

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

August 13, 2012

**** Board Room ****

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

MINUTES

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

Board Members Not Present: Jim Doyle, Member

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

Regular Session

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

II. General Comments from the Public

Donovan Hemway, residing at 1645 W. Hudson Drive, introduced himself as an employee and member of the District. He is appealing for whistleblower protection and requesting that the ratepayers would not be forced to bear the legal expenses of those responsible. He has concerns for his safety and the safety of his coworkers and asked for timely action. He said that on May 10, 2012, at the Deconcini well site, he was nearly killed in what used to appear as an industrial accident. Three days earlier he was asked if he

was ready to quit yet and received a written reprimand when he declined. He gave a chronicle of the events since that incident, as follows: Both supervisors on the scene that day failed to report the incident to Risk Management; there has been reluctance to investigate, discuss, and follow post-incident procedure; the site security video tape was originally lost and a different copy procured later minus four minutes in length; threatening of at least one witness coworker to change his account or receive false blame; personal intimidation and hostile work environment, including several written threats of termination and threats that insomnia stemming from the incident will be used as punishment for performance issues; suffering the loss of wages and benefits following an incident no fault of his own; the beginnings of character assassination, suggesting harm to other employees; and the imposition of unusual and changing requirements for employees to follow after an on-the-job injury. The day following a 2.5 hour discussion of this incident with the General Manager, another pump efficiency test was underway similar to the uninvestigated incident he almost lost his life in. He appealed for the safety of his coworkers and received a hostile response and another written reprimand. He believes Metro Water has a duty to provide honesty, integrity, and safety to ratepayers and employees. The public and employees are aware of these activities and the Board's review and safeguard is imperative.

Mr. Foulk thanked Mr. Hemway and asked staff if the comments were recorded. Mr. Tenney confirmed.

III. Consent Agenda

- A. Approval of Minutes – July 9, 2012 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Bill of Sale – McDonald's Restaurant.**
- D. Ratification of Bill of Sale – Tucson Memory Care.**

Mr. Offret made a motion to approve the Consent Agenda. Ms. Scrivener seconded the motion. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

- A. Monthly Status of the District.**

Mr. Stratton said consumption appears substantially lower in July than last year but after reviewing the records, it was discovered that the two months were not identical in number of days for when the monthly reads were taken. When June and July are averaged it gives a better picture but July is still relatively low compared to previous years for Metro Main and the same is true for Metro Hub. Metro Southwest consumption is fairly close to last year's levels. The Assured Water Supply application for Metro Southwest is on track. Avra Valley Recharge Project (AVRP) is moving along, although less water was recharged this year. Projects related to County road improvements are continuing. La Cholla is nearly complete but there has been an issue between the contractor and vendors. The La Canada South

project near the District office should be complete the latter part of this year after some delays due to design changes. The Orange Grove - Camino de la Tierra to La Cholla, and Magee Phase 3 projects will go out to bid together. Plans for Oracle/Ina intersection lowerings have been submitted to Pima County DOT and ADOT for review.

Mr. Offret noticed there had been a higher number of service orders in Metro Southwest this month. Mr. Hill explained the increase in service orders was more than likely due to the meter replacement program.

B. Financial Report.

Mr. Land said the financial report contains unaudited figures. Auditors have completed their field work and should be finalizing the audit in the next several weeks. Budgeted operating revenues are \$465,000 under budget and operating expenditures are \$616,000 under budget. Salaries and benefits are \$72,000 above and that is the only category over budget. The year is ending with strong water sales, limited spending in June, and \$151,000 favorable compared to budget. The District is \$966,000 behind last fiscal year in revenues but part of the reason is last year's large water rights sale. Revenue in excess of operating expenditures is \$1,025,000 behind last year. The three CIP funding sources are each spent by 70% or more. Meter applications are still behind, with zero in July compared with only one in July 2011. The solar array has reduced energy costs this July by \$461 compared with the previous July.

C. Presentation by the Tucson Utility Contractors Association.

Mr. Stratton said the District had been a member of Tucson Utility Contractors Association (TUCA) in the 1990's but the District chose to discontinue membership in the early 2000s. Ramon Gaanderse of TUCA and Mr. Stratton recently met to discuss the direction of TUCA. Mr. Gaanderse provided the Board with a printed presentation on the mission and activities of TUCA, which develops working partnerships with utility companies. He invited the District to become a member once again and work together rather than separately towards the common goals. The Board thanked Mr. Gaanderse.

D. Resolution 2012-4 – Approval of Application for Loan from Water Infrastructure Finance Authority for Construction of Reclaimed Line.

Mr. Offret made a motion to approve Resolution 2012-4, which authorizes the application for a State Revolving Fund loan from the Water Infrastructure Finance Authority of Arizona for the purpose of financing the District's construction costs for the reclaimed line that will serve Omni-Tucson National. Ms. Scrivener seconded the motion.

Mr. Offret asked for verification that no more than \$400,000 would be financed. Mr. Stratton said that is correct.

