

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

September 10, 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
Jim Doyle, Member
Judy Scrivener, Member

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

Executive 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 5:00 p.m. Bryan Foulk, Dan M. Offret, and Judy Scrivener were present. Richard Byrd and Jim Doyle were not present for roll call but entered Executive Session upon arrival.

Mr. Offret made a motion to adjourn into Executive Session at 5:01 p.m. Ms. Scrivener seconded the motion. Motion passed unanimously.

Executive Session pursuant A.R.S. § 38-431.03.A.3 (consultation for legal advice with District Legal Counsel), regarding the claim made to the Occupational Safety & Health Administration.

The Executive Session concluded at approximately 5:57 p.m.

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, Jim Doyle and Judy Scrivener were present. Mr. Doyle left at approximately 6:30 p.m.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – August 13, 2012 Board Meeting.**
- B. Ratification of Billing Adjustments.**

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 continues to decline. Mike Block, District Hydrologist, relayed the news last week that the District is currently seeing the lowest consumption in a calendar year since 1999. August was a wet month and September is looking the same so far. The situation is looking bleak and with revenues on the low side, staff will be looking at expenditures to cut back on. Avra Valley Recharge Project (AVRP) is looking good with 5,500 acre feet recharged at the site. The District is working with Arizona Department of Environmental Quality (ADEQ) to make sure detected unregulated substances at South Shannon are fine. The Metro Southwest application for designation of assured water supply is in process.

Mr. Offret asked about effluent recharge and the assessment of Bureau of Reclamation pipeline. Mr. Stratton said there were a couple of areas filled in with debris so inspectors could not determine what the conditions were but the majority appears to be in good condition. The next step is to figure out how to clean it out and the contractor doing the televising may also vacuum it out. Mr. Block said once the preliminary report is received, the Board will be provided a copy. Mr. Stratton said a meeting has been set up with Pima County Wastewater to discuss the alignment and connection with the Cortaro-Marana Irrigation District pipeline. District staff met

with Mr. Doyle to discuss the options at the Ina Road facility and it appears a workable solution will be possible.

Mr. Stratton talked about the status of the construction projects. La Cholla waterline relocation project is being done by Select Development and is nearly complete except for one or two items. Magee Phase 2 is being done by Innova and is going well but the monsoons caused a delay in crossing the wash because the pit at the bridge had been flooded twice. The La Canada project is being performed by Action Pipeline and should be winding down by the end of October or early November. Mr. Offret asked if the connection had been made near Lulu Walker School. Mr. Maish said the stub is there but right now there is nothing to connect to. The Riverside transmission main will be tied in later. Mr. Stratton said the rest of Riverside transmission main that was not completed with the Lulu Walker project will be put out to bid soon. On the agenda tonight is the Orange Grove waterline relocation and Magee Phase 3. Staff is still waiting on a plan review for the Ina Road/Oracle Road intersection, which will be coordinated in late Fall. Once those are done, the District should meet the end of County road projects and then the remaining few CIP projects can be done.

B. Financial Report.

Mr. Land reported revenues and expenditures in the first month of the new fiscal year were higher on a straight line basis. In comparison with last July, water sales were down \$179,000. Expenditures are higher than last year due to CAP water purchased. Staff did have to report two fraudulent charges from the Department of Corrections in Alabama and Texas and the charges were reversed. Mr. Offret asked about a charge listed in Bisbee. Mr. Stratton explained that was a meeting with Jackson Jenkins at the Bisbee Breakfast Club on Ina Road in Tucson. Mr. Land said there were three meter applications in August, with one being in Metro Southwest. The solar array analysis for July and August compared to last year is \$307 ahead.

C. Resolution 2012-5 – Approval of Application for Loan from Water Infrastructure Finance Authority for Equipping of Riverside Well.

Ms. Scrivener made a motion to approve Resolution 2012-5, which authorizes the application for a Drinking Water Revolving Fund loan from the Water Infrastructure Finance Authority of Arizona for the purpose of equipping the Riverside Well. Mr. Offret seconded the motion.

Mr. Offret asked if equipping a well still generally costs about \$500,000. He is concerned that \$400,000 may not be sufficient. Mr. Stratton said his idea of the general costs is correct but other funding was previously approved to make up the difference for this project. Mr. Land said the

\$600,000 for equipping the well is explained in the report. The total costs for Riverside Well are almost 1,250,000.

Motion passed unanimously.

D. Approval of Amended Contract for Collection of Sewer User Fee.

Ms. Scrivener said she would abstain from discussion and vote because she is employed by Pima County Regional Wastewater reclamation Department. Mr. Doyle said he would abstain as well.

Mr. Offret made a motion to approve the attached amended contract with Pima County Regional Wastewater Reclamation Department for the collection of sewer user fees at the rate of \$1.00 per account, extending the termination period to June 30, 2013. Mr. Byrd seconded the motion. Motion passed with three votes and two abstaining.

E. Proposed Rate Adjustment and Scheduling of a Public Hearing.

Mr. Tenney said analysis of the issues facing the District to the Board and Finance Oversight Committee (FOC) was presented last month. Comments from those discussions have been incorporated into the new Board report.

FOC members were supportive of increasing the base rate to collect more of the fixed costs. They also suggested analyzing how high the base rate would need to be to collect all of the fixed costs. The base rate would need to be over \$30.00, which would also mean modifying the commodity rates. Based on the discussions with the FOC and the Board, the preferred alternative is to increase the base rate by \$2.50. This would generate a 4.41% increase in revenue and would be a 6% increase to the average customer.

