

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

October 22, 2012

**** Board Room ****

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

MINUTES

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

Board Members Not Present: Richard Byrd, Member

District Staff: Mark Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Warren Tenney, Clerk of the Board

Public Hearing

I. Call to Order and Roll Call

Bryan Foulk, 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, Jim Doyle, Dan M. Offret, and Judy Scrivener were present. Richard Byrd was not present.

II. Presentation about Proposed Adjustments to Rate Structure

Mr. Stratton said that for the past several months, staff has provided the Board with background material on the state of the District's finances. The proposed revenue increase is the product of staff analysis and input from the Finance Oversight Committee (FOC).

Mr. Tenney gave a brief overview the proposed adjustments, explaining the four proposed changes to the rate structure. The first change is to the base rate, which would now be known as

the water availability rate. An increase of \$2.50 would bring the water availability rate to \$20.00 for customers with a 5/8 inch meter. Water consumption charges would remain the same for tiers 1 and 2 and would increase by 4% for tiers 3, 4, and 5. The water resource utilization fee would be established as a designated fee specifically for the utilization of water resources like CAP water and effluent. Increases to the water service connection fee for new meters are also being proposed.

Mr. Offret asked if the water resource utilization fee would be applicable to Metro Southwest. Mr. Stratton confirmed the Metro Southwest service area would be charged the designated fee but would not be affected by the other rate increases.

Mr. Tenney said the impact to customers using 11,000 gallons or less will be the \$2.50 increase per month to the water availability rate. Customers using more than 11,000 gallons will be paying \$2.50 more plus an increase based on higher consumption. Starting in March 2013, customers will pay an additional 10 cents per thousand gallons for the designated water resource utilization fee. The main reason for the \$2.50 increase is to start capturing more of the fixed costs in the water availability rate. In looking at expenses, fixed costs exist regardless of the amount of water delivered. Fixed costs must be paid whether any water is sold or not. Of those fixed costs, the largest portion is payments on the debt that has been incurred over the last decade from two capital improvement programs (CIP) and securing the District's CAP allocation. The CIPs have given the District huge improvements to infrastructure and have made the system more reliable. The current revenue structure is not capturing enough of the fixed costs. There has also been a decline in water consumption, impacting metered sales. The District is seeing the same amount of water usage now as 12 years ago so it is important to tie revenue more to the water availability rate than the commodity or consumption rate.

Mr. Tenney pointed out there are currently no funds budgeted for capital expenditures, although over \$900,000 in CIP needs have been identified. Traditionally, \$1 million is budgeted annually for CIP but the current budget does not have that level of funds available. A designated fee is recommended for the purpose of collecting funds for the development, design, and construction of projects that put to use the District's CAP water and effluent. The District does need to use these resources and is required to make an effort to reduce the direct usage of groundwater. The water connection fees have not changed since 2005. Staff recognizes we must continue to look for opportunities for savings and will continue to cut costs aggressively. The budget is already tight and expenditures are now down to the basic level. The proposed changes would generate an additional revenue of 5.7%.

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

David Tanner, residing at 3347 W. Sophia Street, spoke against the rate changes. He recalled when the District was first formed the public was assured the rates would never be higher than Tucson Water and now they are considerably higher. He asked what measures are being taken other than rate increases to limit the budget. He asked if there is a budget and said if his wife ran their household budget like Metro does, they would be fighting every day. He knows staff is capable of controlling the budget but management does not seem to care.

Mr. Tanner provided a list of questions on a paper and asked that they be read into the minutes. Mr. Foulk read each question aloud.

The first question asked, "Is the rate increase needed so managers can continue to attend conferences at Whiskey Pete's in Buffalo Bill's Resort Casino near Las Vegas, Nevada?" Mr. Stratton said the only manager who attended was Mr. Hill and he was a speaker at the conference.

Question two asked, "Why did Metro bypass normal bid procedures for thousands of dollars of wide-screen TVs last year so that the only bidders were the husbands of the Human Resource Specialist and Executive Secretary?" Mr. Foulk said the purchase was made according to procedure. Staff is not required to get three bids; there were two bids and the low bid won.

