

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

November 13, 1995
Wilson Room
Tohono Chul Park
7366 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

Board Members Present: Barbara Johnson, Chair
 Marty Cramer, Vice-Chair
 Jim Doyle, Member
 Herb Johnson, Member
 Pete Schlegel, Member

District Staff: Mark Stratton, General Manager
 Phil Higdon, Legal Counsel
 Michael Land, Chief Financial Officer
 Warren Tenney, Clerk of the Board

I. Call To Order and Roll Call

Ms. Barbara Johnson, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the regular Board meeting to order at 5:00 p.m. Ms. Marty Cramer, Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present.

II. Comments From The Public

Fifteen people were present in the audience.

Mr. Vincent LaRusso of 8570 Mulberry Drive asked about the impact of Proposition 200 upon the District. Mr. Phil Higdon of Brown & Bain replied that the impact on the District is unknown because no one knows how the City of Tucson will respond and how that response will affect the District's litigation with the City. Mr. Mark Myers, Consultant, noted that the District has anticipated that a supply might not be available from City, which has been part of the District's planning. The District anticipates no short-term shortage.

III. Financial Report

- A. First Quarter Financial Analysis.**
- B. Monthly Financial Report.**

Mr. Mark Stratton, General Manager, explained that Michael Land, Chief Financial Officer, had put together the first quarter analysis, which indicates that the District is fairly on-track with the budget.

C. Approval of Bad Debt Write-Offs.

Mr. Land explained that the District has presently 145 inactive accounts totaling \$8,981.05. Staff has tried to notify, locate and collect funds from these customers. Due to the inability to contact these customers, staff is recommending that the uncollectible accounts be written off as bad debt expenses.

Ms. Cramer asked what staff has done to locate these customers. Ms. Sheila Willis, Administration Manager, said the District turned over the accounts to a collections agency. Some accounts are written off because no forwarding address or phone number can be found. If staff wants to quarterly write-off bad debts, Ms. Cramer asked how old the bad debt would be before writing it off. Mr. Land said accounts would be considered for bad debt write-off if they were six months or older.

Ms. Cramer made the motion to authorize staff to record the 145 accounts totaling \$8,981.05, as presented to the Board, as Bad Debt Expense in the District's financial records and staff will analyze uncollectible accounts at the end of each quarter to present them to the Board of Directors for approval to be written off. Mr. H. Johnson seconded the motion.

Mr. Schlegel said he did not disagree with writing off bad debt, but questioned if six months was an appropriate length of time. Staff could check the standard length of time for such a situation. Mr. Land noted that the 145 accounts before the Board are over a year old.

Ms. Cramer amended the motion to include directing staff to explore the appropriate length of time for writing off bad debt, probably a period between six months and a year, when staff analyzes uncollectible accounts at the end of each quarter for the Board's approval in addition to authorize to record the 145 accounts as Bad Debt Expense. Mr. H. Johnson seconded the amendment to the motion. The amended motion passed unanimously.

Mr. Schlegel suggested that the financial analyses include a column that shows last year's expenses in the various categories. Mr. Land said that the monthly financial report has such a column, but he had not placed that on the quarterly analysis because of the other detail provided.

IV. Consent Agenda

- A. Approval of Minutes - October 11, 1995 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Approval of Water Service Agreement - Santa Fe Park II.**

Mr. Schlegel made the motion to approve the items on the Consent Agenda. Ms. Cramer seconded the motion and it passed unanimously.

V. General Business - Items for Discussion and Possible Action

A. Discussion of Bond Election; Selection of Bond Advisory Committee; Appointment of Bond Counsel.

Mr. Stratton said the information regarding the bond election is preliminary. He noted that he has spoken with most of the Board members and staff about suggested members for a Bond Advisory Committee. Mr. Alan Forrest, District Engineer distributed a draft list of potential projects and a map of those project sites to the Board. The estimated cost for the projects more than a five year period is higher than the anticipated \$16 million. Staff will be examining means to refine the list.

Mr. Stratton noted that Mr. Fred Rosenfeld with Gust Rosenfeld was original bond counsel for the formation of the District and has much knowledge and experience about Pima County and the District. Mr. Stratton recommended that the District secure Mr. Rosenfeld's service for bond counsel for the bond election. Even if his cost is higher than other possible bond counsel, his knowledge and background will probably provide cost savings in the end. Mr. Stratton also recommended that the Financial Board Member Committee work with the General Manager to develop a list of individuals to serve on the Bond Advisory Committee.

