

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE**

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

August 20, 2012

MINUTES

Committee Members Present: Bernie Wiegandt, Vice Chair
Sheila Bowen, Member
Reb Guillot, Member
Lee Mayes, Member
Jim Stevenson, Member
Tim Thomure, Member

Committee Members Not Present: Jeffrey Ratje, Chair
Clare Strom, Member

District Staff Present: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Mike Land, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Warren Tenney, Assistant General Manager

I. Call to Order and Roll Call.

Mr. Wiegandt called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Wiegandt, Ms. Bowen, Mr. Guillot, Mr. Mayes, and Mr. Thomure were present. Mr. Stevenson arrived at 4:08 p.m. Mr. Ratje and Ms. Strom were not present.

II. Approval of Minutes – May 21, 2012.

Ms. Bowen made a motion to approve the May 21, 2012 Minutes. Mr. Guillot seconded the motion.

In response to a question from the last meeting, Mr. Land said the Greater Arizona Development Authority (GADA) funds projects through WIFA but funds are currently non-existent because of state budget cuts.

Motion passed unanimously.

III. Status of Capital Improvement Projects and County Road Projects.

Mr. Stratton briefly touched on the status of the County - RTA related projects. Magee Phase 2 has been delayed a bit by the monsoon. La Cholla Magee to Overton will be completed in the next week or two after some contractor financial issues. Old Magee Trail Well work was delayed after high-intensity storms flooded the site but the issues have been mitigated. The new well will be put in service before the old one is shut down. The County recently passed a new policy in June requiring utilities to remove all abandoned lines from the right of way and this adds significant cost to the District.

Mr. Stevenson arrived at 4:08 p.m.

IV. Discussion of Water Rates & Revenue Analysis Report

Mr. Tenney said he and Mr. Land had been working on this report since completing the budget. The report was presented to the Board last Monday and they would like any feedback or thoughts from the FOC to be shared with them at the September Board meeting. The analysis takes a close look at revenue and rates, with a focus on Metro Main and Metro Hub because Metro Southwest has its own self-sustaining rate structure. The District receives most of its revenue through metered sales and the widespread decline in consumption is expected to continue. The PowerPoint presentation illustrated the District's fiscal condition and fixed versus variable costs.

Ms. Bowen asked if any of the existing debt could be refinanced or retired. Mr. Land said staff and advisors do periodically check whether it would be advantageous to restructure debt but there has not been a benefit to do so in recent years.

Ms. Bowen asked about the unused contingency fund's effect on year-end balances. Mr. Thomure noted if the contingency is not used the District would end up with a year-end balance of \$834,000 in 2013. Mr. Land confirmed. Mr. Tenney added it will be important to consider what to do with capital projects that have been identified but unfunded because the analysis does not allow for any capital projects.

Ms. Bowen asked about future CAP infrastructure and allocations. Mr. Tenney explained infrastructure needs to be built to bring CAP water into the service area. The District has budgeted but not funded about \$200,000 for using renewable supplies. The ability to recharge and recover at the AVRFP facility will be beneficial in utilizing the District's CAP allocation. A pipeline to recover the CAP water will be an expensive capital project, which costs could be shared with Oro Valley. An alternative idea for funding capital expenditures would be to set up a designated fee, as Marana and Oro Valley have done, to pay for things like CAP infrastructure and effluent utilization. Ms. Bowen likes the idea of a designated fee. Mr. Stratton said the intent behind a designated fee is it will stay in the revenue structure and grow over time to provide pay-as-you-go funding but it should start small.

Mr. Tenney said based on different comments made at the Board meeting and further analysis, staff developed the preferred alternative is an increase of \$2.50 to the base rate with percentage increases to tiers 3, 4 and 5 and a postponed designated fee. Mr. Land said any rate increase would be effective November 1st and customers would see it in their December bills.

Mr. Guillot asked if the District is considering taking on new debt. Mr. Stratton said staff has not discussed taking on new debt under the current circumstances but has discussed the importance of finding a way to fund CAP utilization. In 2019, a significant amount of revenue will be freed up as the current debt is paid off, leaving the District in a position to fund CAP utilization projects. He does not anticipate a new bond program until the situation changes and metered sales pick up.

Mr. Land noted the District was required to fund a cash reserve after the insurance companies did not meet their ratings and when that amount is reduced, it will also free up some cash.

Ms. Bowen asked where apartment complexes fit in. Mr. Land said multi-family users normally fall into the highest tier so an increase would impact them.

Ms. Bowen asked about the potential impact of a TEP rate increase. Mr. Land said a power rate increase is not factored into the analysis but the District is expecting TEP to pass a 15% increase. A fair portion of facilities have been converted to interruptible power for reliability but cumulatively, an increase could have an impact.