The third question asked, "How much of the rate increase is needed to pay lawyer Abbe Melissa Goncharsky from the Lewis & Roca law firm to fight employees who complained about wage and hour law and job safety violations?" Mr. Stratton said the amount charged is not yet known. Mr. Foulk stated he does not remember seeing anything related to wage and hour law. Job safety issues have been addressed one at a time as they come up and nothing has been swept under the carpet. The claims made against the District have not been substantiated and are not true.

Question four asked, "Why, with a projected \$1.2 million deficit, did Metro decide to expand the parking lot and provide covered motorcycle parking?" Mr. Foulk explained the District is being required to relocate the entrance because of the road improvements and we decided to expand the parking lot at the same time. Pima County is paying for the relocation of the entrance and the District decided to spend additional money to improve the design. Without these changes, traffic would not flow without cars having to stop and back up in an unsafe manner. There is no covered motorcycle parking.

Question five asked, "There are widespread rumors that Metro has paid out settlements to wrongfully fired employees. True or not, and if true, how much?" Mr. Foulk said the rumors are completely false.

Question six asked, "With 75 percent of Metro's annual income, \$6.6 million, going to debt service which, according to Board Chairman Bryan Foulk, 'is strangling the District,' it seems reasonable to ask if the Metropolitan Water District management and board of directors are doing their job responsibly or just passing along their mistakes to ratepayers?" Mr. Foulk said he was misquoted. When he talked about the expenses he referred to salaries and capital improvement projects. The CIP provided reservoirs and redundancy within the system and the District took a proactive approach to make these improvements before problems arose, unlike other utilities with aging infrastructures. The District could not foresee the many RTA and Pima County roadway projects overlapping the area, which have added tremendously to the debt. The District is obligated to move these waterlines; we cannot tell the County no. All of the debt has been restructured. Over the last few years, as staff have left we have not replaced them. The budget has been cut across the board to the point it cannot be cut any more. Tucson Water is also raising their rates. He wishes the rates did not have to be raised because he has to pay them too.

Mr. Foulk said this list of rumors has no fact basis. He thanked Mr. Tanner for bringing the questions because it gave him a chance to respond.

Mr. Tenney said there had been two written responses regarding the proposed rate changes.

The Southern Arizona Home Builders Association (SAHBA) requested that, "It is our opinion that an increase in connection fees, especially above what is being charged by other water providers in the region, will adversely affect our builder members. While there are positive signs the real estate market is recovering, there are still many uncertainties about the future. Every increase in development costs, particularly during current economic conditions, challenges our members' ability to bring affordable and quality homes to the market."

Customer Annette Cline requested her email be read into the minutes. It read, "I wanted to attend the Board of Directors meeting this evening but the presidential debate is on at the same time, and quite frankly, in my recent dealings with Metro, I don't really get the impression that my opinion as a long time Metro customer, really matters to the Board of Directors anyway. However, I would still like to go on record at the meeting via this email as being opposed to the rate increase. We are still in a recession, and increasing water rates at this time will only add to the difficulty many face day in and day out to pay their bills. It also seems to me that if the "average customer uses 10,000 gallons a month," that the 1st rate tier should go from 0 to 10,000 instead of only going to 4,000. I also think that Metro policies should be changed to notify customers asap at the first sign of a leak or unusually high usage instead of the current policy that allows Metro to wait days before notifying the customer. I also think there should be a fund set up (perhaps financed by a small fee each month) or optional "leak" insurance, to help customers who experience a water leak through no fault of their own. (I still wonder if no leak is detected,

how Metro can be 100% sure that the meter did not malfunction.) There should also be a policy with regards to a grievance process which involves some sort of governing body that has the public's best interest at heart to review the specifics of any grievance. As it stands, I have recently discussed my grievance with the Attorney General's office, the Arizona Corporation Commission (I knew it wasn't Metro's governing body but the AG's office thought it was), and my Pima County Supervisor's office. As it turns out, as Metro is obviously well aware of, there is no governing body over Metro. This puts all customers in a very difficult spot. Metro can raise water rates at the will of their five person board and shut off customer's water at the will of Metro employees following the "policies" created by the same five person board. Rather than raising water rates at this time, I for one 'vote' that Metro Water restructure itself so that there is some sort of independent governing board or commission that reviews rate increase requested as well as customer grievances. I still can't believe that this does not already exist, and I will keep expressing my concern over this in a effort to bring about this change. In a nutshell, it seems very un-American for Metro to have such a monopoly over the public's access to water and the rates it charges in northwest Tucson without answering to at least one independent governing body.”

