

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

October 26, 2009

**** Board Room ****

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

MINUTES

Board Members Present: Jim Doyle, Chair
 James Tripp, Vice Chair
 Bryan Foulk, Member
 Reb Guillot, Member
 Dan M. Offret, Member

District Staff: Mark Stratton, General Manager
 Warren Tenney, Clerk of the Board
 Tullie Noltin, Recorder

Public Hearing

I. Call to Order and Roll Call

Jim Doyle, 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. Jim Doyle, James Tripp, Reb Guillot, Bryan Foulk, and Dan M. Offret were present.

II. Presentation about Proposed Adjustments to Rate Structure

Mr. Stratton explained the current rate increase is the last annual increase associated with the 2005 bond election. The voters were informed there would be a series of five 4% rate increases. There is a need for an additional increase to ensure bond debt coverage for the District's junior bonds. The overall increase is about 6.75%. Based upon discussion with the Board, the goal is to minimize the impact on the majority of users. Staff looked at raising the base rate by about 5%, but the first tier would be brought to down to 11,000 with only a 3% increase. Customers who use the average amount, 10,000 gallons per month, would see a 4% increase. The higher tier users would make up for the additional 6.7% that is needed to ensure debt service coverage.

Mr. Stratton said the District is looking at the conservation side of large meter usage. The history for large water users has not shown a reduction in water use that has been seen in single-family users. District staff referenced AWWA information on the accuracy of large meter ratios in a report to the Board. Ratios are somewhat generalized because it is difficult to get a high level of accuracy with the different velocities and pressures in larger meters. The Board has been given a proposal to reduce the ratios on large meters greater than 4 inches. The tiers are based on the recommended 20:1 ratio as opposed to the 25:1 ratio historically used, with the intent to help large users use water efficiently. There are no increases recommended on connection fees.

Mr. Stratton said that based on revenues and pending change orders, the RTA fee funds may pay off the debt for that project in less than the estimated two years. However, the District received a notice from Pima County about three projects planned for 2011. There is no indication of the potential impact to the District, but staff will work to minimize the impact as the County plans develop.

Mike Land, Chief Financial Officer, explained the overall proposed increase is 6¾%. The District arrived at that number by taking the projected 4% increase which covers debt service while taking into consideration what is needed to bring the District into compliance with its bond covenants. The adopted 2009-2010 budget is slightly under what is needed for debt coverage. The District decided a rate increase of 6¾% would generate \$480,000. The District's 2009-2010 budget was cut by over \$3,000,000, which is almost 19%. Operating costs alone were cut \$1,200,000, or 15%. The District has tried to cut back as much as possible but still falls short with regards to debt coverage. New development has been slow, there has been less water used, and vacancies have increased. The proposal is focusing on residential customers, which make up 94% of the customer base. The first tier would drop down to 11,000 gallons. The handout shows this is comparable to other utilities, with many having a much lower initial tier. The rate increase itself is a 5% base rate; 3% on the first tier; 4% on the second tier; 5% on the third tier; 6% on the last tier. The highest tier currently begins with 32,000 gallons and would be adjusted to 28,000 gallons. If a customer uses no water, they would see a 5% increase. The average customer uses 10,000 gallons, which would result in a 3.8% increase, or \$1.42 per month. The large meter customer base would go to a 20:1 ratio and would impact 23 customers total. The District would also combine consumption with the fire meters. The large meters would be revenue-neutral under the proposal. The overall effect of the 12,000 to 11,000 tier adjustment affects 500 customers. About 80% of the customer base in winter is using under 11,000 gallons, and 60% in the summer. Mr. Land stressed the need to bring the debt coverage into compliance.

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

Emlyn Fletcher, 7763 N. Sun Flair Drive, said she and her husband have lived in the Rosevale neighborhood for 5½ years. She is concerned about the increase in water and sewer costs. She believes about 50% of her neighbors are renters, and there are four foreclosures in her area. She understands Metro Water District has to relocate the waterlines because of a Pima County road improvement project. At her previous residence in a Chicago suburb water was priced fairly, but there were spots on their clothing. Finally, water was rerouted from Lake Michigan and their monthly water bill rose to \$125-\$150. She is against the road project and rate increases.

Mr. Stratton said under the license agreements held with Pima County, the District is required to relocate waterlines in areas of conflict. The relocation of over 18,000 feet of pipe in association with the Pima County road projects is being paid for through a separate fee, approved in June, and is not included in this rate increase. There are three more Pima County projects planned for 2011. The impact on the District is unknown because the designs are not complete. The District is working with Pima County to minimize the impact of these future projects on the District. Mrs. Fletcher asked if customers can expect more rate increases after 2011. Mr. Stratton said there are eight County projects within the District's service area covered by the RTA fee. He said there will be other projects coming but until the designs are complete, the impact on the District is unknown.

