

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

STUDY SESSION
October 1, 1997
Conference Room
7235 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

Board Members Present: Marty Cramer, Chair
 Jim Doyle, Vice-Chair
 Herb Johnson, Member
 Sam Ray, Member
 Jim Tripp, Member

District Staff: Mark Stratton, General Manager
 Warren Tenney, Clerk of the Board

Call To Order and Roll Call

Ms. Cramer, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Study Session meeting to order at 7:30 a.m. Mr. Sam Ray, Mr. Herb Johnson, Mr. Jim Doyle and Mr. Jim Tripp were present.

I. Discussion of District's Financial Status

Mr. Mark Stratton, General Manager, said that the Board of Directors had received a brief summary of the District's financial status listing 1997 projects and expenditures and its impact upon cash reserve.

Mr. Mike Land, Chief Financial Officer, explained that based on Board direction, staff was pursuing a line of credit with Bank of America. The Bank of America was reviewing information requested from the District. If a line of credit is obtained, the District would then decide to establish formally a line of credit with the Bank of America or with Arizona Bank, which has already approved the District. The Bank of America has the most favorable interest rate.

Mr. Stratton noted that the Municipal Property Corporation met September 23, 1997 to approve financing proposals for the District's new office building and property. Once financing is secured in approximately two months, the District will be reimbursed for about \$400,000 spent to date

for property purchase and architect fees related to the new office building.

Mr. Stratton reported that some discussions regarding settlement of the litigation between the City of Tucson and District have occurred; however, the litigation continues to impact the District's monthly expenditures due to increased monthly legal fees. Until the litigation is resolved and bonds are issued, staff has been directed to delay capital expenditures, such as the purchase of new vehicles. More information regarding the litigation should be available for the Board at the October 15, 1997 meeting.

II. Discussion of Proposed Rate Increase.

Mr. Stratton explained that based on discussions with Ms. Cramer and Mr. Ray, staff developed two possible rate increase proposals. The first proposed rate increase is an across the board 4 percent increase. The second proposed rate increase is having the base rate raised 2 percent, commodity rate raised 4 percent, summer conservation rate raised 6 percent and high user rate raised 8 percent. The revenue generated from either alternative is comparatively the same. Related to a proposed rate increase is increasing the system development fees by 4 percent or by 11 percent, which would be an increase of \$100 and generate approximately \$40,000 annually. Mr. Land noted that the information provided regarding a proposed rate increase dealt with single family residential and did not include commercial.

Mr. Johnson said that the information presented by the District before the bond election said that a 4 percent increase would occur. Mr. Land noted that the second proposed rate increase would mean a customer using 10,000 gallons would have a 3 percent increase but a customer using 100,000 gallons would have 7.3 percent increase. Mr. Tripp said he was concerned that the District would receive complaints if it differed from the 4 percent increase the District had committed. Mr. Ray said since there was no difference in the revenue generated, the 4 percent increase should be pursued.

Mr. Stratton said that one concern had been if the District increased the base rate by four percent for five years that it would be quite high in comparison to other water utilities. However, several of other utilities' base rates are above \$10.00. Mr. Tripp asked if the base rate has to be raised by four percent every year. Mr. Stratton said it does not but another part of the rate structure would need to be increased more than four percent to obtain the same revenue.

Ms. Cramer asked if the system development fee is increased, if the District could then offer to raise the rates less than four percent. Mr. Land said that it would be similar to raising the base rate only to \$10.00 and not the full four percent to \$10.22. Mr. Ray asked how that would affect revenue. Mr. Land said it was about \$65,000.

Mr. Stratton said that staff wanted to look at options for a proposed rate increase and possibly

present both to the public for the public's consideration. Mr. Johnson said it was useful to look at different options; however, since the revenue generated is the same, the 4 percent should be used as the proposed rate increase. Mr. Doyle noted that with inflation, the increase in the base rate by the end of the five years might not be a concern. Mr. Johnson said that only six months after since the bond election, the District should not change the previously stated four percent rate increase. If situations change in the future, then the Board can reconsider at that time.

Mr. Stratton said that at the October 15, 1997 meeting, the Board will need to take action regarding the proposed rate increase and to schedule a public hearing. Ms. Cramer asked if the Board needs to make a formal decision on a rate increase at the public hearing. Mr. Stratton said that the Board has taken action at previous rate hearings but that the Board could choose to take action at a meeting held after the public hearing.

III. Discussion of Northwest Replenishment Program.

Financing and timing of construction of the Cañada del Oro Recharge project was discussed by all present. Mr. Stratton noted that low interest rates could be secured for the CDO Recharge project but grant monies were no longer available since the project would not be viewed as a component of the Central Arizona Project. Mr. Stratton said that if the District's share for the CDO project was half of the estimated \$30 million cost, it would significantly increase the District's debt service. Presently, the District does not have an immediate need to start financing the project. If the District receives the reassignment of the CAP allocation from the City of Tucson, the District could recharge at several of the project sites that District is currently pursuing. However, the District needs to secure right-of-ways and alignments to ensure they are in place if the District pursues the CDO project in the future.

Mr. Johnson noted that in determining the feasibility of recharging CAP water in the CDO, a study needs to be conducted during a major storm event to determine the Ft. Lowell formation's recharge capability. The District cannot solely fund such a study. The cost for this project in the CDO recharge area should be a proportionate share based on population estimates with people in the same drainage area.


Mr. Stratton explained that the District and others were trying to secure funding from Arizona Department of Water Resources (ADWR) to finance the Ft. Lowell formation study. Mr. Mike Block, District Hydrologist, stated that the ADWR's Groundwater Users' Advisory Council (GUAC) is to make a decision at its October 24, 1997 meeting when the scope of work and budget requirements will be completed. Mr. Block reviewed the aspects of the study. The study is primarily to measure the amount and direction of recharging water that would occur below the Ft. Lowell formation. The various information needs to be gathered and assessed before deciding how to proceed with the whole CDO Recharge project.

Mr. Ray left the meeting at 8:10 a.m.

Mr. Stratton noted that Dr. Brent Cluff was still pursuing a study on nanofiltration treatment for CAP water and seeking funding from the District, Town of Marana and Town of Oro Valley. Mr. Jim Peterson, Town of Oro Valley, said that the Town's Water Commission was recommending not to fund the project because no solution has been given for removing the brine produced from the treatment process and because the study is not following general scientific evaluation. Mr. Johnson said that he questioned nanofiltration based on Israel's inability to develop it effectively the past 50 years.

IV. Adjournment.

The Board adjourned the meeting at 8:23 p.m.


Martha L. Cramer, Chair of the Board

ATTEST:


Clerk of the Board