

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
BOARD OF DIRECTORS MEETING**

March 23, 1999

*****Casas Adobes Baptist Church*****

Building "I"

2131 W. Ina Road

Tucson, Arizona 85704

MINUTES

Board Members Present: Sam Ray, Chair
Marlene Wright, Vice-Chair
Jim Doyle, Member
Herb Johnson, Member
Peter Schlegel, Member

District Staff: Mark R. Stratton, General Manger
Warren Tenney, Clerk of the Board
Steve Dean, Utility Superintendent
Mike Land, CFO / Administration Manager
Charlie Maish, District Engineer

I Call to Order and Roll Call

Marlene Wright, Vice-Chair of the Board of Directors of Metropolitan Domestic Water Improvement District (District), called the public hearing to order at 7:04 p.m. Jim Doyle, Herb Johnson, and Pete Schlegel. Sam Ray was not initially present but arrived at 7:21 p.m. Thirteen people were in attendance at the public hearing.

II. Presentation Regarding the District and the Proposed Water Rates & Fees

Mark Stratton, General Manager, explained that the public hearing provided an opportunity to explain what the District has accomplished and how it relates to the proposed water rates and fees. The proposed rate increase corresponds with the information provided to voters when the \$23 million bonds were approved in March 1997. The issuance of the bonds was delayed due to a lawsuit with the City of Tucson over CAP water and the finalization of a settlement agreement to that lawsuit. With the settlement finalized, \$13 million of the approved \$23 million bonds were issued in February 1999. At that time, the Board directed staff to refinance the original bonds used to purchase the District because interest rates were low. This removed the lien on everyone's property. The District has been moving forward with capital projects while waiting for the bonds to be issued. The District funded and constructed the Herb Johnson Reservoir and Booster Facility, which doubled the District's storage by adding 5 million gallons. The design for three transmission mains have been completed. The mainline replacement program is moving forward, with Riverside Terrace subdivision recently completed with the installation of

15,000 feet of pipe replaced. The District has been following the plan outlined to the public of what would be needed with the Capital Improvement Program and the revenue bonds. The proposed rate increase is part of that process.

Mike Land, Chief Financial Office for the District, explained the financial aspects of the bond issuance. The District had planned five annual 4 percent rate increases to cover the bond debt service. The first of those rate increases took place in January 1998. That rate increase will have generated \$362,000 by June 1999; however, the District has spent \$1.2 million on capital projects, which will be reimbursed by the bonds. While the second proposed rate increase was scheduled for January 1999, the Board decided to postpone considering another rate increase until the bonds were actually issued. The bonds have been issued and so the second proposed rate increase is now being considered. Consideration had been given to postponing the rate increase until January 2000; however, that would have meant the District would not meet the required coverage test for the debt service on the Tucson settlement. Additionally, the insurance rater expressed concern about the District postponing a rate increase. Staff is now proposing a the second rate increase in April 1999 with the following ones in March 2000, February 2001, and January 2002 in order to meet the coverage test. This would also spread out the rate increases rather than following up with the three proposed rate increases in January 2000.

Mr. Land noted that the funds generated from the rate increase run short \$300,000 to \$500,000 for the debt service per year. The District has to supplement debt service with its operating funds. If the District tried to cover the debt service completely, it would mean raising rates by eight percent.

