

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
BOARD OF DIRECTORS MEETING**

April 12, 1999

*****Wilson Room***
Tohono Chul Park
7366 North Paseo del Norte
Tucson, Arizona 85704**

MINUTES

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

Board Member Not Present: Marlene Wright, Vice-Chair

District Staff: Mark R. Stratton, General Manager
 Joyce E. Osborne, Recording Secretary
 Lisa Chase, Legal Counsel

I. Call To Order and Roll Call

Sam Ray, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District) called the Board meeting to order at 6:00 p.m.. Herb Johnson and Pete Schlegel were present. Jim Doyle was not initially present but arrived at 6:05 p.m. Marlene Wright was not present.

II. Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – March 8, 1999 Board Meeting.
- B. Approval of Minutes – March 23, 1999 Public Hearing.
- C. Ratification of Billing Adjustments.
- D. Approval of Water Service Agreement – Montebella Apartments, Phase II Water System.

Mr. Schlegel made a motion to approve the consent agenda. Mr. Johnson seconded the motion. The motion passed unanimously.

IV. General Business – Items for Discussion and Possible Action

A. Financial Report

Mr. Land, Chief Financial Officer for the District, gave a summary showing revenues and expenditures being over budget by 3/10 of 1% to the favorable. Revenues are \$177,000 over budget and expenditures are \$169,000 above budget, leaving \$7,053 to the better.

Power costs and the capital improvement projects are the main reasons for the overage. Mr. Land explained that there has been a change in several categories due to the District debt service and the lease on the building.

Mr. Schlegel wanted an explanation of the \$3 million cash flow. He was concerned with the large cash flow when the Board had just approved the rate increase. He hoped that the money would be targeted for projects so the District does not have a large surplus and questioned how much was already appropriated. Mr. Land explained that the cash on hand looks at bond monies vs. rates and the differences between revenues and expenditures is that cash on hand becomes an asset. Mr. Land said that \$785,000 was presently committed for miscellaneous capital projects. Mr. Stratton, General Manager for the District, explained that not all of the \$3 million was on the bond issuance, but that some had been left over from the Municipal Property Corporation financing and is still going toward payments on the new office building and the Herb Johnson Reservoir. Mr. Stratton also noted that it was essential that the District have an adequate cash reserve to acquire a good bond rating from the bond agencies.

Jim Doyle came to the meeting at 6:05 p.m.

Mr. Ray asked that the Board look at the cash flow and any surplus at the next rate increase. Mr. Land said that revenues vs. expenditures does not always play out to what cash is on hand and that the District would like to be prepared to do some projects on a pay as you go basis and not depend on only bond financing.

Mr. Johnson wanted to know where the \$2.5 million was coming from for the Hub Water Company acquisition. Mr. Land said that the payment is being handled through a promissory note.

B. Approval of Final Payment for Bond Feasibility Analysis.

Mr. Schlegel wanted staff to explain why Black & Veatch came back over their original pricing with a 33% increase.

Mr. Stratton said that the majority of the increase was due to the amount of revisions that the bond advisor and bond counsel had precipitated in finalizing the report which put the District in the best light possible while still meeting security issues that they needed to disclose. There was a draft but due to numerous additions, the draft required additional time.

Mr. Schlegel still felt the 33% was not justifiable and wanted to know if the General Manager came to the Board with work order changes. Mr. Stratton said he had not and that the consultant had not met the schedule as intended but due to additional work required by our bond counsel, additional time was required which was not anticipated and involved those entities. Mr. Land pointed out that even though the increase was 33%, it was still lower than the proposal submitted by the second firm. He also said it included an estimated 4 hours of conference calls and work that took over 6 weeks to complete.

Mr. Doyle made a motion to approve the final payment to Black & Veatch for the Bond Feasibility Analysis. Mr. Johnson seconded the motion and it passed unanimously.

C. Resolution 1999-4 – Establish Monetary Fee for the Illegal or Unauthorized Use of District Water.

Mr. Johnson made a motion to approve Resolution 1999-4 to establish a monetary fee for the Illegal or Unauthorized Use of District Water. Mr. Schlegel seconded the motion and it passed unanimously.

