

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

March 28, 1994
7235 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

ATTENDANCE:

Members: Herb Johnson, Chairman
Jim Tripp, Vice-Chairman
Pete Schlegel, Member
Alex Jácome, Member (arrived at 5:04 p.m.)
Kate O'Rielly, Member (arrived at 5:15 p.m.)

Others Present: Mark Stratton, MDWID Interim General Manager
Chuck Huckelberry, Pima County/MDWID
George Barr, CAWCD
Michael Block, MDWID Hydrologist
Bud Dooley, Citizen
Sheila Lewis, MDWID Administration Manager
Michael McNulty, Brown and Bain
Dan M. Offret, Community Watch Committee
Warren Tenney (recording secretary)

I. CALL TO ORDER AND ROLL CALL

- A. The study session was called to order at 5:01 p.m. by Mr. Herb Johnson, Chairman of the Board of Directors. Mr. Jim Tripp and Mr. Pete Schlegel were present.
- B. Mr. Tripp moved that the Board approve the study session notice and agenda for March 28, 1994. Mr. Schlegel seconded and the motion passed unanimously.

II. COMMENTS FROM THE PUBLIC

Mr. Bud Dooley said that the Board should consider backup plans for the District's Avra Valley Pilot Recharge Project because passive recharge projects are prone to choke themselves off after a period of time.

Mr. Alex Jácome arrived at 5:04 p.m.

Mr. Mark Stratton noted that Pima County Wastewater Management has had problems involving clogging with respect to their recharging in the Santa Cruz River and in the Green Valley area and that issue will be examined. Mr. Schlegel said that the site for the Avra Valley Pilot Recharge Project is a large area that should minimize clogging. Discussions with an engineer indicated the possibility of using a magnetic field to deionize particles to enhance recharge. Mr. Stratton noted that new technology in water sciences should be investigated. Mr. Johnson said that the Board would reserve many options regarding the Avra Valley Pilot Recharge Project.

Mr. George Barr of the Central Arizona Water Conservation District (CAWCD) Board of Directors noted that CAWCD will be holding its April 7, 1994 board meeting in Tucson.

Mr. Jácome asked about the status of the CAP Alternatives Committee. Mr. Barr said the consensus of the committee is that Tucson Water needs to become an organization that has its own governing board that answers to its customers and is separated from the City Council.

Mr. Schlegel questioned Mr. Barr's opinion regarding the District Board and the City of Tucson foregoing the hiring of general managers for their respective water entities and have that responsibility replaced by a regional utility authority. Mr. Barr said that each organization needs to have its own managers, but then each area utility entity could belong to regional management agency.

Ms. Kate O'Rielly arrived at 5:15 p.m.

III. Fiscal Year 1994-1995 Budget

Mr. Stratton explained that staff had prepared a draft Fiscal Year 1994-1995 (FY 94-95) budget to solicit comments and direction from the Board regarding the budget to be submitted for the Board's final approval. Justification has been provided for each request for capital expenditures or new positions. The draft budget does not include a proposed rate increase. A meeting is scheduled for the Rate Advisory Committee and their recommendation to the Board regarding rate increases will then be incorporated into the budget. Three new positions are requested. A three percent cost of living increase is suggested for staff effective December 1, 1994 and five percent merit increases are suggested for not more than fifty percent of the staff. Currently, the draft budget assumed a three percent growth rate that is based on plated subdivisions and projected growth within the District. The three percent growth rate is conservative but realistic.

Mr. Tripp questioned the difference between the proposed budget and the adopted 1993-1994 budget for other income. Ms. Sheila Lewis said it was due to different factors such as consumption reports no longer need to be provided to Pima County and the decrease of people changing out meters from 1 inch to 5/8 inch meters. Mr. Stratton said he would like to develop a policy to recover costs for installing new service lines.

Mr. Tripp questioned the zero amount for bond fund interest in the proposed budget. Ms. Lewis and Mr. Stratton explained that the FY 93-94 budget included a bond fund interest of \$665,000 that had been set aside to make the first year payment on the bond debt. No interest remains

for the FY 94-95 budget. The situation is based on a prorated arrangement made with the bank for the first year. The FY 94-95 budget will include the full amount for monthly debt retirement.

Mr. Johnson inquired about the decrease in the connection fees for the budget. Mr. Stratton said that connection fees are divided into the categories of system development fees and connection fees for the FY 94-95 budget. Separating connection fees into two categories will provide a better tracking for the use of fees.

Mr. Jácome questioned where it is reflected in the budget that \$1.3 million was to be expended for capital improvements during the first year and the second year is to spend \$1.7 million. Mr. Stratton explained that a \$900,000 miscalculation in the bond prospectus caused a deficit for capital monies for the last year. After the FY 94-95, the budget should remain consistent as shown by the bond prospectus. The purchase of CAP water for \$500,000 could be considered a capital expenditure.

