

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

June 8, 2009

**** Board Room ****

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

MINUTES

Board Members Present:

Jim Doyle, Chair
James Tripp, Vice Chair
Bryan Foulk, Member
Reb Guillot, Member
Dan M. Offret, Member

District Staff:

Mark Stratton, General Manager
Michael McNulty, Legal Counsel
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

Public Hearing

I. Call to Order and Roll Call

Jim Doyle, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Public Hearing to order at 6:01 p.m. Jim Doyle, James Tripp, Reb Guillot, Bryan Foulk, and Dan M. Offret, were present.

II. Presentation about Proposed RTA Waterline Relocation Fee

Mr. Stratton explained that this recommendation to the Board is primarily due to the Regional Transportation Authority (RTA) road widening projects that require the District to relocate waterlines. The first project is the La Cañada roadway improvement project from Calle Concordia to Ina Road. Based on design plans by the County, the District will need to relocate nearly 18,000 linear feet of waterline in a 2.5 mile stretch. The estimated cost of relocation is between \$1,200,000 and \$1,500,000. The right-of-way agreement the District has with Pima

County dictate the relocation work is to be paid for by the District without funding by the RTA. Mr. Stratton explained due to the RTA funding, there was prior discussion on whether potential relocation costs could be part of the overall bond package, and that was not accepted by the RTA Committee. The waterline relocation for this first project is about 10% of the District's operating budget, which is almost the same amount as what the District budgets annually for capital improvement projects needed for the District, so the cost is significant. Mr. Stratton explained the District included this project in the prior budget but with reductions in revenue over the past year, most of those monies have been spent on operating costs, as opposed to capital costs. Due to the shortfall, no additional monies are available for capital projects, let alone the waterline relocation costs.

Mike Land, Chief Financial Officer, explained the proposed financing of the relocation. The District will use the short term line of credit with Bank of America; the interest rate is currently under 3%. As a short-term loan, the principle would have to be paid back in its entirety each two year period. For example, carrying a \$1,500,000 balance, the average monthly payment would be \$62,500 to Bank of America. Staff looked at funding alternatives. Scenario One would be a flat fee to all customers. There are currently 18,145 active accounts, and the charge would be \$3.53 per account to bring it up to the monthly payment to Bank of America. Scenario Two is based on the size of meter with a \$3.00 per month per equivalent 5/8" meter size and that amount would then be charged for larger meters according to the meter ratio set by the American Water Works Association (AWWA). Scenario Three would base the fee on gallons used and to generate the \$63,000 payment to Bank of America, the fee is estimated at about 25 cents per 1000 gallons. The average customer uses 10,000 gallons, which would equal \$2.50 per month under this scenario. Users in higher ranges would have a much higher fee. All three scenarios would generate the necessary funding to repay the short-term loan to Bank of America.

Mr. Stratton referred to the map, explained the RTA project phases, pointing out the areas involved within the Metro District. There are a total of eight RTA and/or County projects within our service area within next five to seven years.

Mr. Foulk asked for clarification on meter sizes in Scenario Two. He asked how many of those larger meters are for commercial users, and how many are in large residential areas, like multi-family housing. Mr. Land explained normally residential users have 5/8" meters and generally do not exceed 1" meters. Meters of the 3/4" size are used for fire sprinkler systems, there are 193 of those. There are probably only 40 or 50 1" residential meters, with the rest being commercial accounts. The majority of the 2" and 4" meters are for multi-family accounts. Mr. Stratton added Westward Look uses a 6" meter. Mr. Land concluded there are currently only six users of 6" meters.

