

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

December 11, 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

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 4:03 p.m. Ms. Marty Cramer, Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present.

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 4:04 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.

* Ms. Cramer was present at the executive session, but not during the regular session.

- B. Acquisition, Construction, Reconstruction or Repair of Waterworks for the Delivery of Water for Domestic Purposes.

The Board returned from Executive Session at 4:53 p.m.

Ms. Cramer left the meeting at 4:55 p.m.

Regular Session

I. Call To Order and Role 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 5:07 p.m. Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present. Ms. Marty Cramer was not present.

II. Comments From The Public

There was no comment from the public. Approximately eight people were in the audience.

III. Consent Agenda

- A. Approval of Minutes - November 13, 1995 Board Meeting.
- B. Approval of Minutes - November 20, 1995 Study Session.
- C. Approval of Minutes - November 27, 1995 Study Session.
- D. Approval of Minutes - December 5, 1995 Special Board Meeting.
- E. Ratification of Billing Adjustments.
- F. Ratification of Agreement with Internal Resource Development Group.

Mr. H. Johnson wanted to clarify that Item III.F., Ratification of Agreement with Internal Resource Development Group, was for the initial work that Internal Resource Development Group did for the District, not any proposed additional work. Mr. Stratton said that was correct.

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

IV. Finances and Bond Projections - Items For Discussion and Possible Action

D. Security Issues and Possible Financial Alternatives.

Mr. Mark Stratton, General Manager, introduced Mr. Mark Reader of Peacock, Hislop, Stanley & Given, Inc., who had been requested to investigate how the lawsuit with the City may affect the District pursuing future bonds. Mr. Reader noted that his firm sold a billion dollars in tax exempt bonds last year. Their clients have included the City of Tucson and the Town of Oro Valley. Mr. Reader said he had met with District's legal counsel to discuss the lawsuit. Since

the District issued its initial bonds, the bond industry has changed significantly with increased laws and requirements.

Based on his current understanding of the situation confronting the District, Mr. Reader recommended that the District notify and educate the insurance company for the District's original bond about the lawsuit and its significance. If the insurance company does not have any concerns about the lawsuit, then the District can pursue more bonds or even refinance its current bonds at a better rate. If the insurance company has a problem, the District probably cannot go out for more bonds or will at least have to pay much higher price. Therefore, the current recommendation is to delay any bond election until some of these issues are resolved. If capital is needed, the District should pursue short-term financing.

Mr. Schlegel questioned if under the City of Tucson's suit to take back the District, if the City would pay for improvements made to the system. Mr. Higdon said that under the scenario that the City has said it wants to take back the District, it would pay for infrastructure improvements that would benefit Tucson Water.

Mr. Reader said that the District needs to investigate the insurance companies and potential bond holders' concerns about the possibility of City of Tucson taking back the District before pursuing future bonds.

A. Monthly Financial Report.

Mr. Stratton noted that the monthly financial report provides a preliminary budget summary for the month of November 1995. Revenue has been higher due to the continuing warm temperature, which could affect the District's gallons per capita per day.

B. Financial Forecast with and without Bonds.

C. Short-Term Financing for Capital Improvement Projects.

Mr. Stratton said that Mr. Michael Land, Chief Financial Officer, investigated the District's potential forecast during the next ten years with or without bonds. The first scenario involves short-term financing and the second scenario looks at a \$24 million bond. The two scenarios provide an overview assuming that all issues remain consistent. Based on Mr. Reader's recommendation and since the District Engineer position needs to be filled, proceeding with a bond election in May 1996 is probably not prudent for the District. Staff has investigated what the District could accomplish through a short-term loan, specifically to begin construction of the Linda Vista Reservoir, and then pay the loan upon passing of the bond. Mr. Land investigated proposals for a \$3.5 million loan from different financial institutions. Norwest Financial Services offered the most attractive rate and has been amenable to even a \$4 million short-term loan. If the bond election is postponed for a year or longer, the District could use the short-term loan to begin design work for transmission main projects besides constructing the Linda Vista Reservoir. With the design work completed, the District could begin those projects when bonds are secured, assuming a successful bond election. The Board was provided a list of potential projects that include projected range of cost. The drawback with initiating approximately five major design projects is that with all the current on-going projects, present staff will be

overwhelmed. A possible solution is to hire from the short-term financing a civil engineer to oversee the design work for the transmission mains. Therefore, additional staff would not be funded through the District revenues but contingent upon the short-term financing.