Charlie Maish, District Engineer, explained when the District was formed in 1992, the District hired an engineering firm to evaluate the existing infrastructure. The final report made several recommendations for necessary capital improvements amounting to \$42 million. The District examined the most necessary improvements and developed a 5-year, \$23 million Capital Improvement Program (CIP) that would address transmission mains, main line replacements, new production wells, storage facilities and auxiliary power. In 1997, the District voters approved the bond election. Since then the District has been active by initiating the design and construction of a five million gallon reservoir, which doubled the District's storage capacity. Additionally reservoirs are needed. Four of the transmission mains are under design and will cost \$8 million to construct in the next three years. A consultant has been hired to do modifications of key wells and to look at auxiliary power, such as natural gas generators or engine drives. Another major emphasis is the mainline replacement program. The District has designed and completed two areas, Riverside Terrace and Casas Catalina. Presently, five or six major main line replacement design projects are under design. When those projects are designed and completed the District will have spent about \$2.5 million. The District has held meetings for the neighborhoods where the main line replacement project is to occur. The District's Bond Oversight Committee, comprised of eight District residents, has met monthly to discuss the design and development of the bond projects. One area the Bond Oversight Committee will address soon is when the Town of Oro Valley assumes day-to-day control of Oro Valley Water Improvement District #1 (OV#1). A large main line replacement project was targeted for that

area and now those monies will be need to be reallocated. The Bond Oversight Committee will be making a recommendation to the Board.

Mr. Gene Maloney, a District resident, asked if the transmission mains are the only lines going to the reservoir. Mr. Maish explained the transmission mains are the major pipes feeding the system with smaller lines branching off to the various neighborhoods. Mr. Maloney asked what would occur if power was lost and water could not be pumped. Mr. Maish explained that gravity flow would work for some areas. For others, water would be redirected through other pipelines to ensure water continues to be delivered though pressure may be lower. Mr. Maloney expressed concern that the District could not guarantee that water will be delivered. Mr. Maish said that during a water line break, it is difficult to determine the exact amount of time that an area may be out of water; however, the District is working to ensure that water can be redistributed to minimize the time without water. Mr. Stratton added that the District is able to provide a backup supply to all of its service areas, which we are continually working to improve.

Sam Ray arrived at 7:21 p.m.

Steve Dean, Utility Superintendent, explained that the District works daily to maintain its system. In 1998, the Utility Division performed maintenance for 68 services, for 33 mains, 10 hydrants and 30 valves. Twenty-one new hydrants were installed and 59 flushing hydrants installed. Five new mains, totaling 10,808 feet, were installed with 12 new service installations. Under the CIP, the District will expand its telemetry system, which improves the District's capabilities to monitor its different well and storage sites and the production of water. The District has worked to make its infrastructure interconnected so service areas have adequate backup from other service areas. The new transmission mains will enhance the system. Split valves are installed so that the District can return to the original pipes if problems arise with the new transmission mains.

Mr. Stratton explained that the District has been accomplishing other projects that are not associated with the bonds or the rate increase. The District is constructing a new office building. Presently, District staff are located in the existing office building, a trailer office and a modular. All the space has been used. The new office campus will bring everyone into one place, which will improve our efficiency internally to make certain the capital projects are completed in a timely manner.

Mr. Bill Snyder, District resident, asked what would happen to the District's present office building. Mr. Stratton said that the District is seeking to have the property zoned commercial. If that is done, the property would be disposed of by auction or leasing, depending upon the District's requirements under the statutes. The Board has yet to make a decision on this matter.

Mr. Stratton noted that the Town of Oro Valley is planning to assume daily maintenance and oversight of Oro Valley Improvement District #1 (OV#1), which the District has been responsible for through an intergovernmental agreement with the Town. Therefore, the District will be losing 1,000 customers, which will impact our revenues. Knowing this could impact rates and revenues, the District Board asked to staff look at other ways to offset that lost revenue.

About the same time, the owners of Hub Water Company approached the District about our interest in purchasing their water company. Hub Water Company has 1,500 customers. The monies from the bonds that were targeted for OV#1 can be geared for Hub Water Company, while at the same time ensuring that the District's revenue base remains the same. Hub Water Company customers would pay the same rates.

Mr. Stratton reported that under the settlement agreement with the City of Tucson, Metro Water District obtained an allocation of 8,800 acre feet of Central Arizona Project (CAP) water. The District does not plan to deliver the CAP water, but we looking at ways to use this renewable supply in the future. Presently, the District has recharged CAP water at the Avra Valley Recharge Project in an amount that is half of what the District pumps. This recharge project is the first in Pima County using spreading basins. The District is also doing in-lieu recharge projects. For these efforts, the District receives credits for the groundwater saved.

