

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

**April 30, 2012**

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

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

**MINUTES**

**Board Members Present:** Bryan Foulk, Chair  
Dan M. Offret, Vice-Chair  
Judy Scrivener, Member

**Board Members Not Present:** Richard Byrd, Member  
Jim Doyle, Member

**District Staff:** Mark R. Stratton, General Manager  
Christopher W. Hill, Deputy General Manager  
Michael Land, Chief Financial Officer  
Charlie Maish, District Engineer  
Tullie Noltin, Recorder  
Warren Tenney, Clerk of the Board

**Study Session**

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

Bryan Foulk, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 5:31 p.m. Bryan Foulk, Dan M. Offret and Judy Scrivener were present. Richard Byrd and Jim Doyle were not present.

**II. General Comments from the Public**

Jonathan Zagorsky, who resides at 1315 W. Ina Road, said he would like to propose a property exchange with the District. He owns an income property on 22<sup>nd</sup> Street and he is interested in the property and tanks at 7180 N. La Cañada. Mr. Zagorsky owns the land around the District's property. Mr. Offret suggested that Mr. Zagorsky meet with Mr. Stratton to discuss the details

and investigate the relevant statutes. Mr. Stratton said he would be in contact with Mr. Zagorsky and report back to the Board in May.

**III. Approval of Change Order with KE&G Construction, Inc. for Construction of a Portion of the Riverside Well Transmission Main and Waterline Lowerings**

Ms. Scrivener made a motion to approve the Change Order No. 1 to the contract with KE&G Construction Inc. in the amount of \$155,000 for construction of a portion of the Riverside Well Transmission Main project and two waterline lowerings associated with the road improvements at Roller Coaster Road and Oracle Jaynes Station Road. Mr. Offret seconded the motion.

Mr. Offret recognized the time constraints caused the District to move this way and he wanted to make sure the circumstances are noted in the records in case of an audit. Mr. Foulk asked if KE&G has performed work satisfactorily in the past and Mr. Stratton confirmed. Mr. Foulk said this is not the way he prefers to do business but he understands the circumstances. Mr. Stratton said going through the normal process would delay the project halfway through summer.

Motion passed unanimously.

**IV. Award of Construction Contract for the Old Magee Trail Well Site Improvements**

Ms. Scrivener made a motion to award the construction contract for the Old Magee Trail Well Site Improvements to The Ashton Company in the amount of \$563,816.00, and to authorize the General Manager to approve the following changes to the Construction contract: 1) allocate additional funding a cumulative amount not to exceed \$25,000 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Offret seconded the motion. Motion passed unanimously.

**V. Award of Replacement Slide Gates at Avra Valley Recharge Project**

Mr. Tenney said the report had been amended to reflect the correct names in the motion.

Mr. Offret made a motion to award the replacement gates made of stainless steel 304 at the Avra Valley Recharge Project to Rodney Hunt Company, Inc. in the amount of \$12,682.00. If Rodney Hunt Company, Inc. cannot document in the shop drawings that the gates meets AWWA C-561 standard, then the District shall proceed to the next lowest bidder, HD Supply Waterworks, to design and construct the gates for \$13,957.72. Ms. Scrivener seconded the motion.

Mr. Foulk asked if HD Supply Waterworks would also have to show documentation of AWWA compliance in their shop drawings, should the next lowest bidder be needed and Mr. Stratton

confirmed. Mr. Offret asked if the 304 gates contain aluminum. Mr. Block said the 304 stainless steel material is solid and does not contain any aluminum. He was not certain how much pressure the material can withstand but the AWWA standards address velocity and lateral force.

Motion passed unanimously.

## **VI. Discussion of Draft Fiscal Year 2012-2013 Budget**

Mr. Stratton prefaced the discussion by saying this is the most difficult budget he has ever been involved with at the District. With substantial fixed costs, minimal variable costs, and constantly declining revenues, it creates a difficult situation. The continued delay of inevitable maintenance creates future problems and the potential for more costly replacements. Staff provided a detailed overview and a number of issues are apparent. Mr. Stratton said this year, the draft budget reflects eight months of actual data, rather than just six. This helps staff fine tune the budget.