Mr. H. Johnson noted that his thoughts regarding this issue had been recorded in a memorandum to Mark Stratton dated December 8, 1995 provided to the Board under Item IV.B.

Mr. Schlegel noted that he had questions regarding the assumptions presented in the spreadsheets outlining the two ten-year financial forecast scenarios. The Board may want to consider a study session to discuss the financial forecast of the District because beginning new design projects will impact the other financial areas. Ms. B. Johnson agreed with Mr. Schlegel and the staff report's recommendation for a study session to better understand the information presented. Mr. Stratton said that since the District is ready to move forward aggressively, the District will need to consider the financial ramifications such as a construction crew, additional engineers, and other expenses. The study session would be an opportunity to discuss these matters; however, the Board still could proceed to secure the short-term financing with Norwest and begin the bidding procedures with Linda Vista Reservoir. Mr. Schlegel said that he agreed that timing is favorable to pursue short-term financing. The District should seek a short-term loan from Norwest Investment Services to posture itself.

Mr. Schlegel made the motion to approve staff's recommendation to pursue short-term financing with Norwest Investment Services. Mr. H. Johnson seconded the motion.

Mr. Johnson said that since the November 13, 1995 Board meeting, circumstances have changed that show that a bond election would be better in 1997 rather than 1996 and that short-term financing are available to begin capital improvement projects. With time to survey the situation and correctly proceed toward a bond election, the Board should consider the recommendations in his December 8, 1995 memorandum.

Mr. Stratton asked if the motion included staff's recommendation in the addendum report from staff, which asks for authorization to request for proposals of transmission main design that would be paid from the short-term loan. Mr. H. Johnson noted that the District should request for proposals, which does not commit the District to those projects.

Mr. Schlegel asked the reason for the variance in cost estimate for the design of the transmission main projects. Mr. Stratton said that each project is based on a range of six to twelve percent for acceptable engineering cost.

Mr. H. Johnson questioned if the requests for proposals for the design projects will take place though the District will not have a District Engineer. Mr. Stratton said that the Engineering Division is preparing to advertise for proposals. Mr. H. Johnson asked if Board authorization is needed to hire a new District Engineer. Ms. B. Johnson noted that Mr. Stratton under his General Manager contract has the authority to hire and fire. Mr. Higdon agreed that Board authorization is not needed for the replacement of a current position.

Mr. Schlegel clarified that his motion to approve staff's recommendation included to approve the proposal submitted by Norwest Investment Services, Inc. for financing capital improvements for the District and to direct staff to work with Fred Rosenfeld to draft all the documents and issue a tax opinion with respect to the financial services and to authorize staff to request for proposals of transmission main design. The motion passed unanimously.

V. General Business - Items For Discussion and Possible Action

A. Management Analysis Recommendations and Proposal by Internal Resource Development Group.

Mr. Stratton reported that the Board had received a proposal from Internal Resource Development Group (IRD Group) for further management analysis of the District. Mr. John Horan and Mr. Andy Guarriello of IRD Group were present. The proposal is to rectify some shortcomings noted in the original management analysis conducted by the IRD Group in November 1995. A couple of projects in the proposal would be beneficial to focus on. The first is to develop a three year strategic plan to provide true direction for the District. IRD Group would facilitate a formal strategic plan as developed by the Board so that staff can accomplish what the Board wants done. The second area is to develop a mission statement and values for the District. The proposal also includes areas of improvement in District day-to-day operations. IRD Group has included a schedule to complete the work, one week per month for six months. The cost for the proposal includes the work for two executives at \$6,000 per week plus expenses. The \$6,000 equates to \$75 an hour per individual.

Mr. Schlegel suggested that the proposed schedule for work begin in January 1996 rather than December 1995 to avoid conflicts with the holidays. Mr. Horan said the schedule could be adjusted. Mr. Schlegel suggested that check signing procedure be examined. Mr. Horan said IRD Group does look at the complete purchasing process.

Mr. H. Johnson noted that at the November 27, 1995 study session, he had asked for resumes of the people IRD Group would be sending to work at the District. He would still like to review those resumes. Mr. Horan said that he did not remember that request. Consulting firms usually do not submit resumes of individual people on the projects because different people are used for different projects; however, he could supply resumes. The schedule under the proposal is aggressive to try to facilitate change quicker.

