

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

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

September 17, 2012

MINUTES

Committee Members Present: Jeffrey Ratje, Chair
Sheila Bowen, Member
Reb Guillot, Member
Tim Thomure, Member (via phone)
Bernie Wiegandt, Vice Chair

Committee Members Not Present: Lee Mayes, Member
Jim Stevenson, 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. Ratje called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Ratje, Ms. Bowen, Mr. Guillot, Mr. Wiegandt were present and Mr. Thomure was present by telephone. Mr. Mayes and Mr. Stevenson were not present.

Ms. Strom resigned from the FOC on September 12, 2012. She sent an email saying she truly enjoyed assisting the District in her role on the FOC. The Board of Directors will make a decision on how to proceed with the vacancy.

II. Approval of Minutes – August 20, 2012.

Ms. Bowen made a motion to approve the August 20, 2012 Minutes. Mr. Wiegandt seconded the motion. Motion passed unanimously.

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

Mr. Maish said work on La Cholla was completed last month. Still under construction is the Magee project from Shannon to Thornydale. The contractor has not been able to complete the wash crossing due to the monsoons but they are wrapping up everything else with plans to complete the wash crossing next month. Also under construction and nearing completion is the La Canada, Ina to River project. The Board awarded the next project on Orange Grove Road, from Camino de la Tierra to La Cholla, combined with Magee from La Canada to Oracle Road last week. The District will soon advertise the Riverside Well Transmission line. Old Magee Trail Well, which replaces Matter Well, is under construction. The contractor did purchase bulk water from the District for roadway construction near the District's new well.

IV. Proposed Rate Adjustment and Scheduled Public Hearing

Mr. Tenney said the Board set a date for a public hearing to discuss a rate increase, October 22, 2012. FOC feedback was shared with the Board at their September 10th meeting, as outlined in the report. The District sent out a rate insert in customer bills and all customers will receive the notification before the hearing.

The base rate would be increased by \$2.50 for all customers and that is the only increase customers using 11,000 gallons or less would see. The target is to try to keep rate increases for the average customer around 6-7%, which is less than the impact in 2010. The District will capture more of the fixed costs in the base rate under this proposal. The first and second tiers would see no change and the third, fourth, and fifth tiers would each see a 4% increase.

There were discussions on low water users and whether anything should be done to minimize the impact but so far there is no clear direction from the Board. Ideas included the issuance of a 50 cent adjustment or use the Pima County low income program. It is important to note low income does not necessarily equate to low water use.

A designated fee concept was presented to the Board with the implementation level around 10-15 cents in March 2013. There was a suggestion to postpone the fee to try to minimize impact and avoid rate shock.

Staff presented a 20% increase to the water connection fee again to the Board but it is unclear whether they are supportive of it or not.

Either the Board will approve these recommendations or something below it because adjustments cannot be higher than what was announced to customers. The FOC can still make recommendations or suggestions to the Board. Mr. Tenney invited FOC members to attend the October 22nd rate hearing. One Board member asked if the various components can be voted on separately so there may be opposition to one or more issue.

Mr. Land said a comparison of other area providers' rates had been included with the report.

Mr. Guillot said two or three years ago, a rate increase flagged a lot of problems with multi-family users. He asked if the District is expecting the same reaction this time and if so, what is being done to mitigate it. Mr. Tenney said multi-family raised issues before the 2010 rate increase and we have not heard anything since. The District takes the position that we try keep the rate structure the same for everyone, with the commodity rate based on usage and the base rate according to meter size. Trying to set up a different rate structure for multi-family could result in a situation where everyone else subsidizes their water. Mr. Hill said the multi-family issues have been resolved to a great extent by having small meters accumulate the tier levels.

Mr. Ratje said after reading the outline, he is still a little unsure what the designated fee is for. He said there is the perception that when more fees are added, it may appear the District is nickel and diming the customers even though the District is actually setting aside funds for a specific purpose. He asked why the designated fee could not be rolled into the increase as a whole. Mr. Tenney said the idea of a specific fee for development and utilization of renewable supply or the design of pipeline is that it is difficult to come up with enough funds for a large down payment, which is the goal to minimize impact on the debt. The District has been following Oro Valley and Marana's designated fee for a number of years. It is helpful to explain where the money is going and if established, the fee would have a more descriptive name. The fee would start small and eventually build into a large fund.

Mr. Ratje also expressed a desire to make a larger shift towards capturing the fixed costs in the base rate. He gave kudos to the District in approaching these complex issues with one foot on the brake and one on the gas. Nobody wants to increase rates but if increases come when you have lower consumption, supply and demand says consumption may decrease further to the point where it becomes even with the increase, reducing the net revenue. Consumption could decrease at a greater rate than rate increases. He thinks the concept of moving towards a base rate that covers fixed costs is a great strategy moving forward.

Mr. Wiegandt expressed concern about the timing of FOC recommendations in light of the fact that the proposal has already been announced to the community. He was under the impression the FOC would have more time to make recommendations to the Board but now it seems the wheel is in motion. Mr. Tenney said even though the public hearing has been set, this meeting is an opportunity for the FOC to make recommendations because the final discussion and decision will not happen until the rate hearing. The general concept must be presented to public ahead of time but it is considered a worst case scenario. Recommendations to the Board at this point are still appropriate and will be taken into account. One Board member wanted the opportunity to talk about each item separately, signaling he may have varying suggestions about the proposed adjustments. The same opportunity exists for the FOC; members can make recommendations on the entire proposal or specific parts of it.

Mr. Wiegandt referred to a particular chart from last fiscal year showing the same level of consumption as ten years ago. He asked if consumption was the same, why the District did not have the same revenue problems ten years ago as it does today. Mr. Land said the District did not

have as much debt ten years ago. Mr. Tenney said the first CIP was wrapping up ten years ago and analysis at that time showed the District could handle a second CIP. Rates back then were focused around the commodity rate rather than the base rate and nobody predicted the decline in consumption. In addition, nobody predicted the economic downturn.