Mr. Tenney said revenues this year are about \$669,000 less than what was budgeted last year and operating expenses increased by \$372,000, resulting in a million dollar shortfall. Capital projects that are under construction need to be completed, County waterline relocations must be done, and there is a continuing reduction in water consumption. All of this is happening during a recession. The reduction in revenues is tied mostly to consumption, happening at a rate of 1.7% annually over the last five years. Similar reductions have occurred throughout the Tucson - Phoenix region. Recently, there have been a few small signs of increased usage but overall, providers are reporting less water consumed than what has traditionally occurred. In 2011, water consumption was less than it was 15 years ago, despite population growth.

Mr. Foulk asked how the vacancy and foreclosure numbers look for Metro Main and Hub, now that a few years of economic crisis have passed. Mr. Land said there does seem to be new movement regarding vacant properties. Investors seem to be purchasing vacant homes and turning them into rentals. The Metro Southwest area is still experiencing quite a few vacancies. The vacant properties usually correlate to unpaid bills. A list of delinquent accounts reported to the credit bureau was provided to the Board.

Mr. Offret asked about adjustments or potential transfers of the reserve fund. Mr. Land said budget reimbursements for the Reclaim line and the Old Magee Trail well could fall into this year or next year, depending on the timing. Mr. Offret noted the District could be left with a projected operating fund balance of \$36,000, quite a bit lower than normal, and he hopes the contingency fund can serve as a cushion.

Mr. Tenney pointed out the District is not seeing the growth and development it had five or ten years ago. In the 1999-2000 fiscal year, the District saw revenue development fees over

\$900,000, compared to this year of \$151,000. Another thing that impacted the District was having no rate increase this year, the first time since 1998. Previous annual rate increases went towards debt service but did not capture the full debt service, so operation and maintenance costs had to be tightened up to make sure the operating budget could cover the difference. That debt is still being paid off.

Mr. Offret said over the past 20 years, the District has really focused on infrastructure and capital improvements. When this venture was first taken over, it was sorely lacking in redundancy and had aged pipes and wells. The District has done a really fantastic job bringing the quality of our infrastructure up and providing the best system. Now that that has been accomplished, Mr. Offret would like to see the District be a little more moderate in its choices of infrastructure and equipment, deferring premium capital improvements until the economy settles down and we can afford them. Mr. Stratton said the District is close to the end of the bond-funded capital improvement program. After it is complete, there will not be much left over to fund capital projects. Until another opportunity for a bond election presents itself, the District will not have enough to do anything major. Mr. Offret said he was pleased with the District's position compared to other utilities. Mr. Stratton said the next big task will be finding monies to fund the CAP recovery system for the future.

Mr. Land said another thing that will be going away in 2-3 years is the cash we have had to set aside every month for the debt service reserve.

Mr. Land said an increase to the base rate of \$1.75 could generate \$500,000 in a full year, based on current conditions. Oro Valley has an additional groundwater preservation fee and Marana also has a small monthly fee. The District could generate revenue to use for projects through implementation of such a fee. Staff has wrestled with the idea that an increase of \$1.75 to the base rate for everybody could impact low income or low water users. A fee of 20-25 cents per thousand gallons would not impact lower users as much. Mr. Stratton suggested a fee could possibly be associated with the CAP water line item in the budget for funding renewable water resources. Mr. Block noted that CAP has proposed increasing their rates.

Mr. Offret asked about the varying rate structures in Metro Southwest. When the Metro Southwest water systems were purchased, they stayed on their three existing rate structures. At one point, the Board and staff talked about bringing those customers over to the rate structure that Metro Main and Metro Hub users pay. Mr. Land said the District's standard rate structure is currently lower than Metro Southwest rates, so there would be a projected annual loss of about \$52,000 in revenue if that occurred. Mr. Offret said he would like to keep that on the table for the future. Mr. Tenney pointed out that the loan agreement with WIFA said the District would finance the Metro Southwest area with revenues generated from the users in that area, excluding

revenue from Metro Main and Metro Hub. As regular rates systematically increase, they will approach Metro Southwest's rates and that may be a better time to assimilate Metro Southwest with the other areas. Mr. Foulk asked when the Metro Southwest debt service will go away, and Mr. Stratton said it is a 25 year note. Mr. Land provided the Board with a detailed analysis of current rates. The Metro Southwest service area comes close to breaking even with debt service, and any drop in rates right now would harm Metro Main and Metro Hub customers. Mr. Land noted that Metro Southwest customers are not currently charged the RTA fee but in the calculation provided, the projection does charge them the RTA fee. Mr. Foulk asked when they last had a rate change. Mr. Stratton estimated it was probably a very long time ago for E&T and more recently for Diablo since it is a newer system. Lazy B does not have many customers but their system has been improved in recent years and operating costs have increased without any rate increase. Mr. Foulk said he would like to see some sort of surcharge or fee across the board for all customers.