Mr. H. Johnson said that the request for resumes is similar to requests the District makes from other consultants. To be efficient, the District should have a request for proposals with different firms and compare them. Mr. Horan noted that his firm has twenty years experience and he had provided information about companies IRD Group has worked for. IRD Group works from week to week with a client, so the agreement can end whenever. They can develop a summary of who will work on the projects and the reason for that selection for the Board.

Mr. H. Johnson said a management analysis is a good project for the District; however, the Board should be efficient and investigate other firms. Mr. H. Johnson made the motion to

request proposals for a management analysis. Mr. Doyle seconded the motion. Mr. Doyle noted that if \$45,000 is to be paid to IRD Group, requests for proposals should be sought.

Mr. Schlegel said if the District hires another firm, that firm will have to start from the beginning to analyze District operations and thus more time and money will have to be spent. IRD Group has worked with two utilities; however, its strength is dealing with customers, which means IRD Group does not need experience with water utilities. The District needs to improve its dealings with people, which IRD Group appears well suited. Mr. Doyle said that if another firm is hired, they could review at the preliminary report to gain background about the District. Mr. Horan noted that in the industry, \$145 an hour is the average.

Ms. B. Johnson called for a vote for the motion to request proposals for a management analysis. The motion failed by a vote two to two. Mr. H. Johnson and Mr. Doyle voted in favor of the motion. Ms. B. Johnson and Mr. Schlegel voted against the motion.

Mr. Schlegel made a motion to accept the proposal with Internal Resource Development Group. The motion was not seconded.

Ms. B. Johnson asked if the proposal will still be valid if the Board decides to consider it again at the January 8, 1996 Board meeting. Mr. Horan said that the proposal will still stand. He noted that IRD Group is more than competitive. No other firm works with small to mid-size organizations in all aspects of their operations.

Mr. Schlegel asked if other consultants will respond if the District requests proposals. Mr. Horan said that responses will be received, but IRD Group can provide more in-depth services because it has twenty employees that can supply all aspects of the analysis.

Mr. H. Johnson said that staff should still investigate other companies to provide comparison just as is done when an engineering firm is being solicited.

B. Approval of Positions based on Organizational Needs.

Ms. B. Johnson said that the Board had received the staff report regarding four new positions. Mr. Stratton said that the recommendation is for the District to hire only one new staff member. Ms. B. Johnson noted that the Board had discussed these issues before and asked for comments.

Mr. H. Johnson made the motion to approve the establishment of the positions of Assistant to the General Manager, Chief Financial Officer/Administration Manager, Controller, and Executive Secretary. Mr. Doyle seconded the motion.

Mr. Schlegel asked if Ms. Lucia Spohn would be a candidate for the Executive Secretary position. Mr. Stratton said that she could be a candidate, but whether she is selected would depend the qualifications of all the candidates.

Ms. B. Johnson called for a vote for the motion to approve the positions. The motion passed unanimously.

C. Authority of General Manager to Sign Checks of a Specific Value.

Mr. Doyle made the motion to authorize the General Manager to sign checks not to exceed \$1,000 on behalf of the District. Mr. H. Johnson seconded the motion and it passed unanimously.

D. Approval of Proposal with Cotton, Parker & Johnson for Audit Services.

Mr. Stratton noted that Mr. Tom Johnson of Cotton, Parker & Johnson was present.

Mr. H. Johnson made the motion to approve the proposal to engage Cotton, Parker, Johnson & Co. for audit services. Although the proposal is for three years, it is subject to review by future Board of Directors. Mr. Schlegel seconded the motion and it passed unanimously.

E. Schedule for Regular Board Meetings in 1996.

Ms. B. Johnson said that she preferred holding the executive session prior to the regular session because its less disruptive and people do not have to wait outside during the executive session. The Board discussed different times for starting the executive session and the regular session. Mr. Schlegel said a later time in the evening is easier for residents to attend. Ms. B. Johnson and Mr. Stratton suggested that the Board agree on the dates and times for the regular Board meetings with the possibility of another meeting two weeks later, if needed.

Mr. Doyle asked what requirements are necessary to meet if the time of the meeting is changed. Mr. Warren Tenney and Mr. Stratton said there is no statutory requirement, but the District will need to inform customers through the newsletter or a billing insert.

Mr. Doyle made the motion to accept the dates as submitted by staff (second Monday of each month) for the regular Board meetings and that executive sessions start at 5:00 p.m. and the regular Board meeting start at 6:00 p.m. Mr. H. Johnson seconded the motion and it passed unanimously.