Mr. H. Johnson did not want a bond package presented to the Financial Board Member Committee without proper surveyance throughout the development of that package. Mr. Stratton said that he does not have much expertise in bonds and is approaching the matter cautiously. He agreed that a consensus is needed. The process will be time consuming with the amount of necessary information. Mr. H. Johnson suggested that to encourage that communication, definite meeting dates should be set before the entire process. A study session should also be scheduled.

Mr. Stratton noted that Mr. Schlegel had emphasized the importance of exposure once the bond election is set and that the District should hire a public relations firm to promote a positive message.

Ms. B. Johnson asked for clarification about Mr. Stratton's recommendation to determine Mr. Rosenfeld's availability as Bond Counsel. Mr. Stratton said he has only briefly discussed the issue with Mr. Rosenfeld. A contract for those activities could be presented for the Board's approval at the December 11, 1995 Board meeting.

Mr. H. Johnson noted that just developing the draft list of projects and a map has involved much work. He questioned if the District has the staff to carry it forth a bond election and program. Mr. Stratton said the main line replacement aspect will be carried forth aggressively. The Utilities Superintendent is examining the amount of main line replacement that could be accomplished with a construction crew allocated by the bond. The other alternative is to contract the work. The project management of all these projects will significantly increase the work load of the Engineering Division.

Mr. LaRusso asked if the District knows the age of the mains to determine what needs to be replaced. Mr. Stratton said the size of the main lines is the important factor to be able to meet

peak demand and fire flow demand. The smaller mains will be replaced first in order to deliver enough water to larger areas.

Mr. H. Johnson asked if staff was big enough for the anticipated bond projects. Mr. Stratton said no. Mr. H. Johnson asked if the District will need additional staff. Mr. Stratton said that additional staff would be included in the bond. Ms. Cramer questioned if those employees would be paid from the bond funds. Mr. Stratton said yes. Ms. Cramer asked what would be the job security for such additional staff. Mr. Stratton said that employment would be determined according to availability of positions when a bond project is completed, which they would make clearly known. Pima County has done similar action with their bonds.

Ms. Cramer asked if the District needs to acquire bids for contracting a Bond Counsel or if Mr. Rosenfeld can just be hired. Mr. Stratton said that would be a matter for the Board's discretion, since it is a specialized field that can be sole sourced. The issue of quality of service, not cost, is the important factor. Securing bond counsel soon would be advantageous.

Mr. H. Johnson asked if a potential conflict exist with the revenues received and bonds in determining what mainline replacements are done in Oro Valley Improvement District #1 (OV#1) according to the intergovernmental agreement with Oro Valley. Mr. Stratton explained that the District's capital improvement program includes OV#1 with the bond and revenue from rates. Proper bookkeeping will need to show that OV#1 is receiving their appropriate percentage as stated in the IGA.

Mr. Schlegel noted that staff is not asking for approval of the projects at this time so details involving the IGA with Oro Valley can be further examined. Mr. Stratton agreed that the draft list of projects will be refined often before finalization. With input from the Board, a capital improvement program can be completed in January 1996 if a bond election is set.

Mr. Schlegel asked whom the General Manager envisioned as his project staff for the bond. Mr. Stratton said that with the capital improvement program, the District Engineer will be vital. The Utilities Superintendent will be assisting with the main line aspect. The Chief Financial Officer will be a critical player in the financial aspect of the bond.

Mr. Schlegel made the motion to direct staff to approach Mr. Fred Rosenfeld about engaging his services as Bond Counsel for the District and to give staff the latitude to hire a public relations firm to educate the community with the District's efforts. Mr. Doyle seconded the motion and it passed unanimously.

Mr. Land said that he had received information from a couple of firms who conduct pre-bond surveys to determine the voters' feelings about a bond election. The Financial Board Member Committee could explore this matter.

B. Audit for Fiscal Year 1994-1995.

Mr. Stratton reported that staff and the Business Administration Board Member Committee reviewed the Fiscal Year 1994-1995 audit done by Cotton Parker Johnson & Co. Mr. Tom

Johnson and Ms. Donna Burrows from Cotton Parker Johnson were present to answer questions.

Ms. Cramer made the motion to approve the audited Financial Statements for Fiscal year 1994-1995. Mr. Schlegel seconded the motion and it passed unanimously.

