

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

May 23, 2011

**** Board Room ****

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

MINUTES

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

Board Members Not Present: Jim Doyle, Member

District Staff: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Charlie Maish, District Engineer
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

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 Study Session to order at 5:30 p.m. Bryan Foulk, Dan M. Offret, Helen Ireland and Judy Scrivener were present. Jim Doyle was not present.

II. General Comments from the Public.

There were no comments from the public.

III. Discussion of Draft Fiscal Year 2011-2012 Budget.

Mr. Stratton said the latest draft budget summary included a synthesis of updated revenue data and adjustments. The contract services category was reduced by \$125,000 since the Arizona Department of Environmental Quality (ADEQ) will continue its funding for South Shannon. There has been an offset in capital projects based on the Board decision to fund the first year of

the meter replacement program at Hub. As always, metered water sales are being closely watched to see if projections on revenues will materialize.

Mr. Offret noticed the Finance Oversight Committee (FOC) is working on clearer definitions of the contingency and reserve funds. He is fine with waiting for them to assess the situation and has confidence in the FOC's knowledge of financial matters. Mr. Stratton said their primary goal is to gain a clearer understanding of what the funds are for since there is no written policy.

Mr. Stratton said the FOC had made a recommendation for some kind of salary adjustment. As stated in the FOC minutes, the Board will discuss salaries and decide how to proceed before the budget is finalized.

Mr. Offret said he recalled the FOC was split over how this should be handled. Mr. Stratton said the majority of the FOC was supportive of an adjustment of some kind but there was a vocal minority who expressed concern about how the public would view an increase to staff after raising rates. Those supportive of a cost of living adjustment pointed out salaries are a valid operating expense. From staff's perspective, it is difficult to promote something we would benefit from.

Mr. Offret said he does not favor utilizing money for permanent salary increases when the District has raised rates. Mr. Offret said he would like to have a discussion about a one-time bonus starting in January.

Mr. Foulk asked how long salaries have been frozen. Mr. Stratton said June 30, 2011 would mark the end of the third year of the salary freeze. Mr. Foulk asked how staff's workload has been impacted. Mr. Stratton said there has been an increase in workload for Engineering staff with all of the waterline relocations associated with the RTA projects. Utility staff has also had to spend additional time ensuring valves can be shut down for road work. The RTA projects have had an impact on all District staff. Some positions have been vacated and not filled during that time. Mr. Stratton said two positions had not been filled in the past three years but others had to be filled because they were critical to operations, such as meter readers. Christopher Hill, Deputy General Manager, pointed out the District also took on the Metro Southwest acquisition with only one additional position. A Supervisor retired in 2008 and was not replaced. Mr. Hill said staff has had to respond to multiple main breaks due to lines hit during road improvements. Staff time has been greatly impacted and overtime is often required. He said if staff can show the District is doing more with less money, he would feel an increase in salaries is justified.

Mr. Offret asked about the increase in the Arizona State Retirement System (ASRS). Mr. Stratton explained the contributions are changing from a 50%-50% split to favor the employer, 47%-53%. There is also an increase to the percentage of earnings the employee must pay. Mr.

Tenney said the employee will now have over 11% taken from their paychecks for ASRS. Even though the money still belongs to the employee, they will have less disposable income today.

Mr. Foulk said he leans toward a one-time 2% COLA but he is not sold on either option. He would like to be able to justify salary increases. He commended staff for a job well done.

Ms. Scrivener said she is also leaning toward a one-time COLA.

Ms. Ireland said morale is important. She said just because there was a rate increase does not mean staff should not get their money.

Mr. Tenney said typically an amount for salaries is placed into the budget based on guidance from the budget process and it is understood the monies are not authorized until the Board makes a decision. In the past, the issue has been brought back in December so the Board can decide whether to give something in January. The Board agreed it will know more about revenues mid-year. Mr. Stratton concluded staff would include \$74,000 in the budget for a possible one-time bonus and the decision can be made mid-year.

Mr. Offret said regarding morale, he recalled an independent firm that conducted a compensation study a few years ago. The firm provided the format on how to apply compensation on a yearly basis to make sure staff is paid competitively. He suggested it may be a good time to revisit and modify that template. He believes the District can afford to analyze salaries this year to be prepared if increases need to be justified next year. Mr. Stratton could not recall the exact cost of the analysis but said several firms went through the bidding process.

Mr. Tenney said a good foundation was laid years ago but Human Resources (HR) has performed compensation surveys in more recent years more easily with the information readily available through the internet and contacts. With salary stagnation in the public sector, it may not be the best time to do a compensation study. Billie Sue Morelli, HR Specialist, could provide some information and the Board could determine if it would be useful to hire a firm to review it.

Mr. Offret said he was not interested in updating salaries but in having an outside third party look at how the District approaches compensation to determine if changes should be made to that approach.

Mr. Stratton understood this would not be a salary survey but would involve looking at the foundation to see if adjustments should be made for circumstances that have come up over the last ten years. Consultants offer outside perspectives. He will have staff check into costs.

