

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

January 24, 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
Sam Ray, Member

Board Member Not Present: Dennis Polley, Member

District Staff: Mark R. Stratton, General Manager
Chris Hill, Deputy Manager
Warren 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 Board study session to order at 5:30 p.m. Jim Doyle, Pete Schlegel and Sam Ray were present. Dennis Polley was not present.

II. Discussion of Proposed Rate Adjustment and February 22, 2000 Public Hearing

Mark Stratton, General Manager, reminded the Board that this item was briefly discussed during the January 10, 2000 Board meeting and staff had provided additional materials for their review. He indicated that staff was prepared to discuss these materials in detail to encourage dialogue with the Board members regarding the proposed rate adjustment.

Mike Land, Chief Financial Officer, presented several overhead transparencies. He explained the tests used to determine the debt coverage for the senior debt, the junior debt and the Tucson settlement debt. Mr. Land stated that when he and Mr. Doyle met with the bond insurers last year, they stressed the importance of following through with a rate structure of a 4% increase for five years so that the bonds would not default or possibly be re-rated.

Mr. Schlegel asked for clarification on the amount and terms for the bonds issued. Mr. Land replied that the bonds are 20-year bonds that were planned in two stages – the first stage covers

the bond sold for \$13 million and issued in February 1999. The second stage will be the bond for \$10 million to be sold and issued during 2001-2002. He said that based off the usage of the \$13 million bond, the junior debt is listed at \$5.6 million for 20 years and the Tucson settlement covers 21 years.

Mr. Land reviewed operating expenses for the District, which have remained fairly consistent with the past five years. He explained that some of the District employees were hired to design and manage bond projects and their salaries are bond funded. Ms. Wright asked if these employees knew their positions would not continue after the completion of the capital improvement projects? Mr. Stratton replied that these employees were informed at the time they were hired that if there was no future employment opportunities available, their positions were to be eliminated and they were given a letter stating their position was tied to the CIP program.

Mr. Land pointed out that salaries and benefits for a number of employees were reimbursed by bond proceeds. He stated that in reality the District has only added 3 or 4 new employees since 1996 and that 3 additional employees were related to the bond projects.

Ms. Wright asked about the necessity of consultants if the District had staff working full time on the CIP. Mr. Stratton explained that engineering staff is blended to incorporate some engineers working on mainline replacement, some on managing consultants, and other engineers managing construction projects. He stated that engineering staff participates in overseeing smaller projects, overseeing that contractors get larger projects completed, and that it is not unusual in the long-term projects to have one engineer working for over two years overseeing the design and construction of that project. Mr. Doyle noted that it is important not to have the same designer/consultant also managing the construction.

Mr. Land detailed the other operating expenses in the budget including production supplies, operating supplies, advertisement, vehicle repairs, maintenance and fuels. Mr. Schlegel questioned why this amount was up 25% over the last two years. Mr. Land responded that the purchase of the Hub service area is a main factor, but he would provide a complete breakdown.

Mr. Land further explained the costs relating to power and consultant contract services as well as legal fees and how the District has tried to maintain those expenses.

Mr. Land addressed the issue of purchasing CAP water and the difficulty in determining costs for budgeting. Mr. Stratton explained reallocation allotment and potential price increases and their impacts upon the District. Mr. Schlegel expressed his concerns regarding the CAWCD's prices. Ms. Wright suggested that SAWUA address some of these issues.

Mr. Land again noted that the District's general operating expenses have remained pretty constant. He said that the budget expenditures included debt service, capital expenditures and the Tucson settlement payments, and they would be over \$9 million for the 2000-2001 budget.

The Board and District staff had an extended discussion regarding the budget reflections with and without the debt service and Capital Improvement Projects expenses. Mr. Land indicated he

would prepare pie charts to reflect the District's budget with and without the debt service. Ms. Wright explained that it is important to show customers what the District is receiving from paying the debt service, such as the various CIP projects.

Mr. Ray noted the importance of focusing upon the proposed 4% rate increase for the bond debt retirement, as originally explained to District residents. He felt this was important to emphasize rather than rate comparisons. Other Board members agreed.

Chris Hill, Deputy Manager, outlined the staff's proposals to increase different fees. The first one dealt with increasing the meter fee to allow for radio read meters to be installed in new housing developments. Mr. Ray asked where the money from the water resource fee is applied? Mr. Stratton replied that it is applied towards the capital component cost for CAP water.

He also informed the Board that staff proposed increased bulk water fees, which is primarily for construction site water usage. He indicated that this water usage has very little benefit except for developers and there is no recharge benefit to the District as it is a waste of water. Ms. Wright noted that the water used does help meet dust control. Mr. Ray asked if there was a requirement to water down construction sites. Mr. Hill responded that Pima County's requirement for dust control does allow for effluent to be used to water down the sites.

Mr. Schlegel asked if raising this fee would impact the District's revenues. Mr. Hill stated that the revenues received from construction fees is nominal and imposition of higher fees would make a statement to contractors and our customers that the District views water as a precious resource not to be wasted.