Mr. Stratton noted that the contract for Cotton Parker Johnson's services has expired. The contract was for three years. In March 1995, the District requested Cotton Parker Johnson to submit a contract proposal for another three years. The contract has a five percent increase to present one. By continuing to use Cotton Parker Johnson, the District receives the benefit of continuity and their familiarity with the District.

Mr. Schlegel noted that the present Board cannot obligate a future board to contract. He said he supports continuing to use Cotton Parker Johnson, but questioned if the Board can sign a three-year contract. Mr. Higdon said that the agreement could be subject to ratification by a future Board of Directors.

Mr. Stratton said that the agreement with Cotton Parker Johnson would be placed on the agenda for the December 11, 1995 Board meeting.

Mr. Schlegel asked if the District was able to meet last year's recommendations from the audit. Mr. Stratton said that the bond arbitrage matter was resolved. While they still recommend a segregation of duties in the accounting department, Cotton Parker Johnson recognizes our staff capabilities and that the hiring of a Chief Financial Officer was a positive initiative in this area. Staff is still working to complete an inventory of the dates of installation of the various components of the District's infrastructure. Mr. Schlegel asked if a summer student could be used to complete the inventory. Ms. Willis said that the physical inventory is completed, but a monetary value needs to be assigned. Mr. Schlegel suggested that Cotton Parker Johnson provide input on any billing software changes that the District may consider.

C. Administrative Changes for Customer Billing Procedures.

Ms. Cramer requested clarification regarding the requirement for District customers to pay a \$30 deposit as described in the staff report. Ms. Willis explained that currently they require that a new customer submit a letter of good credit from another utility or provide a \$30 deposit. Problems have arisen from customers not paying their bills despite having a letter of good credit. Staff is recommending that the policy be changed to require a \$30 deposit from all new customers.

Ms. Cramer asked how landlords will be notified that they are responsible for tenants' water bills. Ms. Willis said the District is aware of properties where the landlord can be notified that before service can begin, the previous tenant's bill must be paid in full. Ms. Cramer questioned if the landlord can be held responsible for the tenant not paying. Mr. Land and Mr. Higdon said that the landlord can be held responsible before the water is turned back on for a new tenant.

Ms. B. Johnson asked if the District would then not be treating all customers the same because knowing which property is rental is difficult. Mr. Higdon said that District is to treat all similarly interested people the same.

Mr. Stratton said that new customers could be asked if they are renters or owners. Most bad debt write-offs have been with renters.

Ms. Cramer said that the stricter turn off procedures, as proposed in the staff report, are commendable because there should only be extraordinary cases that informing by phone calls of a pending turn off is necessary. Ms. Cramer asked if the District was still exploring the ability to restrict the pressure rather than turn it off completely. Mr. Stratton said the District was still looking for a mechanism that would restrict the flow and hope something can be in place next year, though staff's time will be an important issue.

Mr. Schlegel said that he found the staff report regarding these administrative changes for customer billing procedures to be awkward. The report did not provide comparisons with our current policy or other utilities' policy. He was concerned about the latitude given in the statement that the District reserves the right to request or increase the amount of the security deposit at its discretion. He said he was personally uncomfortable voting on the changes as submitted without more information.

Ms. B. Johnson said that the present policy is clear in the staff report and also indicates that other utilities have been contacted. The Board can make a motion based on an alternative or variation from staff recommendation.

Ms. Willis said that the \$30 deposit is a carry over from the Metropolitan Water Company. It is based on what a typical customer may use for a two month period and provides some security for the District if they do not make payment. The reference in the report to reserve the right to request or increase the amount of the security deposit at its discretion was to apply to customers who have had their water turned off for nonpayment and then pay a deposit to have their water turned back on. If that customer has the water turned off again for nonpayment, the District should be able to request another deposit. Ms. B. Johnson said that the policy as written in the report gives the impression the District can increase the deposit amount any time.

Ms. Cramer suggested that the Board consider the issues presented by staff but request that the description of the customer deposit policy be rewritten to reflect the principles voted upon and clarify the reconnection fees.

Ms. Cramer made the motion to accept staff's recommendations that include 1) a security deposit based on class type will be collected from all new customers, with the deposit returned, with interest, to the customer if the payment history reflected no delinquencies over a twelve month period or if the account was closed with no balance owing; 2) interest rate for customer deposits will be three percent effective January 1, 1996 and subject to change each January based on interest rates at local financial institutions; 3) the property owner is responsible for paying the water bill of a previous tenant before they can reconnect service for another tenant and property owners should be notified of this change; and 4) the District will no longer personally contact by phone a customer prior to a scheduled turn off date. Mr. Doyle seconded the motion. The motion passed four to one with Mr. Schlegel voting against the motion.