Mr. Wiegandt said the graph showing volumes of water sales was particularly illuminating but he would like to know the number of accounts during that span to determine if this reflects the same number of people using less water or something else. Mr. Land said after the economy turned the number of accounts using no water doubled from 200 to 400 but he does not think that trend continues today. It is possible that investor-owned homes are unoccupied but using minimal amounts of water for upkeep purposes. Mr. Tenney noted that Tucson Water and Phoenix also increased in number of customers but overall water usage decreased. The District has more customers than it had in the year 2000 but there is a marked decrease in water use.

Mr. Wiegandt said over the last ten years, many graphs in the marketplace have this look to them. Private industry has many of the same struggles but without the ability to write the checks. With four major items of expenditure, at the end of the day the District is still looking at a revenue resolution while the marketplace has only had the option of an expenditure resolution. He wondered what the District will do 3-5 years from now, when we get through to the next iteration and we are hitting the wall again.

Mr. Stratton said future costs are unknown so it is important to cover as much fixed cost in the base rate as possible. Tucson Water is feeling the impact of keeping their base rate low as people reduce their usage. The District is trying to avoid that impact.

Mr. Thomure asked how long the designated fee for water resources development might be postponed. Mr. Stratton said he was thinking it would start sometime in the first quarter of the calendar year; the sooner, the better. Mr. Land pointed out that Oro Valley started their designated fee at 21 cents and it is now up around 90 cents, which probably generates \$2.5 million a year. Mr. Mayes asked how much revenue the RTA fee brings in and Mr. Land said a little over \$800,000 per year. Mr. Wiegandt asked if the designated fee can be a graduated rate. The higher tiered users are necessarily bringing about the need for more resource quicker, whereas the low end user is not incentivized by conserving. Mr. Stratton agreed that might be a good idea. Ms. Bowen suggested that revenue generation of a designated fee should be \$134,000 or \$109,000 based on current needs. The fee can start there and increase over time based on need.

Mr. Land said former Board Member Pete Schlegel spoke at last week's meeting. He advocated raising rates with a more aggressive approach.

Mr. Land said a recent article in the AWWA Journal discussed changing the base rate concept to a term related to water availability. The argument was that it costs money to have water at the tap and provide storage capacity, so customers might better understand the need with different terminology.

Ms. Bowen asked how high the base rate needed to be to cover fixed operating costs. Mr. Stratton said the proposed increases get us closer but fixed costs would not be completely covered. Mr. Land said it would require more than a \$28.00 base rate to cover fixed costs but the exact number was not identified. Mr. Stratton said the best approach is a gradual approach, eventually reducing the commodity rate and raising the base rate. Mr. Tenney said some of the Board Members voiced a desire to go higher than the \$1.75 or \$2.00 increase scenarios. Consumption is projected to decline by 1.7% per year but we do not know if it will. There was talk about the possibility of going higher because it could get worse and there is a general feeling of discomfort with barely getting by.

Mr. Mayes said too high of a rate increase might trigger conservation and result in more than the expected 1.7% drop. Mr. Stratton agreed and said customers seem to know their winter average affects their wastewater bills because they reduce usage during those months. Mr. Wiegandt questioned how somebody could reduce usage selectively. Mr. Stratton said often people will stop outdoor watering and cut back inside. Once people reduce usage, they get used to smaller portions and it becomes their normal. Ms. Bowen said many people convert their landscapes.

Ms. Bowen pointed out that if the smaller \$1.75 increase was chosen and the lower \$36,000 year-end balance became a reality, a 15% TEP increase would land the District in the hole.

Mr. Thomure said the feedback made sense to him, with the exception that multi-family users may be inordinately affected. He cautioned against postponing a designated fee too long. Mr. Thomure said he could not think of a reason to start at less than 25 cents.

Ms. Bowen said she would like to see consideration of the TEP increase included in the charts. Mr. Hill said power increases could account for \$150,000 per year. Mr. Thomure said the proposed increases of \$1.75 - \$2.50 generate \$200,000.

Mr. Wiegandt made a suggestion regarding the two pie charts illustrating fixed versus variable costs. He said it would be helpful to show how short the base rate is in covering the fixed costs.

Mr. Stratton said the Board always appreciates the discussion points and feedback from the FOC.

Ms. Bowen thanked staff for the report.

V. Future Meeting Dates; Future Agenda Items.

Mr. Wiegandt said the next FOC meeting will be held on September 17, 2012 at 4:00 p.m., although he would not be able to attend due to federal jury duty. Mr. Mayes also will not be able to attend the next meeting.

Ms. Bowen would like to see a review and update of the Capital Improvement Project (CIP) on a future agenda.

VI. Call to the Public.

There were no comments by the public.

VII. Adjournment.

Ms. Bowen made a motion to adjourn. Mr. Guillot seconded the motion. Motion passed unanimously. The meeting adjourned at 5:39 p.m.

Bernie Wiegandt, Vice Chair
Finance Oversight Committee