fire District Fire Marshall, also spoke in opposition of the fire hydrant fee being billed to fire districts and referred to a letter written to the District by Chief Piechura. He stated that Northwest Fire District was also rated for business and residential insurance purposes based in part of flow testing of hydrants in their service area. Mr. Grasham indicated that if the fire districts discontinued fire flow testing, it would affect their overall fire rating and ultimately affect the customers as a result of a lower insurance classification. He further stated that in order to recoup \$30,000 for fees assessed to approximately 500 hydrants located in the District, they would have to assess all residents of their fire district. This would be unfair to approximately 70% of their customers since only 30% of their residents are District customers. He added that their district is required to comply with Pima County codes covering new construction and obligation to provide fire protection. They also have the obligation to provide availability of water for fire protection. Mr. Grasham reiterated that Northwest Fire District felt that since the resident or person with the meter will be directly benefiting from this service, the charges should be targeted to them as opposed to the fire district who merely test the hydrants to insure availability resulting in insurance savings and water for fire protection. He calculated the cost to District customers based on 16,000 meters would be 30 cents per month per meter.

John Robson, Chair of Heritage Hills Fire District, seconded both Rural Metro and Northwest Fire Districts observations. He would prefer that the fire hydrant charges in his district be serviced on a meter basis as opposed to hydrants.

Ms. Wright asked if the Board had questions.

Mr. Ray stated the District has a problem with the fire departments popping open the hydrants, damaging them and flooding areas while doing their flow tests. He asked how often were fire departments required by law to perform these flow tests. Mr. Gresham stated the main impetus for performing flow testing was for insurance ratings and they attempt to flow test the hydrants annually. Mr. Gresham stated Northwest Fire District goes out to test the hydrants twice a year, the second time they do a visual maintenance check. They check to make sure they see the hydrant that it is coded properly and they perform multitude of inspections and tests as part of their insurance rating process and they are rated every three years. Mr. Good responded that typically the ratings for Rural Metro are done about every ten years, but when they are rated by ISO they are checked to see if flow testing was performed every year and if it is not, the fire department could be reclassified into a higher risk category.

Mr. Polley noted that when the hydrants are opened, the water floods all over the ground and the District considered water to be a very precious commodity. He asked if the fire districts had ever considered using a tanker truck to collect the used water. Mr. Good responded that Northwest Fire District felt that was not a practical way to fully test the fire flow capacity.

Mr. Ray pointed out that another problem experienced by the District by fire flow testing is that opening and closing the fire hydrants has caused damage to pipes and parts. He asked if additional training would help address this concern. He said another problem was that the District was regulated by the amount of water pumped by the fire districts and they are not charged for that amount of water, that cost is absorbed by the whole district and must report this water usage to the State. Mr. Gresham replied the fire districts are not arguing about the right to recoup the cost of water expended, their opposition was having their fire districts billed. He said the District should be billing the customers who are the recipients and beneficiaries of having a class 4 fire department.

Ms. Wright inquired as to how the District would break down the hydrant fee. Mr. Stratton replied that staff would determine the different service areas in various fire districts, count the hydrants and bill those entities monthly, quarterly, semi-annually or annually.

Mr. Good pointed out that the fire districts would need to base their tax levy on secondary assessed value of property and the majority of their fire district residents would see their taxes increased for fire hydrant fees even though they do not receive water from the District. Therefore it would be inherently unfair for 70% of the fire district residents to have to subsidize the remaining 30% of customers who would receive the benefit.

Mr. Stratton stated that the fire districts are users of water and as an entity using water, staff was proposing charges for use of this water as a commodity. The District did not take into consideration at their structure, fire districts are viewed as a customer. When billing other customers, the District does not take into consideration how the bill is paid, only that the water is paid for.

Ms. Wright asked if the District has documentation of damage and destruction to fire hydrants due to flow testing. Mr. Stratton answered that staff does keep maintenance records indicating repairs to hydrants and broken service lines. He added that there have been several discussions with fire district personnel over the years regarding these damages and how to prevent them. He further stated that the proposed hydrant fee was based not only water as a commodity, but also the costs associated with maintaining these hydrants.

Mr. Schlegel asked if fire districts would be willing to work with the District to identify the location of those properties that benefit from a hydrant. Mr. Good and Mr. Grasham indicated they would. Mr. Schlegel suggested that all the entities sit down jointly to establish parameter fields to bill customers who have the benefit of the fire hydrants and determine how to do fire flow testing without wasting water or damaging pipes and hydrants. Mr. Good agreed with Mr. Schlegel and inquired if the District might be able to investigate different rate structures for residential and commercial meters.