Mr. Offret said Ms. Cline has very strong opinions about water and water rates. He suggested perhaps she should be on the FOC because the best way to help people understand is to educate them. Ms. Scrivener said Ms. Cline does not seem to understand the structure of the District within the law. An elected Board is responsible for operation of this utility. Mr. Foulk said the premise that there is no governing Board is wrong. The Board members are independent, unpaid, elected officials. When the District notices a leak, customers are notified but the rates would have to be raised much more to check meters daily. Mr. Offret said according to statistics on a meter manufacturer's website, we can be 99.9% sure that water went through Ms. Cline's meter. Mr. Foulk said meters read under, not over. He understands her frustration because he has had water leaks too; Mr. Offret concurred.

Dave Tanner asked why all the customers were not notified of this meeting. He did not receive an insert with his bill. Mr. Tenney said the District did meet all legal notice requirements and is not required to send inserts but the intent was that the insert be sent to everyone to inform them of the proposed rate increase. He would look into the matter.

IV. Consideration and Possible Action relating to Water Rates and Fees

A. Water Availability (Base) Rate.

Mr. Offret said the past two meetings have discussed the revenue and rates and a 17 page report was provided and posted online for all customers to look at. He is thoroughly convinced the District should approve a water availability rate.

Mr. Offret made a motion to approve the water availability rate, formerly known as the base rate, to be \$20.00. Ms. Scrivener seconded the motion. Motion passed unanimously.

B. Water Consumption Charges.

Mr. Offret made a motion to approve the water consumption fees for the 3rd, 4th, and 5th tiers only to be increased respectfully to \$4.21, \$5.62, and \$7.02 per thousand gallons. Ms. Scrivener seconded the motion. Motion passed unanimously.

C. Water Resource Utilization Fee.

Mr. Offret asked for assurance that the 10 cents per thousand gallon fee will be kept separate from the general fund and put in a fund by itself, for the use intended. Mr. Stratton confirmed a separate escrow fund will be established and allocated to those capital projects specifically for utilizing our water resource.

Mr. Offret asked for clarification that the water consumption fee and water availability rate changes will not affect the Metro Southwest areas but the water resource utilization fee will affect all service areas. Mr. Stratton confirmed.

Mr. Offret made a motion to approve the establishment of the water resource utilization fee for the purpose of developing, designing and constructing projects that put to use the District's CAP water and effluent. The fee would be 10 cents per thousand gallons and become effective March 1, 2013. Ms. Scrivener seconded the motion. Motion passed unanimously.

D. Water Service Connection Fee.

Mr. Offret said he is opposed to any movement on this particular fee for two reasons. First, he feels this organization's future lies in the expansion of the Metro Southwest service area. Metro Main and Metro Hub are basically built-out over 90 percent. He is not certain the City of Tucson's policies on expansion are very stable and he does not like the idea of being in a noncompetitive position in case their policy is rescinded. Second, there is not much construction going on, so the District would not be garnering much revenue from it. Mr. Offret is opposed to this particular increase. No motion was made so the water connection fee remained as is.

E. Pass and Adopt Resolution No. 2012-6 to establish the water rates and fees for the Metropolitan Domestic Water Improvement District effective November 1, 2012.

Mr. Tenney confirmed the Resolution's attachment would reflect the previous action taken and the rate schedule will correctly reflect the Board's motions made at this meeting.

Mr. Offret made a motion for approval and adoption of Resolution 2012-6 to make an adjustment to the established water rates and fees for the Metropolitan Domestic Water Improvement District effective November 1, 2012 per the direction given by the approval of the above noted motions. Ms. Scrivener seconded the motion. Motion passed unanimously.

V. Adjournment.

The meeting adjourned at 6:37 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board