III. Comments from the Public Regarding Proposed RTA Waterline Relocation Fee

Enrique Romo, District resident, stated he received the flier about the RTA with his water bill. He pays for water usage, sewer usage, superfund, and state tax. His guideline is "proper planning prevents poor personal performance". He stated the County is forcing this upon different districts for two reasons: taxation, and equal representation. When the large sewer main broke on Speedway, the entire economy paid for it by raising sewer fees. RTA sustains its citizens by the County subsidizing, and then making demands on this District to have to pay this fee for six years. He questioned the need for public transportation in the Northwest area. He feels it is ridiculous to pay for something we will get no return on. If we have 18,000 residents, and each is paying \$3.00, in six years that will be \$30,000,000 to have RTA, and that does not count for our water. He said in those six years, rates for water will likely go up to sustain the District. He feels it is poor planning by the County, the RTA, and this Board. He has been paying the 5 cent Superfund tax for eight years, and questions what happens to that money and why it is not used better. He feels if the money has been used for inessentials within the County, it was a result of very poor planning. He wonders where the planning for the future is. He is afraid the District will charge fees month to month, and day to day, without seeing any return to the residents on these types of projects.

Tom Sander of the Pima Association of Taxpayers and District resident said that when the RTA was being thrown around, his group opposed it on several grounds. He stated the cost of revenue projections were highly misstated by the RTA, and he feels that is coming to fruition now with lower sales tax revenues. The RTA received some benefits in some slightly lower cost bids, but the first two years they had higher cost bids. He said they are having lower revenues now, which is off-setting the higher cost bids. The RTA did not include any operations and maintenance costs for any of the projects. They did not include the relocation costs for any utilities. All the utilities will be passing the costs to us, the public. He believes it is grossly unfair, and highly deceptive, and someone ought to go to jail for that. Part of the proposal says we are obligated to Pima County, and when they tell us to do something, we have to do it. He would ask for a legal opinion on who is telling us we have to relocate, the RTA or the County? Do we have an agreement with the RTA? If not, we need to get one to include some cost-sharing on relocation. He recommends the District asks for at least incremental costs, if not full costs of relocation. He is not aware of the age of the waterlines, but he estimates their life expectancy would be longer if left in place, and that would not hurt Metro customers at all. He suggests the District should "Tell them to stick it". He is not a civil engineer, but he questions the need for relocation. He asked, "What's the big deal if they're underneath the highway, versus in the right-of-way?" He suggested the District do a cost-benefit analysis to see if it would be cheaper to repair the asphalt when it breaks, instead of paying \$1,500,000 now. He believes the legal agreement with the

RTA (or Pima County) is a quasi-governmental activity. Mr. Sander said if Amphi School District wanted to build a new school, and it costs Metro \$3,000,000 to hook up the water, would Metro charge the people, or the school district? If a developer wanted to build 500 new houses behind a Metro facility, would Metro attach those costs to the developer, or ask the people to pay for it? He believes this project is haphazard way of doing things. The map shows seven years, but the RTA is a 20 year project, and we're only in the fourth year. The Board is being asked to vote on one fee, but there are at least six or seven projects on board. The newsletter said \$25,000,000 but he feels with interest and inflation \$30,000,000 is closer. He thinks the District should address the long-term projects so we are not back here every couple years addressing the same thing. He thinks that would only be fair to the customers. If it is a true cost of operations, it should be included in the rate structure. Adding fees with the goal of claiming to be one of the lowest rates in the area isn't fair to customers. We need a long-range plan to address the RTA projects, which are planned for the next 20 years in the RTA pamphlet. He is not sure how impact fees work for water districts, but he suggests the District might consider imposing an impact fee on the RTA. They should pay for what they are claiming credit for. Mr. Sander said the costs should be paid back over the life of the project, not over two years.