Mr. Foulk asked for clarification on what the study would accomplish. Mr. Offret said the study gave the District a procedure or template to look at salaries across the board, and he thinks the

previous study might be outdated. Mr. Stratton noted the study was nearly ten years ago. Mr. Foulk asked if the study covered every aspect of salaries and benefits, such as pay and time off. Mr. Stratton clarified the study was predominantly about salaries and setting up a template to follow for comparing job descriptions with other like entities. Mr. Offret suggested a benefit survey could be done simultaneously.

Mr. Foulk asked if the review would include factors like “employee happiness”. Mr. Offret said it would let employees know where they stand relative to other organizations. Mr. Foulk is interested in that because even though nobody is happy about making less, sometimes seeing what other sectors are experiencing helps put things into perspective. Mr. Stratton said he hopes staff would see this as something positive because it brings some certainty that the District is doing things right when it comes time to do salary comparisons. It is also important to show how job descriptions compare at other utilities and how that affects compensation.

Mr. Foulk supports the idea of having an outside firm perform the work but wants to see cost estimates and a description of the study. Mr. Stratton said staff would gather cost information for the June 13, 2011 Board meeting.

IV. Status of Public Hearing for Proposed Adjustment to the Bulk Water Rate.

Mr. Stratton noted staff’s report regarding the proposed adjustment to the bulk rate. He added there are currently six residential bulk users and nine commercial bulk accounts. The usage varies widely between users and also month to month. Almost 13 million gallons were used in April by all bulk accounts totaled but that was an anomaly. By contrast, only 4 million was used in March. Contractors working for the District obtain water at no additional charge but their usage is included in usage totals. The current bulk rates are \$5.40 per thousand gallons for residential, and \$16.20 per thousand gallons for commercial.

Mr. Foulk asked how much revenue is generated by bulk water sales, excluding District contractors. Mr. Stratton said the low month was \$1,000 and the high was \$20,000 but the average month is just below \$8,000. Mr. Foulk would like to see how revenues from current users would be affected if the commercial bulk rate is adjusted down to \$4.50. He would also like to consider what will change when construction is completed. He is concerned that lowering the rate would result in gains from Ashton but losses from others. Mr. Foulk concluded he would like more analysis so the District can be sure it arrives at the right dollar amount. Specifically, he would like historical usage and revenue figures on current bulk accounts over the past twelve months.

Mr. Offret said the water is coming out of the same aquifer no matter where contractors get it. He asked how much it costs to drill a temporary well. Charlie Maish, District Engineer, said about \$70,000. Ms. Ireland said all of the proposed bulk water adjustments in the report show water costs higher than \$70,000 and wondered why Ashton would not drill. Mr. Stratton said the cost to equip and power the well after drilling increases Ashton's expense. Mr. Foulk pointed out drilling a temporary well also involves other costs like permits, time and hassle. Mr. Hill touched on the fuel costs and risks associated with contractors having to travel to other parts of town for water.

Mr. Stratton said the District should consider not only Ashton Company but any bulk water user. Staff will try to approximate how many contractors might be enticed to use District water if bulk rates are lowered. Hopefully by the time construction has slowed down, metered sales will have picked up.

Mr. Hill said the District has done an excellent job encouraging conservation because even though population has increased, usage has been stable. He does not think construction usage will affect that. Mr. Offret said the reason commercial bulk rates are three times residential is because the District wanted to send an effective conservation message but if Ashton is going to use water from the aquifer anyway, the District might as well profit from it. He favors lowering the commercial bulk rate but he prefers a level around \$7.00 to continue the conservation message. The District may not be able to accommodate Ashton. He supports the idea of making the change temporary and does not see a need to change the residential portion of the bulk rate.

Ms. Ireland thought it would be helpful to know what price Ashton would accept. Mr. Stratton said when he met with them, \$4.50 was their number. Above that figure, it becomes more cost effective for Ashton to drill a well. Ms. Ireland asked how it would impact the District if the rate was lowered but Ashton decided to still drill their well anyway. Mr. Stratton indicated the District's replacement well's efficiency would be impacted in that case.

Ms. Scrivener said she does not like the reality but it is still the reality. She is leaning towards making the water more affordable and accessible rather than trying to push the issue and have Ashton drill a well; however, she is uncertain of where the rate should fall.

Mr. Stratton said staff will work on gathering more information for the rate hearing. Mr. Tenney confirmed the June 6, 2011 public hearing has been noticed.

Mark Dotseth, Project Manager at Ashton Company, was in the audience. He talked about the various factors considered in their calculations and said District water rates over \$4.50 per thousand gallons were cost prohibitive.

V. General Manager Update.

Mr. Stratton said the Regional Water Assessment Task Force (RWATF), of which he is a member, had hoped to present its report on the think tank process in early June but has been delayed. He is also awaiting comments on the final report from the CH2M Hill wheeling rate study so he can review it with the Board.

VI. Adjournment.

Ms. Scrivener made a motion to adjourn. Mr. Offret seconded the motion. The meeting adjourned at 6:28 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board