

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

September 29, 2014

**** Board Room ****

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

MINUTES

Board Members Present: Judy Scrivener, Chair
Dan M. Offret, Vice-Chair (via telephone)
Jim Doyle, Member
Bryan Foulk, Member

Board Members Not Present: Richard Byrd, 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. Judy Scrivener, Jim Doyle, and Bryan Foulk were present. Dan M. Offret was present via telephone. Richard Byrd was not present.

II. Presentation about Proposed Adjustment to Water Resources Utilization Fee

Mr. Olsen said in preparation for the public hearing, a bill insert was mailed to District customers to invite them to the meeting and to provide an overview of what the Board will consider. The insert also invited customers to attend an Information Meeting to address any questions. The Information Meeting was held Monday, September 22, 2014, and was well attended. A

presentation was given to provide a strategic overview of what the Board will consider as well as initiatives that would be funded if the Board approves the recommended rate adjustment. The presentation resulted in a healthy dialogue and significant customer feedback.

Mr. Olsen gave a presentation about the proposed adjustment to the Water Resources Utilization Fee (WRUF). The proposed adjustment is an increase from 20 cents to 40 cents per thousand gallons. There are no proposed adjustments to the remaining portion of the bill for the Water Availability Rate or consumption charges. The proposed adjustment is based on the unanimous recommendation from the Finance Oversight Committee (FOC), which is a group of District ratepayers who have volunteered and were appointed by the Board to advise on financially related matters.

Mr. Olsen said the revenue from the WRUF is aimed at leveraging and utilizing the District's renewable water resources such as Central Arizona Project (CAP) water and the District's entitlement of recycled water. Revenue from this fee is placed into a reserve account where it is not comingled with other operating revenue and Board authorization is required to utilize it. Tucson Water, Oro Valley Water, and Marana Water also have similar water resource fees in place.

Mr. Olsen said for the past 22 years, the District's water needs have been met with groundwater naturally occurring in the aquifer. The renewable resources of the District include an annual allocation of 13,460 acre-feet (ac-ft) of CAP water which is about 4.4 billion gallons of Colorado River Water, as well as approximately 2,250 ac-ft of recycled water, or treated effluent, which grows and decreases proportionally to the potable water consumption of the District. The District's goal is to obtain water resource stability to be able to meet the needs of customers today and into the future. The biggest hurdle is in Metro Main, where for the past ten years, the aquifer has declined an average of two feet per year. Once the level declines, it takes a significant duration to recover after groundwater pumping has been deferred. In Metro Southwest, there is also the challenge where the substantial depth to groundwater is over 500 feet. These unique challenges include energy costs to raise that water to the surface and the infrastructure challenges of pumps recovering water that deep.

Mr. Olsen said the District has invested in renewable water resources with CAP and recycled water and needs to be able to put those to use to address these challenges. The solution is to develop projects and initiatives to meet these hurdles and obtain water resource stability. Over the past 18 months, the District has come up with three such initiatives.

Mr. Olsen said the first initiative is to achieve better utilization of the District's recycled water. Presently all of the District's more than 2,000 ac-ft of recycled water is discharged into the Santa Cruz River after it is treated at the wastewater treatment plant. Based on agreements and rules

governing the Santa Cruz River, the District gets 25-50% of that water back as water resource credits. Those credits have both a water resource value and a financial value. As opposed to recharging into the Santa Cruz, this project would construct a relatively short pipeline to the Cortaro-Marana Irrigation System (CMID) canal to convey water onto nearby farmlands. This would generate 100% water resources credits for the District and results in less groundwater pumping.

In Metro Southwest where the depth to groundwater is significant, Mr. Olsen explained the District would be able to leverage an infrastructure partnership with the City of Tucson. Avra Valley Recharge Project (AVRP) is a District facility with a series of spreading basins where CAP water is delivered and recharged into the aquifer. AVRP is located about 13 miles from District offices near the Marana Airport. Tucson Water has similar projects operating on a larger scale closer to Metro Southwest. This project would deliver a small portion of the District's CAP allocation to be recharged at the City of Tucson facilities, recover the water at City wells, and convey it through City transmission infrastructure which runs adjacent to Metro Southwest. This would allow the District to leverage the renewable resource that has already been invested in and stabilize groundwater levels.

Mr. Olsen concluded with the largest initiative, the CAP Recharge, Recovery and Delivery System (CAP RRDS). The District's renewable resource is stored at AVRP but it is needed in Metro Main. This project will entail drilling and equipping wells to recover that CAP water and construct a 13 mile transmission main to Metro Main, where it will be blended with groundwater at the Herb Johnson Reservoir before delivery to customers. A project of this scope and scale requires substantial coordination and effort. At the April meeting, the Board approved a schedule to accomplish this initiative. The project can be broken down into three phases: land acquisition, design, and construction. This project would take many years to complete and the first CAP would flow into the District ten years from now. During those ten years, with the two foot per year decline in the aquifer, there could be another 20 foot decline to aquifer. The reason the FOC recommended this schedule was because it is an appropriate balance between addressing the water resource needs and financial impacts.