Motion passed unanimously.

E. Renewal of Interim Remedial Action Contract with the Arizona Department of Environmental Quality for the South Shannon Treatment System.

Mr. Offret made a motion to approve Amendment No. 22 of the Interim Remedial Action Contract at the South Shannon Facility between the Arizona Department of Environmental Quality and the Metropolitan Domestic Water Improvement District to receive up to \$184,250 in operations and maintenance expenses from July 1, 2012 through June 30, 2013. Mr. Byrd seconded the motion. Motion passed unanimously.

F. Approval of Groundwater Savings Storage Agreements.

Ms. Scrivener made a motion to approve the amendment between the District and BKW Farms for “In-Lieu Water Deliveries and Storage” and that the agreement is in effect until December 31, 2013. Mr. Offret seconded the motion. Motion passed unanimously.

Ms. Scrivener made a motion to approve the amendment between the District and Cortaro Water Users’ Association for “In-Lieu Water Deliveries and Storage” and that the agreement is in effect until December 31, 2015. Mr. Offret seconded the motion. Motion passed unanimously.

Ms. Scrivener made a motion to approve the amendment between the District and Herb Kai for “In-Lieu Water Deliveries and Storage” and that the agreement is in effect until December 31, 2015. Mr. Offret seconded the motion. Motion passed unanimously.

G. Central Arizona Project Water and Central Arizona Groundwater Replenishment District Rates.

Mr. Stratton said the report provided is an overview of expected changes in CAP rates and the potential impact on the District. Mr. Foulk asked where the data came from and Mr. Tenney said the report is based on CAP projections.

Mr. Tenney said energy is the biggest factor causing rate increases and rates could swing higher depending on what happens with the Navajo Generating Station. Mr. Offret said he had heard electricity prices could double or triple if the EPA has their way. Mr. Tenney confirmed the ruling on emissions is anticipated this month and CAP water rates could double or triple if the Navajo Generating Station was to close.

H. Discussion of Water Rates & Revenue Analysis Report.

Mr. Stratton said the report outlines the District’s fiscal standpoint, background, and forecast, and identifies fixed versus variable costs. Mr. Land and Mr. Tenney worked on the report and prepared a

PowerPoint presentation. Mr. Tenney explained that as staff finished the difficult budget process, the need to look at generating more revenue was clear. The presentation focused on the expenses of the District and which ones were fixed costs. Fixed costs exist whether water is sold or not, such as debt payments. The report showed that the base rate does not cover all of the District's fixed costs, leaving the District's finances susceptible to fluctuations in metered sales. Based on current projected revenues the District will have a \$1.2 million deficit at the end of FY 2013-14. Since expenses are already at minimal levels for operating and maintaining the District, generating more revenue is necessary. Staff recommends at least a minimum of two rate increases that could keep the District in the black financially. Two rate adjustment scenarios were suggested, both of which focused on increasing the base rate. Under both scenarios, capital projects are not funded. A designated fee was proposed for specific capital projects related to CAP and effluent utilization. An increase to water connection fees was also presented.

Mr. Foulk asked if the RTA fee takes care of all related costs. Mr. Tenney said yes, assuming no more projects are added on. Mr. Stratton noted one or two projects have been added on but the existing bond is expected to cover those costs.

Mr. Foulk asked if a projected decrease in consumption was factored into the scenarios. Mr. Land said the figures include a projected 2% decrease in consumption per year.

Mr. Offret asked if any other entities plan on increasing their connection fees. Mr. Stratton said he was not aware of any but staff could look at that.

Mr. Tenney said expenditures are being closely monitored so any savings can be set aside. Additional revenue is needed or the direction looks bleak. At least a 4% revenue increase and a minimum of two rate increase are preferred. Any rate increase should be directed to cover most or all of the fixed costs in the base rate. The literature supports capturing as much of the fixed costs in the base rate as possible.

Mr. Land talked about an interesting article in the AWWA Journal, which suggested possibly reformatting the words "base rate" to something more descriptive, such as "water to the tap" so that customers would understand this is the cost of getting the water to them and maintaining the system itself. Bills could also be redesigned to be more informative.

Mr. Stratton said the Finance Oversight Committee (FOC) will discuss this next week at their meeting. Mr. Tenney said the FOC will see this presentation and it is staff's intent to bring the FOC feedback to the Board in September, when a rate hearing can be set.

Mr. Byrd asked if staff could prepare a scenario with a higher base rate of \$2.50, and Mr. Land agreed.

Mr. Byrd asked how the District's base rate compares with other utilities. Mr. Stratton said the District's base rate is slightly higher than Marana and Oro Valley. Tucson Water is extremely low but they are

able to do that because they have over 200,000 customers to spread it over. Public utilities tend to have lower base rates than private. The ACC sees to it that private utilities raise enough revenue to cover their fixed costs. Metro Southwest has its own rate structure and their base rate has been over \$20.00 for a few years.

