

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

**January 26, 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

Board Members Not Present:       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**

Suzanne Downing, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the meeting to order at 5:10 p.m. Suzanne Downing, Jim Doyle, and James Tripp were present. Dennis Polley was not present. Dan M. Offret arrived at 5:14 p.m.

**II.    General Comments from the Public**

There were no comments from the public. Mr. Stratton noted that several members of the Bond Oversight Committee were present.

**III.   Discussion of New Capital Improvement Program**

**A.     Summary of Potential Projects.**

Mr. Stratton said staff is fine tuning the list of capital projects that should be included in the new Capital Improvement Program (CIP). He referred to the current list of new CIP projects and noted that the Northeast Reservoir, Magee Road Transmission Main Phase 3, and booster facility are all

part of the same project in association with the reservoir to ensure that water can get to it. The Linda Vista Transmission would allow for recovered CAP water that the District stored in the Santa Cruz River Basin to be pumped to the Herb Johnson Reservoir. These combined projects total approximately \$15.6 million. Additionally, there were projects identified under the current CIP that due to shortages in funding were not completed. These projects total approximately \$1.5 million.

Mr. Stratton noted the District's need to acquire reservoir sites, particularly for the "C" Zone Reservoir. The cost for these sites are not included in the above mentioned \$17.10 million. Currently the District has identified over \$8 million in mainline replacement projects that have already been designed. In the Hub service area, additional storage needs have been identified, and mainline replacement has been considered but not designed. The cost for the Hub service area projects is \$2.5 million. Mr. Stratton said the total cost for all these projects is \$30.2 million.

#### **B. Financing Options.**

Mr. Stratton said the Municipal Property Corporation (MPC) may be utilized for property acquisition for future District Reservoir needs. Property acquired through the MPC would be part of the District's debt service, but not a part of a bond authorization. This would allow for more flexibility in obtaining the best sites.

Mr. Stratton explained that staff has discussed funding the remaining items identified in the new CIP through the Water Infrastructure Finance Authority (WIFA). Financing through WIFA would eliminate the bond issuance expense, and the interest rate would be much lower. Projects could be funded individually through WIFA, making it possible for the District to finance the projects as needed, or in phases. The debt service through WIFA increases slower, allowing the District to collect more revenues to offset future debt service.

Mike Land, Chief Financial Officer, said with WIFA financing the new CIP projects would need to be submitted to WIFA for approval prior to being put before the voters for approval. If the voters did not approve the new CIP, applications submitted to WIFA could be withdrawn. Mr. Land explained the financial scenarios and the amount of net revenues available for debt after expenditures with a rate increase of five percent.

Ms. Downing asked if the District were to finance the CIP through WIFA, could it stay on top of the actual costs for projects and not have to realize inflation costs. Mr. Stratton said that inflation will always have an impact; however, with WIFA the District would be in a better position to structure the times that it finances projects according to when interest rates are lower.

Mr. Tripp asked which of the CIP projects were the most crucial. Mr. Stratton said that the additional reservoir capacity in the northeast, along with the Linda Vista Transmission Main and Booster Station, and the Magee Road Transmission Main are essential. The Linda Vista Transmission Main is the key to reducing the groundwater pumpage in the CDO Basin. If this does not take place, the District would have the potential need of drilling new wells sooner than anticipated. Mr. Stratton added that for the 2004/2005 fiscal year budget a replacement well is

being considered for Tucson National West. Alcott well also has a limited lifetime, as does another well in the Hub service area.

Mr. Stratton explained the District is using all of its CAP allocation for recharge projects this year. Due to the levels of groundwater decline, some of the existing District wells cannot be used for recovery. Mr. Stratton noted it is anticipated the drought could last for many years. In addition, he said that staffs have had discussions with the Bureau of Reclamation to attempt to secure funding for future construction of a CAP transmission main that would run from the canal to the District's service area.

### **C. Customer Opinion.**

Mr. Stratton met with Paul Ulan of Primary Consultants today to discuss a customer opinion survey. Mr. Ulan assisted the District with its last survey conducted during 1996, before the bond election in 1997. At that time it was easier for the District customers to understand the need for improvements as they were dealing with main line breaks, service line breaks, power failures, water outages, etc. Today, District customers have become accustomed to having a more reliable system and it will be more difficult to educate customers on the need for additional funds for future improvements. Mr. Stratton said regardless of a bond election, it is important to solicit feedback from customers to determine overall satisfaction with the District. Therefore, he recommends that the Board provide staff with direction to proceed with a survey. The survey would be developed with input from Mr. Ulan and the Board.

Mr. Stratton explained that through the District newsletter, staff has attempted to educate customers on the District's CIP needs. Ms. Downing suggested offering work shops or educational programs. Mr. Tenney noted that the District, in conjunction with Water CASA, could continue to offer educational work shops. Mr. Stratton noted that a small number of customers are reached through workshops. He suggested that a more aggressive campaign be launched in general by the Board members to contact customers such as the Chamber of Commerce, schools, and homeowner associations.

Mr. Stratton asked if the Board approved of a survey. The Board was in favor of conducting a survey of District customers to solicit feedback.

Mr. Tripp said he was concerned as he noted there were not any new wells listed on the new CIP project list. Mr. Stratton said if the District is looking at bringing in renewable water supplies from outside the District, new wells will not be needed as quickly. This would enable the District to pick the wells where the water is being pumped from and to use the wells more for meeting peak demands. It is anticipated that in the future wells can be financed through the general fund. He noted that a well could be drilled during a fiscal year, with the equipping of the well taking place the following fiscal year.

