

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

April 14, 1997
Wilson Room
Tohono Chul Park
7366 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

Board Members Present: Marty Cramer, Chair
Jim Doyle, Vice-Chair
Letha Gardner, Member
Sam Ray, Member
Jim Tripp, Member

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

Call To Order and Roll Call

Ms. Marty Cramer, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the regular Board meeting to order at 5:03 p.m. Mr. Jim Doyle, Ms. Letha Gardner, Mr. Sam Ray and Mr. Jim Tripp were present.

Executive Session

Mr. Tripp moved that the Board of Directors goes into Executive Session. Mr. Ray seconded the motion and it passed unanimously. The Board went into Executive Session at 5:04 p.m.

Executive Session pursuant to A.R.S. § 38.431.03 (A)(1), (discussion or consideration of personnel matters) and/or 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) regarding the following:

- A. General Manager's Employment Agreement.
- B. Litigation with the City of Tucson.

The Board returned from Executive Session at 6:05 p.m.

Regular Session

I. Call To Order and Roll Call

Ms. Marty Cramer, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the regular Board meeting to order at 6:08 p.m. Mr. Jim Doyle, Ms. Letha Gardner and Mr. Jim Tripp were present.

II. Presentations to the Bond Advisory Committee and the Metro Water Bond Promotion Committee

Ms. Cramer read a letter of appreciation to the members of the Metro Water Bond Promotion Committee for their time and effort in promoting the recent bond election. She personally presented the letter to Mr. Pete Schlegel, Mr. Bill Carroll and Mr. Dan Offret, members of the Committee who were in attendance. Additionally, Ms. Cramer presented to Mr. Dan Offret a certificate given to the members of the Bond Advisory Committee.

Mr. Sam Ray joined the meeting at 6:10 p.m.

III. Comments From The Public

There was no comment from the public.

IV. Consent Agenda

- A. Approval of Minutes -- March 10, 1997 Board Meeting.**
- B. Approval of Minutes -- March 19, 1997 Special Board Meeting.**
- C. Ratification of Billing Adjustments.**
- D. Ratification of Bill of Sale - Asterion Lane Improvements**
- E. Approval of Water Service Agreements.**
 - 1. Rancho Pomelo, Lots 1-18.**
 - 2. Pedregal, Lots 1-50.**
 - 3. Trevi Terrace.**

Mr. Jim Tripp made the motion to approve the Consent Agenda. Mr. Sam Ray seconded the motion and it passed unanimously.

V. General Business -- Items For Discussion and Possible Action

- A. Litigation with the City of Tucson.**

There was no discussion or action taken regarding this agenda item.

B. Financial Report.

Ms. Cramer asked if the District receives any discounts from Octopus Car Wash. Mr. Mike Land, Chief Financial Officer, said the District receives a dollar discount per car wash, which means it pays \$3.00, the same as Pima County.

Ms. Gardner asked what fees were remaining to pay Mr. Terry Armstrong, Architect. Mr. Land said that the District is paying him on an hourly basis for his architectural services. Mr. Maish noted that the contract that the District has with Mr. Armstrong has associated costs broken down by task.

C. Resolution 1997-2 -- Participation in Regional Effluent Utilization Planning Task Force and Request Congress to Appropriate Funds for Fiscal Year 1998 for the Bureau of Reclamation.

Mr. Tripp made the motion to approve Resolution 1997-2 to support the District's participation in regional effluent planning in eastern Pima County and for a letter to be sent to Congress to request that funds be appropriated to the US Bureau of Reclamation for the effluent planning effort. Mr. Ray seconded the motion and it passed unanimously.

D. Approval of Change Order No. 1 to the Contract with The Ashton Company, Inc., for Linda Vista "A" Zone Reservoir and "C" Zone Booster Station.

Mr. Tripp made the motion to approve Change Order No. 1 to the contract with the Ashton Company, Inc., for the construction of the Linda Vista "A" Zone Reservoir and "C" Zone Booster Station in the amount of \$26,642.00. Mr. Ray seconded the motion.

Mr. Ray asked why a delay had occurred in the starting date to construct causing the need for the change order. Mr. Stratton explained that staff had proceeded according to Board's direction to request bids to construct the reservoir at the same time as it was seeking to fund the reservoir through the Municipal Property Corporation. However, the financial institute that the District had been working with declined to fund at the last minute due to the litigation with the City even though the Ashton Company Inc. had already been awarded the construction contract. While the District sought another financier, the Ashton Company agreed not to request to change the amount it bid, but to be compensated for any change in the cost for orders that needed to be purchased. Another financier was sought, but due to the litigation was going to charge high overhead cost to the District. The Board then decided to proceed with construction by financing it on its own due to an increase in revenues received. The Ashton Company was then given an order to proceed.

