

**METROPLLLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
PIMA COUNTY, ARIZONA**

STUDY SESSION

September 22, 1998

Conference Room
District Offices
7235 N. Paseo Del Norte
Tucson, AZ 85704

MINUTES

Board Members Present:

Jim Doyle, Chair
Jim Tripp, Vice-Chair
Martha Cramer, Member
Herb Johnson, Member
Sam Ray, Member

District Staff:

Mark R. Stratton, General Manager
Joyce E. Osborne, Recording Secretary
Mike Land, Chief Financial Officer
Charlie Maish, District Engineer
Warren Tenney, Assistant to the General Manager

Call to Order and Roll Call

Mr. Doyle, Chair of the Board of Directors of Metropolitan Domestic Water Improvement District (District), called the Study Session to order at 4:30 p.m. Mr. Herb Johnson, Mr. Sam Ray, Ms. Martha Cramer and Mr. Jim Tripp were present.

Mr. Doyle suggested that we switch the agenda items since the District's financial advisor would be running late. Everyone was in agreement and agenda item II was discussed first.

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

Mr. Stratton said staff has provided some information regarding rate increases, their effect and recommendations. The District had informed customers that a four percent rate increase would be needed for five years to pay for the issuance of the approved bonds. The first of the rate increases was implemented January 1, 1998. It is time to consider the second rate increase and staff is

recommending a four percent over all rate increase to be considered at a public hearing to be scheduled by the Board.

Mr. Stratton explained that staff also looked at several approaches to improve the District's conservation effort. The first one involved charging an additional fee on multi-family complexes due to the number of units in the complex. However, after examining this proposal, it was found that it did not generate significant additional revenue nor was it viewed as a positive approach to conservation.

Mr. Stratton and Mr. Land reported that staff also looked at the addition of a 4th tier in the rate structure to continue efforts in minimizing the excessive usage by a small portion of our customers. Specifically, anything greater than 50,000 gallons based on a 5/8" meter, the District was looking at \$3.80 to more than \$4.00 to be charged for each 1,000 gallons used above that amount. The revenue gained from this 4th tier could be considered to enhance the District's conservation program.

Mr. Doyle and Mr. Ray both raised the concern that property owners, particularly commercial, may decide to drill exempt wells, a situation that arose after the implementation of the District's current rate structure. The Board and Mr. Stratton discussed the 4th tier and particularly the possible ramifications of new exempt wells and its counter effect on the District's conservation efforts. Mr. Stratton said that the Arizona Department of Water Resources (ADWR) had been contacted about this potential problem and he would pursue a dialogue with ADWR. Mr. Ray agreed that revenues generated from an additional 4th tier could be used to supplement the District's conservation efforts and fund the District's newsletter which deals with conservation. Specifically, the Board is in favor of a 4th tier in concept, but wanted the issue of exempt wells addressed first.

Mr. Ray recommended that the District not schedule a public hearing for a possible rate increase because the bond has not been issued yet. Mr. Johnson agreed with the concept of waiting until the bond is issued; however, he questioned if the District needed the revenue from another rate increase to prepare for the debt retirement of the bond issuance. Mr. Stratton and Mr. Land felt that a delay of a few months should not have a negative impact on the District's ability to repay the bond. The budget was in good shape and if the bonds issued are interest only, that the District should not run into a problem.

Mr. Stratton gave a status report on the signature gathering from the U.S. Bureau of Reclamation to approve the District obtaining the CAP allocation. Hopefully signatures will be finalized at the end of the week, with a possible final approval by the U.S. Superior Court in December. Mr. Rosenfeld said that the bonds could feasibly be issued the day after the court decision.

I. Discussion of Financial Issues related to the Capital Improvement Program.

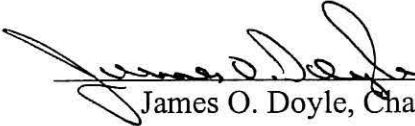
Mr. Reader, financial advisor from Peacock, Hislop, Staley & Given, Inc. passed out information outlining 3 options for refinancing of the District's initial bonds. **Option #1:** Issue \$8 million of

new money water revenue bonds only from the \$23 million 1997 authorization. This provides the potential to refinance the bonds at a substantial savings. **Option #2:** Refund all series 1992 special assessment and water revenue bonds which would release all assessment liens on real property within the District. This option is contingent on credit enhancement that the District qualifies for and bond insurance. By ensuring an insurance policy, the District's savings could be \$400,000 to \$500,000 over a 20 year period. Obtaining the insurance rating would require a trip to San Francisco or New York to talk to perspective companies and show them the District's economic standing, financial statements, current debt structure, City of Tucson settlement and other issues that could impact our bond rating. If the District can secure an insurance policy, according to Mr. Reader, the District can also have a surety reserve fund which is an insurance policy which replaces the cash reserve fund. Mr. Reader's recommendation is to go with Alternative 2 – "AAA Insured" with debt service reserve fund surety policy which assumes that all 1992 bonds will be refunded. The Board liquidates the District's reserve fund and buys a surety policy which they turn into cash and that in turn enhances the District's cash flow over the next few years. Also, the combination of reduced interest costs and a reserve fund reduces the District's debt service by \$120,000 and almost \$1,000,000 over the next two years. **Option #3:** Refund series 1992 special assessment and water revenue bonds which will not release the assessment liens on real property within the District.

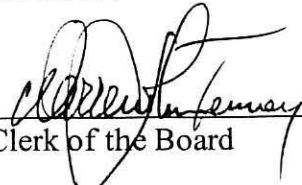
Mr. Reader was asked about interest rates and based on what is happening globally, he said it would be best to do something now while the rates are still low. Today's market is 4.90% for insured bonds with a BBB (industrial rating). With no insurance, the rate is currently 5.38%. He felt it was important that the Board think twice about their position on the lien issue because that will ultimately decide which direction the District needs to take. Mr. Stratton recommended that he and Mr. Reader work on redefining issues so that they can be presented on the agenda at the October 14, 1998 Board meeting. Mr. Reader will also start preparation to make the paper work happen so that the bond issuance can coincide with the court settlement.

III. Adjournment.

The Board adjourned the meeting at 6:45 p.m.


James O. Doyle, Chair of the Board

ATTEST:


Clerk of the Board