

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

**February 23, 2004**

**\*\* Board Room \*\***

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

**MINUTES**

Board Members Present:            Dan M. Offret, Chair  
   Suzanne Downing, Vice Chair  
   Jim Doyle, Member  
   James Tripp, Member  
   Dennis Polley, Member

District Staff Present:            Mark R. Stratton, General Manager  
   Warren Tenney, Clerk of the Board  
   Alice Stults, Recording Secretary

**STUDY SESSION**

**I.     Call to Order and Roll Call**

Dan M. Offret, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the meeting to order at 5:35 p.m. Dan M. Offret, Suzanne Downing, Jim Doyle, James Tripp, and Dennis Polley were present.

**II.    General Comments from the Public**

There were no comments from the public.

**III.   Discussion of Proposed Rate Structure Adjustment**

Mark Stratton, General Manager said the intent of the study session was to allow dialogue and discussion by the Board regarding the proposed rate structure adjustments and public hearing. Staff created several different rate structure adjustment scenarios. Mr. Stratton asked Mike Land, Chief Financial Officer, to discuss the three rate adjustment scenarios.

Mr. Land said under proposed rate structure scenario #1, staff looked at removing the remaining 1,000 gallon allowance, having the summer conservation rate be in place all year long, and adding a fourth tier for those using 35,000 gallons and above. He reviewed the other tiers of this proposed

rate structure and compared them to the current rate structure for the Board's review. Mr. Land said scenario #1 would generate additional total annual revenue of approximately \$571,877. He noted that 94% of the District's customer base are residential and have 5/8 inch meters. The average usage per year per District customer is 11,400 gallons. Under scenario #1, all customers would be impacted.

Ms. Downing asked how many customers are in the high usage rate tier under the current rate structure. Mr. Land said approximately 25% of the customer base are considered high users under the current rate structure. Only 12% would fall under the highest usage tier of 35,000 gallons and above. Ms. Downing asked if they are commercial customers. Mr. Land explained that some are multi-family; or have ponds, pools, orchards, bigger lots with grass or vegetation, etc.

Mr. Land reviewed scenario #2. This proposed rate structure would generate the most revenue, with \$601,643 additional revenue per year. All customers would be impacted in this scenario by the removal of the 1,000 gallon allowance. It differs from scenario #1 in that it only has three rate structure tiers, and scenario #1 has four.

Mr. Land explained scenario #3, which dropped the commodity rate somewhat due to the removal of the 1,000 gallons in the base rate. This would have less impact on the average customer. Those customers using 12,000 gallons per month would not see a change in their rates, and only a slight increase for those using below 12,000 gallons per month. The high users would be targeted, thus encouraging water conservation. Mr. Land said scenario #3 is a four tier rate structure. This scenario would generate approximately \$515,000 in revenue per year.

Mr. Land explained how the three scenario rate structures compared to Tucson Water, Town of Marana, and Oro Valley. He said when creating the proposed rate structure scenario's staff wanted to make sure the District remained comparable to other water utilities in the area.

Mr. Tripp asked how much additional revenue it would take for the District to maintain its current service level. Mr. Stratton said some projects were previously paid from the bond sale and since that money will be expended by the end of 2004, the District is looking at a shortfall of \$230,000 for these projects. He said there are still a number of additional maintenance and capital improvement projects that do need to be funded. Mr. Tripp asked what would be staff's recommendation of the three proposed rate structure scenarios. Mr. Stratton said scenario #3 best meets the financial needs of the District, and has the least amount of impact on the majority of District customers.

Mr. Offret asked if the break even point when comparing the District's proposed rates with Tucson Water is 18,000 gallons per month. Mr. Stratton said yes, and explained that Tucson Water has significantly more customers so the base rate can be lower but it has a much higher rate for its large users. He noted that Tucson Water's development fees have brought in additional money for them.

Mr. Offret asked about cost of living adjustments (COLA) for fiscal year 2004/2005. Mr. Land said a COLA has been budgeted for discussion purposes at 2% for the upcoming fiscal year, and it is

anticipated there will be increases again in employee health insurance costs. Mr. Offret noted that the District has not had an increase in its number of staff for several years.