Ms. Cramer called for a vote for the motion to approve Change Order No. 1 to the contract with the Ashton Company. The motion passed unanimously.

E. Approval of Amendment No. 1 to the Professional Services Agreement with Black & Veatch

Mr. Tripp made the motion to approve Amendment No. 1 to the Professional Services Agreement with Black & Veatch, which allows for a no cost contract time extension to May 4, 1998 for providing Construction Phase Services for the Linda Vista "A" Zone Reservoir and "C" Zone Booster Station project. Mr. Doyle seconded the motion and it passed unanimously.

F. Approval of Water Service Agreement - The Bluffs II, Lots 249-532.

Mr. Tripp made the motion to approve the Water Service Agreement for the Bluffs II, Lots 249-532, with legal counsel's approval, and authorize the Chair to sign the Warrantee Deed and the Escrow documents to take possession of the new well site. Mr. Ray seconded the motion.

Ms. Gardner asked if the water service agreement involved the same location as a proposed landfill that was discussed at the March 10, 1997 Board meeting. Mr. Stratton said that it was in the same general subdivision, but Lots 249 to 532 are located further north from the proposed landfill. The Pima County Board of Adjustments did not approve the landfill so it is not known if Pulte Home Corporation will pursue the bank protection along the Cañada del Oro Wash. Ms. Cramer asked why Pulte Home was not given approval for the landfill. Mr. Stratton said that residents protested about concern of what would be placed in the landfill. The cost to do the bank protection will now be higher.

Ms. Cramer called for a vote for the motion regarding the approval of the water service agreement. The motion passed unanimously.

G. Approval of Water Service Agreement - Thornydale/Cortaro Farms Commercial Center.

Mr. Tripp made the motion to approve the Water Service Agreement for the Thornydale/Cortaro Farms Commercial Center. Mr. Ray seconded the motion and it passed unanimously.

Mr. Tripp noted that staff had done well in the negotiation for the agreement.

H. Discussion and Possible Approval of Fiscal Year 1997-1998 Budget.

Mr. Tripp made the motion to approve the Fiscal Year 1997-1998 Budget. Mr. Doyle seconded the motion.

Ms. Gardner questioned the minutes of the March 26, 1997 meeting of the Business Administration Board Member Committee meeting in which it stated that the Linda Vista Reservoir would be financed with proceeds from the bond. This differs from what the District stated to the public about what projects the bond would finance. Mr. Stratton noted that the minutes were incorrect. The minutes should state that the Linda Vista Reservoir would be

financed through revenue and possibly with the Municipal Property Corporation so not to deplete cash reserve. Ms. Gardner asked the minutes be corrected.

Ms. Cramer asked if the same minutes could denote that the statement about legal fees needs to be clarified that they reflect those fees are for the litigation with the City of Tucson.

Mr. Land said that a larger rate increase than anticipated may be needed if a bond is not issued in the near future in order to compensate for projects that need to go forward soon. Mr. Stratton noted that the projected four percent rate increase associated with issuing the bond is only calculated for half a year in the budget, which will generate approximately \$200,000 in revenue.

Mr. Ray asked why a four percent cost of living increase was included in the budget. Mr. Stratton explained that staff has used the consumer price index for recommending a cost of living increase. Last year that amount was 2.9 percent. However, the Board then decides if a cost of living adjustment should be made and the actual amount of such an adjustment. The four percent is placed in the budget to provide a cushion since the eventual amount designated is unknown.

Mr. Ray asked about the amount designated for merit increases. Mr. Stratton said that funds for merit increases are budgeted according to assuming that half of the employees within each division are deserving of a five percent merit increase. That amount is not what is necessarily spent, but it is at least budgeted. Mr. Ray asked if merit increases and cost of living adjustments are done annually. Mr. Stratton said a recommendation is made annually, but whether either occurs or not is according to the Board's discretion. Mr. Stratton noted that Ms. Cramer had recommended that the monies for merit increases and cost of living adjustments be moved to the Board's contingency fund so that it is more clearly at the Board's discretion.

Mr. Ray added that he thought it was wise to discontinue funding the conservation advertisement with Attention Benches for a year. While he had questioned their effectiveness, he noted that his wife spoke favorably about the benches.

Ms. Cramer called for a vote for the motion regarding approval of the Fiscal Year 1997-1998 budget. The motion passed unanimously.

Mr. Stratton noted that the District will submit its budget to the Town of Oro Valley per the intergovernmental agreement between the District and Town. If for some reason the Town does not approve the budget, the Management Advisory Committee will then discuss it. However, the Committee has two vacancies of the three seats for the Town and one vacancy for the five seats for the District. The District needs to find another member to fill the one vacancy.