F. Construction Administration Proposal for Linda Vista Reservoir.

Mr. H. Johnson made the motion to approve the bidding phase services for assistance with the Linda Vista Reservoir and Booster Station project to the firm of Black & Veatch in the amount of \$5,088. Mr. Doyle seconded the motion and it passed unanimously.

G. Approval of Groundwater Savings Program.

Mr. Mark Myers, Consultant for the Northwest Replenishment Program (NRP), explained that the Central Arizona Water Conservation District's (CAWCD) groundwater savings program involves substitution of groundwater with CAP water at BKW Farms. Of the 2,000 acre feet already committed, 1,000 acre feet for recharge capacity are still available. The District should consider using that capacity, which would be less expensive than a recharge project. Since the Avra Valley Pilot Recharge Project will have a planned capacity for 3,000 acre feet, less than

originally anticipated, utilizing the unreserved 1,000 acre feet capacity provides another means for obtaining recharge credits at a lower cost.

Mr. Schlegel made the motion to authorize staff to work with the Central Arizona Water Conservation District to exercise right for the unreserved capacity for recharge with BKW Farms. Mr. H. Johnson seconded the motion and it passed unanimously.

H. Award of Contract for Well Maintenance.

Mr. Schlegel made the motion to authorize the contact with Farwest Pump Company for the 1995-1996 production well maintenance for Moore, Estes, Ina & Oracle, and Las Palmas East wells. Mr. Doyle seconded the motion and it passed unanimously.

I. Water Quality Issues.

Mr. Stratton reported that the District has monitored closely the South Shannon well due to detections of volatile organic carbon constituents. Since the levels have not diminished, the Board needs to consider potential action if the detection level continues to rise. Currently, the District blends the South Shannon well water with Latamore well water and there is zero detection at the reservoir. Therefore, the water being delivered to our customers has no detectable level. However, if the well reaches a minimal contaminate level, the well needs to be shut down or well head treatment provided. With the Consumer Protection Act prohibiting Tucson from delivering treated TCE water, the public may not receive well the District doing what the City is not. However, shutting off the well may cause the source of the contamination to migrate to nearby wells. Staff has explored the possibility of using the South Shannon well water for Pima County parks and other non-potable usages. The Tucson Water well south of the South Shannon well has been shut down due to higher detection levels.

Mr. Schlegel asked if the contamination is from the El Camino del Cerro landfill. Mr. Michael Block, District Hydrologist, said that the data received from the County indicates that it may be an isolated source. Sometimes a large amount of stormwater or flood can intercept a landfill and contaminants enter the groundwater, than laterally move out. Also, two landfills exist over by La Cholla and Curtis, but there has not been detection in that area. Pima County is to begin additional remedial work, start constructing groundwater clean up, and have deeper bank protection along with additional monitoring wells. The District has been monitoring other wells, but the South Shannon well has been the only District well to show consistently a detection for PCE or TCE, which tends to indicate a landfill or improper source. Samples indicate a rise in the detection during peak season and then a decline, which makes it difficult to know if it is due to pumpage or changes in seasonal recharge variations. The report was done so that the Board could be aware of the current situation and possible directions to pursue. The City's policy is to shut down the well if contaminant levels approach fifty percent of the drinking water limit. However, if the well is shut down, the District's other wells may be more vulnerable to potential contamination. The District may want to consider using a consultant to look at the options and how to have public involvement to deal with any fear factor.

Mr. Schlegel asked if the El Camino Del Cerro landfill has been declared a Superfund site. Mr. Block said that the State says yes, but the County says no; however, funds do not exist in the Superfund program for remediation.

Mr. Doyle asked how the direction the water flows is known. Mr. Stratton said that Pima County has mapped the flow after a flood, which can move the groundwater table quickly in either direction along the Lower Santa Cruz and/or Rillito Creek.

Mr. H. Johnson asked the capacity of the South Shannon well. Mr. Stratton said it is about 600 to 700 gallons per minute, one of the District's better wells. Any well site cleaning process has to be determined if it is economically feasibility.

Mr. Block said that well head treatment, which would sit on top of the well head, to design and construct is estimated at \$100,000. The cost for a new well is \$200,000 to \$300,000.

Mr. Stratton proposed that staff gather information of different options so if the contaminants increase, the District can take action before the District is compelled to act. Mr. Schlegel said that is wise and suggested that staff explore a new site in the area, if Arizona Department of Water Resources (ADWR) has no restrictions. Mr. Block noted ADWR's requirement is that it not impact any non-District well in the vicinity. However, if a new well is constructed, the District still must contemplate the potential problem of contaminating other wells by shutting down Shannon well. Mr. Forrest noted that the active pumping of South Shannon well has probably acted as a barrier in preventing the contamination from spreading.

