

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

**March 28, 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  
Charlie Maish, District Engineer  
Tullie Noltin, Clerk of the Board  
Steve Shepard, Utility Superintendent

**Study Session**

**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 Study Session to order at 5:30 p.m. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret and Judy Scrivener were present.

**II. General Comments from the Public**

There were no comments by the public.

**III. Discussion of Adjustment of Rates & Fees and Consideration of Scheduling a Public Hearing**

Mr. Olsen said the Finance Oversight Committee (FOC) met to discuss the proposed rates and fees, as well as the Requested Fiscal Year 2017 Budget. At that meeting, Mr. Olsen updated the FOC on the Board's confirmation of its recommendation on the 2020 sunset of the RTA Fee, which is important when considering the capital program as part of the requested budget. Mr. Olsen reiterated the revenue stability measures have landed the District exactly where we had hoped,

with 83% revenue stability and only a 0.6% decline in revenue despite the 3.5% decline a consumption.

Mr. Olsen also refreshed the FOC on the Water Resource Utilization Fee (WRUF) progress, which has been gradually increased to 40 cents per thousand gallons, moving the District towards accomplishing the CAP Recharge, Recovery and Delivery System (CAP RRDS) as well as other water resource initiatives. Partnership efforts on CAP RRDS could reduce the impact on the District's revenue needs. The original goal of 70 cents per thousand gallons may not be needed if partnerships are formed but at this time, a 10 cent increase to 50 cents is needed. Within about six months, partnerships and financial contributions should be known and the Board can determine whether the full 70 cents is necessary.

As the schedules and billing inserts describe, the proposed rate adjustments vary according to service area but they all have increases to the Water Availability Rate, or base rate. The proposed tiers shift to allow a basic sustenance amount of 3,000 gallons to be included in the base rate. Staff also wanted to acknowledge those customers who have been conserving water. Last year's adjustment shifted from the consumptive variable category over to fixed revenue. Mr. Olsen also wanted to see if the District could plan for a zero increase in fiscal year 2018, barring any unforeseen circumstances. Ms. Bracken built many rate models accommodating these parameters.

The FOC had a significant amount of discussion about the proposed rate adjustments, which will bring the District to around 90% revenue stability, an ideal place to be with an inverted rate block structure. The first tier would be eliminated and the disparity would be reduced between the lowest and highest tiers. There are some balancing adjustments to the other tiers. The proposed adjustments are an average monthly increase of about 5.5% including the 10 cent increase to the WRUF so the District can move forward with its number one capital initiative, CAP RRDS. The dialogue with the FOC focused on clarifying questions, elaborating on various items and getting a comfort factor with the proposed adjustments.

The FOC voted 8-0 to recommend the proposed adjustments as presented to the Board of Directors for consideration.

Mr. Olsen wanted to ensure the proposed adjustments do not negatively impact the conservation message so he reached out to Water Conservation Alliance of Southern Arizona (Water CASA) for an independent review of the proposed adjustments. Three main points were identified. Water CASA tracked 14 western utilities and found three of them now include between 3,000 and 4,000 gallons in their base rate, whereas three or four years ago, none of them did. This is a trend that water utilities are doing to ensure the basic amount of water is allocated for all customers while promoting revenue stability. Rate shock is avoided with any increase below 10% and the District's current proposal below 6% is reasonable, coupled with a planned zero percent increase in the following year. Mr. Olsen read from Water CASA's letter, "Since this is the first year rates are proposed to include the minimum gallonage in the base fee, it is good to know that customers who use less than the included 3,000 gallons would still pay less than if the structure did not include a

basic or lifeline amount of water included in the base rate.” Water CASA attached comparison figures and supporting documents for their analysis to show that this is a balanced approach for customers on the low end of consumption but also fair and apportioned across the spectrum. This validates this is a right-sized way to address revenue stability and conservation while minimizing rate shock and giving customers a relief next year.

Mr. Olsen said a lot of work went into getting the proposal right. Once the Board’s questions have been answered, an information meeting and public hearing will be scheduled to have discussions with the public.