Mr. Stratton explained that the proposed expenses for the Administration, Utility and Engineering & Hydrology divisions total about \$10,000 more than last year's budget. Those expenses include salary, day-to-day operations, new positions and inflation. The bond debt retirement is \$400,000 more, but should remain consistent now. Capital expenditures and consultant/contract services are a little more than last year. The Annual Service Contracts were not budgeted last year and input from the Board is requested. One major concern is that capital projects have not been allocated for monies based on the need to have a carry over into next year rather than have a deficit. Monies need to be available for the obligated purchase of CAP water. No rate increase is included in the budget. Last year approximately \$400,000 were spent on non-budgeted items. The budget has been designed to prevent the occurrence of nonbudgeted items. A contingency fund should exist for emergency purposes but only with Board approval. If contingency funds are not used, they would be carried over to the next year. A reserve for carryover would be for \$200,000. The District will probably have a beginning cash balance for FY 94-95 of about \$900,000. With everything considered, there will be an approximately \$30,000 ending balance.

Mr. Jácome questioned the increase in Engineering & Hydrology expenses from \$0 to \$297,000. Mr. Stratton explained that Engineering & Hydrology had been grouped with Administration. The FY 94-95 budget separates the expenses among the Administration, Utilities and Engineering & Hydrology Divisions. Engineering & Hydrology expenses such as ADWR pump charge and blue staking are required. Mr. Jácome suggested showing on the budget that the Engineering & Hydrology expenses were incurred under another division last year. Mr. Jácome also suggested reexamining the proposed five percent merit increase for up to fifty percent of the employees.

Mr. Schlegel said that the draft budget indicates a deficit without any reduction in expenses. Mr. Stratton said that efforts were made to reduce expenses in the three divisions but the reductions had no significant affect upon the total budget. Many functions have to be performed. The capital expenditures, consultant/contract services, and annual service contracts

are areas that could be reduced. However, many of the annual service contracts are with entities that provide services that staff is not able to perform on their own.

Mr. Schlegel questioned if Tucson and Pima County are required to have balanced budget. Mr. Chuck Huckelberry said that a balanced budget is required by those entities. The District's draft budget is balanced because the cash ending balance from FY 93-94 is being used. Recurring revenues and recurring expenses need to be balanced; however, a potential rate increase has not been included in the draft budget.

Mr. Schlegel said the District should develop a budget that is balanced without using reserves. Mr. Stratton agreed but noted that many of the current expenses should be viewed as contributing to growth necessary to accomplish the District's goals.

Mr. Jácome questioned the increased cost for postage in the draft budget. Ms. Lewis said the increase was due to the possible rise in stamp rates and the use of envelopes to mail the sewer billings. Mr. Jácome inquired how the usage of envelopes is offset by the intergovernmental agreement with Pima County. Mr. Stratton explained that the offset is listed under the revenue item of Pima County Wastewater.

Mr. Jácome asked about the increase in expenses for Board reimbursements. Ms. Lewis said it is for mileage, fax machines for three Board members, and other expenses.

Mr. Stratton noted that the budget was reduced in the area of travel and education/training.

Mr. Jácome inquired about the categorizing in the adopted FY 93-94 budget of the expenses for the Paseo del Norte office site. Ms. Lewis and Mr. Stratton said that it is included in the capital expenditures as \$326,000 and that amount can be divided into line items.

Ms. O'Rielly suggested that the listing of staff salaries should show positions rather than names.

Mr. Huckelberry said that the draft budget is for the Board to review and to provide direction to the General Manager. The draft budget appears to be imbalanced but it is using the FY 93-94 fund balance. The District should consider having a ten percent reserve for carryover that would only be used in an emergency. Two major cost increases are in the FY 94-95 budget. First, the District is confronted with the full effect of the debt service retirement schedule and the lack of monies for capital projects. Second, \$500,000 is needed for the purchase of CAP water for recharge. These are additional expenses that need to be supported by revenue. FY 94-95 should be viewed as one of rebuilding, growing and solidifying the District's position with the City of Tucson. The draft budget appears to be conservative and possibly underestimating potential revenues.

Mr. Johnson said that the District has increased its customers by three percent but it does not consider revenue from a possible rate increase. The draft budget tries to address the fiscal problems of FY 93-94. The budget should come close to the needs of the District.

Mr. Jácome agreed that the projected revenues are realistic and actually present a worst case scenario. Mr. Stratton noted that the expenses are also conservative in the sense that they are estimated on the high side.