Mr. Olsen said these three initiatives could be accomplished through the WRUF with a series of small annual adjustments. The Board is only considering at this meeting taking the WRUF from 20 cents to 40 cents per thousand gallons in 2014 but the future trajectory, based on FOC discussions, includes a five year plan of increases with no increase to the WRUF in 2015 and 10 cent increases each year after that. That five year plan would generate the necessary revenue to accomplish those three initiatives up until the construction of the CAP RRDS and would avoid additional debt burden on the District. Similar fees are in place elsewhere. Oro Valley charges 95

cents per thousand gallons, Tucson charges 75 cents per thousand gallons, and Marana is at 43 cents per thousand gallons.

Mr. Olsen gave the audience some perspective on the cost of water from the District. The average District customer consumption is about 8,000 gallons per month. The proposed increase would equate to about \$1.60 per month or less than \$20.00 per year. He showed a table of historically higher increases for Tucson Water and Pima County Wastewater. The proposed increase equates to just under a 2.5% revenue increase for District customers. Pima Wastewater increases were included to show the recent bottom line impact on District customers' bills. He demonstrated the value of water by comparing one \$2.00 liter bottle of water purchased at the store to 1,000 gallons of water that Metro delivers to the tap for \$2.00, or 4,000 times more water.

Mr. Olsen said the Board is considering only a 20 cent per thousand gallons increase to the WRUF and no other adjustments at this time. The WRUF is a tool that brings the District closer to water resource stability while balancing the schedule and minimizing the financial impact to customers.

At last week's Information Meeting, it was asked how the CAP RRDS would impact water quality. Mr. Olsen explained the Board established threshold level of total dissolved solids (TDS) or mineral content. In Metro Main, the CAP would be twice blended with groundwater before delivery, first at AVRVP and again at the Herb Johnson Reservoir. Another question from the Information Meeting was whether using Tucson Water's infrastructure would be a better solution to the CAP RRDS. Mr. Olsen said this was a similar concept to the project planned for Metro Southwest which would wheel or convey water through Tucson Water's infrastructure. For Metro Main, based on analysis and the amount of water that is needed to be moved vast distances, using Tucson Water's infrastructure would result in significantly higher costs. Furthermore, any wheeling agreements are short-term duration, and every 3-5 years a new intergovernmental agreement would need to be negotiated. Owning and operating our own delivery infrastructure gives the District greater long term security and control over leveraging its water resources. Finally, it was asked how the average Metro Water bill compares to other providers. District customers use approximately 8,000 gallons per month, which equates to an average bill of \$48.46 per month. A recent survey of Arizona providers puts the District's average bill in the mid-range. Overall customer feedback at the Information Meeting was positive.

III. Comments from the Public regarding Proposed Adjustment

Reb Guillot of 3354 N. Camino los Brazos in the Metro Hub area serves as Chairman of the Finance Oversight Committee (FOC). Mr. Guillot said the FOC received a copy of the proposal

ahead of their last meeting and they had been aware of the challenges the District faces with obtaining water while keeping costs down. The FOC reviewed the material presented and came to the meeting with questions. After a briefing from staff, a lot of questions and discussion followed. The FOC then voted in a unanimous decision that this proposal was the clearest choice for being able to obtain the water resources needed at the most reasonable price.

Ms. Scrivener thanked Mr. Olsen for a job well done explaining the proposal.

Mr. Tenney said two ratepayers who were unable to attend the meeting provided their comments. Stephen Gaul said he is not in favor of the increase to the WRUF. Esther Ybarra said the increase from 20¢ to 40¢ is drastic and difficult to afford. She feels the crunch from different utility increases.

IV. Consideration and Possible Action regarding Water Resources Utilization Fee

Mr. Foulk made a motion to approve and adopt Resolution 2014-3 to make the Water Resources Utilization Fee be 40¢ per 1,000 gallons effective November 1, 2014. Mr. Doyle seconded the motion.

Mr. Foulk thanked the members of the public who attended the two meetings. He thanked Mr. Olsen for doing a nice job presenting everything. The District is taking its destiny into our hands and it is a good idea to control our water and not rely on others to get it here. This is the smartest way to go. He also thanked Mr. Guillot and the FOC for their work.

Ms. Scrivener also thanked the FOC for their research and consideration. This is a big step and the District wants to make sure looking forward ten years down the road we are prepared. She thanked everyone for their efforts on this very reasonable approach.

Motion passed unanimously.

V. Adjournment.

The meeting adjourned at 6:24 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board