D. Cost of Living Adjustment for District Staff.

Mr. Doyle made the motion to authorize a cost of living adjustment for District staff for three percent effective January 1, 1996. Mr. H. Johnson seconded the motion and it passed unanimously.

E. Northwest TAMA Replenishment Program.

1. Update.

Mr. Myers, Consultant for the Northwest Replenishment Program (NRP), provided three charts regarding the overall strategic planning process and management issues that need to be addressed for the NRP. The first chart outlined resource issues. Resource policy goals include high quality water, reliability of supply, an assured water supply, quality design and cost effectiveness. Regarding resource acquisition alternatives and their implementation requirements, the chart noted ways that the District can acquire physical water according to the policy goals. First, groundwater is currently what customers use and will most likely continue to use. Replenishment of the groundwater is the required implementation to have an assured water supply. Second, membership in the Central Arizona Groundwater Replenishment District (CAGRDR) is an acquisition alternative. The District has applied for membership and as we abide by that membership, the District meets the law for an assured water supply. Third, the City of Tucson's CAP water was a resource acquisition alternative, though Proposition 200 has rendered it almost impossible. This alternative could have involved direct use of treated CAP water, recharge of untreated CAP water, and/or enhanced treatment of CAP water for direct use. During the last two years, the NRP has been the most visible reflection of the District's policy and effort to recharge CAP water. The requirements for such an alternative would be to develop a contract with the City and finding a recharge mechanism. Fourth, in the long-term, the effluent generated by the District's system would provide an important resource alternative. Effluent would provide a sixty percent credit for recharged sources and would be cost effective. Issues involving control of effluent need to be resolved. Effluent can be purchased the SAWRSA settlement, Pima County, or City of Tucson, which owns 90% of effluent. Another alternative is to have direct ownership by having our own treatment plant. Fifth, a regional water resource entity would involve many entities to invest together for recharge projects. Such an entity does not presently exist. Sixth, the District could have direct ownership of resources, which includes CAP allocation, a long-term lease of a CAP allocation, potential for purchasing credits, and effluent recharge if owned by the District. Most of these would be difficult to obtain due to different roadblocks. The action steps that need to be undertaken involve recharge facilities for CAP water (Avra Valley Pilot Recharge Project, the Lower Santa Cruz Recharge Project, and the Cañada Del Oro Recharge Project) and recharge for effluent (Water Reclamation & Reuse Program and High Plans Demonstration Recharge Project). Other action steps involve coalition building and securing funds from CAWCD, Pima County, Bureau of Reclamation and from grant monies. Discussions need to continue with CAP contract and effluent owners.

Mr. Myers explained that the second chart outlined the evolving of the Northwest Replenishment Program. The concept for the NRP began in late 1993. The District had specific goals for the NRP but also broadened the program's objectives to include other partners. These partners have

brought their ideas, which in turn has helped the NRP to develop from a concept into an actual program with political support, physical information, and funding. The concept for the Avra Valley Pilot recharge project, the Lower Santa Cruz recharge project and the Cañada Del Oro recharge project began in 1993. Design and building of the Avra Valley project should be completed by early 1996. The Lower Santa Cruz and CDO projects are presently included in the feasibility study. In the past few months, the County Administrator has aggressively accelerated the Lower Santa Cruz project primarily because of its interconnection with the flood control project for Marana. The High Plains Demonstration recharge project and Water Reclamation reuse project, both extensions of the Lower Santa Cruz project, have been included with the NRP and will examine the recharge of effluent. Both projects have taken advantage of available funds and an opportunity to expand the Lower Santa Cruz project.

Mr. Myers said that third chart illustrates the potential building blocks for the District to have an assured water supply. The District has attempted to have many choices in order to have a reliable, low cost in obtaining that supply. Groundwater will be allowed for some time. Next, the District can build upon the possible purchase of CAP water, usage of effluent credits, purchase of the City or other CAP water, acquired credits on opportunistic credit, and CAGR D replenishment fills in remaining differences that we have not filled. These areas give the District different alternatives and opportunities for obtaining available water. The District will be able to save funds by exploring alternatives now rather than being forced to decide at the last minute.