Mr. Foulk said he had looked at the analysis time and time again and there is not a lot to cut. He strongly believes taking the full CAP allocation is important to the long term health of the District. He does not see the connection fees as a big issue because there have been so many months with zero applications. He agrees it is important to consider impacts on low water users under 4,000 gallons. He favors setting a designated fee for CAP waterlines so the District's future renewable supply is protected. He feels the debt service is killing us and he does not want to increase the debt, so saving for the future has to start now.

Mr. Offret said he is very supportive of the philosophy of collecting more of the fixed costs but he would like to be cautious about how much. He is less supportive of raising water connection fees and would like to discuss that again.

Mr. Byrd would like to see more explanation on the billing design, separating out wastewater, base rates and commodity charges to make the bills more informative for the customer. He is very supportive of the idea of making the language more palatable.

Mr. Foulk said the \$6.6 million debt service was covered by the RTA fee but he asked if any consideration has been given to a debt service reduction fee. Debt is killing the country and strangling the District. He asked if the District is considering designated fees, why it could not establish a fee to reduce the debt. Mr. Stratton explained the bond debt has call dates and the District is limited on when certain debt can be paid off but staff can look into the terms of each portion. Mr. Foulk said it is important to point out this money is paying for past infrastructure.

Mr. Foulk thanked staff for their work and acknowledged there is more to do.

V. General Manager's Report

Mr. Stratton said District staff met with Tucson Water staff to look at the undeveloped areas between our two service areas. Three areas were identified that do not meet Tucson Water's new requirements and they would like the District to provide service to those areas. One of the three parcels was platted in 1960's and none of them are expected to be developed in the near future.

The La Cholla waterline relocation has been complicated by issues between the contractor and the vendors. A few remaining parts have not been released and the general contractor is accruing liquidated damages.

The Metro Southwest meter project should be going through its first cycle of reading meters electronically using the hosted server from Itron because the District's new server has not been delivered or installed yet. Itron is helping staff work out the kinks on this first run.

The La Canada Road Project is at our doorstep. Last week the office experienced entrance closures to accommodate utility relocation work. Staff anticipates numerous restrictions in the next several months.

There are only two candidates for the two Board of Directors positions, so Mr. Tenney was contacted by the Elections Department and asked if the District would like to cancel the election. Cancellation will mean a cost savings of about \$25,000 for the District. Mr. Tenney will let the County know the election can be cancelled.

VI. Legal Counsel's Report

Mr. McNulty said he had been involved in routine District matters lately and had nothing to bring to the Board.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the next regularly scheduled session of the Board of Directors will be held on September 10, 2012.

VIII. General Comments from the Public.

Albert Lannon, residing at PO Box 77100, Tucson, Arizona, 85703, said he came for the revenue analysis but was shocked to hear Mr. Hemway's remarks earlier in the meeting and also shocked not hear any response from the Board. He felt safety violations and a cover-up needed a response from the General Manager and the Board. He said he wears many hats and reports for the Desert Times Newspaper. He asked the Board for a response to Mr. Hemway's charges. Mr. Foulk said the Board could not comment because this was not an agenda item. Mr. Lannon disagreed. Mr. Foulk said he asked staff if Mr. Hemway's statement was recorded so it could be read in its entirety. Mr. Lannon asked the Board if they would investigate the matter. Mr. Foulk reiterated this was not on the agenda and he had no knowledge of the incident. The Board will look at the matter thoroughly. Mr. Lannon said he was sure the employees who have concern for their safety will be happy to know the Board will read Mr. Hemway's statement at some point.

Pete Schlegel, residing at 758 W. Sunlight Lane, said the financial situation facing the District is important to address. He would like to see the Board be more aggressive and less laid back. When the

County and City of Tucson raised wastewater and water rates, they did not worry about it, they just did it. If the Board is going to address the financial situation, a strong public relations task lies ahead. The Board must ask customers to take significant hits and they ought to start softening them now. The District has a good Board and a fantastic staff and customers should be thinking about the needs of the water provider. If TEP cranks up their rates, customers ought to be reminded the District put in gas generators and made good decisions about energy. Costs for all capital infrastructure need to be seriously looked at because all costs have gone up. Snowbirds should not be getting away with low summer rates. He complimented Mr. Land and Mr. Tenney on their report. When the District was formed, everyone said it could not be done. Mr. Schlegel said the people who formed the District were fighters. He believes today's Board needs to get serious and use the leverage they have to increase rates. Customers should understand the rate increase is comparable to the cost of a coffee or soda and goes towards the cost of maintaining and improving their system. He does not want to hear that maybe things should stay the same because it will be too hard a sell. He does not want the District to be afraid to look at what the competitors are doing. Staff used to get a 2% COLA every year and the District is still offering the best benefits of any utility in the southwest. The District is not run like a second rate utility. He wants to see aggressive, positive, proactive thinking. If that approach is taken, the Board will be sitting taller and more comfortable at the next meeting.

IX. Adjournment.

The meeting adjourned at 7:32 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board