Ms. Cramer asked what Mr. Stratton thought about Oro Valley's annual report regarding its water utility. Mr. Stratton said that the current debt service on the two water companies the Town purchased is controlling the Town's financial situation. Growing pains are involved with going from a private to a public utility. The District has passed that period and is relatively stable. The Town of Oro Valley will need to buy some resources in the future that will impact their

budget. This will most likely lead to either a rate increase or a reduction in service for the water utility.

I. Discussion and Possible Approval of Employment Agreement for General Manager.

Ms. Cramer noted that the Board did not complete its discussion in Executive Session regarding this issue. Since the Board may want to return to Executive Session to complete the discussion of Item II. A., this agenda item will be moved to just prior to adjournment.

VI. General Manager's Report.

Mr. Stratton reported that the Pima County Board of Supervisors has yet to place on their agenda the selling of the property that the District would like to purchase for its proposed office site. Mr. Stratton had discussed the issue with Supervisor Sharon Bronson, who indicated her support. If the County continues to procrastinate moving forward, the District will need to consider if it should also pursue other sites.

Ms. Cramer asked if any individuals have been considered for a Bond Oversight Committee. Mr. Stratton noted that he and Mr. Land had met last week with Mr. Mark Reader of Peacock, Hislop, Staley and Given to discuss preparing a prospectus for the bond package. Regarding the Bond Oversight Committee, Mr. Stratton said he would like to recommend that the District go to its customers to solicit interest in serving on such a committee. Those interested customers could be interviewed and then recommended to the Board to serve on the Committee.

Ms. Cramer asked about the status of the District's annual report. Mr. Warren Tenney, Assistant to the General Manager, said that a graphic artist has been hired to format the annual report. Photographs are scheduled to be taken in the next week. The annual report then will be sent to the printers and is anticipated to be completed by mid-May.

Ms. Cramer asked if the bond election results have been approved by the Pima County Board of Supervisors. Mr. Stratton said that has taken place. The District is still waiting to hear from the US Department of Justice.

Ms. Cramer noted that the current issue of the Arizona Water and Pollution Control Association (AWPCA) newsletter said that Mr. Land and Mr. Stratton were both nominated to its board.

Mr. Tripp asked about the status of updating the accounting software to work with the new billing software. Mr. Land said that he has looked at DataWest's software since the District is now using its billing software, but he is also looking at some less costly software.

Mr. Ray asked why the bills did not yet include the water usage history graph. Mr. Land said that past history data from the old billing software needs to be manually entered because it was too costly to have the programmers for the new software to pull that information. The District may

hire part-time help through the summer pledge-a-job program to enter that data. Mr. Ray said that a note should be placed on the bills to explain that the water history graph is forthcoming.

Mr. Ray asked when the La Cholla project is scheduled to be completed. Mr. Charlie Maish, District Engineer, said it should be done by July or August of this year. Mr. Ray asked why the District had to do the alignment again. Mr. Maish said that after the initial review by Pima County, the County decided it wanted to move the alignment closer so less vegetation would be disturbed.

Mr. Ray asked about the status of the proposed transfer of Flowing Wells Irrigation District's (FWID) contract for Central Arizona Project (CAP) water to the District. Mr. Stratton noted that the Central Arizona Water Conservation District (CAWCD) and the Arizona Department of Water Resources (ADWR) has ruled that there is to be no profit from a transfer, so discussions with FWID have not continued. FWID has not decided how it will proceed.

Mr. Ray asked about the status of Cobo Catalina, Lot #39. Mr. Stratton said Lot #39 was purchased in 1993 as a proposed "D" Zone reservoir site. The Board had purchased it hoping to work with the Town of Oro Valley to construct a reservoir that could also serve the area nearby that is currently served by Tucson Water. Subsequently, consultant Camp Dresser & McKee determined that a reservoir at the next lower zone would better serve the District. Negotiations are slowly moving along with the School of Immaculate Heart to possibly use their school property as a site. The District had requested bids for Lot #39, but no bids were received. Until another site is secured, Lot #39 is a back up for the District. Mr. Ray asked if the property at Immaculate Heart appears suitable. Mr. Maish noted that the District is obtaining a right-of-way permit so that geotechnical tests can be conducted this summer to determine the sites feasibility. Mr. Stratton added that the design for a northeast reservoir is identified for the fourth year of the Capital Improvement Program.