Mr. H. Johnson noted that in one report, Mr. Myers had indicated that he wanted to use more of District staff's time for the NRP. Earlier in the year, a request had been made of more of the General Manager's time. While the Board recognizes the need for the NRP, assistance should be obtained from other participants in the NRP because District staff time is already spread too thin. Mr. Myers noted that he has tried to be cautious of using staff's time, though when some opportunities arise he has needed to rely on staff for some technical assistance. Mr. H. Johnson said that in his opinion, assistance should be obtained elsewhere. Staff will need to be increased to accomplish the planned capital improvement program. This is not criticism, but he wanted to emphasize that a number of other partners have wanted a prominent role in the NRP and should offer their staff.

Mr. Schlegel said that he was concerned that with Proposition 200, the City may not be able to maintain a hundred year assured water supply status, which could impact the District. Recharge will become an important means for obtaining that status. However, the Avra Valley Pilot Recharge Project continues to be postponed and the amount of water to be recharged is reduced. The Board has understood the importance of the Avra Valley project and was even willing to carry fifty percent of the cost to ensure control of the timing and perimeters of the project. CAWCD assured the District that it was in our best interest to relinquish control of the project to CAWCD. However, now there seems to be a sense that the relationship is not as well cemented as it should be. The District needs to ensure that its interests are met.

Mr. Myers said that size of the project is based on a conservative estimate for the infiltration of water at the site. They do not know if the forty to fifty feet depths for recharge at the boring sites extend across the entire project site. Since the project is only in operation for nine months, a concern exists about when the operation is to begin. Postponement reduces the amount of

water to be purchased from CAWCD during 1996. However, despite these issues, a good relationship still appears to exist between the District and CAWCD.

Mr. Schlegel said he was concerned about the political variable involved and any overt attempt to defeat the District's recharge efforts. Mr. Myers said that if the capacity exists at the site, the District will have a 100 percent option to recharge 10,000 acre feet for two years. If the District wants to recharge more, it can be done at the Lower Santa Cruz project.

2. Wholesale Water Conservation Facilities District.

Mr. Myers reported that the Board has received a copy of an outline describing the role of a wholesale water conservation facilities district. This concept is only in draft stage. The idea is to provide a financing mechanism to implement these recharge projects. For example, if the District and the Town of Oro Valley decided to work together, the facilities district would provide an umbrella mechanism for that project. The facilities district could be restricted at first to the Northwest area and then include the whole region. Everyone would pay according to the benefits that would be received for each project. The concept needs to be further developed, but it has potential for providing a means to accomplish cooperatively the CDO project.

Mr. Stratton noted that on November 9, 1995, the concept was discussed further at the Northwest Water Alliance meeting, which Mr. H. Johnson, Mr. Schlegel and he attended. Mr. H. Johnson noted that he had prepared a memorandum to the Board regarding that meeting. He noted that a problem exists in the Northwest area because the public utilities have different goals than the private water companies. The public utilities have presented proposals for the entire cost of any facilities to be paid by development fees, not water bills. They also have promoted the representation of water users on a governing body. However, the private water companies and developers want everything paid through water bills to keep development cost to a minimum. While that is good business on their part, the Board was elected to protect water users in a fair and equitable manner. For two years in trying to organize the Northwest Water Alliance, each side has made proposals, but the two sides cannot agree and it is doubtful they ever will. Mr. H. Johnson noted that in his memorandum presented as his personnel ideas, he made suggested goals for the Northwest Water Alliance that included everything being paid from development fees, not through water bills. The proposal was killed by the silence of no one willing to cooperate to find an agreeable solution. The proposal for the facilities district is too generalized, but it should be examined. These important issues should be examined and a study session held to discuss the Board's position.

3. Contract with Central Arizona Water Conservation District for Avra Valley Pilot Recharge Project.

Mr. Stratton said that he will work with Mr. Michael McNulty of Brown and Bain to complete the contractual arrangements between CAWCD and the District for the Avra Valley Pilot Recharge Project. Mr. Stratton noted that he had met with Ms. Suzanne Ticknor of CAWCD. CAWCD is willing to work with our needs and understands the District's constraints due to the time frame for purchasing water. Mr. Cliff Neal of CAWCD is responsible for the construction time table, but Ms. Ticknor said CAWCD is wanting to work closely with the District.

