

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

April 24, 1996
7235 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

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

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

I. Call To Order and Roll Call

Mr. Pete Schlegel, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board meeting to order at 7:30 a.m. Ms. Marty Cramer, Mr. Herb Johnson, and Mr. Jim Tripp were present. Mr. Jim Doyle was not present but arrived at 7:35 a.m.

II. Approval of Required Documents to Finalize Financial Agreement with Norwest Investment Services for the Construction of the Linda Vista Reservoir and Booster Station

Mr. Mark Stratton, General Manager, said that the required documents are not completed because Mr. Kevin O'Connor of Norwest Investment Services is still trying to obtain a written legal opinion regarding the City of Tucson's counterclaim against the District. Norwest has no problem with the District's credit, it is the legal issue that is causing the postponement. Mr. Charlie Maish, District Engineer, has requested confirmation from the Ashton Companies to maintain the prices that they quoted until May 25, 1996. Mr. Mark Reader of Peacock, Hislop, Staley & Given has stated they would try to provide financing for the District if problems continue with Norwest.

Mr. Schlegel asked if the District can put a hold on financing with Norwest and explore financing with Mr. Reader. Mr. Stratton stated that he would let Mr. Reader know the District still has a problem with Norwest and that the District may pursue financing elsewhere. Mr. Reader had looked at making a proposal with the District, but the District had already agreed to accept Norwest's proposal. Peacock, Hislop, Staley & Given has documents in place if the District wishes to use them.

Mr. Schlegel requested that staff see that this issue is closed as soon as possible. Mr. Stratton said that Mr. Fred Rosenfeld suggested that the Board may need a special meeting to finalize the financing documents.

III. Approval of Lease Agreement with Central Arizona Water Conservation District for the Avra Valley Pilot Recharge Project.

Mr. Stratton noted that he had spoken with Ms. Suzanne Ticknor of the Central Arizona Water Conservation District (CAWCD) regarding the lease agreement for the Avra Valley Pilot Recharge Project. The 10,000 acre feet of CAP water to be recharged is now 8,300 acre feet since that is the amount listed for the facility's permit, which would be 4,150 acre feet per year to recharge. A capacity rate is set at \$25 per acre foot with \$15 per acre foot for the wheeling charge to convey the water using the small pump station that BKW Farms has to pump it out of the canal and for the repair and replacement cost constructed by Tucson Water. If flow decreases less than 3,000 gallons per minute, BKW Farms will have to use diesel to pump it and the cost rises to \$20 per acre foot. However, BKW Farms is using the canal as part of its groundwater savings project and it is to their benefit to maximize the flows to keep operating costs down. BKW Farms is responsible for scheduling groundwater savings as well as the Avra Valley project. Other costs include operation and maintenance by CAWCD, such as scraping the soils three times a year to prevent clogging as well as to monitor the site and do water quality testing. The other portion of the cost is for lease charges with the State Land Department.

Mr. Stratton said that the District received the draft storage permit from the Arizona Department of Water Resources (ADWR). The dates of the permit and the project will coincide to maximize the use of the permit. The facility is supposed to be operating sometime in late June 1996. Since this is the first recharge facility constructed in the region, an open house is proposed for this event to show that the District is working with CAWCD to use CAP water in this region. CAWCD has expressed an interest and the District will be coordinating such an event with CAWCD staff.

Ms. Cramer said that the agreement states that BKW Farms can review their fee once a year, but questioned if there would be a limitation. Mr. Stratton answered that the fee is to be based on BKW Farms's operating cost. If the increase is not acceptable, CAWCD does not have to accept it and then CAWCD can build its own turn out and canal in an easement that is available.

Mr. Schlegel asked about the status of purchasing CAP water from the City of Tucson for the Avra Valley Pilot Recharge Project and if the District is to pay for the water before it is actually received. Mr. Stratton explained that the contract was for actual capital cost charges by the City and operations and maintenance costs. The time frame for our intent to use the water will be by June 30, 1996. The District will place an order and payment is upon delivery. The money has been budgeted for these costs.

Ms. Cramer made the motion to approve the Lease Agreement with Central Arizona Water Conservation District for the Avra Valley Pilot Recharge Project. Mr. Tripp seconded the motion and it passed unanimously.

IV. Approval of Agreement with BKW Farms for Groundwater Savings Project

Mr. Stratton stated that the agreement is to allow the District to utilize 2,000 acre ft of CAP water with BKW Farms. This agreement will help mitigate any potential damages with the City of Tucson.