Mr. Foulk asked about the past two years of rate increases. Mr. Olsen said last fiscal year’s revenue increase was 1.8% to achieve 83% revenue stability, compared to Tucson Water’s 7.3% increase. The prior year, the District had a 2.5% increase and Tucson Water’s was 8.3%. Pima Wastewater recently had two zero percent increases following several consecutive increases of 9% to 24%.

Mr. Foulk asked how CAP water purchases factor into District revenue needs. Mr. Olsen said next year the District is planning on taking its full CAP allocation for the first time ever, although a portion of that allocation is sold to the Town of Marana under an IGA. Part of the reason why taking the full allocation now is so important is the possibility of future CAP rate increases. The allocations taken now go into the District’s water portfolio, and anything in there is saved or banked for future use. The Board will hear an update on the Water Portfolio in a couple of months.

Mr. Foulk expressed concern about how future CAP rate increases impact the District’s stability. Mr. Olsen said there are rate stabilization funds in place that would cushion the impact of CAP rate increases. Mr. Foulk asked if the District might establish a CAP Fee specifically to pay for CAP allocations. Mr. Olsen said the WRUF is equivalent to a CAP Fee because it is for securing and putting to use water resources including CAP water. An additional fee could give customers the perspective of double billing on water resources. Most of the current WRUF revenue goes towards CAP RRDS but the three primary projects identified for WRUF based on projections of costs are CAP RRDS (including the debt service on the project), Cortaro-Marana Irrigation District effluent delivery pipeline, and the interconnect at Lazy B. There are other supportive efforts related to water resources in other Metro service areas.

Mr. Offret said at one time the District did include 3,000 gallons in the base rate and he is pleased to see that trend identified by Water CASA. He thinks this is a great approach.

Mr. Olsen talked about the draft inserts, included in the Board materials. There are four different inserts: Metro Main / Metro Hub; Metro Southwest – Diablo Village; Metro Southwest – E&T; and Metro Southwest – Lazy B. The inserts announce to customers that the District is planning a zero increase in fiscal year 2018. At that time, an Information Meeting could still be held to welcome customer questions and a Rate Hearing can be held to discuss the proposed zero increase and the allow the Board to formally consider based on current conditions at that time.

Mr. Offret said he likes the fact the average monthly usage is included in the inserts. That sends a conservation message as well and customers can see how they compare to the average. Mr. Olsen said that number will keep decreasing as it has since 2007 nationwide, due to conservation and more efficient fixtures replacing older models. The measures the Board took last year have proven positive in balancing those declines.

Ms. Bracken said by changing the Water Availability Rate, the fee for Dual Metering will also change because it is calculated at one-third the base rate. A fee was added for meter testing, small and large, so that the District can recover those costs when needed. The price of meter re-reading has also been updated, which is not used often but sometimes customers insist on multiple rechecks and the fee should cover the costs of those requests. Routine testing is done on larger meters and the fee would not apply in that case. Mr. Shepard said smaller meter tests are requested once or twice a quarter. Inaccurate meters typically under-read rather than over-read. Mr. Olsen said meters that are past a certain threshold in age or volume read are replaced as a continual effort. Ms. Bracken said if staff sees a stuck meter, they will create service order and have it checked and that would not result in a fee to the customer.

Mr. Foulk made a motion to schedule a public hearing for May 23, 2016 at 6:00 pm for the purpose of discussing and possibly adopting an adjustment for the District's water rates as described in this report and discussed at this meeting. Mr. Offret seconded the motion.

Mr. Olsen noted that if the Board accepts the motion, an Information Meeting will be scheduled by staff for the Wednesday prior to the Public Rate Hearing, May 18, 2016 at 6:00 pm to present the proposed adjustments to the public and answer any questions about the District in a more comfortable setting. The Information Meeting is not an official meeting of the Board and the Board should not take any positions or action but the meeting will be noticed in case Board Members would like to attend as part of the audience, in compliance with the statutes.

Mr. Offret said he appreciated inclusion of customer comments and questions from the Information Meeting in the Board materials for the Rate Hearing last year. Mr. Foulk agreed it was helpful.

Motion passed unanimously.

#### **IV. Discussion of Requested Budget for Fiscal Year 2017**

Mr. Olsen said this is the third year staff has leveraged the priority-driven budget process with staff, who identified requirements and ensured they were validated and justified and then move through each line item and allocate as if it was the last dollar to spend. Staff have been fully involved and the prioritization process been completed in a thorough manner. Mr. Olsen believes this a solid budget of justifiable requirements.