Mr. Johnson noted that another \$2.4 million will be needed in July 1995. A rate increase will be needed to pay for the cost. Mr. Huckelberry said that any potential rate increase should be explained in the context of a means to avoid serving customers treated CAP water. The increase needs to be in that context.

The Board went into executive session at 6:20 p.m.

IV. EXECUTIVE SESSION

Pursuant to A.R.S. § 38-431/03 (A)(1) to review and discuss Metropolitan Domestic Water Improvement District's position as it relates to personnel and compensation matters.

The Board returned from executive session at 7:03 p.m.

V. OPEN SESSION - ITEMS FOR DISCUSSION AND POSSIBLE DIRECTION TO STAFF

A. Evaluation of Personnel Needs.

Mr. Tripp requested that a resolution distributed at the meeting regarding the relationship of the Board and the General Manager be placed on the next agenda.

Mr. Jácome made the motion that a letter be sent to Mr. Chuck Huckelberry requesting a statement of intent regarding his position as General Manager. Mr. Tripp seconded the motion and it passed unanimously.

Mr. Stratton said based on discussion with the Board, staff recommends the following regarding personnel. The proposed Customer Service Supervisor will not be part of the FY 94-95 budget. The Utilities Maintenance Worker II will be considered for Board approval by December 1994 to be filled in January 1995. The Utilities Maintenance Worker I position will be filled but postponed without jeopardizing the District's operations. Mr. Warren Tenney will be reassigned to the Administrative Assistant II position under the salary listed in the Administrative Division. The work to be done by the Administrative Assistant under Utilities Division will be temporarily filled, if capable, by Ms. Ruth Vincent who is currently under workman's compensation or other alternatives will be considered such as part time temporary. Temporarily, Mr. Frank Fotta will be reassigned to do blue staking in Ms. Vincent's absence. A Civil Engineer will be hired within the range of \$35,000 and \$40,000 as soon as possible. An Operations Superintendent holding the Grade IV Certificate will be hired July 1, 1994.

Mr. Jácome made the motion to accept the above listed staff recommendations regarding personnel needs. Ms. O'Rielly seconded the motion and it passed unanimously.

B. Fiscal Year 1994-1995 Budget.

Mr. Stratton noted that the Board had not yet discussed capital expenditures, consultant/contract services and annual service contracts. He requested that the Board provide him with comments and questions regarding those matters. A new draft regarding those items will then be made. Some of the proposed capital expenditures could be reduced.

Mr. Schlegel made the motion to continue Item V.B. regarding the Fiscal Year 1994-1995 Budget to the next Board meeting. Ms. O'Rielly seconded the motion.

Mr. Johnson and Mr. Stratton noted that the budget has to be provided to the Town of Oro Valley by April 30, 1994.

Mr. Jácome and Ms. O'Rielly requested that a justification be provided for any items that have been increased.

Mr. Stratton noted that he would provide details regarding the aspects of purchasing the backhoe that the District rents from Mr. Perkins.

Mr. Johnson called for a vote regarding the motion to continue Item V.B. to the next Board meeting. The motion passed unanimously.

C. Report on City of Tucson Mayor and Council Action on March 21, 1994.

Mr. Stratton noted that the City of Tucson Mayor and Council directed staff to amend the Asset Purchase Agreement regarding the purchase of untreated CAP water instead of treated CAP water. A March 28, 1994 editorial in *The Daily Star* was negative about the District's request. A letter was drafted to respond to the editorial.

The Board discussed the letter drafted in response to the editorial. The Board agreed that a letter should be sent to *The Daily Star* signed by the Chairman and that an explanation should be provided to the water customers as part of a newsletter.

Mr. Johnson, Mr. Jácome and Mr. Stratton noted that the District is not taking a position regarding the City of Tucson's bond election.

D. Report on March 24, 1994 Meeting Regarding the Northwest Water Agreement.

Mr. Stratton noted that at the March 24, 1994 meeting regarding the Northwest Water Agreement, Ms. Kathy Jacobs of the Arizona Department of Water Resources (ADWR) indicated that ADWR assumed that the District would be connected to the City of Tucson and that the recharge at Avra Valley may not be deemed an assured water supply. Staff will request a clarification regarding deemed assured water supply.

Mr. Schlegel said that the District should also determine what is required to be deemed an assured water supply through the Central Arizona Groundwater Replenishment District.

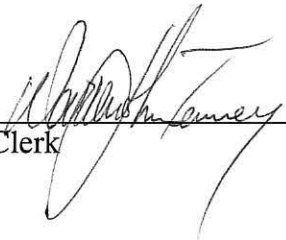
V. ADJOURNMENT

The meeting was adjourned at 7:59 p.m.



Herb Johnson, Chairman

ATTEST:



Clerk