

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

May 18, 2015

**** Board Room ****

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

MINUTES

Board Members Present: Judy Scrivener, Chair
Bryan Foulk, Vice-Chair
Helen Ireland, Member
Dan M. Offret, Member

Board Members Not Present: Jim Doyle, Member

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Steve Shepard, Utility Superintendent
Warren Tenney, Assistant General Manager
John Hinderaker, Legal Counsel

Public Hearing

I. Call to Order and Roll Call

Judy Scrivener, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 6:00 p.m. Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present. Jim Doyle was not present.

II. Presentation about Proposed Adjustments to Rate Structure and Fees

Mr. Olsen said the District hosted an information meeting on May 13, 2015 to explain and discuss the proposed items before the Board with District residents. Attendees heard the presentation and asked a few questions.

The Board will be considering rates and fees. Restructuring of the rates would move the District towards revenue stability and adjusting four fees would result in cost of service recovery. The recommendation is based on extensive discussion by the Finance Oversight Committee (FOC) and

an 8-0 unanimous vote. The FOC is made up of a group of District residents who volunteer their time to advise the Board on financial matters.

Last year, discussions began on three pillars of stability. The first pillar, water resource stability, was improved by increasing the Water Resources Utilization Fee from 20 to 40 cents per thousand gallons. That was the only increase to customers' bills last year and was a key first step to ensuring water resource stability for years to come.

This year, the District is addressing the other two pillars. Financial cycle stability is achieved by having discussions about revenue and costs before finalization of the fiscal year budget. Historically, the District had approved a budget and then circled back to determine if revenue adjustments were needed. The order has been reversed in the interest of financial best practice.

Revenue stability is balancing fixed and variable costs with fixed and variable revenue. Mr. Olsen explained the difference between fixed and variable costs. Fixed revenue comes from the Water Availability Rate or base rate. Variable revenue is based on how much water is used. The goal is to move toward revenue stability, where fixed costs are paid with fixed revenue and variable costs are paid with variable revenue. District residents have embraced the conservation message but the District must also balance those must-pay costs. American Water Works Association guidance supports the revenue stability concept.

The FOC recommended proposed adjustments to move the District from capturing 69% to 83% of fixed costs with fixed revenue. While the District pays 69% of fixed costs with fixed revenue, the other 31% of fixed costs must be paid with variable revenue. A fully revenue balanced utility would have 100% of fixed costs covered by fixed revenue but that is impossible for the District to obtain because it operates on a tiered rate structure to promote conservation. The FOC provided input and concurred with the proposal to balance the rates and stabilize the revenue by increasing the base rate from \$22.00 to \$27.00 for the average residential 5/8 inch meter, and simultaneously adjusting down the first two tiers of consumption charges. Under this proposal, the average customer who uses 8,000 gallons per month would see a bottom line increase of about 80 cents per bill. The base rate would go up but the consumption charges would go down for the average customer. Customers who use half than the average, 4,000 gallons per month, would still see less than a \$1.00 monthly increase while making a significant impact in moving the District towards greater revenue stability.

Mr. Olsen said that over the past year, initiatives have been carried out in an effort to be a good steward of the resources and revenue entrusted to the District. A budgetary culture was adopted with the implementation of the priority-driven budget process and staff is capable of determining how to appropriately meet the financial requirements of the District. Close to \$1 million has been saved in the current fiscal year by becoming more efficient. The true testament to the plan's success is the fact that this fiscal year, the proposed budget is \$125,000 less than the current budget, even though there are some increases in various budgetary line items. Additional revenue yielded from

this initiative would not be put into the operating budget but would be directly invested into capital infrastructure to continue to improve reliability and minimize outages.

