

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

October 26, 2005

**** Board Room ****

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

MINUTES

Board Members Present: James Tripp, Vice Chair
Jim Doyle, Member
Dan M. Offret, Member
Judy Scrivener, Member

Not Present: Suzanne Downing, Chair

District Staff: Mark Stratton, General Manager
Keri Sylvan, Legal Counsel
Warren Tenney, Clerk of the Board
Alice Stults, Recorder

Public Hearing

I. Call to Order and Roll Call

James Tripp, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Public Hearing to order at 6:00 p.m. James Tripp, Jim Doyle, Dan M. Offret, and Judy Scrivener were present. Suzanne Downing was not present.

II. Presentation about Proposed Adjustments to Rate Structure

Mark Stratton, General Manager, provided a brief presentation outlining the 1st Phase of the New 10-Year Capital Improvement Program (CIP). The main projects included in the 1st Phase are the Northeast Reservoir, Northeast Reservoir Booster Station, four major transmission mains, fire hydrant programs, and the Linda Vista Renewable Supply Line. The projects that are ready to begin are the Northeast Reservoir, Northeast Reservoir Booster Station, and the Magee Road Transmission Main Phase 3. Mr. Stratton noted that in March 2005, Metro Water District voters approved the \$28 million bond with an 83% approval of those voting. The bonds will fund the New 10-Year Capital Improvement Program.

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Mike Land, Chief Financial Officer, said that in September 2005 the District entered into a loan agreement with the Water Infrastructure Authority (WIFA) for \$15.375 million to begin the CIP projects mentioned above. He explained that the interest rate for the life of the loan is 2.877%.

Mr. Land said that prior to the bond election in March 2005, customers were informed that five, 4% rate adjustments would be needed to pay the loan; however, this does not fully cover the debt retirement. A portion of the money will come from the operating budget. The first rate increase is being planned to coincide with the beginning of the first CIP projects.

Mr. Land briefly explained the three rate adjustment scenarios that were being considered by the Board. Members of the public that were present asked clarifying questions regarding the rate adjustment percentages. Mr. Land noted that all three rate adjustments being considered are structured to provide the District with 4% in generated revenue. He explained the rate changes that would occur for residential customers under the three proposed rate structure options. Scenario #1 would impact all customers equally with a straight 4% increase to the existing rate structure. Scenario #2 includes a 4% increase to the base rate but no increase to the first tier. The second, third, and fourth tiers would be increased by 8%. Scenario #3 would increase the base rate by 6% with no increase to the first tier. There would be a 6.5% increase for the second, third and fourth tiers.

Mr. Land explained that if approved, adjustments to the water resource fee would assist in funding the District's Central Arizona Project (CAP) water. Rate increases in the water resource fee were also being proposed to generate revenue to acquire and utilize renewable supplies to minimize reliance on groundwater. Mr. Land said the water resource fee has not been increased since 1993. The proposed water resource fee would increase the rate for each new installation from \$188 to \$541 for a 5/8 inch meter. Marty Drozdoff, District customer, noted that he had read in the District newsletter that the District would need to begin using CAP water sooner than originally anticipated. He asked if revenues from the water resource fee would be used to pay for CAP water. Mr. Land replied that if the increase for the water resource fee was approved, the revenue it would generate would assist in funding the District's CAP water.

Mr. Land said revenues from a proposed rate increase in the system development fee would ensure growth does not negatively impact the District's water system. He explained that a 5% increase was being proposed which would raise the fee from \$1,300 for a 5/8 inch meter to \$1,365, if passed.

Gene Maloney, District customer, asked what percentage of the District's area remains undeveloped. Mr. Stratton said approximately less than 10% of property within the District boundaries is undeveloped at this time. Mr. Land noted that with little development remaining in the District's service area, the water resource fee and the system development fee would not generate a great deal of revenue. It is anticipated that the system development fee, if passed, would provide approximately \$20,000 per year, with the water resource fee generating approximately

\$138,000 per year. Mr. Land said that each year the debt service and the amount of revenue that is generated would be reviewed by the Board for its consideration and possible future rate increases.

Mr. Maloney said the District sent information to its customers, prior to the bond election held in March 2005, indicating that the District would impose a 4% rate adjustment over the next 5 years for a total of 20%. Mr. Maloney said that this information provided to District customers was incorrect, and that the true rate increase would be closer to 30% over a 5 year period. He said he believed the customers were misled. Mr. Stratton said that this was not the information that was provided to customers. Sam Ray, District customer, said that after completing his calculations he believed the amount would be in the 20% range.