Mr. Grasham stated that Northwest Fire District would be using new testing procedures during their fire flow tests to be performed in April. He also said if there are customer complaints, their fire district is not opposed to sending out crews to shovel any sand or repair damages as results of hydrant testing processes. Mr. Grasham told the Board that Northwest Fire District personnel had demonstrated their fire flow testing procedures to District staff and is trying to address most, if not all, of the District's concerns. He said that flow testing needed to be conducted as a free flow to determine what pressure is accurately available and that you could not get a true reading if a tanker truck were used to collect the water.

Mr. Doyle stated he had previously sat on the Northwest Fire District Board and helped in the preparation of budgets and knew there were ways for the fire districts to calculate a way to pay for the fee. When an actual fire occurs, all bets are off and that fire flow testing was imperative to ensure the system was not compromised. He also stated that fire flow testing could be scheduled for a free flow into a large tank with no elevated head and done hydraulically in order to conserve water. Mr. Doyle reiterated that water is a precious commodity and everyone needs to be cautious when using it and ADWR is scrutinizing all water providers to insure they are complying with the GPCD. He said that there could not be a true determination that it would be unfair for 70% of people to contribute for a service that only 30% would benefit because just because you have a fire hydrant, they are not the only people receiving benefits. He stated that in the case of a big fire, the fire districts would grab water using shuttle service and you do not have to have a water supply but you have to provide a shuttle system in order to obtain ISO accreditation. Mr. Doyle acknowledged there are a lot of variables and what it boils down to is that the customer will have to pay for this fee one way or another, either through a secondary assessment on their tax bill or on their water bill. He stressed that not only the people who have access to fire hydrants are the beneficiaries of this service, everyone benefits.

Ms. Wright stated that she was on the Heritage Hills Fire District Board. She asked legal counsel if there was a conflict with this. Doug Lemke, Legal Counsel, answered that he did not believe there to be a conflict.

Ms. Wright stated that there seemed to be a need for more discussion and exploration on the proposed hydrant fee. She said that with everything brought up by the Board members and the fire districts, it would be beneficial to discuss the fee in more detail.

Mr. Schlegel agreed with Ms. Wright that this issue needed further study to determine a more fair distribution or even if the need exists at all.

Mr. Schlegel asked if there was a proposed increase for reconnect fees. Mr. Stratton replied that the service charges listed are the current charges, staff is not proposing an increase. Mr. Schlegel expressed his concerns on payment of late water bills. Mr. Land stated that the District does work with the customers to make arrangements for payments based on hardship basis. Joyce Osborne, Administrative Services Manager, added that the District does refer customers to various agencies for additional help.

Mr. Good, acting in his role as a District customer, asked if the District could pursue legal charges in addition to the fees to be collected for illegal use of water. Mr. Lemke answered he was not sure, but suggested it could be viewed as a conversion issue of trespass.

Mr. Doyle left the meeting at 8:08 p.m.

Ms. Wright noted the public comment period ended seeing no further comments.

IV. Consideration and Possible Action Relating to Water Rates and Fees

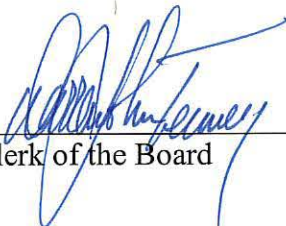
Ms. Wright questioned if the resolutions should be broken down so that the Board members could vote on individual items. Mr. Tenney noted that if the Board wanted to defer a decision on the fire hydrant fee, the suggested motions could reflect the exclusion of the hydrant fee or change any other item the Board chooses. It would accomplish the same thing as breaking up the fees and doing a resolution for each one.

Mr. Ray made a motion for approval of Resolution 2000-1 to establish water rates, service charges and fees, and bulk water charges for the Metropolitan Domestic Water Improvement District with the resolution's attachment entitled Metropolitan Domestic Water Improvement District Water Rates – March 1, 2000 to reflect the following change; the exclusion of a hydrant fee. Mr. Polley seconded the motion and it passed with 4 voting for and 0 against. Mr. Doyle was not present for the vote.

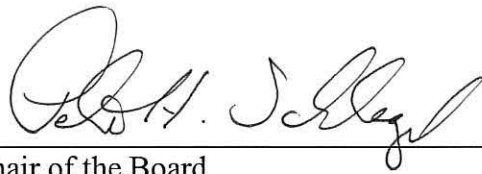
Mr. Ray made a motion for the approval of Resolution 2000-2 to establish water service connection fees for the Metropolitan Domestic Water Improvement District. Mr. Polley seconded the motion and it passed with 4 voting for and 0 against. Mr. Doyle was not present for the vote.

V. Adjournment

The meeting adjourned at 8:15 p.m.



Clerk of the Board



Chair of the Board