F. Contribution to Southern Arizona Water Resources Association.

Mr. Myers noted that the Southern Arizona Water Resources Association (SAWARA) held fund raising breakfasts, and has another to hold, to determine if they can obtain a minimum of \$150,000 in total contributions. He recommended that the District support the newly structured SAWARA if SAWARA reaches its financial goal for contributions.

Mr. H. Johnson made the motion to authorize a contribution to SAWARA in the amount of \$5,000, with the stipulation that the contribution not be forthcoming unless SAWARA reaches their minimal goal of contributions. Ms. Cramer seconded the motion.

Mr. Schlegel questioned if any other stipulation should be placed on the contribution since SAWARA is in flux and based on their past appearance of being closely tied to Tucson. Mr. Myers said that under the newly structured SAWARA, no more than a \$5,000 contribution will be received from another entity so that SAWARA is not beholden to any group. The discussion at fund raisers have focused on if the City is the right manager of a water utility and regional water. The SAWARA board will only have one ex-officio member from each entity. The District will have equal representation with the other board members

Ms. B. Johnson said she shared some of the same concerns expressed by Mr. Schlegel. Although staff recommended a three-year contribution, it may be better to only commit for one year.

Mr. Jim Peterson of the Town of Oro Valley inquired if the City or County has committed to SAWARA. Mr. Stratton said that Mr. Kent McClain of Tucson Water agreed to \$5,000 if SAWARA receives the financing. It is uncertain if the County has agreed at this time.

Ms. B. Johnson called for a vote for the motion regarding a contribution to SAWARA. The motion passed unanimously.

G. Magee/La Cholla Reservoir

1. Ratification of Contract - Professional Services Agreement with David Evans & Associates for Construction Related Services.

Mr. Doyle made the motion to ratify the contract with David Evans & Associates for construction related services for the Magee/La Cholla reservoir in an amount not-to-exceed \$9,500. Ms. Cramer seconded the motion.

Mr. H. Johnson said that the District should have the engineer firm that completed a project's design be responsible for certifying all work until the project is completed. This protects the District's capital improvement programs from such embarrassments as oversights at the Aviation Highway bridge, the County's railway pass, and the CAP treatment plant. While it may cost more money, it will save in the end.

Mr. Schlegel questioned if the monitoring factor should be included in the original proposal for the design. Mr. Stratton explained that staff had thought it could handle the monitoring of the

project; however, when considering the various issues confronting the District, it was decided that David Evans & Associates should monitor the construction. When seeking bids for design work and construction, the Board should be responsible for construction management of those major projects in order to avoid any compromises with the bids. After awarding the bid, the Board can decide if the engineer firm for design should assume the construction management.

Ms. B. Johnson called for a vote for the motion to ratify the contract with David Evans & Associates. The motion passed unanimously.

- 2. Ratification of Change Order No. 2 for NAC Construction Grading Contract Phase I.**
- 3. Approval of Change Order No. 3 for NAC Construction Incurred for Standdown Time & Excavation and Location for Existing Facility.**

Mr. Stratton said that the two change orders exceeded \$10,000. He noted that the staff report made the recommendation to consider giving the General Manager the authority to grant change orders according to a percentage of the overall contract price without the need for Board approval up to that percentage. This should be done per contract based on the complexity of the contract itself and the overall dollar amount for the contract.

Mr. Stratton said that the change orders are a part of moving from phase three to phase one. Change Order #3 involves down time due to the District having to comply with the Pima County's full permitting requirement. Once Mr. Michael McNulty of Brown & Bain provides a legal interpretation of that permitting process, the District will seek a pay back of cost incurred due to the down time that resulted from the permitting process.

Mr. H. Johnson made the motion to ratify Change Order No. 2 for NAC Construction for the Magee/La Cholla Storage Facility Grading Contract Phase I and approve Change Order No. 3 for NAC Construction for the Magee/La Cholla Storage Facility Grading Contract Phase I. Mr. Schlegel seconded the motion and it passed unanimously.

H. Status of Linda Vista Reservoir.

Mr. Stratton reported that Mr. Land and he have examined the possibility of short-term financing the construction of the Linda Vista reservoir. Mr. H. Johnson also voiced the same suggestion. The short-term financing could be paid if the bond is successful. If not, then the District can pay back the debt with short-term financing. Mr. Land has contacted financial firms for ten year financing and has received favorable responses. The District could proceed with receiving bids in the near future and receive secure bonds. Soliciting bids will probably take until January, but the District could know before then if financing could be available.