D. Approval of Reallocation of Central Arizona Project Water.

Mr. Johnson made a motion to approve the District notifying the Arizona Department of Water Resources (ADWR) of its intent to subcontract an additional 4,130 acre feet of Central Arizona Project water. Mr. Doyle seconded the motion.

Mr. Schlegel said that the issue of 4,130 acre feet is important and wants to be assured that staff has researched whether or not it is prudent for the District to look at another source. Mr. Stratton said that the District should express interest in the 4,130 acre feet of CAP water from the standpoint that it will be at least 1-2 years before final allocation is reached. The District has that time to look at other possible water resources, such as the Northwest Reclaimed System that Pima County is working on with Oro Valley and Marana and other possible scenarios. Prior to the reallocation process, the District can let ADWR know if we have found other sources but for now he feels it is not prudent to forsake the 4,100 acre-feet without something in the other hand to offset it. Mr. Stratton said he is working with Mr. McNulty, Legal Counsel for the District, on other sources. He said that not only does the District have the option to decline but many people are waiting in line to use other resources at present there are zero risk endorsements involved. He feels that by the time it comes before the Board to be signed, these questions will be answered. Mr. Schlegel said the District should strongly request the 4,130 acre feet of CAP water from ADWR.

Mr. Ray called for a vote for the motion to approve the District's intent for 4,130 acre feet of CAP water. The motion passed unanimously.

E. Notification of Arizona Department of Water Resources of 1997 Water Usage and Total GPCD Conservation Requirement.

Mr. Stratton said that he and Warren Tenney, Assistant to the General Manager, had met with Legal Counsel, Mr. McNulty and Ms. Chase, on this issue since it dealt with the potential violation of the District gallons per capita per day. Mr. Stratton explained that for 1998, the District is in compliance under the Non-Per Capita Conservation Program but the District was still under the total GPCD Program in 1997. The District did not meet its GPCD target for 1997. Mr. Stratton said that during the Third Management Plan (TMP) discussion, Kathy Jacobs of ADWR indicated she was opposed to water providers buying down their violations. Now ADWR wants the District to retire 800 acre feet of long term storage credits at a rough estimated cost of \$80,000. Subsequent to this, ADWR said if the District is willing to enter into a stipulation order to modify its GPCD target to the TMP figures, this would reduce the amount to retire to 300 acre feet of long-term storage credits. Mr. Stratton said that staff does not feel comfortable to proceed and that the District should want to see what ADWR decides. If the District is fined, that can be used as a conservation message to District customers.

Mr. Doyle wanted to know if the water usage included construction water. Mr. Stratton said yes and that because there are no people involved it distorts the per capita numbers as well as when fire hydrants are flushed and the water cannot be accounted for.

Mr. Schlegel said ADWR's targets appear to be idealistic numbers lacking in complete scientific examination. He said this affects the entire water provider industry and to his knowledge, virtually no one has been able to meet those targets and numbers. He was also frustrated that it took ADWR a year to notify the District is was non-compliant.

Lisa Chase, Legal Counsel, said that she had advised Mr. Stratton and Mr. Tenney that this is an excellent opportunity for the District to make ADWR justify whether the standard was used arbitrarily or not. Mr. Ray wanted to know that if the District does not use long-term storage credits to settle being non-compliant, would ADWR be required to hold a hearing on the non-compliant issue. Ms. Chase said that in public discussion with ADWR staff, it was clarified that the letter was a "statement of account" and that ADWR has not taken any formal action even though they put it in the letter. The District has not formally received the document, which gives the District the right to administratively appeal. Mr. Ray stated that since the District has not received any documents in any official manner, no action is required.

Mr. Johnson wanted to know if any other water companies had received the same notice. Mr. Stratton said that Marana Picture Rocks, Community Water of Green Valley, Tucson Water and Flowing Wells Irrigation District, along with others had received letters. Mr. Stratton said he had talked with Alan Forrest of Community Water Company. He said his company purchased credits a few years back when they could buy them at a reduced rate. Tucson Water will probably use their credits. Ms. Chase clarified that if the District, at some future date, decided it wanted to buy down the violation with long-term storage credits that will not preclude any initial offer that was made.