Mr. Olsen said the Board has decided future RTA efforts will be revenue funded so there are not any new bonds related to RTA repayment. Costs associated with RTA work on La Cholla from Overton to Lambert are not yet known but it could be \$1 million to 1.2 million. Scenario planning was necessary for this budget with the unknown RTA factors. The number one priority staff wanted

to address this year is the continued drilling and equipping of Oracle Jaynes Replacement Well. There is only about \$1.2 million available in the revenue funded capital program. The Requested Budget includes \$600,000 for Oracle Jaynes Well and \$600,000 for the RTA work. The RTA schedule could be split and run into the following fiscal year, or it could all come within Fiscal Year 2017 and cost \$1.2 million, at which point staff would come to the Board for a decision and shift the funding from Oracle Jaynes Well to RTA work, following up on Oracle Jaynes in the following year instead.

The constraint on the capital infrastructure needs has a domino effect on the capital equipment budget, which are standard items over \$3,000. In the previous budget process, every capital equipment need from years past had been funded or removed from the priority list. Mr. Olsen made a distinction between capital equipment and capital infrastructure. The current list of submitted requirements are new, totaling around \$273,000. The District can fund only about \$150,000 of those because the remaining funds are needed for capital infrastructure. To put that into perspective, each of the last two years, the District was able to fund \$400,000 of capital equipment. After prioritizing, the remaining capital equipment requests that did not fall above the funding line will make up the starting list next budget cycle. Mr. Olsen went over the capital equipment funding list on page 44 of the Requested Budget. Ms. Bracken noted that if the Requested Budget is adopted in its current form, an additional \$25,000 will be added to future operating budgets for the recurring annual costs associated with requested items.

Mr. Olsen talked about additional positions in the Requested Budget, including a Utility Technician I to allow more succession planning within Utilities, an Engineering intern to load-shed work, an additional San Miguel student worker to continue the mutually beneficial program whereby the District receives efficient administrative support while providing on the job training for students, and finally the reclassification of the Assistant General Manager position to Program Analyst which is currently open internally to achieve a right-sizing for the current needs of the District and again, provide a career path for District staff. Mr. Olsen said over the past few years, a number of position descriptions have been rewritten to better fit the current needs of the District.

Ms. Bracken said the Requested Budget includes a 2% cost of living increase and a 2% merit increase for those who are eligible. There is a projected 15% in health insurance coverage, a 5% increase for dental, no change in workers compensation and Arizona State Retirement will have a net change from 11.47% to 11.48%. The total Requested Operating Budget is 5.1% higher than last year, or \$868,914 higher but of that, \$405,386 is for CAP water. In addition to that, salaries and benefits make up \$263,495. There is a \$42,031 increase for premiums related to the Thim Water purchase agreement for new connections in Metro Southwest, which is based on 63 projected meters. Also included is a \$51,000 increase in power costs, \$24,000 for the planned election, \$43,000 for water treatment media, a \$29,834 increase on computer software and maintenance agreements, and a \$10,500 increase on the maintenance of auxiliary power. There are many other smaller increases and decreases offsetting each other. Overall, the total requested expenditure limitation is increasing 2% over the prior fiscal year, including depreciation and non-

cash items. Depreciation is increasing \$125,000 over last year based on actual depreciation currently recording. Indirect costs and fringe rates are on the last page and that is going down a little. The prior year rate, a \$20.00 per hour charge would have been \$64.64 with all overhead applied and now it will be \$63.82.

The FOC had good dialogue about the Requested Budget but most questions were clarifications. The FOC voted 8-0 to recommend the Requested Budget to the Board for consideration in June. The Requested Budget for Fiscal Year 2017 will be brought to the Board for consideration in June, following the outcome of the Rate Hearing on May 23, 2016, which directly affects the Budget.

**V. General Comments from the Public**

There were no comments by the public.

**VI. Adjournment.**

The meeting adjourned at 6:26 p.m.

---

Judy Scrivener, Chair of the Board

---

Tullie J. Noltin, Clerk of the Board