Mr. Maloney asked if Oro Valley was considering bringing the CAP transmission line across Tangerine Road. Mr. Stratton explained that a partnership between the District, Marana, Oro Valley, and Flowing Wells Irrigation District has been working with the Bureau of Reclamation (BOR) for a number of years to study and analyze the CAP transmission line. He said the partnership is also looking at a treatment plant and the processes used to ensure that the quality of water is comparable to what it is currently. Additional analysis and planning is needed so as to have as little financial impact on the entities involved in the partnership as possible. Mr. Stratton explained that this project is crucial to the District's future due to the rate at which the District wells are dropping. Mr. Stratton added that the District is currently recharging its CAP allocation in the Marana area, utilizing its groundwater savings allocation. Local farms in the Marana area are currently using the District's CAP water. Mr. Stratton said the District is attempting to avoid using the Groundwater Replenishment District for subsidizing water it is losing due to the drop in wells as this would be expensive water for the District to purchase.

Mr. Maloney asked about the District's water quality in comparison to that of Tucson Water. Mr. Stratton said the District's water system has a lower total dissolved solids (TDS) level than that of Tucson Water. He added that the District is currently involved in a pilot study to determine ways to lower TDS amounts in treated water.

Mr. Land said that the majority of customers that called the District to comment on the proposed rate structure preferred rate structure scenario #2 or #3. Mr. Land added that under rate structure scenario #2 the rate increase for home owners associations would be approximately 7%.

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

Mr. Maloney asked where the Central Arizona Project (CAP) treatment plant would be located. Mr. Stratton said under the current discussions and plans, the CAP treatment plant would be located next to the CAP canal near Tangerine and I-10. Mr. Maloney asked why the new storage tank (Northeast Reservoir) was going to be located on Magee Road. Mr. Stratton said the storage tank located on Magee Road will be used to enhance the District's current system. Mr. Maloney asked how far away the CAP system would be located from the District. Mr. Stratton said the District's

service area is approximately 12 miles from the site being considered for the CAP treatment plant. Mr. Maloney asked why the District could not locate the new storage tank (Northeast Reservoir) near the CAP treatment plant, and suggested that the District acquire property in the area of Tangerine and I-10 for this purpose. He also suggested that the new storage tank be constructed out of steel as opposed to concrete so that it does not leak, and that it be placed above ground. Mr. Maloney said he believes it is foolish to build the new underground storage tank so far from the proposed CAP treatment plant.

Mr. Stratton explained that the new storage tank was being placed underground due to its size. He said that the new Northeast Reservoir would be constructed out of concrete and would have a liner. He added that the Herb Johnson reservoir is constructed out of the same material and there has not been a problem with leaks. Mr. Maloney asked how the water would get down to the valley from the reservoir. Mr. Stratton said that the water will flow by gravity into the system resulting in more stabilized pressure in the system. Mr. Maloney said he was still confused as to why the new reservoir was being located so far away from Tangerine and I-10. He added that the storage tank in his neighborhood was recently torn down and asked why. Mr. Stratton said that many of the District's storage tanks are old and have begun to leak, or they are too small to provide adequate storage.

Mr. Maloney asked what size of transmission main would be required from the CAP treatment plant to the storage tank, and from the storage tank to the distribution system. Mr. Stratton explained that the size of line that may be used has not been determined yet for the proposed CAP treatment plant to where it will connect with the District's system. Mr. Maloney asked if a transmission main were struck by a construction company would the water from the reservoir be depleted. Mr. Stratton said the water contained in the storage reservoirs would not be depleted, but the water in the pipe lines would be.

Mr. Stratton again explained that the proposed CAP treatment plant and delivery system is not part of any project that the District is currently working on, nor is it a part of the Northeast Reservoir. The CAP treatment plant and delivery system is still in the evaluation and planning stages and will not be funded by the current CIP bond monies. Mr. Maloney said again that he doesn't understand the water being pumped from the Tangerine/I-10 area. He suggested the District buy property in that area. Mr. Stratton explained that currently water is being pumped long distances within the District's service area and this will continue until such time that CAP water is brought into the District from the Tangerine/I-10 area. Mr. Stratton said that the proposed CAP treatment plant is still a long way off.

Mr. Maloney said that he thinks the District should work for the customers and save money and not spend any. Mr. Maloney asked Charlie Maish, District Engineer, if the District had a trunk system in place along with a grid system, and asked why both were needed. Mr. Maish said the District has several distribution lines. He explained that the District's water system was not adequate for

distribution of the water that meets fire flow requirements and that is why the District pursued its CIP.

Mr. Maloney said that at his work place an auditor periodically checks computers to see if employees are doing outside work on their computers. He asked if the District currently does this, and if not, could it be put into place to save employee work time. Mr. Stratton replied that the District does not currently run checks on employee's computers. He explained that with the size of the District and the number of staff that use computers, the District has the ability to have oversight of employees on a day-to-day basis. Mr. Maloney said that with the size of the District entity he believes that the employees should be policed.