Jim DeGrood, Director of Transportation Services and Manager of the RTA for Pima Association of Governments, said he would like to set the record straight, and respectfully requested the District to rename the fee. Mr. DeGrood stated the fee is labeled "RTA Waterline Relocation Fee", but the RTA has no position on whether or not waterlines need to be relocated. If Pima County wishes to have them relocated out of their right-of-way, then that is Pima County's arrangement with Metro Water District. There is a straightforward policy on whether or not the RTA will pay for, or reimburse the cost of relocation of a utility. If there is a prior right involved, the RTA will reimburse it. If they are in existing easements, we (RTA) are reimbursing. We are reimbursing the Western Area Power Authority for the relocation of their waterlines, because they were in existing easements. The RTA has to adhere to that. However, if the waterlines are not in easement but in the right-of-way, they are subject to franchise agreements or right-of-way permit agreements. The RTA expects those agreements to be adhered-to. The RTA recognizes the road improvements will have a significant impact on Metro Water. In the 300 public meetings held on the RTA fund development, we did not field the issue as a concern. The RTA did hear the public in the Northwest area saying they want road improvements immediately. Five of the first eleven RTA projects are in the Northwest. We listened to voters and the people involved in the development of the plans. The improvements within the Metro Water District alone are making up \$105,000,000 of the RTA funds. The people of this region are financing that cost of improvements in the Northwest. The map presented here tonight identifies a variety of planned RTA and County road improvements. He said the Thornydale and Orange Grove County project areas do present significant burdens to

Metro Water, but have nothing to do with the RTA. Mr. De Grood said "Waterline Relocation Fee" or "County Waterline Relocation Fee" would be better labels. The RTA has no position on whether these lines should be relocated, and will not pay for anything that they are not legally required to pay for.

Gene Maloney, District resident asked what Metro Water has done to "trim the fat" from the District. He said over the last five years there has been at least a 12% increase. Mr. Stratton responded all but 2.3% of those rate increases went to debt service on the Capital Improvement Program (CIP). Mr. Stratton added the operating budget has been cut every year. Mr. Maloney asked why lines must be replaced on a major thoroughfare and not done on an "off-side street". He believes it would be more economical to make the repairs when they are needed, rather than ahead of time. He asked what happened to the bond money and rate increases. Mr. Maloney said the District just put a waterline in 5-6 years ago, and now wants to put another one down. Mr. Stratton replied that the CIP is published on the website, and the bond program has been following exactly what the voters were told. The District is working on a mainline replacement project now. The CIP monies have been spent appropriately. Mr. Maloney asked the Board members how many times they have voted something down. Mr. Doyle stated he didn't see the relevance in the question. Mr. Maloney suggested the Board members felt uncomfortable speaking in front of Mr. Stratton. Mr. Foulk clarified the Board of Directors act as Mr. Stratton's boss, and each is free to speak.

David Tanner, District Resident said he wanted a response from all Board members, the two engineers and the operator, and asked how much consideration has been given to avoiding the use of major thoroughfares for installation of major waterlines. Mr. Tanner asked what size line is being replaced. Charlie Maish, District Engineer, said 4", 6", 8", and even up to 12" lines will be replaced. Mr. Tanner stated he knows the lines are all in the right-of-way, and one in particular is relatively new, because he inspected it. He asked if the District is going to replace the line he inspected when he was a District employee. Mr. Maish responded that line was not included for the waterline relocation. Mr. Tanner wondered how much more, besides that three-quarter mile section, does not require attention right now. He would like the Board of Directors to consider people have serious questions and wondered if the District is prepared. He said there seems to be no end to the increases, and costs are going up. He wondered if the management team is considering how to cut costs, or just how to raise rates. Mr. Tanner explained he has known some of the Metro staff for more than 30 years, and he knows those people are considering alternatives. He admitted staff does the best they can. He asked if the RTA fee is the most reasonable plan, or would it be better to consider replacing the minimum amount of lines. Mr. Tanner likened the project to "putting in a Cadillac instead of Chevrolet".