Mr. H. Johnson asked if the well pumps 600 gallons all the time. Mr. Block said that South Shannon well has acted as a back up well since April 1995 and runs at five percent of capability.

Ms. B. Johnson requested an update from staff. Mr. Stratton said he would provide updates periodically. He wants to involve the Water Quality Board Member Committee in developing an action plan for this situation.

Mr. Block noted that the annual monitoring of nitrate indicates that the District water supplies meet the state and federal nitrate drinking water standard.

J. Possible Refurbishment of Magee/La Cholla Well.

Mr. Christopher Hill, Utilities Superintendent, explained that the Magee/La Cholla well had failed in June 1994 when the pump bowl assembly had broken off. Attempts were made to recover the pump bowl assembly, but sanding problems prevented it from being retrieved and thus the retrieval efforts were stopped. With the new million gallon Magee/La Cholla Reservoir being constructed, only one well will be feeding the reservoir, which will not be sufficient. Therefore, District staff and Farwest Pump Company considered one final attempt to restore the Magee/La Cholla well as a prudent attempt to have a second source for the new reservoir. Based on further exploration today, Farwest Pump Company has beat the pump bowl assembly down ten feet and retrieve parts of it. Staff recommends that the District continue to try to restore the well head, clean the hull, put a slip line with a ten-inch screening and gravel pack, and refurbish the well with a new pump bowl assembly. This could be done for approximately

\$60,000. If successful, it would provide enough pumping capacity to allow the new reservoir to do what it is suppose to do.

Mr. Stratton noted that the District has had difficulty acquiring a site for a new Magee/La Cholla well because it may impact a number of small well owners. While a suitable site has been located, it will be awhile before it is acquired. Although the new well will still be needed, having the old Magee/La Cholla well refurbished by spring at the estimated cost would be beneficial.

Mr. Schlegel asked if there will be any change in the well's capacity or if State requirements will restrict the capacity. Mr. Hill said no change is expected in what the well can produce. The well will be tested and the pump will be sized accordingly. Mr. Block said that since the well was drilled before the Arizona Groundwater Code was enacted, no limitation is placed on the pump size; however, any new well must adhere to the Code and not impact neighboring wells.

Mr. H. Johnson asked if the cost includes the screen and gravel packing. Mr. Hill said it does. Mr. H. Johnson said restoring the well will be a gamble and refurbishing the well properly to avoid future sanding problems will be important. Mr. Hill said he was willing to take the risk since the well is an important producer and key to feeding the new reservoir.

Mr. Schlegel made the motion to authorize staff to proceed cautiously to restore the Magee/La Cholla well. Mr. Doyle seconded the motion.

Mr. Doyle asked if the refurbishment includes a pump and motor. Mr. Hill said that it does. Mr. Stratton noted that the refurbishment process will be done a step at a time to be certain that each phase is possible rather than committing all at once.

Ms. B. Johnson called for a vote for the motion. The motion passed unanimously.

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

There was no discussion or action.

VII. Acquisition, Construction, Reconstruction or Repair of Waterworks for the Delivery of Water for Domestic Purposes - Discussion and Possible Action

There was no discussion or action.

VIII. General Manager's Report

Mr. Stratton said that he had nothing else to add to the General Manager's report.

IX. Legal Counsel's Report


Mr. Higdon said that he had nothing specific to report.

X. Future Meeting Dates; Future Agenda Items

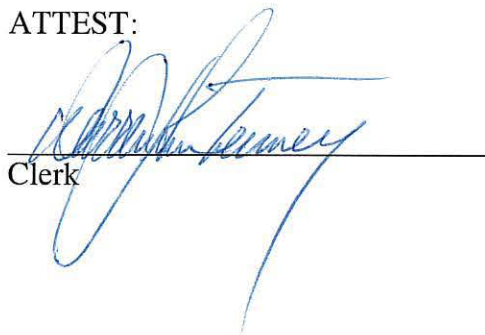
The Board decided to hold a study session to discuss financial issues on December 20, 1995 at 3:00 p.m.

XI. Adjournment

The Board adjourned the meeting at 7:08 p.m.


Barbara L. Johnson, Chair

ATTEST:


Clerk