Mr. Stratton asked for clarification from the Board on how it would like him to proceed. Mr. Ray and Mr. Schlegel said it appeared no action was needed. Mr. Stratton said he would wait to see how ADWR responds to the District's non-action.

F. Award of Janitorial Service Contract for New Office Building

Mr. Schlegel made a motion to award the janitorial service contract for the new office building to One Source as per staff's recommendation. Mr. Doyle seconded the motion and it passed unanimously.

G. Reclassification of Customer Service Supervisor to Administrative Service Manager.

Mr. Doyle made a motion to reclassify the position of Customer Service Supervisor to Administrative Service Manager as per staff's recommendation. Mr. Schlegel seconded the motion and it passed unanimously.

H. Status of Consumer Confidence Report/Water Quality Report.

Mr. Tenney said that the Environmental Protection Agency (EPA) requires that starting in 1999 that all large municipal providers are to send annually a consumer confidence report to its customers. Staff has been working on developing this and the District will probably be the first in southern Arizona to send the report. Mr. Tenney said he sent the draft of the report to ADEQ who said that the District report meets all of the requirements and also complimented the District on the quality with which the report was submitted. The technical information was a combined effort between Chris Hill, Mike Block, and Theresa Lutz.

Mr. Schlegel wanted to know if the report was to be in black and white or color. Mr. Tenney said it would be in two colors and will be mailed directly to all customers including apartment and town home dwellers.

I. Approval of Accelerated Meter Maintenance Replacement and Retrofit Program.

Mr. Hill, Deputy Manager for the District, said the report on meter replacement deals with three components including residential meter replacement, large meter replacement and radio read retrofit. He said the small meter replacement needs to be accelerated to reduce the amount of water lost through old meters that under read water usage. With residential meters making up 94% of the District meters, it is important to start replacing 619 meters annually at a cost of \$100,000.

Mr. Schlegel expressed concern about having enough people to install the meters to make the program practical or if the District should train staff to do it. Mr. Stratton said the District's goal is to hire summer help that would be trained by in-house staff to install and replace these meters during summer months.

Mr. Schlegel again said he was confused with the recommendation asking the Board to commit to a multi-year program without more review and information. Mr. Hill agreed and said that the intent of the report was to give an idea of what type of financial commitment the District would need to make for the retrofit program to be successful.

Mr. Johnson said the District loses money two ways, which includes leaky pipes and meters do not read enough quantity. The older the meter, the greater chance there is of an "under" read for consumption.

Mr. Stratton said most of the expenditures referred to in the report will be included in fiscal year's budget but in the interim, summer students will be out of school in May and need to be hired. He also said that no Board can commit a future Board to any action. If in the future the Board does not want to continue with this program, then it does not get included in the budget. The Board makes the decision whether it will be discontinued or not. He said the intent is to get direction from the Board as to whether the Board would support the meter program so it can be included in the budget.

Mr. Johnson asked if the meter program and its budget would involve Oro Valley Improvement District #1. Mr. Stratton said that Oro Valley is taking over OV#1 July 1, 1999 and it was not necessary to get their approval. He said based on Oro Valley's intent, their Town Manager requested that the District did not need to bring its budget before the Town for its approval since our budget would not affect the Town in the new fiscal year.

Mr. Johnson made a motion that the District authorize \$30,000 to be spent on the meter program during the remaining 1998-1999 year when there will be a hearing on the budget and the funds will be available at that time. There was no second and the motion failed.

Mr. Schlegel asked that staff put together a summary program for meter replacement and explain basically what is realistic and come back to the Board with a clearer time table. Mr. Hill explained that the report was broken down into 3 components with multiple years to give foresight and background on what would be necessary to maintain a meter replacement program. It does not mean approving it verbatim.

Mr. Stratton said that the District does have the contingency fund included in the budget where the Board can authorize projects such as this.