Sam Ray, District resident stated he feels the Board of Directors has let the people down. He stated a long time ago he asked Metro Water to start using smaller vehicles to read meters. The District bought a \$14,000 electric car, which he estimates only gets 50 miles of use per year. He has never seen the electric car in his neighborhood, only the extended-cab truck every month. He said Metro Water is "writing checks on my butt" and has no control of the account. He asked how long the RTA fee will last for fear it will be an infinite fee, blamed on the RTA. Mr. Doyle responded this particular fee will last about two years. He referred to the details outlined in the earlier presentation. Mr. Stratton added at the next month's meeting, the bids for this waterline relocation project will be received. The timeframe is dependent upon how long it will take to pay off the contract loan. Mr. Ray feels Metro is asking the people to give them a blank check and that the fee should be approved after the bids are received. He stated there has not been a waterline break in his area in the 20 years he has lived there, or the 10 years since he was on the Board. He wonders if additional work is being done under the umbrella of the RTA project. Mr. Stratton clarified a separate mainline replacement project has started, but it has nothing to do with the RTA fee. Mr. Ray asked why the District is working on that mainline replacement project. Mr. Stratton replied the project is part of the Bond package that went to the voters when Mr. Ray was on the Board. Mr. Ray claimed he was only on the Board for the first Bond election, not the second one. Mr. Stratton added all the bond elections included mainline replacement components. Mr. Ray accused the Bond Oversight Committee (BOC) of changing the funding of the bond after approval. Mr. Ray recalled a time when he was a Board Member, and funds were used for a Hub well by the recommendation of the BOC. Mr. Stratton pointed out the BOC can make a recommendation, but only the Board has the authority to change the expenditure of funds. Mr. Ray said we voted for one thing, and got something else, because the Board took it upon themselves to change the rules. Mr. Ray reasserted his disappointment. He believes Metro Water has generated this project because Metro is the one putting in the pipes, not the RTA. He feels the situation is a result of poor oversight by the Board. He wondered why Metro Water didn't have representation at RTA meetings.

Harold Lobaugh, District resident asked who is telling Metro to put in new lines. Mr. Stratton replied the County is. Mr. Lobaugh asked if Metro would shut off old lines, and put in new ones on top of them. Mr. Maish responded there are locations where existing lines can remain and be taken out of service, and other areas where they must be removed to avoid conflict with road improvements. Mr. Lobaugh believes the need for new roads is necessitated by increased population north of Linda Vista. He feels he is being burdened with an expense generated by people living to the north of him. He believes it is unfair to ask Metro Water to pay, but should be paid for by all residents of the County. He suggested Legal Counsel should be utilized to avoid having to pay for the waterline relocation. He recommended postponing the approval of the RTA fee until more work is done. He would like Metro to resist the County's requirements.

Mr. Lobaugh also feels it is odd that Metro Water is asking customers to use less water, and then must charge more. He feels encouraging people not to use the product is a bad business practice. Mr. Offret responded to Mr. Lobaugh by saying Metro Water has spoken with Pima County for many hours, with attorneys involved, about the requirement to move the waterlines and it is required. Mr. Stratton added if the lines are not moved, the County will do so at Metro's expense. Mr. Lobaugh still didn't understand why one small area is expected to pay the costs.

Howard Woolsoncroft, District resident stated he has spent some time in government service, five years at Pima County Wastewater, and three years at Tucson Water. He said every time the Department of Transportation comes up with a plan, they tell every utility to move the lines. Presentations by the RTA did not present all the costs. They only present costs that are convenient for them but left out what other utilities must pay. Mr. Woolsoncroft would prefer the public be made aware before voting how much the entire package will cost. He feels this is voter fraud. He feels we are stuck in this situation, and can't do anything to stop it now. He would like the public to recognize this, and prevent it in the future.

Mr. Maloney asked what the consequences would be on postponing the vote. Mr. Stratton replied the financial requirements start next month when the contract would be approved, and at that time, it would be necessary to ensure adequate funding for that contract. Mr. Maloney feels the vote should be put off until more thorough evaluation. He said pointing at Mr. Stratton that he has been spending money "like a drunken sailor." He said Metro Water used to have one of the lowest rates, but is now one of the highest. Mr. Stratton replied Metro Water rates are about average for the Tucson region. Mr. Maloney repeated since Mr. Stratton took over, he has "spent money like a drunken sailor." He repeated the Board members never vote against issues. Mr. Foulk said each Board member has voted against issues at various times. Mr. Maloney feels the Board has an obligation to investigate before voting. He believes Metro Water feeds the public baloney. He also stated the Board of Directors "jump" when they are told to.