#### **D. Impact on Current Rate Structure.**

Mr. Stratton mentioned that last year the 1,000 gallon allowance was removed from the 2,000 gallon allowance in the District's base rate. At that time, the Board also discussed removing the remaining 1,000 gallon allowance from the rate structure. Previous discussions also included the possibility of a higher tier structure to promote further conservation. Mr. Stratton said that if the Board wanted to implement these changes it could be done now if the confidence level was high that the exempt well legislation would pass. The current language in the exempt well bill indicates January 2005 for the statute to become effective. Mr. Stratton asked the Board for recommendations on a date for a rate hearing to discuss the elimination of the remaining 1,000 gallon allowance and/or the creation of a higher tier structure.

Mr. Stratton also asked the Board its thoughts on when the bond election should take place. He explained that it could take place during the general election, which will also be the time of the election of two new members to the Board. However, it is staff's belief that it could get lost with all the other issues involved in the November 2004 presidential election and campaign issues. Mr. Stratton said Mr. Ulan had suggested holding the bond election in March 2005 so that the issue is more visible. A bond election in March 2005 would mean that the District would have to pay the entire cost for the election. Mr. Stratton noted that the results of the survey will indicate which direction the Board may want to take.

Mr. Stratton said another consideration for generating revenue would be to increase system development fees. He noted that it has been some time since the development fees have been increased. Mr. Land said he has been talking with the City of Tucson who is currently conducting a study on connection fees. He will contact the City to obtain a copy of its report and the amount charged for fees.

#### **IV. Status of Directors for the District Municipal Property Corporation**

Mr. Stratton noted the existing members on the MPC. Under current District policy, no more than two Board members are allowed to serve on the MPC at the same time. Generally the MPC meets twice per year but has not had a meeting since 2002. Mr. Stratton explained that it should meet by April 2004. Current member Mike Blakley is moving out of the District June 1, 2004. Manfred Eigenbrod and Izaro Urreiztieta have both indicated their willingness to remain on the MPC Board.

Mr. Stratton asked for the Board's recommendation on the MPC position currently held by Pete Schlegel, past Board member who was appointed at the time because he was a District Board member. Ms. Downing noted she prefers that two Board members serve on the MPC. Mr. Offret said he believes Mr. Schlegel should remain on the Board in light of Mr. Blakley moving out of the District. Ms. Downing agreed. Mr. Offret is the only current Board member serving on the MPC. Mr. Stratton said he would contact Mr. Schlegel to determine if he had interest in continuing to server on the MPC.

Mr. Stratton mentioned that the immediate purpose of the MPC is for location and acquisition of property. He asked if a person with a strong real estate background would better serve the needs of the District. Mr. Tripp agreed. Ms. Downing pointed out that, to fill the District's needs, it would take a person who specializes in raw land lot real estate. The possibility of locating a person with this type of background and knowledge within the District that would be willing to serve on the MPC may take a considerable amount of time, if at all possible.

This item will be put on the Board agenda for its February 2004 meeting.

Mr. Stratton said staff has been in contact with Mark Reader, financial advisor, to look at financing options for the MPC. Because of the timing issues of real estate transactions, the District does have a \$2 million dollar line of credit that can be used short term, for financing. Mr. Stratton suggested that the MPC Board interview prospective real estate agents and select the best one that would fill the District's need.

#### **V. Update on Legislative Issues 2004**

Mr. Tenney said Southern Arizona Water Users Association (SAWUA) is moving forward on the exempt wells legislation. Mr. Offret asked why it did not move forward during 2003. Mr. Tenney said it was due to lack of support. This year it has gained more support, and approval, from the Realtors Association.

Mr. Stratton said the recovery well legislation appears to meet the needs of water utilities, so it is moving forward also. It is anticipated this bill will move through the legislature smoothly.

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

Mr. Stratton said the District is a member of the NW Chamber of Commerce. The District has been absent from that organization due to schedule issues of staff. Mr. Stratton explained that Ms. Downing is willing to attend the Chamber meetings. He asked for direction from the Board, and if other members would also like to attend the Chamber meetings. The Board agreed that Ms. Downing could represent the District at those meetings.

Ms. Downing thanked staff for the repairs done to the Casas Adobes Reservoir walls.

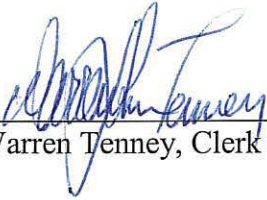
Mr. Stratton noted that Board members previously expressed an interest in touring the Hub service area facilities. The Board agreed that they would contact staff at a later date to advise of a date to schedule the tour.

Mr. Stratton said he will be attending a WestCAS conference the week of February 16, 2004 in Las Vegas, NV.

Mr. Stratton noted that the Bureau of Reclamation's budget process has begun for 2004/2005. During the next week the District will write a letter to support certain budget financial packages, in particular, the northwest liability storage. The letter will be provided to the Board for its signature.

**VII. Adjournment**

The meeting adjourned at 6:30 p.m.

A handwritten signature in blue ink, appearing to read "Warren Tenney", is written over a horizontal line.

Warren Tenney, Clerk of the Board

A handwritten signature in black ink, appearing to read "Dan M. Offret", is written over a horizontal line.

Dan M. Offret, Chair of the Board