Mrs. Fletcher said she has concerns about water quality and safety because she had dysentery. Her clothes have iron spots on them after washing. She asked how the water is tested. Chris Hill, Deputy General Manager, said the water is tested in licensed labs. Over 60 samples are tested per month. The water comes from wells and is very pristine. The District adds chlorine to disinfect and spends about \$250,000 on testing every year. Mrs. Fletcher asked if she can bring in a sample for testing. Mr. Hill said that under certain conditions customers can provide water samples. Mrs. Fletcher will contact Chris Hill to make arrangements.

Mr. Stratton said the sewer fees are set by the Pima County Board of Supervisors and the District includes sewer charges on the water bill. The District has no part in setting sewer fees. Mr. Land added that most complaints received by the District have been about sewer increases, and customers are referred to Pima County Wastewater.

Timothy George, 2472 W. Dante Way, said he is a native of Tucson. He feels he should not have to pay more because new hookups are down and fewer houses are being built. He had a leak in his irrigation system back in June and his bill went up. He realized the billing period had been a 38 day cycle. He was pushed into the third tier because the meter had not been read on time. He was told the District was shorthanded during that reading cycle and the District pro-rated his bill, but the next bill was even higher. He feels it is unfair, and would like to see more consistency in meter reading. He pointed out that under Oro Valley rates he would be paying less. He has an

extensive drip irrigation system. Before he moved in to his house, he made sure he could afford to pay the utilities but the rates have gone up so much he can no longer afford to live here. Property taxes and utility costs are overwhelming. His daughters have left home so he is using less water but paying more. His bill has gone from \$13 per month to \$43. He also believes it is disingenuous and deceptive to propose a rate increase averaged over 12 months, while refusing to offer averaged annualized budget billing to the customers. He feels the customers are being used as a revenue source and the customers have no choice on water providers, so they are forced to accept fees and increases. He is also concerned that the District encourages conservation and in turn raises rates when customers do not use enough water. There have been five consecutive years of rate increases, and customers cannot keep up.

Mr. Stratton apologized for Mr. George's 38 day read, and will work with Mr. Land to remedy the situation. Mr. George cited an Oro Valley report that usage is down this year. Mr. Stratton confirmed water usage is down 3-4% across the region. Mr. George said it is unfair that people are using less but paying more. Mr. Stratton pointed out the District has cut its budget by \$3,000,000. Mr. George thinks that is great but feels the consumer is not benefitting. He said he has fixed his leaks and cut back to stay under the 12,000 gallon limit. If the tier is adjusted down to 11,000 gallons there will be no way to stay within the first tier.

Mr. Land asked Mr. George if he had ever requested a leak adjustment. Mr. George said a District worker came out and was very helpful. His pressure valve needed to be replaced. He experienced an irrigation leak while he was out of town working, so he was not aware of it for a couple weeks. He does not want the customers to be viewed as an endless source of money. He is tired of paying for all the visitors and new construction. He feels he has paid enough for infrastructure over the years, and it is unfair to charge him more because new connections are down. Mr. Land said there is a leak adjustment available, and Mr. George showed interest. Mr. Doyle asked that Mr. George's account be reviewed. Mr. Land will do so.

Mr. Doyle said he was born in Tucson and he has a hard time with rate increases too. He has worked at Pima County Wastewater for almost 33 years, and unfortunately rates will continue to go up. He shares Mr. George's opinion that the roads are fine; he simply tries to manage the District so that it operates in the black and not in the red. When creating the budget the District's overhead must be covered. Board Members are ratepayers too and suggestions are welcome.

Mr. George asked why it is so hard for the District to offer averaged bills over a 12 month period. He believes his bills would fall within the first tier most of the time if averaged. He would like to see more imagination in managing the budget, to include benefits to the customer. Mr. George said that while budget cuts are impressive, they do not help him. He complained that

the Pima Wastewater treatment plant had to be improved to meet new government standards but he cannot afford to live here anymore if sewer rates keep increasing.

Mr. Foulk said there are two types of connection fees. It is not only new construction but also people changing residence. There are more vacant houses and apartments where there is no revenue collected. Every month there is a list of customers who have paid nothing at all and do not intend to pay. The economic issues are affecting individuals and the District. With almost 20% of the budget gone, the District still has to keep the bonds in compliance or the fees will impact the customer even more. Mr. Foulk said the District has no other choice but to relocate water lines when road projects are routed through the area.

Mr. George feels it is unfair that as a responsible mortgage payer, he must pay more because of foreclosures and vacant houses. In effect, he is paying more for those who are not. The quality of Metro Water is the best in the area. He is considering using a septic tank because of the never-ending sewer increases. While he understands what has been explained, passing the buck is unsatisfactory.