After extended discussion amongst staff and the Board members regarding impact of contractors using groundwater versus recharge water, and imposition of fines and fees, Mr. Ray suggested imposing a fee to contractors for unauthorized use of water to three times the high end user rate plus imposition of fines and charging contractors per gallon used.

Mr. Stratton stated that he proposes using summer help to paint all fire hydrants along the District's boundaries to remove the excuse that contractors did not know the hydrant belonged to the District.

Mr. Hill explained that staff had also investigated a hydrant fee to ensure cost is recouped for water used by fire districts when flow testing as well as the impact to the water system when flow tests are not done properly. He said that in Wisconsin, a hydrant fee is applied to all hydrants at about \$50 per customer per year. The District is not suggesting the same fee amount, but believes it is something to explore.

Mr. Stratton said that in discussions with fire district representatives, they were informed that flow testing is a waste of water and that fire districts should be held accountable for the number of gallons they use for flow testing. Mr. Stratton stated the District should require documentation of all water used for flow testing and then bill the fire districts for that amount and making them accountable for the use of water and not permitting flow testing without prior

permission. He stressed the importance of educating fire districts to get permission for fire flow testing otherwise it could fall into the category of illegal use of water and also prove to ADWR that the District is taking incentives in the area of water conservation. Mr. Doyle agreed that fire districts should take better care of the hydrants when they flow test them.

Mr. Hill addressed the issue of Utility Division overtime budget constraints. Mike Land stated that the District presently charges a \$25 turn on fee to have a customer's water reconnected and an additional \$25 if the turn on is after hours. Mr. Hill indicated that the District has to pay at least two hours overtime to staff plus the equipment costs and would like the Board to consider raising the after hour fee.

Mr. Schlegel expressed his concerns of impacting negatively on customers who are having trouble paying their bills. He feels that any fee of this sort should be spread out over a period of time. He further asked about the possibility of installing automatic phone message equipment to reach customers regarding turn offs.

Ms. Wright asked about the possibility of budget billing. Mr. Land replied that customers have inquired about this service but that electric and gas companies are providing it more than water utilities. He said that staff is investigating the possibility of electronic fund transfers but that it would be addressed further in the future.

III. Discussion of Potential Impacts to the Fiscal Year 2000-2001 Budget Line Items

Mr. Stratton stated that staff felt it necessary to inform the Board as to any potential impacts on the budget as well as future budgets. He said that there is an Information Systems (IS) Committee comprised of staff from each of the divisions in place to determine the long term needs and interests of the District. He does not anticipate much of an impact on the budget only that all monies would be consolidated into one category as a separate line item. Mr. Stratton indicated that an inventory would be established and staff would try to match up needs with users and prioritize the District's needs. Some needs that have been identified include internet firewall protection and a consolidated back up system.

Ms. Wright requested that when the IS Committee determines the needs that the Board be given detailed information. Mr. Schlegel questioned the existing District policy regarding protection of its computer system. Mr. Stratton indicated that the IS Committee would investigate different options and provide detailed information to the Board.

Mr. Stratton also mentioned the need for water line relocation projects and consequent budget expenses. He reiterated that the District would need to address the issue of additional funds needed to address increased CAP water reallocation costs. He stated that another area of concern was that most of the well maintenance monies was being used for emergency well repair rather than preventative maintenance.

Mr. Stratton indicated that staff recommended pursuing a Water Quality Master Plan and an updated Water System Management Plan. He noted that future regulatory requirements would

impact the District's ability to deliver water that would require treatment and it was essential for the District to have the foresight to know what direction to proceed. He explained that this planning was for the long-range future.

Mr. Doyle asked if the Board needed to address replacement of vehicles. Mr. Stratton replied that new vehicles had been ordered and the District should be adequately equipped when new vehicles arrived.

IV. Performance Update of Well Maintenance Contracts

Mr. Stratton stated that the Board had requested an update of Far West Pump, Inc., performance regarding its well maintenance work for the District. He referred to Mr. Dean's memorandum outlining the various well maintenance projects and the poor performance of Far West. Mr. Stratton said that based on the performance of Far West, staff would recommend that Far West receive no further contracts from the District.

Ms. Wright asked if the performance of Far West had caused any emergencies. Mr. Dean replied that they caused no emergencies, but did delay some important wells from being returned to service on time.


Ms. Wright and Mr. Schlegel expressed their concerns and displeasure regarding Far West Pump, Inc.'s, performance and felt the contract should be terminated under the not-to-exceed \$45,000 clause. Mr. Doyle agreed. Mr. Stratton said he would proceed with terminating the contract and bring before the Board at the February 14, 2000 meeting the issue of emergency well repairs.

V. General Managers Report

Mr. Stratton stated that he and Mr. Hill were working with WestCAS to finalize the comments on the proposed radon rule and that the Board would be provided with a copy of those comments.

VI. Adjournment

The meeting was adjourned at 7:55 p.m.


Clerk of the Board
Marlene Wright, Chair of the Board