Mr. Ray asked about the status of leasing the District's Northern Avenue property to Auto Executives. Mr. Stratton reported that about two years ago, the District tried to sell the property, but no bids were received; however, Auto Executives signed a long-term lease. They now want to acquire that property and a meeting is scheduled to discuss specifics. If agreement exists with Auto Executives, the District will advertise the property again, Auto Executives can make a bid, and the Board can approve awarding one of the bids.

Mr. Ray asked about the status of the Northwest Replenishment Program feasibility study. Mr. Mark Myers, Consultant, said that the study is three years old. Since various participants are involved with the program, the District is not always in control of when projects and studies are to be completed. While it has been slow, the benefit of having various participants is that the cost has been kept low. The feasibility study should be completed by the end of the Federal fiscal year. The product will be a facilities plan. Mr. Ray asked about the status of the alignment for the Cañada del Oro Recharge Project and the Town of Oro Valley. Mr. Michael Block, District Hydrologist, said that the District is waiting for the Town's report. Staff is preparing a complete presentation for the June 9, 1997 Board meeting to update the Board regarding the Northwest

Replenishment Program. Mr. Myers noted that while the process is slow, the Northwest Replenishment Program is moving faster than other recharge projects in the region.

Mr. Ray asked about the status of water being delivered to Avra Valley Recharge Project due to the breakage on the CAP aqueduct. Mr. Block said the canal did break, but after two weeks it was functional again. However, the agriculture demand was so high immediately following the break that the project was shut off. Water is currently not being delivered to the project, but should be soon back on line. The District has declined to go back on line until the contract with the Arizona Water Banking Authority has been signed for them to utilize the capacity they sought. Mr. Ray asked if the District had a facility permit for Avra Valley. Mr. Block noted that CAWCD has the facility permit since it is their project.

Mr. Ray asked when the Board would be taken to see the Linda Vista Reservoir construction. Mr. Maish said that the excavation is presently occurring. The booster facility and the suction piping is scheduled to be installed. Mr. Stratton said that would be a good time to visit the site and he would arrange for a field trip.

Mr. Pete Schlegel, District resident, asked about the status of the stripping facility for South Shannon. Mr. Maish said that a notice was given to Lowery to proceed, but delivery has not yet occurred. The project is about two weeks behind schedule.

VII. Legal Counsel's Report

Mr. Michael McNulty of Brown & Bain reported that the litigation with the City of Tucson has been the primary focus for Legal Counsel. Legislation for county water improvement districts should be before the Governor for his signature in the next week.

VIII. Future Meeting Dates; Future Agenda Items

The next regular Board meeting is scheduled for May 12, 1997. Mr. Stratton noted that the Board was invited to the District picnic on April 26, 1997.

Executive Session

Mr. Tripp made the motion for the Board of Directors to return to Executive Session. Mr. Ray seconded the motion and it passed unanimously. The Board returned to Executive Session at 7:03 p.m.

Executive Session pursuant to A.R.S. § 38.431.03 (A)(1), (discussion or consideration of personnel matters) and/or 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) regarding the following:

- A. General Manager's Employment Agreement.
- B. Litigation with the City of Tucson.

The Board returned from Executive Session at 7:38 p.m.

V. General Business -- Items For Discussion and Possible Action

I. Discussion and Possible Approval of Employment Agreement for General Manager.

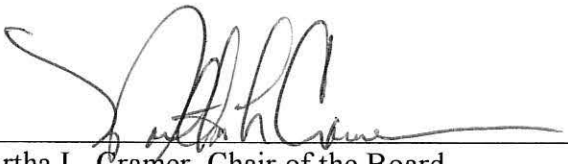
Mr. Tripp made the motion to approve the employment agreement with Mark Stratton as General Manager as presented to the Board of Directors. Mr. Doyle seconded the motion.

Mr. Ray made a motion to amend the motion to approve the employment agreement with Mark Stratton as General Manager as presented to the Board of Directors but with Section 10 modified to state that if termination occurs without cause that the General Manager would receive a severance payment of equal to two months, not six months, salary. Ms. Gardner seconded the amendment. Mr. Ray, Ms. Gardner and Ms. Cramer voted in favor of the amendment. Mr. Tripp and Mr. Doyle voted against it the amendment.

Ms. Cramer then called for a vote for the amended motion to approve the employment agreement with Mark Stratton as General Manager. The motion passed unanimously.

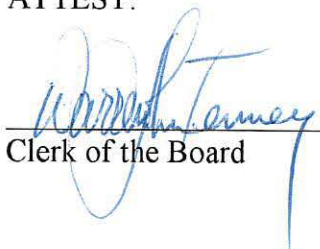
IX. Adjournment

The Board adjourned the meeting at 7:41 p.m.



Martha L. Cramer, Chair of the Board

ATTEST:



Clerk of the Board