Mr. Wiegandt reiterated that the District's consumption charts are similar to graphs of other entities over the last ten years. Most of the marketplace has had to deal with this, not on the revenue side, but on the cost side. He asked what the District would do if a rate increase did not pass. Mr. Stratton said the District would be left with no choice but to cut staffing levels if rates could not be increased because the operating budget is already relatively tight.

Mr. Tenney pointed out the District has the same level of customers but consumption is going down. We still have to check chlorine levels and perform maintenance for the customers whether anyone uses water or not. The challenge with reduced consumption is we have to be ready to provide whether customers turn on the tap on or not. Perhaps the base rate should be called something different, such as the "availability rate".

Mr. Wiegandt said it was still unclear to him what the differences are from ten years ago. He would like to know how many more wells, how many more customers, and how many more feet of transmission main exist today. Understanding those differences would help make the case of why the District needs to adjust the rate structure.

Mr. Tenney said that was a good point and he tried to touch on that in the insert. Capital improvements, projects improving the reliability of the system and storage capacity were mentioned. With these improvements, water outages have not been a problem like they once were. Most utilities across the country are faced with the need for huge capital upgrades to their infrastructure but the District does not have that problem today. As a result of being proactive, the District has larger debt. Ms. Bowen added that in the past ten years, the number of customers increased but the usage per person decreased. Mr. Land said the costs of utility payments and CAP water have also increased over the past ten years. Mr. Guillot pointed out there were several new housing developments under way about four years ago but those have stopped, so the number of new connections has declined.

Mr. Land said the District cannot really be compared with a private business because we must provide water to the community. The District cannot shut down because customers do not have a choice to go to another water provider.

Mr. Tenney said it is important to emphasize staff looks at every expenditure for ways to cut back. Based on analysis last month, the 2013-14 fiscal year could have a \$1.2 million negative year end fund balance but to find that \$1.2 million simply through cutting salaries is almost impossible. \$25,000 was saved this year is by cancelling the election after only two candidates filed petitions, but those savings will not be spent. The District lost two employees recently but we have no intention to fill those positions; others are taking on those duties.

Mr. Land reported that some of Tucson Water's customers call the District because they cannot get through to Tucson Water's customer service and they are very frustrated. The District does not want to lower its level of customer service. Mr. Land suggested maybe management needs to tout the efforts to reduce expenses more.

Mr. Wiegandt suggested in addition to providing comparisons such as the employees per account or usage per account, he would like to see the District couple rate increases with specific system improvements, so that increases are presented as a funding mechanism. He is concerned that the District will reach this critical point again in the near future. Mr. Wiegandt feels a combination of increasing revenue and decreasing expenditures is missing from the discussion.

Mr. Stratton said the current proposal barely gets the District by. If consumption continues to follow the current trend or gets worse, we could need the same level of increase next year. Mr. Ratje asked if revenues are improved by consumption dramatically increasing next year, would the District consider reducing rates. Mr. Stratton said the Board would make that decision but there is an unfunded capital program and other unmet needs. Mr. Tenney said the Board will reassess the situation every year.

Ms. Bowen expressed concern that postponing things like maintenance activities should not be done to the detriment of the system. She believes taking steps to cover the cost of capital ahead of time, such as the establishment of a designated fee, is a good idea.

Mr. Thomure said with respect to the designated fee for renewable resources, he would prefer to see something established sooner rather than later. He looked at the current budget over the previous years and this year already goes forward with a very lean budget. He does not want to backslide on customer service. He gave credit to management for policing themselves and recognizing this is not the time to push for new programs. The budget as presented is just what it takes to keep the lights on and keep moving at the current level of service and he concurs with that approach.

Mr. Land said he liked Mr. Wiegandt's comments about the number of employees per account and he will look into that. Mr. Stratton pointed out the District has a somewhat unique situation and one cannot compare employees to accounts in the same way as municipal providers because many of the District's employees, such as finance and human resources, would be covered by other departments in a municipality. The District is self-contained so more staff is required.

Mr. Land said he found it extremely beneficial to see all the improvements that have been accomplished in a 20 year period in the recent 20th Anniversary newsletter.

Mr. Ratje asked if there has been any customer feedback since the rate inserts started going out, and Mr. Tenney said he has not heard of any.

V. Future Meeting Dates; Future Agenda Items.

The FOC opted to hold a meeting in October between the regular Board meeting October 10th and the public rate hearing October 22nd. The next FOC meeting will be held on October 15, 2012 at 4:00 p.m. If the FOC has any more feedback pertaining to the rate hearing, it can be provided to the Board before the hearing. Mr. Tenney also invited the FOC to attend the October 22nd public hearing. Mr. Thomure suggested a future meeting agenda item could be the status of the capital improvement program.

VI. Status of Pump Efficiency Program

Mr. Hill gave a PowerPoint presentation on the Pump Efficiency Program. Ms. Bowen said she appreciates how staff is always looking for ways to save the District money.

VII. General Manager's Update

Mr. Stratton said there are a number of meetings in the fall. WESTCAS will hold its annual conference in October in Tucson. CRWUA holds its conference annually in December in Las Vegas. District Staff will continue to focus on financial issues, including reducing expenditures and will delay large purchases when possible until we see where revenue trends go.

Ms. Noltin let the FOC know about the October 2nd staff luncheon and Open House.

VIII. Call to the Public.

There were no comments by the public.

IX. Adjournment.

The meeting adjourned at 5:24 p.m.

Jeffrey Ratje, Chair
Finance Oversight Committee