Mr. Tenney said that from reading the report, staff is seeking to know if the Board agrees that the meter replacement program is needed and then staff would include it in upcoming budget line items. The report is asking if the Board agrees with the program so that line items can be planned for in the upcoming budget.

Mr. Schlegel said in the meantime, the General manager can spend up to \$10,000. He can use that to prepare for the summer work. Mr. Schlegel added the program needs to be done. Mr. Ray

commented that at \$28.75/meter that \$10,000 will buy a lot of meters.

J. Right-of-Way Acquisitions for the La Cholla Boulevard Transmission Main (Phase I & II) Projects.

Mr. Doyle made a motion to approve the right-of-way acquisition for the La Cholla Boulevard Transmission (Phase I & II) Projects. Mr. Schlegel seconded the motion and it passed unanimously.

K. Disposal of Surplus Properties

Mr. Schlegel asked to be excused from participating in this agenda item due to a conflict of interest.

Mr. Stratton said that since the staff report was written, he has secured services for an appraiser to establish the appraised value for the present office site per the zoning to be approved by the Board of Supervisors on May 11, 1999.

Ms. Chase said that the statutes say there is no requirement governing how county improvement districts dispose of surplus property. The District could elect to hold a bid auction, advertise or use a realtor.

Mr. Stratton said that there are a number of financial and political issues that need to be addressed without taking an opinion one way or the other. The District does not have to sell the property immediately. Mr. Stratton is looking for Board direction regarding possible leasing to the proposed town of Casas Adobes even though there are still unresolved issues regarding whether the Town could enter into a lease agreement with the District. There is also an expressed interest from many in the community due to lack of office space. He said it is the pleasure of the Board as to what direction it wished to take.

Mr. Johnson asked if negotiating a lease on the property until issues with the Town can be resolved or continue leasing to the Town until a permanent home is found is a possibility. He felt that there were still some political considerations for the District working hand in hand with Casas Adobes when they do become a town. Mr. Johnson wanted to know how long it will be before Casas Adobes knows its legal standing. Mr. Schlegel said the issue is really whether Casas Adobes will have to disincorporate and nobody knows today what that answer is. He said there are so many variables that really cannot be answered but the Town has been assured that their warrants that have been issued will be paid if they have to disincorporate so at least their notes will be paid off.

Mr. Ray wanted to know how many dollars it would cost to hold this office for Casas Adobes instead of selling it immediately including interest on our investment and preservation costs. Mr. Ray and Mr. Johnson both recommended that this item be sent back to staff to establish an actual policy for disposition of surplus materials for the District and come back with a consideration for the Board as far as leasing the facility vs. selling the facility. Mr. Schlegel said that Casas Adobes would also need that same information. Mr. Stratton will find out if Casas Adobes is interested in leasing and that

could be the deciding factor if the Board should go forward with marketing the property. Mr. Ray wants to see costs including assets, cash value, estimate of sale of property determining lease pricing based on those figures and the value of the property. Mr. Stratton said as a point of reference that new office space in the area is leasing anywhere from \$15-\$20/sq. feet and that older facilities are \$15 sq.ft. range. Mr. Doyle said that whether Casas Adobes becomes a town or not the taxpayer will pay for the liabilities.

L. Public Use of New Office Campus.

Mr. Schlegel declared a conflict of interest and would not participate in this issue.

Mr. Ray asked about insurance for the District and insuring the facility for possible damage and liability with anyone else utilizing the facility other than District personnel. He also asked Legal Counsel about the parity issue with renting organizations. Ms. Chase said she did not know the answer about parity but will research it and report back at the next scheduled Board meeting.

Mr. Ray said he would like to utilize the facility for youth groups in the District where the facility would be available only certain days during the week. Mr. Johnson suggested that the General Manager to contact Cross Middle School and see how they handled their rentals and what the breakdown of costs were.

Mr. Schlegel wanted to know if there was security in place at the new facility which would allow outside groups to utilize the Board room. Mr. Stratton and Mr. Ray both said the facility was designed with the idea of letting the public use it and the remaining areas are secured.

