

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
BOARD OF DIRECTORS
STUDY SESSION**

January 29, 1999

*****Conference Room***
7235 N. Paseo del Norte
Tucson, Arizona 85741**

MINUTES

Board Members Present: Jim Doyle, Chair
 Herb Johnson, Member
 Sam Ray, Member
 Marlene Wright, Member

Board Member Not Present: Pete Schlegel, Member

District Staff: Mark R. Stratton, General Manager
 Christopher W. Hill, Deputy Manager
 Mike Land, Chief Financial Officer
 Warren Tenney, Clerk of the Board
 Charlie Maish, District Engineer

I. Call To Order and Roll Call

Mr. Doyle, Chair of the Board of Directors of Metropolitan Domestic Water Improvement District (District), called the Board Study Session to order at 4:00 p.m. Mr. Herb Johnson and Ms. Marlene Wright were also present. Mr. Sam Ray arrived at 4:13 p.m. Mr. Pete Schlegel was not present at the meeting.

II. Discussion and Direction to Staff Regarding Proposed Rate Increase and Scheduling of Public Hearing

Mark Stratton, General Manager, explained that the Board had received a staff report for the study session along with a copy of the report from the January 11, 1999 Board meeting. Since the January 11, 1999 meeting, it had been suggested to perhaps not consider a rate increase now since the bonds were just being issued and the Hub Water Company acquisition is to occur in April. Mr. Stratton noted that revenue projections indicate that the District would still be able to meet bond debt retirement even if the proposed rate increase did not occur until January 2000.

Mike Land, Chief Financial Officer, reported that Moody, the insurance rater for the bond, was not pleased to learn that the District was considering postponing the rate increase until January 2000.

Ms. Wright asked if the rate increase is postponed until January 2000, would an annual four percent rate increase still be needed for three more consecutive years. Mr. Stratton said yes. Ms. Wright questioned how many people attended the last rate hearing. Mr. Stratton explained that there was a small attendance with only three people making public comments. Ms. Wright said she thought the District should proceed with a four percent rate increase at this time and it should be an across-the-board four percent increase since the District had already communicated this approach to its customers. She said people do not understand a rate increase until they actually receive their water bill.

Mr. Doyle agreed with the across-the-board four percent rate increase because if the high users are targeted too much, they may consider drilling exempt wells.

Mr. Johnson questioned if Mr. Land's spreadsheet indicates if the District can wait a year to implement the second rate increase. Mr. Land said yes but the next four proposed rate increases would need to occur consecutively thereafter. Mr. Johnson said if that is the case, he does not mind postponing a rate increase until January 2000; however, he is concerned that postponement may cause problems for the bond issuance, such as what was said about the bond insurer. He wants to see the bond issued without further delay.

Mr. Ray arrived at the meeting at 4:13 p.m.

Ms. Wright questioned what the public could say to the Board at a public hearing that would stop a four percent rate increase or eliminate the need for one of the four percent rate increase. Mr. Ray said that the public would have to persuade the Board why the four percent rate increase is not necessary. Mr. Stratton and Mr. Land noted that the District would not have the proper funds for debt retirement nor the coverage necessary for the second bond issuance. Ms. Wright explained that she did not feel people understood rate increases until they get their water bills and people have started to notice their water bills increasing. She was not certain how people would react. Mr. Johnson said that people need to understand how inexpensive a thousand gallons of water is compared with purchasing bottled water.

Mr. Stratton noted that along with the rate increase, District staff was suggesting that at the public hearing, the Board consider increases to the water connection fees and bulk water rates. Specifically, to combine duplex, triplex and fourplex under the multi-family customer class of the water service connection fee and under that category increase the cost per unit to \$600. Second, rename the Northwest Area Fee as a Water Resource Fee and increase the fee from \$188 to \$280 for 5/8" meters and adjust with the American Water Works Association ratio for larger meter sizes. Third, increase the base rate for bulk water to be three times the base rate charged to residential and commercial customers and charge the highest tier for water usage.