Amy Pierce, 7040 N. Donatello Way, asked if rate increases are for everyone using water and septic, even those who are conserving. Mr. Stratton said that if a customer is not using any water the sewer charges reflect that. He said the sewer rates are calculated based on the water usage in December, January and February, so regardless of how much water is used throughout the year the sewer rate is relatively consistent. Mr. Doyle said if a customer has a septic tank, there are no costs but there are Pima County rules and regulations that permit or prohibit installation of a septic tank. Ms. Pierce asked how costs can be kept low with a septic tank. Mr. Stratton said a septic tank user is not connected to the wastewater system so they only pay for water. Ms. Pierce thinks the rate increase is a great idea if it gets people to conserve because we live in a desert, but she wonders why the rates are being increased when people are already conserving. Mr. Stratton said when people use more water and do not conserve, they fall within the higher tiers. Rates are structured to encourage people to use less water. He said as an operation, there are still fixed costs that are not affected by usage. Water rates have been traditionally been based on a nominal base rate and the commodity rate, or actual water charge. Certain costs exist to run the operation regardless of how much water is used, and a revenue stream must pay for those fixed costs above and beyond the costs of delivering water. There is a fine balance between revenues to pay for fixed costs versus revenues paying for pumping and delivering water. Ms. Pierce asked whether relocation of pipes could be avoided by taking surveys before projects are designed. Mr. Stratton said the conflicts are based upon the roadway project designs. The waterlines were installed 30 or 40 years ago, and the planners may not have been able to predict future roadway improvements. Today's planners are including storm drains and elevation changes, which

impacts all utilities and infrastructure. These projects are not controlled by the District. The intergovernmental agreement between the District and Pima County requires the relocation. If the District does not move the lines, the County will do so and charge the District a premium.

Mrs. Fletcher asked why storm drains are necessary. She notices drainage plans included in northwest projects but not within city limits. Mr. Stratton said the primary reason is there are two different governing jurisdictions. He is involved with a City-County water study, and one of the topics of discussion has been whether or not roadways could be designed to funnel storm water to riparian areas. Design engineers had always directed storm water towards the washes to be discharged downstream, but there could be benefits in minimizing the use of storm drains. Surface retention may be beneficial if the experts are correct about a projected decrease in rainfall. He agreed with Mrs. Fletcher that storm drains may not be necessary. Ultimately, project planning is the County's decision. Mr. Doyle mentioned storm water is regulated by the government. Mr. Stratton said he had received information from the Environmental Protection Agency regarding more stringent regulations for storm water runoff. The County is responsible for storm water runoff and they will have to consider the new regulations and determine whether treatment or retention basins are best. As Mr. Hill pointed out, the District currently spends over \$250,000 on testing and those costs will go up as regulations increase.

Mr. George asked why there are so few customers present. Mr. Stratton said when the bond elections were held it was decided there would be five years of 4% increases. The District does not have any plans to propose another increase but future financial needs cannot be predicted with certainty until County project designs are complete. Most of the increases in recent years have been related to debt service. Only two increases have included operation and maintenance costs. When the system was acquired in 1992, it required improvements. Two large gravity storage facilities have been built and backup generators are now available to prevent outages. Mr. Doyle said some of the Y2K preparations, such as uninterruptible power, were an investment in the system.

Mr. George said he is not complaining about the service; he thinks the District is doing a great job. He would like to see more creative ways of raising revenue. Mr. George cannot reduce his water usage anymore; his trees are dying. He appreciates the Board listening.

Mr. Doyle said the Board appreciates suggestions and they wish more people would attend meetings. Mr. Tripp suggested customers with ideas should run for the Board.

Mr. Fletcher, 7763 N. Sun Flair Drive, asked if there are fewer people living here than there used to be. Mr. Stratton said based on the information available to the District, there are fewer people

living in the District now than there were two years ago. The number of vacant homes has also risen. The number of zero-use accounts has more than doubled.

Mr. Tripp made a motion to close the Public Hearing portion of the meeting. Mr. Offret seconded the motion. Motion passed unanimously.

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

Mr. Tripp motioned to approve and adopt Resolution 2009-6 to make an adjustment to the established water rates for the Metropolitan Domestic Water Improvement District effective November 1, 2009. Mr. Offret seconded the motion.

Mr. Offret said referred to materials given to Board regarding four and six inch meters. The District has made efforts to coordinate and implement conservation programs among those six or seven users in the past. He would like it to be on record that conservation help is still available, and the District would be willing to coordinate to meet conservation goals. Mr. Stratton confirmed the District has offered to assist large users with water audits, and will continue to utilize Water CASA services to ensure assistance is readily available.

Motion passed unanimously.

V. Adjournment

Mr. Doyle made a motion to adjourn the public hearing. Mr. Foulk seconded the motion. The public hearing adjourned at 6:51 p.m.

Jim Doyle, Chair of the Board

Warren Tenney, Clerk of the Board