Mr. Tenney said one thing to remember is that while RTA - County road projects continue to tax the District quite a bit, the District does have a loan agreement in place covered by revenues collected by the RTA fee.

Mr. Foulk asked if the estimated rate increase for Tucson Electric Power will be enough. Mr. Stratton said it should be enough because the increase in energy efficiency is also factored in. Utility staff is working to make wells and motors more efficient and do not need as much electricity, and more sites are being put on the interruptible rate. Mr. Foulk asked how much the interruptible rate will go up, but Mr. Hill was uncertain. Mr. Hill said there is a rumor that the interruptible rate may eventually be phased out. Mr. Offret noted there is a \$59,000 increase in the draft budget for purchased power.

Mr. Tenney said bond issuance regulatory fees are expected to increase. Part of those fees help the District pursue assured water supply for the Metro Southwest area so it might eventually be annexed, moving the District towards being able to someday have same rates for all customers.

CAP water is increasing by \$48,000 because the District is increasing the amount of water it is using, and CAP rates are also increasing. Mr. Block said the District hopes to reach full utilization in 5 years.

Mr. Offret asked if the reduced consultant contract services line item includes legal fees, and Mr. Tenney confirmed. Mr. Offret asked if this budget brings the District within the debt ratios required by the debt service, and Mr. Land said yes; it will be close with senior debt and junior debt will be okay.

Mr. Foulk asked if vehicle leasing has reduced fuel expenses. Mr. Land confirmed the newer vehicles are more fuel efficient than what the District was using before and maintenance is also down. Mr. Offret said travel will be reduced by the new meters.

Mr. Offret asked for more detail on the proposed security for Metro Southwest. Mr. Hill said Diablo Village No. 2 needs to be more secure because there is a remote office there. There has not been anymore copper theft at Metro Southwest.

Mr. Tenney said the expenditures related to staff have increased a little after two positions were upgraded. The total operating budget is increasing by \$372,000 and two-thirds of that is related to employees. The draft budget reflects a recommended 2% cost of living allowance (COLA). The consumer price index (CPI) is at 2.9% this year. Salaries have been frozen for the last three fiscal years. Staff recognizes and appreciates the pay adjustment granted by the Board. Discussions have revealed that a 2% COLA is one of the best ways to improve morale. The District wants to make certain staff is retained as a very important resource. Mr. Offret said a 2% COLA would make last year's temporary fix permanent but he does not think it is enough. Mr. Offret would like to see a 3% COLA instead, and he will be looking for another \$37,000 for this.

Mr. Tenney said longevity pay was established as policy in 2008. The Board approved \$500 for every 5 years and eight employees will be reaching the next milestone of 20 years, so an additional \$16,000 has been added for that. Mr. Offret noted eliminating that policy would free up \$35,000 and that might be something to revisit.

Mr. Tenney said in 2003 a policy was established that said employees will receive a portion of sick leave payout, and at 20 years, employees receive 100% of their accumulated sick leave. Projections show that in the next two years there is a potential for six retirees, totaling a payout of \$234,000. Staff feels it is important to set aside half of those monies in a contingency fund to soften the budget impact next year. Mr. Land noted projections for ten years from now show an impact closer to \$500,000. This may be a policy that requires some adjustment. Billie Sue Morelli, Human Resources Specialist, said the local news is looking at the City of Tucson's sick leave payout program tonight. Ms. Scrivener suggested staff could compare the policy with other government structures and Mr. Stratton said that data is being compiled now. Mr. Offret offered to be part of a Board subcommittee on the matter.

Mr. Foulk asked about rising health insurance costs. Ms. Morelli said our broker, CBIZ, does anticipate another increase for 2013 but the numbers will not be known until October. Staff seems satisfied with the current provider so far this year.