FOC members also suggested a flat 4% increase for the third, fourth, and fifth tiers to minimize the impact to multi-family customers from the original proposal of a 3%, 4%, and 5% increase, respectively. FOC favors establishment of a designated fee so the District can start generating funds for specific items like capital projects or renewable supplies. The FOC liked the idea of having a higher down payment when projects begin or using a pay-as-you-go approach. The designated fee could start at 10-15 cents and gradually increase. Staff suggested starting the designated fee in the spring.

The average impact of this one increase to customers would be 6-7% and for those using 11,000 gallons or less, the impact would be less than the impact of the revenue increase in 2010. Still in question is whether the Board wants to incorporate anything for low water users, defined as using 0-4,000 gallons. One suggestion was providing an adjustment of 50 cents, allowing low water users to pay an effective base rate of \$19.50 rather than \$20.00. Another alternative is

participation in the Pima County Low Income Program but it is important to note that low water users and low income users are not necessarily the same group.

Mr. Land said the report included a comparison of rates from Oro Valley, Marana and Tucson. Tucson Water recently had a rate increase. The District has the highest base rate, Oro Valley surpasses the District at 10,000 gallons and Tucson Water is highest above 11,220 gallons. When other fees are considered, the District is still fairly competitive.

Mr. Foulk asked how much it will cost to bring in CAP water. Mr. Stratton said costs depend on whether the District partners with Oro Valley or not, and the final pipeline alignment, but estimates are between \$40-60 million total. Mr. Foulk noted designated fees at 10-15 cents would take a long time to raise millions. Mr. Stratton said WIFA programs can front design costs at zero interest. Staff is discussing options with financial advisor Mark Reader to determine variable alternatives for financing that project.

Mr. Offret said the Board will be discussing various types of increases: base rate; upper tiers; and water connection fee and design fee. He would like to see those four items voted on individually because there is one or two he is not too much in favor of. Mr. Tenney said the items can be voted on separately if the Board so chooses.

Mr. Offret said he would like to make sure some very telling numbers are not lost. Fixed costs are 54% of expenses and 75% of fixed costs pay the debt on capital improvements. He pointed out the District is over extended in using debt and he proposed setting a five year goal of reducing that percentage to under 40%. If debt can be reduced, the District will be a healthy organization. He said there is value in having the flexibility to get financing and he does not feel the District has that flexibility at this time. He wants to keep debt in the forefront of discussions, focusing on indicators that show how much debt the District has and what comprises that debt as the Board continues taking a look at lowering fixed costs.

Mr. Foulk added that the \$3.00 RTA fee only services the debt. He would consider raising that fee higher if it would pay down the debt faster because he is also very concerned that the District cannot get another loan. The County RTA piled a tremendous amount onto our small District at one time. Like Mr. Offret, he would like to see the debt reduced. He is determined to get rid of the RTA fee eventually. As the District pays down the debt it will run easier. Having high debt is no way to run a business.

Mr. Offret made a motion to schedule a public hearing for October 22, 2012 at 6:00 p.m. for the purpose of discussing a rate adjustment as described in this report. Ms. Scrivener seconded the motion. Motion passed unanimously.

F. Award of the Construction Contract for Orange Grove Road, Camino de la Tierra to La Cholla, Waterline Relocation and Magee Road, La Canada Drive to Oracle Road, Waterline Relocation, Phase III.

Mr. Offret made a motion to award the construction contract for the Orange Grove Road, Camino de la Tierra to La Cholla, Waterline Relocations and the Magee Road, La Canada Drive to Oracle Road, Waterline Relocations, Phase III projects to Innova Engineering LLC in the amount of \$422,096.00 and to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$20,000.00 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Ms. Scrivener seconded the motion. Motion passed unanimously.

G. Status of Pump Efficiency Program.

Mr. Hill gave a PowerPoint presentation on the pump efficiency program.

Mr. Doyle left at approximately 6:30 p.m.

H. Response to Public Comment made at the August 13, 2012 Board Meeting.

Mr. Stratton said there had been public comments at the August meeting by an employee no longer with the District. His comments were regarding a number of issues he felt appropriate to tell the Board. Mr. Stratton provided a summary and responses in a written report to the Board. He offered to answer any questions. Mr. Foulk thanked Mr. Stratton for the very thorough report.

V. General Manager's Report

Mr. Stratton said he and Mr. Tenney will attend a SAWUA forum Friday. Mr. Tenney is presenting and Mr. Stratton is emceeing. Dave Modeer, Director of CAP, and Sandy Fabritz-Whitney, Director of ADWR, will speak. There will be panel discussions and all Board members are invited to attend. At the end of September the Tri-State Seminar will be held in Primm, Nevada. A number of staff is attending due to the low cost of operations training and certifications. The Western Coalition of Arid States (WESTCAS) Fall Conference will be held at Westward Look here in Tucson on October 10th - 12th. That conference deals primarily with national topics like the Clean Water Act, the Safe Drinking Water Act, and other regulatory and environmental issues. If any Board members would like to attend, Ms. Noltin can make the arrangements. Ms. Noltin gave a brief update on the 20th anniversary events. On October 2, 2012, there will be a private luncheon for Staff, the Board and the FOC. The Open House will be held the same day from 4:00 p.m. to 6:00 p.m.

VI. Legal Counsel's Report

Ms. Goncharsky said Legal Counsel filed a response to the Attorney General's office last week and the response to ADOSH was filed today.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the next regularly scheduled session of the Board of Directors will be held on a Wednesday in October due to Columbus Day, on October 10, 2012. There will be a Rate Hearing on Monday, October 22, 2012 at 6:00 p.m.

VIII. General Comments from the Public.

There were no comments by the public.

IX. Adjournment.

The meeting adjourned at 6:53 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board