

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

December 20, 1995
Metro Water District
Conference Room
7235 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

Board Members Present: Barbara Johnson, Chair
 Jim Doyle, Member
 Herb Johnson, Member
 Pete Schlegel, Member

Board Member Absent: Marty Cramer, Vice-Chair

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 study session to order at 3:04 p.m. Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present. Ms. Marty Cramer was not present.

III. Update on Service Area Boundaries Issues with Tucson Water

Mr. Mark Stratton, General Manager, reported that Mr. Phil Higdon of Brown & Bain and he met with City of Tucson representatives regarding a possible settlement of the lawsuit regarding Rancho Arboleda subdivision and other boundary issues. The agenda item is to ensure that the Board remains informed and that the District pursues the correct direction.

Mr. Higdon reviewed that during the summer of 1995, Alan Forrest, District Engineer, and Larry Mulhern of Tucson Water comprised a committee to examine service area boundaries issues between Tucson Water and the District. The committee completed a report that included a series of recommendations for which disputed areas the District or Tucson Water could be serviced based on technical considerations. The District Board of Directors gave general approval for the report. Although a settlement was possible then, the City required its attorneys' opinions about bonding and assessment issues. When a stalemate occurred, the District became concerned about Tucson Water installing connections at Rancho Arboleda subdivision, one the disputed service areas. The District then filed suit on Rancho Arboleda and the other boundary disputes. The lawsuit noted that after the Asset Purchase Agreement was signed, Tucson Water wanted to continue to serve its customers that were within the District boundaries. Another

agreement was drawn up to allow existing customers of Tucson Water to continue to be served by them. The City and District could not later agree as to the ownership of certain service areas designated on a map, and thus the District filed the lawsuit.

Mr. Higdon said that after the District filed suit, the City responded with its counterclaim. Disclosure statements have been exchanged. When discussing deposition schedules with City attorneys, they asked if the District would be interested in revisiting the Committee's report as a means to settle the suit. At another meeting on December 19, 1995, an outline of an agreement was developed to be recommended to each respective governing body.

Mr. Higdon noted that the settlement agreement is essentially the same as proposed in the Committee's 1995 summer report except for four exceptions. First, under boundary detail #4A, which is north of Magee and west of Northern and currently served by Tucson Water, the Committee had recommended that #4A be transferred to the District. The City has since made infrastructure improvements in #4A amounting to about \$350,000 for replacement mains. Rather than reimburse the City for those infrastructure improvements, it is now recommended that the City continue to serve Area #4. Second, under boundary detail #12, which is north of Overton Road, the Committee recommended that the undeveloped property be served by the District. The undeveloped area is divided into three properties. One property owner has a service agreement with the District; however, another property owned by Becklin Homes signed a service agreement with the City. It is now recommended that the Becklin property be serviced by Tucson Water and the other two undeveloped properties be serviced by the District. Third, boundary detail #2, which is just south of Hardy Road, is part of Oro Valley Water Improvement District #1; therefore, the Town of Oro Valley must approve the Committee's recommendation for that area. Fourth, a well located within boundary detail #4A is recommended to be transferred to the District. Although one City attorney questioned if the District will be allowed to pump and use the water that is within the City's service area, Mr. Michael McNulty is confident that the Arizona Department of Water Resources will allow it.

Mr. Higdon noted that Mr. Fred Rosenfeld recommended that the District pay off the liens for the property in the District that will be served by Tucson Water under the Committee's recommendations.

Mr. Higdon noted that boundary detail #9 has an interesting history that was recently uncovered. An area in #9 was actually not a certificated part of the District, but is a certificated area of Crystal Spring Water Company that Tucson purchased in 1974. Therefore, the City has a claim to this area that the District has been serving. The City is willing to agree with the Committee's recommendation that the District would serve all of the area in boundary detail #9 including the Crystal Spring area. This area includes the Diamond property at La Cholla and River Road.

Mr. Schlegel asked if the City was willing to give up the opportunity to service the Diamond property. Mr. Stratton noted that with the development projected at La Cholla and River Road, the District would not have to negotiate with developers whom the water provider will be. The Crystal Spring Water Company issue was a surprise because the District's legal description includes the area, but Arizona Corporation Commission documents with the Asset Purchase Agreement does not show that area being included in the District. With the purchase of the water company in 1974 by the City, the City has a legal claim to service it.

Mr. Schlegel questioned if resolving the service issues for La Cholla and River Road was enough of a benefit to allow the City to serve Rancho Arboleda's 150 lots. Mr. Stratton said that the District would not need to negotiate with the developer and thus could obtain the full system development fees amount. In addition, the developer would have had to put about \$350,000 in new main to serve Rancho Arboleda. Mr. Schlegel noted that would be difficult to tell Rancho Arboleda residents that the District was to put a lien on their property. Mr. Stratton noted that the trade of the well is to offset the payment of the assessment at Rancho Arboleda. Mr. H. Johnson agreed that the system development fees obtained from the development at La Cholla and River and having a new well in the system would offset any financial lost at Rancho Arboleda.