M. Legislative Update.

Mr. Tenney said he received word today that the Senate Bill 1230 will be heard by the full House on Wednesday and it is expected to pass and be sent to the Governor for signature.

Mr. Tenney stated that HB 2283 about forming a CAP committee to look at use of CAP water in southern Arizona has failed but there is still an effort being made to get the Speaker and President to form a legislative committee to look at CAP water in southern Arizona. It appears that the District would have a seat on that committee. Senate Bill 1103 is ADWR's Omnibus Bill, which usually contains non-controversial items, however, in the House it was amended to require ADWR to go through the administrative review process. ADWR is not pleased with this and has said they will kill the bill. Senate Bill 1234 regarding the formation of a water treatment authority shows no indication of moving forward. Senate Bill 1286 regarding open meeting laws has been revised and the concerns of taping executive sessions has been removed from the bill.

Mr. Schlegel said that Senate Bill 1234 amendment has been written and legislator McGibbon will introduce and bring that concept forward. He said the opposition that is coming from ADWR is that they do not want anyone else having the authority to decide anything.

V. General Manager's Report.

Mr. Stratton said that the Hub Water Company, based on recent information from Legal Counsel, is scheduled for the final ACC hearing on April 20 where it should pass with no objections since at the public hearing, no one spoke against it. Since the District is moving at approximately the same time, Legal Counsel will not schedule closing until all issues are cleared which will be around mid-May. Meanwhile, staff is continuing to gather information and is working closely with Oro Valley on the take over of OV#1. Mr. Stratton said the District was supposed to have a draft separation IGA by April 1 and he has yet to see one, which may put things behind schedule on their side. The District will continue with the design of the separation of the infrastructure and all associated areas, which will be complete July 1, 1999.

Mr. Stratton referred to the memo regarding the move update. The existing District office will be closed on Friday, May 7 due to the move. Business will supposedly be up and running on May 10, 1999. Staff is working closely on making sure that everything goes smoothly.

Mr. Stratton said that staff is also working on budget, which will be reviewed by the appropriate Board member committee. The budget then is scheduled to be discussed in May.

Mr. Stratton gave a brief update of staff changes, Bob Gomez was promoted to Water System Project Inspector. Larry Tanner is the Water Line Construction Inspector. Larry Brown was promoted to Larry Tanner's old position of Department Supervisor. Mr. Johnson wanted to have some background information on Mr. Gomez. Mr. Stratton said Bob Gomez has been with the District since the acquisition and has worked in Engineering as blue stake, inspecting new developments, and has background in inspecting smaller systems.

Mr. Stratton said that under Charlie Maish's tutelage Mr. Gomez meets the requirements set forth in the job description and was the most qualified for the position.

Mr. Schlegel wanted to know if the Board has given consideration as to the impact of Hub Water Company acquisition to staff. Mr. Stratton explained that Hub Water Company currently has two employees, Steve Siegfried and Paul Williams and the District anticipated that we will continue to employ them with the new acquisition. The Hub office duties will be assumed by our office. Mr. Siegfried and Mr. Williams will be working and coordinating efforts with Steve Dean, Utility Superintendent and Chris Hill, Deputy Manager for the District.

Mr. Stratton said that Oro Valley will be looking for an operator/inspector type position and that it will be open for promotional opportunities in-house. If our staff goes it would be on their own free will. If no one wants to go from the District, then Oro Valley will open it to the public.

VI. Legal Counsel's Report

There was no report presented.


Mr. Schlegel wanted to know if there had been any response from the letter that was sent from Brown & Bain to the Lang Construction Company. Ms. Chase said that Brown & Bain had received nothing. Mr. Stratton said Mr. Maish, District Engineer, said that Lang Construction had met with Fast Fab and American Steel 2-1/2 weeks ago to discuss this issue and Fast Fab was to get back to Lang on its position.

VII. Adjournment

The meeting was adjourned at 7:40 p.m.



Clerk of the Board



Sam R. Ray, Chair of the Board