Mr. Ray asked how the Water Resource Fee would be used. Mr. Stratton explained that with the Tucson settlement, the Northwest Area Fee no longer needs to be collected. Oro Valley has remolded that fee into a water resource fee for long-term water resource issues. The District's Water

Resource Fee would be used to offset capital holding costs for its Central Arizona Project water. Mr. Ray said he was concerned about raising fees and thought the name should be changed but the fee kept the same or to just eliminate the Northwest Area Fee and increase the System Development Fee by that amount.

Mr. Stratton explained that the proposed increase to the bulk water rate was due to water that was primarily sold to be used in construction activities. It was felt that the water should be sold at a price that would better reflect the value of that water as well as to ensure that bulk meters were returned in a more timely manner if the customer had to pay a monthly fee. Ms. Wright noted that water has to be used to keep dust down at construction sites. Mr. Doyle explained that construction companies do not have to use groundwater, but can actually use effluent and get it from the Ina Road Treatment Plant.

The Board discussed with staff how bulk water was sold. The Board directed staff to develop the bulk water rate increase for commercial customers only so that the few residential customers who haul water are not negatively impacted.

Regarding the rate increase and holding a public hearing, Mr. Doyle said he felt that a rate increase should be pursued at this time to ensure that the bonds go forward and that funds exist for the bond debt retirement. Based on the trip to New York to meet with bond insurers, it is important that we follow through with the presentations made to secure the bond financing. The rate increase was noted with the bond approval by voters; therefore, we should proceed.

Mr. Johnson explained that voters approved the bond on March 11, 1997; however, due to various reasons, the bond issuance has been delayed until now. Everything is set to issue the bonds at this time. Postponing the rates should be avoided if it will upset the issuance of the bonds.

Mr. Ray said that the District has raised the rates once due to the bond, but has yet to issue the bonds. If the rates are not increased in 1999, the District can still meet its operating costs and debt retirement. Mr. Johnson added that the rate increase is only for bond debt retirement and the proposed four percent rate increase does not calculate inflation for operating costs.

Ms. Wright noted that people may attend the hearing and argue for a two percent rather than four percent increase. Mr. Doyle and Mr. Ray noted that the Board needs to consider the information presented, but also needs to be aware of all the financial information affecting the District so that the Board can make appropriate decisions. Mr. Johnson noted that a public hearing helps keep the Board cost conscience.

Ms. Wright said that a public hearing should be scheduled to consider a four percent rate increase for April 1999.

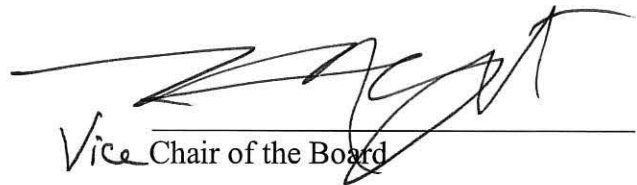
Mr. Stratton noted that the District will be acquiring Hub Water Company in April and that those customers were told what the District's rates are currently but will find even a higher water bill due

to the proposed rate increase. Mr. Doyle noted that the Hub Water customers may be upset, but the customers need to recognize that water is a precious resource and that they have not had a rate increase for 15 years. Mr. Stratton said that one of the homeowners associations in that area had met and felt that it was reasonable to expect a rate increase and would not object to the District's acquisition of Hub Water Company.

Board members restated their opinions about proceeding with a public hearing. Mr. Ray said that the rate increase could wait until January 2000 because the money is not needed now. Ms. Wright felt that if a rate increase was not going to be eliminated altogether, then the proposed rate increase should not be postponed. Mr. Johnson and Mr. Doyle agreed that delaying a public hearing may harm the bond issuance. Additionally, the public has been informed that a four percent rate increase would be considered.

III. Adjournment

The Board adjourned at 7:16 p.m.



Vice Chair of the Board

ATTEST:



Clerk of the Board