Mr. Schlegel made the motion to authorize staff to receive proposals on financing for the Linda Vista Reservoir and to direct staff to solicit bids for the construction of the Linda Vista Reservoir. Mr. H. Johnson seconded the motion.

Mr. Higdon noted that the City of Tucson's countersuit against the District seeks an injunction against construction of projects, specifically the Linda Vista Reservoir, that the City of Tucson

deems nonessential if the City takes back the water district. At the hearing before Judge Veliz, specifically for this topic, Mr. Marvin Cohen, Attorney for the City of Tucson, said the request for an injunction was to serve as notice to the District that if the City takes over the District, the City will not pay for the cost of the Linda Vista Reservoir because it is redundant with the City's nearby reservoir.

Mr. Schlegel noted that soliciting bids for construction and receiving financial proposals does not commit the District to the actual construction of the District. Mr. Higdon concurred.

Ms. B. Johnson called for the vote of the motion to request financial proposals and solicit bids for construction of the Linda Vista Reservoir. The motion passed unanimously.

I. Award of Contract - SOC Testing Services.

Ms. Cramer made the motion to award the contract for SOC testing services to Aqua Tech in an amount not-to-exceed \$9,000. Mr. Doyle seconded the motion and it passed unanimously.

J. Award of Contract - VOC & THM Testing Services.

Mr. Stratton reported that Copper State Labs committed in a letter that it could provide a turn around time of ten days for any repeat samples required due to a violation. This meets the Arizona Department of Environmental Quality's requirements.

Mr. H. Johnson made the motion to award the contract for laboratory services for testing VOCs and THMs to Copper State Laboratory in an amount not-to-exceed \$12,000. Ms. Cramer seconded the motion and it passed unanimously.

K. Approval of Purchase of One-Ton Truck.

Mr. Schlegel asked if staff requested bids from the Phoenix market. Mr. Stratton said that the bid specifications were advertised in the Daily Territorial and sent to seven specific businesses. Mr. Schlegel suggested that bids be also sought from the Phoenix area since savings may be gained due to lower vehicle prices in the Phoenix market.

Mr. Doyle made the motion to approve the purchase of a one-ton utility truck from Don Mackey GMC Truck in the amount of \$30,325.09.

VI. General Manager's Report

Mr. Stratton reported that he hired a management consulting firm to analyze the operation of the District to determine how we could become more efficient and not duplicate our efforts. The analysis is fairly complete after spending a significant amount of time with staff. One task of the project is to meet with the full Board to review their findings and recommendations. It is suggested that a study session be scheduled for November 27, 1995. Two and a half to three hours will be needed for the presentation.

Mr. Stratton noted that the DeConcini well vibrated substantially during the past weekend with adjacent homes having problems in their water pipes. Staff has turned off the well. Due to the well's strategic importance, the General Manager directed Mr. Hill to begin emergency repairs to return the well to on-line as soon as possible. Gilbert Pump did work on the well three years ago and he will talk with them.

Mr. Stratton said that the Utility Division has almost completed the main line replacement, 489 feet, in Riverside Terrace. The project has been phased in small portions. Riverside Terrace has experienced the same problem that precipitated the San Nicolas replacement program, where once the pipe begins to fracture, it continues to break.

Mr. Schlegel asked if there had been any more contaminant problems with plumes at Shannon well. Mr. Stratton reported that production has been cut back at Shannon well with supplement water from Lattimore. The well itself shows some detection, but no problem is detectable in the water when it is blended. Mr. Block said that the contamination level rises and then drops, which may be due to a seasonal trend due to adjacent pumping. The City and County are cooperating with the matter.

VII. Legal Counsel's Report

Mr. Higdon reported that on the Rancho Arboleda case, disclosure statements from the District and the City are due December 5, 1995. Lane Oden of Brown & Bain is primarily responsible for the case. The City filed a motion to consolidate the case with the larger Asset Purchase Agreement lawsuit, which means the two would be tried together. The City's position is that the counterclaim filed in both cases is the same and should not be tried twice. Mr. Higdon has argued that there is not a problem if the counterclaim is consolidated, but the District does not want to wait for the counterclaim to come to court and would rather expedite the District's case. It is not known what will be the outcome in consolidating the two cases.

