

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

March 24, 2003

**** Board Room ****

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

MINUTES

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

Board Members Not Present: Dennis Polley, Chair

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, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the meeting to order at 5:34 p.m. Dan M. Offret, Jim Doyle, James Tripp, and Suzanne Downing were present. Dennis Polley was not present.

II. General Comments from the Public

There were no comments from the public.

III. Approval of Intergovernmental Agreement for Multi-Jurisdictional Effluent Managed Recharge Project

Mr. Tripp made a motion to approve the Intergovernmental Agreement for the Multi-Jurisdictional Effluent Managed Recharge Project. Mr. Doyle seconded the motion.

Mr. Tripp asked who had written the Intergovernmental Agreement (IGA). Mr. Stratton said it was written by Chris Avery, attorney for the City of Tucson. Mr. Tripp asked if Michael McNulty, Legal Counsel for the District, reviewed and approved the IGA. Mr. Stratton replied yes.

Ms. Downing asked for a brief explanation of the IGA. Mr. Stratton said under state regulations the District is allowed obtain credits for managed recharge effluent. A significant amount of effluent flows down river through Marana. This water would be lost unless the flow was stopped, and managed recharge of the effluent took place. Mr. Stratton said that all the current owners of effluent are parties in the IGA. Cortaro/Marana Irrigation District (CMID) and Town of Marana are acting as operators for the reporting responsibilities of the facility. A minimal amount of funding is required from the District and other participants to manage the facility. Mr. Stratton said the District's credits would be approximately 500 acre feet per year out of the 2,000 acre feet available to the District.

Mr. Offret asked what the District's monetary responsibility was. Mr. Stratton said the total cost is approximately \$32,000 per year for initial capital improvements, and the District's share is 7%. He said the District also pays for annual dues; however, the amount is minimal. The District can recover effluent within its own boundaries without regulations or restrictions from the IGA. If CMID or the Town of Marana recovers effluent on behalf of the District, the requirements set forth in the IGA would need to be followed. Mr. Stratton noted that if groundwater levels recover and rise in District wells, it will do recovery in the wells.

The motion to approve the Intergovernmental Agreement for the Multi-Jurisdictional Effluent Managed Recharge Project passed unanimously.

IV. Discussion of Draft Fiscal Year 2003-2004 Budget.

Mr. Stratton explained that the District would have a positive balance carryover at the end of fiscal year 2002-2003; however, the budget for fiscal year 2003-2004 will be tight. He said the District has not had an operating budget increase since 1995. The District needs to look at options to generate additional revenues for fiscal year 2003-2004, as well as future years. Mr. Stratton said he has discussed revenue generating possibilities with Mike Land, District Chief Financial Officer. In their deliberations they discussed rate increases, staffing levels, and capital projects. Mr. Stratton suggested that this issue be discussed in greater detail at the Board study sessions in April and May.

Mr. Stratton said capital projects have been cut from the Utility Division's 2003-2004 budget due to revenue shortfalls. He said Steve Dean, Utility Superintendent, prioritized the capital projects in anticipation that some funding may become available. Mr. Offret asked if staff had made as many cutbacks as possible on the upcoming fiscal year budget for the Utility Division. Mr. Stratton replied yes, and noted that additional cuts could be considered if it should become necessary. He said that in prior years the District has been pro-active in its maintenance program and would like to maintain that momentum if possible.

Mr. Land said the District still has an allowance in its base rate for the first 2,000 gallons of water, which is essentially free water. The District and one other utility are the only water utilities left in the Tucson area to have a gallon allowance in its base rate. Mr. Land said that this should be an area of consideration when looking at ways to increase revenues for the District. He suggested that customers on fixed incomes could continue to have an allowance if they were able to provide proof

of income and senior citizen status, and their average water consumption was less than 6,000 gallons. Mr. Stratton said that eliminating the allowance in the base rate would equate to approximately \$400,000 per year in revenue.

Mr. Land said that by establishing more than one tier in the District's rate structure would mean additional revenues for the District. He added that by lowering the high user rate from 25,000 gallons to 15,000 gallons would generate approximately \$250,000 per year. Mr. Land noted that by changing the allowances and lowering high user rate consumption amounts customers may use water more conservatively.

Mr. Offret asked what percentage of the revenue projections indicated in the proposed budget for fiscal year 2003-2004, were based on rate increases. Mr. Land said the projections were not based on any possible rate increases, only 200 new connections. Mr. Offret asked if other water utilities in Tucson and the surrounding areas were anticipating rate increases for the upcoming fiscal year. Mr. Stratton said the City of Tucson was looking at the connection fee impact for new development to boost their revenues. Mr. Land noted that Oro Valley increased their rates in November 2002.

Mr. Doyle explained that the District should be cautious when considering rate increases so that customers do not feel compelled to drill their own wells.

Mr. Offret asked where the cuts were made to the 2003-2004 Utility Division budget. Mr. Land explained that most of the cuts were made in Capital Expenditures and Capital Projects.