Mr. Stratton explained about the proposed rate increase. Staff had looked at different alternatives but the Board wanted to considered a proposed across-the-board four percent increase. Mr. Stratton referred to a chart outlining the rate increase. The base rate is presently \$10.22, a four percent rate increase would mean \$10.63. The commodity rate would become \$1.92 per 1,000 gallons. The District is required by Arizona Department of Water Resources (ADWR) to find ways to reduce water consumption. ADWR has encouraged a tiered rate structure. The District has a summer conservation rate that is effective during the summer, which starts at 15,000 gallons and would become \$2.56 per 1,000 gallons. A high user rate is in effect all year at 25,000 gallons and would become \$3.22 per 1,000 gallons. The new rates would affect an average customer, who uses 12,000 gallons, by increasing their monthly water bill by \$1.11.

Mr. Stratton explained that the District Board also looks at the development aspect through its water connection fees. When the District had an agreement with the City of Tucson, a Northwest Area Fee was collected for renewable supply resources. With that agreement no longer in place, the District is recommending the continuation of that fee for new renewable supplies under the new name of Water Resource Fee. The Town of Oro Valley did the same thing but raised the fee amount. The fee is paid for new connections. Also, the District has a System Development Fee for all new connections. The proposed change is to combine multiplex residential dwellings under the category of multi-family and raise the amount to \$600 per unit. The last proposed change to the District fees is to increase the commercial bulk water usage. This water is primarily used by construction companies for dust control and soil compacting. The proposed increase is to ensure that water is used efficiently.

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

Mr. Ray noted that he had received two requests by residents to speak regarding the proposed water rates and fees. Mr. Ray called upon Mr. Gene Maloney to speak.

Mr. Maloney noted that when the District was formed, it was noted that the District's rates would be less than the City's water rates. He questioned why that did not appear to be still the same.

Mr. Land explained that the City of Tucson's rates are low at the low usage end due to their base rate. Due to their large customer base, the City can have a lower base rate. However, beginning at 12,000 gallons, the District's rates become progressively lower than the City's rates. Mr. Ray added that based on one's consumption depends on how it compares with the City's rates.

Mr. Schlegel explained that he had been on the original District Board and remembers the promise to keep the District's rates less the City's when the District was formed, which did occur. In 1997, the District identified capital projects that were necessary to meet the needs of the District's infrastructure. These projects included transmission mains, storage and main line replacements. The cost was presented to the customers and the issue was placed on the ballot. The revenue bonds were approved by 79 percent of the voters. It had been explained that to pay for the bonds, the District would need to raise the rates. The Board sought voter's approval, as required by law. The City of Tucson's Water Department has been in turmoil for various reasons and despite recommendations from staff, consultants and their own advisory council, the City is unwilling to raise rates despite the need. Tucson Water needs new wells to meet its peak demand but lack the revenue to do these projects. The District would likely not have any water crisis this summer because the District has had a staff, which is the best in the region, that is proactive and prepares for the future.

Mr. Maloney added that he was concerned by the doubt expressed earlier in the presentation about the District's ability to ensure the delivery of water. Mr. Schlegel noted that the District has 15,000 connections, serving 45,000 people. If a pipe is interrupted, for whatever reason, people will be out of water. No system in Arizona can guarantee no interruption. As one who has seen the District since its inception, he is excited to have seen that District's 19 separate systems, which did not have backup, to now be integrated. Staff should be commended for the effort to loop the system and make certain that each service area has a back up supply. The original Board doubted that could be accomplished in ten years, but it has been done. The District has two full construction units to work on maintenance, with one dedicated to mainline replacement.

Mr. Maloney asked if Board members have the prerogative to go out and talk to staff. Mr. Schlegel said that he has gone out to job sites before. Since he is retired, he has more time than perhaps other Board members to go out.

