

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

May 23, 2016

**** 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
Jim Doyle, Member
Helen Ireland, Member
Dan M. Offret, Member

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Tim Dinkel, Development Supervisor
Tullie Noltin, Clerk of the Board
Steve Shepard, Utility Superintendent
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. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present.

II. Presentation about Proposed Adjustments to Rate Structure and Fees

Mr. Olsen said on May 18, 2016, an Information Meeting was held for the public to discuss the District and the proposed rate adjustments. Mr. Olsen gave the same presentation that was also given at the Information Meeting.

The Board is considering certain rate adjustments to enhance revenue stability and the proposal is based on unanimous recommendation by the Finance Oversight Committee (FOC). Mr. Olsen talked about some of the recent financial accomplishments of the District, including that the RTA Fee is confirmed to stop at the end of 2020, continuing the priority-driven budget process, no new debt since 2013 and paying off some of the debt early, and greater bill transparency. Over the past

18 months, the District has been working on strategic partnerships in the region to benefit all those involved.

The Water Resource Utilization Fee is in place to put renewable resources to use, such as the CAP Recharge, Recovery, and Delivery System (CAP RRDS). Other providers in the area have similar fees. Mr. Olsen briefly explained the CAP RRDS, which will drill recovery wells and convey CAP water about 13 miles through a booster station to Herb Johnson Reservoir, where it will be blended with groundwater prior to delivery to customers. The system will reduce groundwater pumping and address continuing declines in the aquifer. Oro Valley, Marana, and Flowing Wells Irrigation District have an interest in the system to bring down the costs of the project. The presentation listed many other water resource initiatives underway. Several years ago, the WRUF was projected to reach 70 cents per thousand gallons and it is currently at 40 cents. The proposed adjustments would bring it to 50 cents but with all the current collaborative partnerships, the full 70 cents may not be needed.

Revenue stability is having the right balance of fixed and variable revenue to meet fixed and variable costs. Mr. Olsen explained fixed and variable costs. Last year, the Board made the most recent adjustment for revenue stability by shifting a portion of the first tier of consumption over to the base rate, or Water Availability Rate. Prior to this adjustment, the District was at 69% revenue stability. With the 2015 adjustments, the District moved to 83% revenue stability and with the proposed adjustments, the District would achieve nearly 90%, meaning 90% of fixed costs are covered with the Water Availability Rate. At the mid-year budget review, staff talked about a 3.5% reduction in customer demand which would have meant a 1.1% reduction in revenue. The 2015 adjustments shifted variable to fixed revenue, changing that 1.1% reduction in revenue to only 0.6%, showing the concept works as envisioned. The only way to get to 100% revenue stability is to charge a flat amount for water, as opposed to increasing blocks for increasing consumption, which is not compatible with promoting conservation.

The proposed changes reflect an adjustment in tiers where the first 3,000 gallons are included in the Water Availability Rate, acknowledging the people who conserve water. This final restructuring would balance revenue stability, conservation and affordability. The average customer in Metro Main and Hub would see about a \$2.45. The adjustments, coupled with all the other initiatives in progress, allow the District to have greater certainty moving forward. Staff will be recommending a 0% adjustment next year and following years will require smaller increases based on factors such as the cost of power, inflation, and renewable water resources. Mr. Olsen showed a comparison of rate increases over the last ten years for other area water and wastewater providers. Mr. Olsen also went over the fees that are included in the proposed adjustments, including meter testing, meter re-reading, and the effect on dual metering. The changes would bring the fees into alignment with cost of service. Mr. Olsen closed with a brief demonstration of the value of water.

Mr. Olsen said the people who attended the Information Meeting asked questions about the potential impacts of a CAP shortage declaration, and agricultural partnerships with the District. Ms. Bracken has had a few inquiries about the proposed rate adjustments and sat down to explain the impacts to them, which resulted in greater understanding and for the most part, they were satisfied and supportive of the proposed adjustments.

Ms. Scrivener thanked staff for their hard work.

Mr. Offret asked about the impact of employee merits and cost of living increases on the budget. Mr. Olsen said when you have a high order of revenue stability, you are able to meet fixed requirements. Merits and COLAs are separate from revenue stability, as they are a smaller cost that is built into the budget. When the budget is discussed at next month's budget, the Board will be able to review the prioritization of items.

Mr. Foulk thanked the FOC for their hard work.

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

Val Little, Water Conservation Alliance of Southern Arizona, spoke in support of the District's financial and water resources management. Mr. Olsen asked Ms. Little to look at the proposed model and she saw that it was a very deliberative and thorough effort to continue with the conservation message to keep the utility on solid footing. This is a good marker and sets a good example for other utilities.

Reb Guillot, a resident of the District and Chair of the FOC, said the FOC was pleased to be part of the process and the results will be a positive impact on the community and the District. The FOC voted unanimously to present the plan to the Board and he thanked everyone who worked on it. He is pleased with the product.

Doreen Huvaere, a resident of the District, asked how vacancies affect water and sewer billing. Ms. Bracken explained how the billing works and suggested she could request the wastewater vacancy rate when she will be out of town. Ms. Huvaere also asked how many people have automatic payment. Ms. Bracken said 2,794 customers are set up through XpressBillPay and 2,254 are on autopay through the District office, for a total of 5,048 or 25% customers on autopay. Ms. Huvaere suggested the autopay customers should not get return envelopes with their bills. Ms. Bracken explained that unfortunately it would cost more to sort the envelopes out than it costs to include them.

IV. Consideration and Possible Action Regarding Water Rates and Fees

Mr. Offret made a motion to approve and adopt Resolution 2016-2 to make adjustments to the established water rates and fees effective July 1, 2016. Mr. Foulk seconded the motion. Motion passed unanimously.

V. Adjournment

The meeting adjourned at 6:37 p.m.

Judy Scrivener, Chair of the Board

Tullie J. Noltin, Clerk of the Board