Mr. Tripp made the motion to approve the agreement with BKW Farms for the groundwater savings project. Ms. Cramer seconded the motion and it passed unanimously.

V. Discussion and Possible Approval of Fiscal Year 1996-1997 Budget

Mr. Johnson noted that the budget will be affected by the number of customers within the District; therefore, it is important to consider if the District's number of customers will be restricted by the designation of an assured water supply. Mr. Michael McNulty of Brown & Bain said that the current boundaries were described in the assured water supply designation as that service area receiving the benefit of the designation. Mr. Johnson asked if a change is required when the District starts serving the River at La Cholla property. Mr. Stratton noted that the District will need to amend its boundaries, which should not affect the designation since the same hydrogeology study of the basin would be used. Mr. Johnson asked if the same would apply to the Countryside area. Mr. Stratton said yes.

Mr. Johnson asked if staff was still pursuing possible legislation to add the words "or without" to the District's statutes to allow the District to expand. Mr. Stratton said that it was too late in the legislative session to make that change to the statutes. Mr. Johnson said that he wanted to be certain the District could still gain an assured water supply designation for areas that it may expand into. Mr. Johnson said the District should prepare legislation to make the change. Mr. McNulty said that Mr. Fred Rosenfeld had always indicated to the District that it could serve outside its boundaries; however, the statutes are unclear.

Mr. Schlegel asked if the Town of Oro Valley has its assured water supply. Mr. Stratton answered yes.

Mr. Johnson questioned if the Arizona Corporation Commission (ACC) has to approve sales of private water companies. Mr. Stratton asked if the ACC's approval is needed if the District condemns an improvement district that has been formed. Mr. McNulty said they do not need approval because it would be a friendly condemnation. The ACC has no jurisdiction over an improvement district; however, private water companies want to be certain that the ACC no longer hold the company responsible for serving water.

Mr. Stratton noted that the Board had received a draft copy of the Fiscal Year 1996-1997 budget. The Board can make any changes to the budget and then approve it or not approve it. If the Board does not approve the budget, the District will need to request an extension under the IGA with the Town of Oro Valley for submitting the budget to them by April 30th.

Mr. Stratton said that the draft budget requested some new staffing positions. However, staff is recommending now that the requested position of Customer Service Supervisor be removed from the

budget because with current office space there is no room to fill that position. If the District has a new office site in the future, then, the position could be reconsidered.

Mr. Stratton noted that the draft budget included salaries based on the reclassification of some positions as described in the February 12, 1996 Board meeting report. Although the Board did not approve the reclassifications at that time, some Board members suggested that they should readdress the issue at the time of the budget discussions. Some positions are reclassifications, others are changes in position salaries and exempt status. The reclassifications would be the following: The Backflow/Safety position would be an increased salary range to reflect the safety responsibilities given to the backflow prevention inspector. The Distribution Supervisor and Production Supervisor positions would increase the salary range and change the positions to exempt, not hourly. The Development Supervisor position is having a proper job description of the work performed by Mr. Scott Eisenfeld and a salary range to reflect appropriately the responsibilities, which would be approximately \$1,700 more for Mr. Eisenfeld at the low range of the new position. The Water Line Construction Inspector and Water Systems Project Inspector positions reclassify salary ranges and change the positions from exempt to hourly position. With the new salaries, Mr. Dave Tanner would be at the top end of his salary range and a merit increase would be as bonus.

Mr. Johnson suggested that the District coordinate the reclassification of the job positions at the same time as the merit increase. Mr. Stratton said that he would like to have performance appraisals done at the time of the employee's anniversary.

Ms. Cramer made the motion to approve the position reclassifications as outlined in the salary portion of the Fiscal Year 1996-1997 budget, which include the following position: 1) Distribution Supervisor & Production Supervisor be classified as exempt positions with the salary range changed to \$31,000 - \$43,500; 2) Backflow Prevention/Safety Inspector position be created with a salary range of \$29,000 - \$40,500; 3) Development Supervisor position be created with a salary range of \$37,000 - \$49,500; 4) Water Line Construction Inspector position be created with a salary range of \$26,000 - \$34,500 and Water Systems project Inspector position be created with a salary range of \$30,500 - \$41,500. Current staff in those positions will have their salaries adjusted accordingly when the budget becomes effective. Mr. Johnson seconded the motion and it passed unanimously.

