

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

October 27, 2003

**** Board Room ****

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

MINUTES

Board Members Present:	Dennis Polley, Chair Dan M. Offret, Vice Chair Jim Doyle, Member James Tripp, Member
Board Members Not Present:	Sue Downing, Member
Bond Oversight Members Present:	Barbara Gelband, Chair Sheila Bowen, Vice Chair Art Ruff, Member Dan B. Williams, Member Jim Stevenson, Member Robert Carstens, Member Izaro Urreiztieta, 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

Dennis Polley, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the study session to order at 5:31 p.m. Dennis Polley, James Tripp, Dan M. Offret, Sheila Bowen, Art Ruff, Dan B. Williams, Jim Stevenson, Robert Carstens, and Izaro Urreiztieta were present. Barbara Gelband arrived at 5:38 p.m., and Jim Doyle arrived at 5:45 p.m. Suzanne Downing was not present due to illness.

II. General Comments from the Public

There were no comments from the public.

III. Review of Current Capital Improvement Program and Its Accomplishments

Mark Stratton, General Manager, explained that the joint study session was an opportunity for staff to discuss with the Board of Directors (Board) and the Bond Oversight Committee (Committee) the status of the current Capital Improvement Program (CIP), future CIP projects, and potential funding.

Tom Caito, Senior Civil Engineer, provided a status review of the projects yet to be completed in the CIP, beginning with the transmission mains. He said the District is currently advertising for bids for the La Cholla Transmission Main Phase 3. It is expected the bid contract recommendation will be presented to the Board at its November 2003 meeting. Construction of the La Cholla Transmission Main Phase 3 will begin December 2003. The construction of Phase I of the Magee Road Transmission Main has been completed. Phase II of the Magee Road Transmission Main is currently under design with the completion date of the design anticipated to be early 2004. The preliminary evaluation of the Linda Vista Blvd Transmission Main is complete, and design plans are being developed with completion anticipated August 2004. Mr. Caito said the plans for the Paseo Del Norte project, which is the last transmission main project scheduled, have been put on hold to determine if funds will be available to complete the project.

Mr. Caito said the well modification plans for the Ina/Marlene/Thornycroft wells has been completed. Construction at the Thornycroft site is complete, and construction at the Marlene well site has recently begun. Once completed, construction at the Ina/CDO well will begin. Mr. Caito said site improvements and well equipping has begun at the Mona Lisa well. It is anticipated the construction will be completed January 2004.

With the Board of Directors recent approval of a consultant for the NE "C" Zone Reservoir, staff is working with the consultant to develop the scope, fees and schedule for the design of the reservoir. A preliminary agreement has been entered into between the District and the Lutheran Church on Magee Road for possible acquisition of a site for the NE "C" Zone Booster Station. All of the scheduled mainline replacement projects for the District have been completed at this time, Mr. Caito noted.

Mr. Caito explained that twenty three of the District's main service area well sites have been equipped with telemetry and are on line, and five well sites remain to be equipped. Mr. Caito said three well sites in the Hub service area have been equipped with telemetry and are on line, one site is equipped with telemetry and staff will bring it on line in the near future, leaving two remaining sites in the Hub area to be equipped and brought on line. Staff is currently awaiting review of the final plans and specifications from the District's design engineer for the Hub auxiliary power project.

Mike Land, Chief Financial Officer, explained that staff completed projected cost estimates through September 2003 for the CIP projects. He said the District will have a shortfall of \$930,000. The Paseo Del Norte project that has been placed on hold was estimated to cost \$901,000. Mr. Land explained that these monies will be used to complete other projects thus making up the shortfall. To

date, \$17 million has been spent on both issuances of the bonds. It is anticipated that all bond monies will be expended by the end of 2004.

IV. Identification, Prioritization and Discussion of Needed Capital Projects for New Capital Improvement Program

Mr. Stratton said staff has focused on the immediate short term future needs of the District when considering capital projects for the new CIP. The first priority is constructing the NE "C" Zone Reservoir which would meet the District's upper northeast area water needs. In addition to the reservoir, a booster station and additional transmission mains would need to be constructed. The projected cost of these projects is \$5,600,000.

The next item identified for the new CIP is the "A" Zone Reservoir site acquisition. Mr. Stratton said a new site needs to be identified for future storage needs of the District. The cost for this item is approximately \$1 million. Staff also wanted to explore the possibility of the NE Reservoir being enlarged and located so as to reduce the need for the new "A" Zone Reservoir.

Mr. Stratton explained that the last two items identified for the new CIP is the Linda Vista Transmission Main Phase 1, and accompanying main booster facility for pumping the water to the Herb Johnson Reservoir. The source of water would be considered recovered CAP water the District stores in the Santa Cruz River Basin. Mr. Stratton noted that with the availability of this water the District would not need to drill new wells. The estimated cost for these projects is \$8,400,000. The total estimated cost for all new CIP projects identified is \$15 million.

Mr. Stratton provided more detailed information regarding the new CIP, and evaluations considered by staff when identifying the critical projects. He noted that clearly the District is in need of additional storage needs to accommodate the immediate and future water needs within the District. The challenge will be to identify available reservoir sites.