Mr. Higdon noted that reaching a settlement on the boundary issues is an important first step to possibly resolving the other lawsuit with the City.

Mr. Schlegel questioned that since the District would probably need to drill a new well near La Cholla and River, if the water has shown signs of contamination. Mr. Stratton noted that when the new Magee/La Cholla Reservoir and transmission mains are completed, the Oracle Jaynes well can serve that area and meet the fire flow requirements.

Ms. B. Johnson said that settling this lawsuit will not actually change the District's boundaries, but will decide the areas of service. Mr. Higdon said that is correct. In addition, the settlement will show that the District will be serving areas outside its boundaries. To change its boundaries, the District will need to go through the same process it did originally when it was established. Mr. Schlegel said that the District should pursue to change officially its boundaries so that nothing is disputed in the future.

Ms. B. Johnson questioned if the settlement will be legally binding. Mr. Higdon said that it would be a contract.

Mr. Stratton asked if the developer at River and La Cholla wants to be annexed into the City to avoid the District's system development fees, if that would change the settlement. Mr. Higdon and Mr. Stratton agreed that the settlement should state that the service boundaries are based on the settlement, whether or not annexation occurs later.

Mr. Doyle asked what the well is worth. Mr. Stratton said that the well produces about 300 gallons a minute, which would be valued between \$70,000 to \$100,000. The well could readily be used in the District.

Mr. H. Johnson asked if the agreement would prevent the District from expanding into other areas of the County. Mr. Higdon said that the agreement would be specifically for the areas in the report.

Mr. H. Johnson made the motion to approve the settlement of the District's litigation with the City of Tucson relating to the Rancho Arboleda subdivision and other disputed service areas, consistent with the recommendations of the June 1995 report of the Metropolitan Domestic Water Improvement District/Tucson Water Boundary Issues Committee, with the following changes: 1) Boundary Detail #4A will continue to be served by Tucson Water; 2) Boundary Detail #12 regarding Beckland property will be served by Tucson Water; 3) Boundary Detail #2

will have to be approved by the Town of Oro Valley; 4) Tucson Water will transfer a well located in Boundary Detail #4A to Metropolitan Domestic Water Improvement District. The General Manager and Board Chairman are authorized to negotiate a settlement for final approval by the District Board of Directors. Mr. Doyle seconded the motion and it passed unanimously.

II. Financial Planning for Capital Improvement Projects

A. Current Status.

B. Short-Term Financing - Potential and Implications.

Mr. Stratton noted that the staff report regarding this agenda item was brief but provided an overview of financial issues so that the Board can discuss the issues in more detail. Mr. Stratton and Mr. Mike Land, Chief Financial Officer, met with Mr. Kevin O'Connor of Norwest Investment Services and Mr. Fred Rosenfeld. The meeting was to discuss Norwest's proposal to provide a short-term loan to the District. They discussed the lawsuit between the District and City in length and Mr. Rosenfeld discussed the worst-case scenario. Additionally, Norwest would be receptive to increasing their proposal from \$3.5 million to \$4 million. Mr. O'Connor would like to close the loan by the end of January 1996. The Board was provided a list of projects to be targeted by a \$4 million short-term loan, which includes the estimated cost for the Linda Vista Reservoir and a contingency fund based on ten percent of construction, construction administration cost, designs for transmission main projects, and funding to fill an engineer position for the design projects along with necessary office equipment. The benefit of doing the design projects now is that they will be ready for construction upon completing successful bond election. Mr. H. Johnson suggested that a time chart be prepared for the projects under the short-term financing.

Mr. Schlegel questioned if using the short-term financing to fund the engineering position would actually be more expensive due to interest accrued by the loan than if the position is paid directly from the District revenues. Mr. H. Johnson and Mr. Stratton noted that by including the engineering position with the short-term loan, the District can separate expenses for its capital improvement program from its operation and maintenance projects. With that separation, the records are straightforward as to the money spent by the District to operate and maintain Oro Valley Water Improvement District #1 under the intergovernmental agreement with Oro Valley.

Mr. Stratton said the Board had approved the recommendation to pursue short-term financing with Norwest for \$3.5 million and that looks favorable. Mr. Stratton asked if the Board would be receptive to a \$4 million short-term loan to complete more design projects. Of course, the Board would have final approval based on the contract drafted. Mr. H. Johnson asked if any Board member was negative to the idea of a \$4 million short-term loan. No one was.

C. Financial Alternatives & Forecast for Capital Improvement Projects.

Mr. Land noted that the Board received copies of three projections that provide an overview of the District's financial future based on assumptions remaining the same. The projections are based on a \$4 million short-term loan, a bond program that pays off the short-term loan, and a bond program that is in addition to the short-term loan. Mr. Land reviewed the financial projections with the Board.