Mr. Maloney questioned if waste is occurring in the District as it does in all companies. Mr. Ray replied that at his work at Raytheon, three percent waste is a known fact and is immediately corrected. The District works to ensure there is no waste. Mr. Johnson said he knows the District is an efficient utility. When the District assumed the Metro Water Company utility, some employees from that company may think that in the past they did a better job than now. However, they cannot prove that. The District is now a more efficient unit. The old method was to just get water to customers and whatever means necessary. For example, pumps were wasted by the way they were scheduled to turn on when the electricity runs. The District has eliminated old practices and adopted more efficient ways.

Mr. Ray called upon Bill Snyder to speak. Mr. Snyder said that he had three questions. First, does the District supply water to parks, ball fields and golf courses. Mr. Stratton explained that small County parks within subdivisions do receive water from the District. The Amphi School District and Tucson National Golf Course have their own wells for their turf irrigation.

Mr. Snyder asked about the billing periods for the District because he noted that he has in the past a 37 day billing period and is concerned about how that affects him with the summer conservation rate limit of 15,000 gallons. Mr. Land said the District reads every month with the District accounts spread through four billing cycles during the month. If there has been a problem with meter reading, where the billing cycle has caused your usage to go into a high rate category, the District will adjust the bill. He suggested that he call the office if that problem occurs again. The District tries to keep the billing period to 30 or 31 days.

Mr. Snyder said he lived on Camino de La Tierra, between Hardy and Overton. He was concerned that no fire hydrant can be found in the area, though an water line was extended on Lobo Road to a new subdivision. He was told that water line extension did not include hydrants in the plan. Mr. Stratton said that if the existing line is not six inches or larger, a hydrant cannot be installed, which is the case with the area Mr. Snyder described. However, under the main line replacement program, the District is identifying those areas that need to have water lines upgraded to allow for fire hydrant installation. Mr. Schlegel added that the District inherited numerous service areas with small waterlines that need to be installed before hydrants can be put in. Additionally, a hydrant costs \$2,000.

IV. Consideration and Possible Action relating to Water Rates and System Development

A. If deemed appropriate, pass and adopt Resolution No. 1999-2, establishing meter fees, water resource fees and system development fees for the Metropolitan Domestic Water Improvement District effective April 1, 1999.

Mr. Schlegel asked if the District has received any written comments about the rate increase. Mr. Stratton replied that no written or verbal comments have been given on the rates prior to the hearing.

Mr. Schlegel made the motion to adopt Resolution No. 1999-2 to establish meter fees, water resource fees and system development fees effective April 1, 1999. Mr. Johnson seconded the motion.

Mr. Johnson noted that the District had been able to secure low interest rates for the bonds. The bond insurer had expressed concern when there some indication that the District may postpone a rate and fee increase until after April 1, 1999. Therefore, he felt it was important that the rates and fees be effective April 1, 1999.

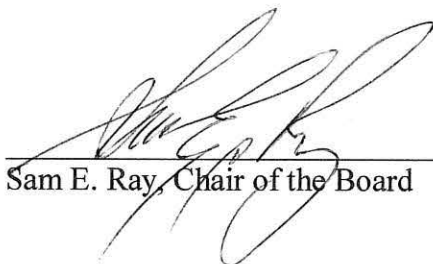
Mr. Ray called for a vote for the motion to adopt Resolution No. 1999-2. The motion passed unanimously.

- B. If deemed appropriate, pass and adopt Resolution No. 1999-3, establishing water rates for the Metropolitan Domestic Water Improvement District effective April 1, 1999.**

Mr. Schlegel made the motion to adopt Resolution No. 1999-3 establishing water rates effective April 1, 1999. Mr. Johnson seconded the motion. The motion passed by four to one votes with Mr. Ray, Mr. Doyle, Mr. Johnson and Mr. Schlegel voting in favor and Ms. Wright voting not in favor.

V. Adjournment

The public hearing was adjourned at 8:13 p.m.



Sam E. Ray, Chair of the Board

Clerk of the Board