Mr. Polley noted also that the number of new customers has continued to increase each year. The number of staff available per customer has declined over the years. Mr. Stratton said the District is unique in that it is self contained with its ability to process payroll, conduct its own engineering services, has its own finance and human resources departments, etc. He added that there are no other public water utilities in the state that have these types of services within their utility because they are generally tied to a municipality.

Mr. Offret asked how staff determined the rates in the current rate structure. Mr. Land explained the current rate structure was originally established in 1995 by a rate committee. Since that time, the rates have been increased yearly across the board by 4%.

Mr. Land noted that the District may be seeking bond approval in November 2004 or during the early part of 2005. He asked for perspectives on how customers would respond if the rates were increased in May 2004 and then again in November 2004 or March 2005 from a bond election. Mr. Stratton said he believed that if the bond election were held in March 2005 it would provide time to educate customers on the need for a new bond program for capital improvements.

Mr. Tripp said if the District provided enough valuable information to the customers they would be more willing to accept the increase in the current rate structure for general operating costs, as well as a bond approval for a new capital improvement program. Mr. Stratton said he agreed, and recommended a series of newspaper articles to enforce what the District is proposing, and to educate customers and get the word out. The customers need more education on issues such as the lowering levels of ground water, mainline replacements, additional storage needs, water conservation, etc. Mr. Stratton explained that in addition to the user rate is the system development fee which has not been raised for a number of years. He noted the importance of showing the existing customers that new customers are paying for system development fees, and that the costs are not being shared by all the existing customers. Mr. Tripp agreed.

Mr. Offret said he agrees with raising the current rates, but wants to make sure the District remains competitive with other local utilities. Mr. Stratton agreed. Mr. Offret confirmed that scenario #3 would provide less financial impact to the majority of District customers, and said that scenario #3 would be his preference of the three scenarios's presented.

Ms. Downing said the District needs the capital improvements, but that it is important to be able to say that only 66% of customers would be minimally affected by a new rate structure. She noted that scenario #3 is her preference also. Ms. Downing said that customer education regarding the District's operational and capital improvement needs is important. She believes that customers are more aware of what they pay each month as opposed to the amount of water used and the percentage of increase that might be imposed.

Mr. Offret asked if Marana and Oro Valley had rate structures similar to those of the District. Mr. Stratton said they are fairly similar. He noted that Tucson Water's development fees would help them to keep from raising rates for low users, but the District would still be comparable. Mr. Land said Marana does not have a tiered structure at this time.

It was the consensus of the Board to proceed with presenting rate adjustment scenario #3 at the public hearing.

Ms. Downing asked when the bond election would take place. Mr. Stratton said it would probably occur during March 2005. This would prevent it from getting lost in the general election held in November 2004.

#### **IV. Discussion and Possible Action Regarding Scheduling of Public Hearing for Rate Adjustment**

Mr. Stratton said the Board approved a motion at its February 9, 2004 meeting to hold a public hearing. Warren Tenney, Assistant to the General Manager, provided the Board with a draft copy of an information insert that will be mailed to District customers to educate and advise them of the public hearing to be held on the proposed rate structure changes.

Ms. Downing said it is her belief that the District will receive a large number of phone calls from customers asking for a more clear explanation of the changes to their water bill than what is provided on the mailer. She suggested keeping the informational mailer very simple so that it is easily understandable to all customers. She also suggested including something in the mailer for the more intellectual person. She believes the charts in the mailer may not be looked at or understood by many customers and it would be easier to just keep it very simple. Mr. Tenney said it would be difficult to know how many people really look at the mailer, but that similar mailers have been useful to inform customers of proposed rate changes in the past. He believes that the charts have been a valuable tool for many customers to use to compare rate structures. Mr. Tenney explained that it was staff's intention that the mailer would be mailed during March 2004.

Ms. Downing said that many customers are not aware of how many gallons of water they use per month. She believes customers are more aware of only the cost. Ms. Downing suggested putting something in the newsletter asking customers to look on their bill at how many gallons they use before they look at the cost. From now until March 2004 customers should be encouraged to focus on gallons used, not cost. Mr. Offret agreed and noted that this would assist conservation efforts as well.