Mr. Olsen showed a comparative analysis of regional revenue adjustments. The proposed adjustment of an average of 80 cents equates to about a 1.8% revenue increase for the District. Tucson Water revenue increases have historically been between 8% and 9% and they are proposing 7.3% annually for the next five years in their published budgets. Tucson Water does not have the same level of revenue stability, so with volatility in customer usage, they will need continually high revenue increases to make up the revenue to meet fixed costs. If an entity moves toward revenue stability, the annual revenue discussions are still needed but the magnitude is not the same because they are not constantly chasing rate increases to meet the bottom line but instead basing adjustments on variable costs like energy costs. Mr. Olsen pointed out the Pima Wastewater charges are determined by the Pima County Board of Supervisors even though they appear on the District bills. Pima Wastewater has had substantial increases due to two major recapitalization efforts. The table showed how Pima Wastewater increases have substantially impacted customers over the past eight years. The County is considering a proposed 3% increase this year.

Four fees are proposed to align with cost of service recovery. The District wants to make sure the fee generates the adequate revenue to cover the service provided, so there is no subsidization from other customers. All four fees are not standard fees typically paid by a single family residential customers. He explained the Water Service Connection Fee (made up of three fees), which is for new metered connections; the Private Fire Service Line Fee, which is a monthly fee for standby fire flow capacity; two inspection fees for use of the Construction Inspector and Backflow Inspector; and Plan Review Fees for new development. The proposal includes the restructuring of rates to bring revenue stability and the adjustment of the four fees to capture costs of service.

Mr. Olsen illustrated the true value of water by comparing a one liter bottle that costs \$2.00 at the store versus 1,000 gallons of District water delivered to the tap for half the price of the bottle of water. At Metro Water, one penny buys about two gallons of water.

Mr. Olsen reported on the questions from the public at the May 13, 2015 Information Meeting included the following:

Why is Tucson Water's base rate lower? Mr. Olsen explained the City's base rate is lower but it does not have the same level of revenue stability. The City must continually raise rates to meet fixed costs amid declining usage.

A customer asked about the Regional Transportation Authority (RTA) projects and associated RTA Fee. Mr. Olsen said the majority of the RTA work in the District has been completed and the District is projected to pay off the associated debt paid by the Fee in 2021.

Customers asked about sewer fees. Mr. Olsen explained the water usage from December, January, and February is averaged to determine wastewater charges. If customers have any three lower

consecutive months, they can appeal for a lower average from Pima County Regional Wastewater Reclamation Department.

III. Comments from the Public Regarding Proposed Adjustments to Rate Structure and Fees

Reb Guillot, a resident of the District and Chair of the FOC, said the Committee took a very careful look at staff's proposal. District financial stability is the key to operating on a smooth and even keel and being able to move up to 83% fixed costs covered by fixed revenue is a win-win situation. After two meetings and a good discussion about how the District can stabilize the cost of water and improve the efficiency of the operation, the FOC came to the conclusion that this plan was extremely well considered. District staff did a super job developing the concept. The FOC voted unanimously to bring this forth for the Board to consider.

Mr. Tenney said a customer, William Higgins, asked that his comments be forwarded to the Board. He believes the proposed \$27.00 for the Water Availability Rate is too high and \$25.00 is the most he could afford. Mr. Offret asked if Mr. Higgins was informed of the proposal to lower the first two tiers to offset the base rate increase and Mr. Tenney said yes. Mr. Higgins had indicated he is pleased with the water service he receives but wanted the Board to hear his statement. Mr. Olsen noted if the Water Availability Rate was adjusted to \$25.00 rather than \$27.00, the net result with the other restructuring would be a \$1.20 decrease to the average customer's total bill and not result in the same level of revenue stability as proposed by the FOC.

IV. Consideration and Possible Action Regarding Water Rates and Fees

Mr. Offret thanked the FOC and staff for their time and energy to come up with a great proposal to bring financial stability to the District.

Mr. Offret made a motion to approve and adopt Resolution 2015-2 to make adjustments to the established water rates and fees effective July 1, 2015. Mr. Foulk seconded the motion. Motion passed unanimously.

V. Adjournment

The meeting adjourned at 6:29 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board