Mr. Maloney asked when was the last time that Board members went out and talked to water customers and the public one-on-one. Mr. Tripp noted that he had done that earlier today. Mr. Doyle said that he has lived in Tucson all of his life, for 47 years, and has been a Board member for 10 or more years. He explained that when he has ran for election to the Board of Directors he walked the community and talked to customers to obtain signatures. He said that at any time he would be happy to discuss with customers any water issues, and added that the public is invited and made aware of Board meetings so that they can attend to learn what the District is doing. Mr. Maloney noted that he does not attend Board meetings, but would like the Board members to go out in the public and talk to customers one-on-one to inform them of what the District is doing.

Mr. Maloney asked why Mr. Stratton was not willing to give up his merit award so that other salaried employees could receive greater pay raises. Mr. Stratton noted that employees do receive the entitled pay raises.

Mr. Maloney asked which employees drive their District vehicles home at night and on weekends. Mr. Stratton explained that only a few District employees drive the vehicles home; only those employees who are expected to respond at any time and staff who are on call for emergencies.

Mr. Maloney asked if Metro Water had one of the highest rates in the State. Mr. Land said the District is in line with Marana and Oro Valley with the amount charged for water rates and not too different from Tucson Water after their large customer base is factored in.

Mr. Drozdoff explained that he preferred proposal #2 for the rate adjustment. He said there are a number of retirees living in the District and he believed proposal #2 would have the least amount of financial impact on them and other District customers.

Patty Jansma, District customer, said she prefers proposal #2 also, for the same reason as Mr. Drozdoff stated.

Mr. Ray said he also liked proposal #2. He noted there are a large number of retirees in his immediate neighborhood also. He said that he assists some of the seniors with replacing faucets,

pipes, aerators, etc, in order to save water and money. Mr. Ray added that many of his neighbors are taking out their lawns and replacing them with desert landscapes and low water usage plants to conserve water and money.

Warren Tenney, Assistant to the General Manager, mentioned comments that were received from District customers via email and telephone prior to the Public Hearing. One customer noted that they could not afford any rate increase, another customer said he favored proposal #2 because he felt it promoted water conservation. Another District customer said he favored proposal #2 because it provided a higher rate for those customers that use more water. A few other customers also said that they favored proposal #2, with a couple of customers indicating they favored proposal #3.

Mr. Offret made a motion to close the public comment portion of the Public Hearing for the proposed adjustments to the rate structure. Ms. Scrivener seconded the motion. Motion was unanimous.

IV. Consideration and Possible Action Relating to Water Rates and Fees

Mr. Tripp asked Mr. Tenney to respond to Mr. Maloney's earlier comments of what Mr. Maloney believed the literature that was mailed to District customers contained regarding the increase in cost to the average customer. Mr. Tenney explained that the literature mailed prior to the bond election in March 2005 stated that 'Metro Water District's \$28 million CIP bond package will impact customers with an estimated annual 4% rate increase for five years'. The ballot only asked for approval of the \$28 million. The ballot itself did not state anything regarding the rate increase and how it would impact customers.

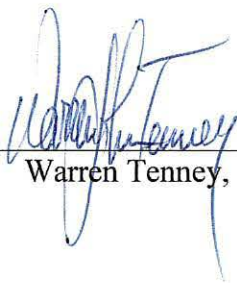
Mr. Offret said that he believes the Board should only consider a rate increase proposal with the amount that District voters believed they voted for. With confirmation from Mr. Tenney regarding the literature that was mailed to voters, Mr. Offret said he was comfortable with the Board considering all three rate adjustment proposals.

Mr. Offret said he is not comfortable with voting on the water resource fee at this time. He said he still had questions regarding CAP; i.e., the District's role in the transitioning of using CAP, the financial aspects, and who will pay for what. Mr. Stratton said the District and partners will be looking at these items more in depth in the future. He noted that the Board could vote on this item at a later date. Ms. Scrivener said she also preferred to wait on voting on this item until such time as there is more information available. Mr. Offret noted that he is comfortable with the increase in the system development fees. Ms. Scrivener and Mr. Tripp agreed with Mr. Offret.

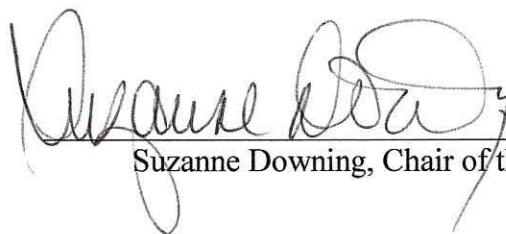
Mr. Offret made a motion to approve and adopt Resolution 2005-7 to make adjustments to the established water rates per rate adjustment Proposal #2, and increase the system development fee for the Metropolitan Domestic Water Improvement District effective November 1, 2005. Ms. Scrivener seconded the motion. Motion was unanimous.

V. Adjournment

The public hearing adjourned at 6:53 p.m.



Warren Tenney, Clerk of the Board



Suzanne Downing, Chair of the Board