Mr. Land noted that the bond election could include refinancing the existing bonds, which means the assessments on residents' property would be removed. This could be a favorable selling point for the bond election if interest rates are low at the time of the election.

Mr. H. Johnson suggested that having a variable rate increase may be beneficial to the District based on inflation that is automatic rather than trying to seek a rate increase each year. Mr. Land said that Pima County Wastewater Management had a consistent but low rate increases each year that had been beneficial with few complaints. Mr. Stratton noted that the District's operating expenses seem to increase by three percent each year due to inflation. Mr. Land said that an annual three percent rate increase may be beneficial; however, comments made when the November 1, 1995 rate increase was approved implied the District did not anticipate another rate increase for over a year.

Mr. Schlegel said that Norwest may be encouraging the District to act quickly because interest rates may even drop further if the federal government approves a balanced budget. He said the population growth rate should be checked because the University of Arizona was projecting a drop in growth until about 1998. Mr. Land confirmed he used a four percent increase each year. He would check to see if that was accurate.

D. Strategy for Bonds.

Ms. B. Johnson asked about the status of the Bond Advisory Committee. Mr. Stratton said that Committee members have not been selected because the Board had been considering different approaches for pursuing bonds. The Board had suggested waiting to hold a bond election in March 1997. It is unlikely that other elections will be held then. By waiting until 1997, the District can better posture itself and hopefully resolve issues surrounding current litigation. The Board and staff will have more time to focus on the overall strategy for the bonds. Mr. Stratton recommended that staff meet regularly with the Finance Board Member Committee and provide updates to the Board.

Mr. H. Johnson said that the District will need to do a careful analysis of financial implementing its capital improvement program. However, the District needs to focus also on its main replacement program. The District should have a crew to do only replacement. This will require a duplication of some of equipment so that the replacement crew can focus solely on the replacement program. The District promised its customers that it would take care of its infrastructure.

Mr. Stratton said that the Board had discussed a full-time construction crew when they adopted the Fiscal Year 1995-1996 budget. Originally, the \$500,000 carry over for CAP water was to finance the crew assuming the issues with Tucson were resolved. However, since the rate increase is anticipated to generate more revenue, funding is available for a construction crew. Staff will try to prepare a report for the January 8, 1996 Board meeting to reexamine this issue for the Board's consideration.

Mr. Schlegel said he agreed with the concept of a construction crew. He would appreciate an update of the budget for the first six months to see what extra revenue is available. Excess funds could hire more people and equipment for the crew. Mr. H. Johnson said that along with information about the funds available, staff should prepare a time chart that sets priorities and

estimates the completion of the replacement projects. Mr. Schlegel said that a basic plan would be helpful even if it is later deviated from.

Ms. B. Johnson said that she approved of the approach discussed by staff for the bond strategy. The Finance Board Member Committee should meet regularly. She would be favorable to more study sessions about this matter because understanding the issue is important for the Board.

IV. Future Agenda Items

Mr. H. Johnson said that he would like the Linda Vista Reservoir discussed at the next Board meeting. In reviewing the plans for the Linda Vista Reservoir, Black & Veatch included construction work for a driveway and delivery pipe on the north 75 feet of the site, where the County plans to extend the Linda Vista Road. The design should be changed to avoid conflict with the right-of-way. Mr. Stratton said that such a design change could perhaps be done as an addendum to the bid package. Staff would examine the issue.


Mr. Schlegel asked if Black & Veatch has done anything to reduce the cost of enclosing the booster station. Mr. Stratton said that alternatives were presented in the bid document, which means that different costs may be submitted. Mr. H. Johnson noted that Black & Veatch provided engineering estimates for the cost. While some features may be over designed, the District should avoid redesigning the project, which could cause future conflicts. The bid price is what will determine the cost for the project.

Ms. B. Johnson said that the next Board meeting should include an update regarding Cañada Hills Water Company. Mr. Stratton reported that he had spoken with Chuck Sweet, Town Manager for Oro Valley about Cañada Hills Water Company. Mr. Sweet was informed that an unwillingness to work together on Cañada Hills Water Company may impact future arrangements. It was agreed that a couple of Town Council Members and couple of Board members should meet to discuss the related issues. Mr. H. Johnson noted that he had several appointments with Oro Valley Council Members that were not kept.

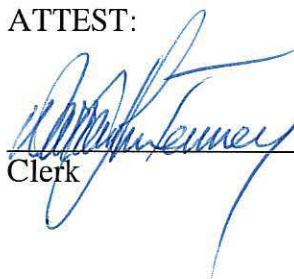
Mr. Schlegel said an update regarding Lot 39 at Cobo Catalina would be beneficial. Mr. Stratton said that the property owner next to Lot 39 claims he has not been able to sell his home due to the District's intended use of Lot 39 to build a reservoir. Legal Counsel has been working with the property owner's attorney to resolve the issue.

V. Adjournment

The Board adjourned the meeting at 4:49 p.m.


Barbara L. Johnson, Chair

ATTEST:


Clerk