A. Budget Items for Engineering Division.

Mr. Land explained that the Hydrology Section was moved from the Engineering Division's budget into the General Manager's budget. Salary amounts are down from previous years in the Engineering Division budget due to the move of the three Hydrology positions. Mr. Land said the increase in health benefits is anticipated to be approximately 17.5%. The retirement contributions are anticipated to increase from 2.49% to 5.7%. Merit increases have been budgeted for at 4%, and the Cost of Living Adjustment is currently budgeted at 2%. Mr. Stratton said that salaries and benefits will be discussed in further detail at the Board study session in April 2003.

Mr. Land said the Engineering budget, for the most part, remained the same as in the 2002-2003 budget. He noted that a new budget account item was added for Corrosion Monitoring. Charlie Maish, District Engineer, explained that monies budgeted for corrosion monitoring will pay for a consultant to check various areas along the District's transmission line. The monitoring will determine if corrosion is occurring underground. Mr. Maish said the lines should be checked approximately every five years as a precaution so that potential problems could be address prior to a catastrophic loss.

Mr. Maish said the large copy machine and plotter located in the Engineering Division are no longer supported by the manufacturer and parts are not available. He noted that one machine could be purchased that would do both jobs.

Mr. Maish said the largest monetary items for the Engineering Division are the water main line relocation projects. The District is unable to anticipate or project the cost for the main line relocations due to road improvements conducted by Pima County. Mr. Maish said that Pima County does not always provide the District with information regarding their planned projects, so it is difficult for the District to allocate funds.

Mr. Dean suggested that the Utility Division bid on some of the main line relocation projects. Mr. Tripp said allowing the Utility Division to bid and be awarded some of the construction projects would be the preference if the District could complete the project for less money. Mr. Stratton said that staff would have to be cognizant of the established time frame for completing the work so that penalties would not be imposed. Mr. Maish noted that statutes limit in-house bidding per dollar amount.

Ms. Downing noted her frustration for water line relocation whenever Pima County does road improvements. There is the potential for the District to have to revisit the same site in less than ten years depending on projects planned by the County. Mr. Maish said that in some instances the District has prior rights that are established, which means the County would be responsible for any water line relocations.

Mr. Stratton said Pima County wants the District to sign a franchise agreement for its utilities. He explained that staff has asked legal counsel for the District to set up a meeting with Pima County Attorney's Office to discuss this issue. Flowing Wells Irrigation District has been denied right-of way permits by Pima County until they sign a franchise agreement. Mr. Stratton said that Flowing Wells Irrigation District had prior rights in a number of areas and they are concerned that if they sign the franchise agreement with Pima County it will negate their ability to have Pima County pay for their relocations.

Mr. Maish said the Board recently authorized Malcolm Pirnie to investigate potential improvements at the South Shannon site. There has been a loss of production at the well. Mr. Maish said the District is waiting for the report from Malcolm Pirnie in order to determine cost estimates for suggested improvements. Mr. Stratton said the contamination at the South Shannon site could spread to the Deconcini Well if it is not properly treated.

B. Budget Items for Utility Division.

Mr. Dean said that currently the District has 125 motors and pumps, of which 30 percent are between 10 to 15 years old. He explained the requested amount for motors and pumps in the Utility budget was increased due to the age and condition of the motors and pumps and anticipated repairs.

Mr. Dean explained that Blackwell storage tank is need of refurbishing. Mr. Stratton said that at present Blackwell cannot be taken out of service as it is the sole source feeding the Westward Look and Ina/Oracle area. This is a major commercial area and Blackwell would be out of service for approximately three weeks. Mr. Dean suggested hiring a diver to examine the tank and make any necessary repairs. Mr. Stratton recommended that Linda Vista storage tank be scheduled for

complete repair and maintenance in 2003-2004. He noted that further information regarding Blackwell's condition and repair cost would be gathered in the meantime.

Mr. Dean said that refurbishment of wells is his biggest maintenance concern. Included in the 2003-2004 budget were monies to refurbish six District wells. Mr. Dean noted that it was his belief if wells were not refurbished and maintained, emergency repairs could be more costly than the preventative maintenance. Mr. Stratton recommended refurbishing five wells during 2003-2004, reducing well maintenance from \$145,000 to \$116,408.

Mr. Stratton said the Well Site Security budget amount was adjusted from \$100,000 to \$50,000. He explained that staff will identify security items and measures to implement during fiscal year 2003-2004.

Mr. Stratton said the amount budgeted for electricity power for wells and booster stations was \$880,000. He noted that it is anticipated the District will use less than this amount if the water usage goes down to normal amounts. Mr. Tripp asked if it was possible for the District to receive a lower interruptible rate. Mr. Stratton said the District must establish a reliable supplemental source of auxiliary power at the well sites before it would be able to justify an interruptible rate. However, the cost to equip the wells with auxiliary power is substantial. Mr. Stratton said staff is researching auxiliary power alternatives. Mr. Doyle recommended the District apply for grant monies that may be available. Mr. Offret asked how much would be saved if auxiliary power was provided at all the sites. Mr. Stratton replied 30%. He noted that there was approximately a four year pay back period.