Mr. Tenney said two of the capital improvement projects recommended for funding are already under construction, including Old Magee Trail well which was just approved. Mr. Stratton said

he has had positive communications with WIFA regarding financing the Reclaim line but their next board meeting is not until September, so that is the earliest it could be funded. This could free up some money. The financing may necessitate change order through Innova but the required Davis-Bacon wage requirements do not appear to have a significant impact because Innova's wages are already close to those levels.

Mr. Tenney said another capital project in the draft budget needing funding is the CAP utilization program. Staff recognizes its importance for water resources but construction costs are not going down, so there is a need to come up with a financial plan for this. The study should explore options for financing such a large capital improvement project. Mr. Stratton said the routing study would include Oro Valley, as a joint project is still an option.

Mr. Offret asked if the Utility capital improvement proposals on page 7 of the draft budget are funded. Mr. Stratton said none of the projects below the solid line are funded at this time but the Reclaim line – WIFA funding could free up \$300,000. Mr. Offret asked how many of the obsolete facilities have been removed so far this year. Mr. Hill said there were seven total and there are still six to be done.

Mr. Tenney said the draft budget satisfies the day-to-day financial requirements but the ending fund balance will be \$37,000. Mr. Land has spent more time on the numbers since the reports were printed and has that figure up around \$70,000 now but that is still a meager number compared to prior years. If the Board would like to consider a potential rate increase, staff can be directed to look at different scenarios. Mr. Offret wondered if the base rate and volume charges should be raised across the board. Mr. Tenney said it will be important to consider keeping the increase focused on the base rate to cover the basic operating costs regardless of how much water flows through the system. Mr. Stratton said providers are almost going back to the old days, when a flat rate was charged for all meters. Over the years, tiered structures and conservation had taken hold but the cost to operate was not going down with declining usage. From that standpoint, it is important to keep fixed costs funded in the revenue stream. The projected revenue increase of \$500,000 was calculated assuming a full year but rate hearings have traditionally been in October, with effective dates of November 1<sup>st</sup>. The Board can decide whether it is necessary to adjust that time frame. There will be a 10% wastewater rate increase effective July 1, 2012 and the wastewater charges appear on the Metro Water bill. Mr. Stratton said staff can prepare a few different projections and the Board can say what it feels needs to be accomplished or added in, in dollar amounts. Neighboring providers are expected to raise their rates by 8% over the next two years. Mr. Foulk expressed concern about low income customers could be hardest hit. He understands that it would be great to have the base rate cover all operating expenses but he does not feel that will ever happen. Mr. Stratton asked for direction on a supplemental fee for water resources. Mr. Foulk said he is leaning toward a fee to pay for the

CAP waterline. He would like it to be planned sooner rather than when the government suddenly says it is required. Mr. Foulk said the low operating fund balance bothers him and he does not feel the District should operate with that little cushion.

Mr. Stratton said additional discussions about the budget will continue at the May 14<sup>th</sup> meeting. He hopes that by then, some alternatives and revenue forecasting can be provided. Mr. Foulk reiterated that he is interested in a surcharge or fee related to a future CAP water line. Mr. Offret said he will be interested in seeing the remaining projects prioritized.

**VII. General Manager Update.**

Mr. Stratton said not much had happened in the couple of weeks since the last Board meeting. The Finance Oversight Committee had a meeting on the budget. Mr. Stratton and Mr. Tenney attended the Arizona Municipal Utility Leadership Institute (AMULI) conference, sponsored by HDR. The presentations were good, covering relevant state issues such as the impact of reduced water sales on revenue and salinity. Several staff and Board Member Judy Scrivener will be attending the AZ Water Association's Annual Conference in Glendale.

The District's Wellness Committee put together a successful Wellness Poker Tournament recently. Ms. Morelli, who serves as Wellness Committee Chair, said the District applied for and received a \$999 mini-grant through Activate Tucson and Pima County Health Department. Staff participated in a day of fitness incorporating a poker theme. The event was well-attended by staff and Team Managers facilitated the seven stations. The top three card holders won prizes. The sports and fitness equipment purchased for the event will remain in the District's fitness room for staff to use. The Committee has a small amount of grant money left over and may use it for health screenings.

**VIII. Adjournment.**

Mr. Foulk made a motion to adjourn. The meeting adjourned at 6:54 p.m.

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Bryan Foulk, Chair of the Board

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Warren Tenney, Clerk of the Board