Ms. Downing asked how many conservation programs have been scheduled for summer 2004. Mr. Tenney said that currently there are two conservation workshops scheduled. Ms. Downing suggested that the District be more aggressive in promoting conservation activities. Mr. Stratton said staff will also review the public hearing mailer to determine if it could focus on gallons used as opposed to cost only.

Ms. Downing asked if it would be possible to highlight the amount of gallons used on each customer's bill. Mr. Land said that the bills could be designed so that the amount of gallons used would be highlighted or shaded. He noted that the bill forms are ordered in three month supplies so they could be changed rather quickly.

Discussion occurred on how to make the public hearing mailer more understandable. Mr. Tenney said staff will review the mailer and work on incorporating the changes.

The Board agreed to hold the Public Hearing at 6:00 p.m. on April 14, 2004, as previously discussed at the February 9, 2004 meeting.

Mr. Stratton said the District has historically based its rates on meter size. Based on scenario #3, staff will provide the Board with additional information on the various meter sizes, and what the financial impact will be from the proposed rate changes.

Ms. Downing noted that Tucson Water has a number of television commercials offering to assist their customers with audits and to check for leaks and suggest methods of reducing water usage. She asked if the District has done something similar in the past. Mr. Tenney said the District has provided customers with information to conduct self audits. Ms. Downing suggested the District make its customers aware that it offers the same types of services as those offered by Tucson Water.

Mr. Doyle left the meeting at 6:35 p.m.

#### **V. General Manager's Report**

Mr. Stratton said a memo had been generated from staff regarding increased chlorine levels in the water. He noted that during times of Homeland Security low threat levels the District would not be required to use as much chlorine as during times of increased threat levels.

Mr. Stratton said that the Paseo del Rio Subdivision is in an unincorporated area of Pima County, outside the City of Tucson boundaries. There is currently no water service agreement in place for this subdivision. The District is taking a pro-active approach and has corresponded with the developer offering the water services provided by the District. Staff has also had conversations with the developer and will continue those discussions. At this time staff is doing everything possible to develop the customer base in this area. Mr. Stratton said the Board will be kept apprised of any new information regarding this matter.

Mr. Stratton said the District has received a notice of claim for payment from a credit agency regarding Duncan Pump and the work they completed on Wanda well. He added that there were also issues with Duncan Pump regarding work done at Hub Well #5. Doug Metcalf, Legal Counsel, is overseeing and working on this issue. Chris Hill, Deputy Manager, said this is a demand for money for products and services that staff feels were covered under warranty. Mr. Stratton said staff will put together information on the work done by Duncan Pump at Wanda well and Hub Well #5, and the amount of money paid to date, for the Board's consideration.



Mr. Stratton recently attended the WestCAS conference in Las Vegas and said there was much conversation regarding the availability of upcoming matching grants that would be available for various projects. He has asked staff to begin looking at the various programs and grants available that the District may qualify for.

Mr. Stratton said the District received an answer to its request to Arizona Department of Environmental Quality (ADEQ) regarding the South Shannon design and construction costs. ADEQ said it could fund the South Shannon design and permitting this year; however, they do not have the funds for the construction but would attempt to fund the construction next year. Mr. Stratton said it may be a problem to get the consultant on board in time to complete the design work. MS said if the District could utilize a District Engineer to assist in the design work it should be completed on time. He will see what staff can do to expedite this project and will keep the Board apprised of staff's progress.


Ms. Downing asked if the District could use the same techniques to lower arsenic levels at the Shannon well that were used in the Hub. Mr. Hill said the Shannon well has an issue with VOC's, not arsenic, and the flow rate has to be decreased to lower the levels.

Mr. Stratton noted that a tour of the Hub Service Area has been scheduled for Wednesday, February 25 at 3:00 p.m. for all interested Board members.

Mr. Tenney explained that he has been going to Phoenix each Friday to attend the CAGRD stakeholders working group. The group has been discussing the CAGRD ten year proposed conceptual plan. CAWCD has recognized that they need to make some changes to the conceptual plan. Mr. Tenney said that the discussions are preliminary and it is yet to be seen what will actually occur.

## **VI. Adjournment**

The meeting adjourned at 6:55 p.m.

  
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Dan M. Offret, Chair of the Board  
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Warren Tenney, Clerk of the Board