Mr. Land noted that the line item for electrical supplies was reduced from \$40,000 to \$20,000. Mr. Dean said that 40% of the District's booster stations and well sites have not been brought up to current electrical codes. Mr. Stratton said that at the beginning of the formation of the District, the sites were not brought up to code by the electrician hired at that time to complete the work. There has been work done on the sites to bring them up to code; however, there is still work that needs to be completed.

Mr. Stratton explained that the amount budgeted for the purchase and installation of meters was increased from \$46,000 to \$66,000 due to eliminating monies budgeted for the meter replacement program.

Mr. Stratton said the purchase of a backhoe has been reconsidered from the 2002-2003 budget. He noted that the backhoe would be a four year expense and due to budgetary concerns at this time it was not feasible to include the backhoe in the budget. Mr. Dean explained that the yearly repair and maintenance cost of the backhoe exceeds \$5,000 per year. Mr. Stratton replied that the cost of purchasing a new backhoe would be \$23,500 per year, making it cost prohibitive at this time to purchase a new backhoe.

Mr. Stratton explained that several other items were deleted from the 2003-2004 Utility budget under the capital equipment category. The items were not considered essential for staff to be able to complete their work.

Mr. Offret asked how many service lines a power mole would be used on if the District were to purchase one. Mr. Dean responded by explaining that a power mole is similar to a miniature boring machine. He said it is used to pull or push service lines underground. Mr. Dean noted that the power mole is used on new and existing service lines.

Mr. Tripp asked if the items deleted from the Utility budget could be prioritized in the event funds become available at a later date. Mr. Stratton replied that the items have been prioritized. Mr. Stratton said that many of the non-bond capital projects in the Utility budget were not funded because of budget constraints, including mainline replacements.

Ms. Downing asked how old the four vehicles were that are scheduled for replacement in 2003-2004. Mr. Land said they were 10 years old or older. He noted that the vehicles were included in the vehicle matrix that was completed last year per the Board's direction. Mr. Stratton said that he would provide Ms. Downing a copy of the current vehicle matrix which, among other things, evaluates the vehicles and provides a vehicle replacement plan.

Mr. Offret explained that he is uncomfortable that many of the maintenance items were deleted from the Utility 2003-2004 budget. He asked if the budget could be reviewed quarterly to determine if funds may become available. Mr. Stratton replied yes. Mr. Land noted that the Board could look at non-traditional ways to increase revenues. For example, if the Board approved a 1,000 gallon allowance rather than a 2,000 gallon allowance for residential customers in July 2003, approximately \$400,000 in revenue would be available to fund many of the maintenance items.

Mr. Doyle said he was in favor of looking at the 1,000 gallon allowance. Mr. Tripp was also in favor, and thought the District should consider modifying its rate structure. Mr. Offret agreed. Mr. Stratton said that staff would bring recommendations to the Board for its consideration at the April 2003 Board meeting. He noted that a public hearing could be held in May or June 2003 if the Board chooses to modify the current rates.

The Board took a short break at 7:25 p.m. and returned at 7:29 p.m. Mr. Doyle left at 7:30 p.m.

Mr. Land reviewed the Utility Hub Service Area budget. He noted that many of the items remained at current funding levels. Mr. Land said that the largest increase in the Hub 2003-2204 budget was for maintenance and repair of the old storage tank. Mr. Stratton said that taking the old storage tank out of service for repair would not be an issue now that the new tank is operable.

Mr. Offret asked about the payments on the Hub purchase. Mr. Land said the monthly payments were \$14,000 per month. Mr. Offret asked if the District would be purchasing vehicles for the Hub area. Mr. Land said the vehicles currently used at Hub were not scheduled for replacement for another four years.

Ms. Downing said she too was concerned that certain maintenance and repair items were deleted from the Utility budget because of funding. Mr. Stratton said that the Board could establish rates at any time. He said the Board could make recommendations in April 2003, and the public hearing

could be held in May 2003. The Board agreed to consider scheduling a public hearing regarding rates at its April 2003 meeting.

V. General Manager's Report

Mr. Stratton explained that much of his time has been spent working on the budget and meeting with division managers to review their proposed budgets.

Ms. Downing asked if the District had received a written letter of appreciation from the Project Graduation committee. The District recently donated \$1,000 for support of safe graduation events. Mr. Stratton said the District had not received an appreciation notification as of this date. Mr. Downing asked that the Board be notified or provided copies if a letter of appreciation or acknowledgement of the donation is received by the District.

VI. Adjournment

The meeting adjourned at 7:40 p.m.


Clerk of the Board
Dennis Polley, Chair of the Board