Once monies for the new CIP projects have been identified, Mr. Stratton said staff will give consideration to prioritization of mainline replacements that are still needed in the District's main service area and the Hub service area. The Hub area is also in need of additional storage facilities. Mr. Stratton noted that staff is also currently evaluating treatment of arsenic in the Hub service area.

V. Discussion of Financing Options for New Capital Improvement Program

To date, the District has had \$23,859,866 available from bonds for construction funds. Mr. Stratton said staff has evaluated and discussed means to minimize the cost of the needed improvements and projects. The new CIP projects would cost an estimated \$15 million. Mr. Stratton added that the purchase price of properties within the District for reservoir sites is costly and could potentially affect the availability of funds for other projects.

Mr. Offret asked about the possibility of applying for and receiving grant monies, pursuing property taxes, and partnering with other utilities that may be in need of the District's infrastructure. Mr.

Stratton explained that staff has investigated the possibility of receiving grants; however most of the grants are in amounts of \$50,000 or less. With respect to partnering with other utilities, Mr. Stratton said that he has had discussions with Marana regarding the Linda Vista Transmission Main. He explained that Marana is still in the planning stages of what it is doing internally and cannot provide the District with anything definite at this time. Flowing Wells Irrigation District has a CAP allocation they would like to begin using if the District can convey their water through the District's system. If this occurs, the District may be able to recuperate some monies through a fee from Flowing Wells. Mr. Stratton noted that the District has the authority to generate revenue by imposing an assessment on property taxes; however, previous Boards have not approved of this as a preferred means to generate revenues. It was felt customers would not be receptive to property tax increases to finance the CIP.

Barbara Gelband, Bond Oversight Committee Chair, agreed that the District should stay away from property tax increases to potentially finance the CIP. She added that she believed District customers would perceive Metro Water as a municipality, and would be less willing to approve an assessment on property taxes as they would other financing mechanisms the District has used in previous years.

Mr. Stratton said that traditionally when considering long term debt the District has utilized the sale of water revenue bonds. This method can be relatively expensive due to incurring expenses such as bond counsel, financial advisors, bond performance, and underwriter costs. With the Water Infrastructure Financing Authority (WIFA) the interest rates are lower, the bond issuance costs are eliminated, and there is no required time frame to spend the monies. The debt is incurred only on the individual project(s) the District would currently be working on. With water revenue bonds, the District would accrue interest and would have greater independent control of the timing of its projects. Mr. Stratton said that WIFA has a priority list, but typically they are ready with the money when the projects are ready to begin. With funding from WIFA, the money must be spent on the individual project for which the money was identified. The interest rate used in the analysis by staff is approximately 5% over a 20 year payback period. Each million dollars of debt would require slightly over $\frac{3}{4}$ of a percent rate increase.

Mr. Land provided a spreadsheet detailing the projections for WIFA financing, noting the District would have two years to begin making payments to WIFA once it receives financing. The spreadsheet showed projections of a 2.5% water rate increase for O&M costs. However, this rate increase did not ensure an adequate fund balance after 2010. Another spreadsheet revealed that using a slightly higher water rate increase of 4% to 5% would provide the District with adequate coverage and fund balances. Mr. Land noted that the District's O&M costs have been consistent and have not required a rate increase since 1995.

VI. Discussion of Timeline for New Capital Improvement Program

Mr. Stratton said previous Boards have sought voter authorization as opposed to Municipal Property Corporation for long term debt. He discussed the amount of time previously spent by the District to prepare for a bond election. In looking at a new bond election, the dates available are March 9, 2004, May 20, 2004, and November 2, 2004. The earlier dates may be used for other bond elections

which may be controversial. If the District considers the November 2, 2004 date, the Board has until July 2, 2004 to call for that election. This would also coincide with the election of two Board members.

Mr. Stratton said staff has discussed the need for a customer survey similar to what was done with the last bond election. The survey would provide consensus on customer's opinions for items such as system improvements, immediate needs, and primary concerns. Mr. Stratton recommended conducting a survey in order to receive valuable information and direction from Metro customers. The survey should include questions regarding the financial impact of future projects on customers. Mr. Stratton explained that it would be in the District's best interest to look at the long term when asking customers for financing approval and avoid frequent rate bond approvals from its customers.

Mr. Offret said he wished to go on record that he believed the District should consider a property assessment or Municipal Property Corporation funds. He said these alternatives should be included on any potential customer survey. Mr. Offret also said customers should be asked on the survey the percentage water rate increase they would be willing to pay.

Ms. Gelband asked if the cost of projects were projected to reflect their future liability. Mr. Stratton said staff will consider inflation values and provide future liability projections to the Board and to the Committee. Ms. Gelband asked if there was a cap on the amount of debt the District could incur. Mr. Stratton replied yes. He noted that staff will determine a dollar amount for new CIP projects that will be used to provide to the customers when conducting the survey.

Mr. Stratton explained that additional meetings will be scheduled to continue discussions.

VII. Adjournment

The meeting adjourned at 7:06 p.m.



Clerk of the Board

Dennis Polley, Chair of the Board