Mr. Foulk said he has been on the Board for six months. He is a small businessman, and believes in tight fiscal ship. He wanted to serve on the Board to make sure Metro Water is run well, and he is a proponent of conservation. Metro Water is encouraging people to use less water because it's necessary. The Board investigates everything, so it is false to say otherwise. Mr. Foulk explained he has learned so much about water since he became a Board Member. Legal counsel is consulted on many issues. Metro Water is a small district so the individual impact of a utility relocation from an RTA project is greater than it would be for a utility with a million customers. According to investigations, the County has stated the District needs to do this. Southwest Gas, Comcast, all the utilities are in the same boat. The District is trying to deal with best it can, and be extremely fiscally responsible. Mr. Foulk mentioned that since he started, the budget has gone down drastically, not up. Metro Water is becoming more

conservative. Mr. Foulk said all of the Board members live in the District and must pay the same fees as everyone else. Board members receive a packet of information every week to stay on top of the issues, and to ensure the people receive the best product.

Mr. Offret said he has not heard an alternative that would work to pay for the waterline relocation. He recalled a suggestion to increase revenues by not promoting conservation, but that will not work. He also heard someone suggest cutting expenses, but that has already been done. The third option presented was engage in a lawsuit with the County. He feels a lawsuit would be expensive, and could last years. Mr. Offret concluded he has not heard any viable alternatives to the proposed RTA Fee.

Mr. Romo spoke again and said the entire meeting he has heard nothing but negative comments. He admitted even he had only negative statements. He appealed for the Board's help. He has heard stories from former Tucson Water employees of wastefulness and low productivity. He suggested Metro Water consider cutting back on personnel. He also recounted his experiences in the Marine Corp. He told how military personnel were held to a high standard, and were terminated if not meeting those standards. He asked the Board to look at Metro employees and their productivity.

Mr. Tripp said he spent 30 years working in Detroit, and at least 16 years on the District Board. He is retired, and on a fixed-income. He has to pay just like everybody else does, and he understands the feelings. He explained there would be consequences from the County if the District does not comply with their request to relocate. It is not easy to cut \$3,000,000 in one year, and he thinks Metro is doing a great job. He said he is not happy about having to pay for this either. The District is not benefitting from this job, it's an obligation.

Mr. Tripp made a motion to close the public hearing. Mr. Foulk seconded the motion. Motion passed unanimously.

IV. Consideration and Possible Action Relating to RTA Waterline Relocation Fee

Mr. Tripp made a motion on to approve and adopt Resolution 2009-2 to establish an RTA waterline relocation fee as part of the District's established water rates and that fee should be set at \$3.00 monthly for 5/8" meters with the larger meters charged a monthly amount based on the meter size and meter ratio set by the American Water Works Association. The fee shall be set for a period of 24 months with the option for review by June 2011. Mr. Offret seconded the motion.

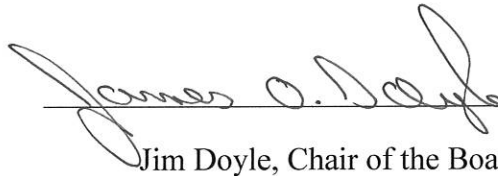
Mr. Offret said he had a question about Scenario Three. He asked what is meant by the statement, "The District needs to ensure it can obtain \$1,500,000 and having this water usage fee

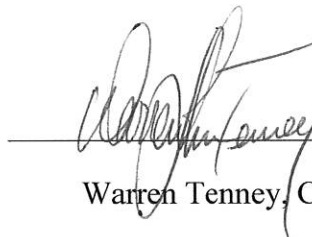
does not necessarily ensure the revenue will be generated.” Mr. Stratton explained that because that scenario is dependent on water usage, less revenue will be generated if usage varies and the District could fall short. Mr. Offret asked Mr. Land how much water usage has dropped over the past year. Mr. Land reported about a 9% drop in usage.

Motion passed unanimously.

V. Adjournment

Mr. Doyle made a motion to adjourn the public hearing. The public hearing adjourned at 7:15 p.m.



Jim Doyle, Chair of the Board

Warren Tenney, Clerk of the Board