Mr. Higdon explained that disclosure statements for the Asset Purchase Agreement lawsuit had been due October 25, 1996, but were postponed until December 1, 1995. District staff has been cooperative in assisting legal counsel to gather necessary information. A hearing on October 30, 1995 was held to request a dismissal of the City's charge of fraud because specifics have not been pled along with throwing out the City's request for an injunction and the claim of rescission. The judge took the issue under advisement and there has been no ruling at this time. Mr. Higdon noted that the General Manager has been in negotiations with CAWCD and the City to purchase untreated CAP water. This would lower the damages of whoever loses the case. In December, a discovery schedule will need to be developed along with extensive document exchanges. February 5, 1995 is still the date of the formal hearing, but they will probably move it back.

VIII. Executive Session

Ms. Cramer moved that the Board of Directors goes into Executive Session. Mr. Doyle seconded the motion and it passed unanimously. The Board went into Executive Session at 7:26 p.m.

Executive Session pursuant to A.R.S. § 38-431.03 (A)(3), (consultation for legal advice with the attorney or attorneys of the District) and/or executive session pursuant to A.R.S. § 38-431.03 (A)(4), (to consider the Board's position and instruct its attorneys in pending or contemplated negotiations or litigation) and/or executive session pursuant to A.R.S. § 38-431.03 (A)(7) (to negotiate for the purchase or lease of real property) regarding the following:

- A. Litigation with the City of Tucson.
- B. Securities Issues & Possible Financial Alternatives.
- C. Acquisition of the Cañada Hills Water Company.

The Board returned from Executive Session at 9:31 p.m.

IX. Litigation with the City of Tucson - Discussion and Possible Action

Ms. Cramer said that legal staff should be directed to continue to proceed with the work being done involving the litigation with the City of Tucson. Legal staff should also try to contact the City to determine the effects of Proposition 200 and how the City and the District could work toward a common end.

X. Securities Issues & Possible Financial Alternatives - Discussion and Possible Action

Mr. Schlegel made the motion to direct staff to engage the services of a financial consultant to investigate securities issues facing the District. Mr. H. Johnson seconded the motion and it passed unanimously.

XI. Acquisition of the Cañada Hills Water Company - Discussion and Possible Action

Mr. H. Johnson said a number of issues need to be resolved before the District can talk directly with the owners of the Cañada Hills Water Company. The District needs to cooperate with the Town of Oro Valley to avoid any bidding war so that the rates for water are kept as low as possible for the Cañada Hills service area. Little activity has transpired regarding an acquisition since John Busby of Cañada Hills Water Company has not been available to talk with. Mr. Stratton and the Financial Board Member Committee should continue dialogue with the appropriate representatives of other entities.

Ms. Cramer said that she was willing to continue to work as a member of the Financial Board Member Committee on this matter. The District should try to work with the Town of Oro Valley.

Mr. Schlegel questioned if the District should then take a back seat to Oro Valley. Mr. H. Johnson said he did not mean to say that. The District and the Town both have roles to perform.

Mr. Peterson noted that the negotiating team for Oro Valley has been selected and a telephone conference with John Busby was held last week with scheduled negotiations to be done this week.

Mr. Stratton said that a draft intergovernmental agreement had been sent to the Town Manager for the Town Council to consider the District assuming control of the Countryside portion. He asked if anything has been done regarding that draft agreement. Mr. Peterson said he has not seen it.

Ms. Cramer left the meeting at 9:39 p.m.

Mr. Schlegel and Mr. Peterson discussed the development of the draft outline for the Wholesale Water Conservation Facilities District.

XII. Future Meeting Dates; Future Agenda Items

The Board scheduled a study session for November 27, 1995 at 3:00 p.m. to discuss the recommendations of the management study as noted in the General Manager's report.

Ms. B. Johnson noted that a memorandum had been sent to request a meeting among the Board members. Legal Counsel has noted that it should be an open session. The original date suggested is not good for everyone, so an alternative date is November 20, 1995.

A study session is scheduled for November 20, 1995 at 4:00 p.m. to discuss Board issues.

Mr. Doyle left the meeting at 9:46 p.m.

Mr. Peterson wanted to discuss additional issues about the Northwest Area.

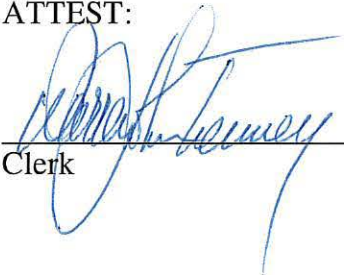
XIII. Adjournment

The Board adjourned at 9:49 p.m.



Barbara L. Johnson, Chair

ATTEST:



Clerk