Mr. Stratton noted that in preparing for the Fiscal Year 1996-1997 budget, the District has had to recognize that as a growing utility, projecting what will be needed in each given year is difficult. Staff has tried to prepare the budget by incorporate those issues that may be required the next year. For example, staff has been exploring the possibility of upgrading its billing software. Mr. Mike Land plans to visit the headquarters for TAABS, the District's current software company, in Tyler, Texas to do an independent evaluation to decide if the current software can meet the District's needs or not. However, the budget includes monies if new software is needed.

Mr. Stratton noted that monies are set aside in the budget to replace part of the Utility fleet due to mileage and increased maintenance requirements. A vehicle is also requested for the Assistant to the General Manager to be able to attend many meetings as well as for other staff to attend meetings and run errands. Asking employees to drive their personal vehicles for work related business is difficult.

Mr. Johnson asked if the vehicle would be available for any Board members to attend meetings. Mr. Stratton said the vehicle would be available for the Board to attend meetings in Phoenix and elsewhere. Mr. Johnson asked if Mr. Stratton proposed to change his vehicle. Mr. Stratton answered no. Ms. Cramer asked if the District will lease or buy the vehicle. Mr. Stratton said that buying it would probably be best since the District could purchase through the State bid list.

Mr. Johnson questioned if monies were set aside to house the construction crew, such as at the Hardy well site. Mr. Stratton said that staff has hesitated to make a recommendation to spend money for a satellite utility office site if the District will be locating a permanent office site in the near future. Staff is already storing some equipment and material at the Hardy well site. The issue will continue to be explored. The Board and Mr. Stratton discussed the possibility of a manufactured storage shed being installed at Hardy well site, similar to the one installed at the present office site.

Mr. Schlegel asked Mr. Land to review with the Board the budget's summary sheet and provide an explanation.

Mr. Land explained that the revenue increase for water sales is based on the rate increase as well as growth. The interest income is based on current earnings and the projected fund balance. A correction was made from a lower number of the prior year, thus the noted increase. Mr. Schlegel asked if the District was considering ways to increase the interest earned. Mr. Land said that he had been talking with firms about how the District could better increase its interest earned. Mr. Land noted that the system development fee revenue is increased based on a rate increase. Service line and main line installation is projected as less because this is revenue generated generally by custom lots, which are becoming fewer. The Engineering Division estimates the revenue from the La Cholla Corridor impact fees to be \$40,000. The overall revenue projection is shown at 18.13 percent.

Mr. Land and Mr. Stratton explained that the increase in salary expenditures is based primarily on the hiring of a construction crew and the budgeting of three new positions. A cost of living increase is projected at four percent though it will probably be less. The merit increase is projected as five percent of fifty percent of the District's positions; thereby, placing the importance upon performance.

Mr. Johnson, Ms. Cramer and Mr. Stratton discussed how the Board could approach the cost of living increase this year. The District should consider cost of living increases done at various entities, but the District should be independent in its own personnel decisions, not needing to follow the City or County's exact example. Prior to recommending the cost of living increase in December, staff should consider some alternatives to a straightforward percentage increase that may be fairer to some lower end salary and hourly waged employees.

Mr. Land noted that in determining expenditures, the District started with a zero based budget. The Division Managers provided input as to the history and needs to consider in developing the budget rather than raising all expenditures by a certain percentage. They analyzed each item individually.

Mr. Schlegel said that an appropriate approach for making the budget was using a zero based budget and that perhaps the Board should consider at a future meeting making that District policy. Mr.

Stratton agreed that a zero based budget is more practical than basing a budget on what a division spent last year and the fear of losing funds if they do not spend the allotted monies.

Mr. Land said that the supplies expenditure increased by 11.72 percent due primarily to the supplies needed for the construction crew. Mr. Stratton noted that supplies were only \$49,000 more than the current year's budget since other areas have been reduced especially since the District has built up its inventory.

Mr. Johnson asked if computer purchases should be curtailed until after staff moves to a new office site. Mr. Stratton said that the computers requested in the budget are to replace slow computers that are hampering the effectiveness of staff. The proposed computers can be used in a new office.

Mr. Land said that the capital expenditures are primarily for the new construction crew, vehicles, equipment and telemetry.

Mr. Schlegel and Ms. Cramer noted that staff should consider acquiring equipment through the state and federal surplus. Mr. Stratton said that the District is trying to do that.

Mr. Stratton noted that in the budget, the increase for debt service is primarily in anticipation of the short-term loan with Norwest. The ending line balance is almost \$2 million with the following year anticipated to be \$1.1 million. A rate increase would not be anticipated for two years as promised to the customers at the last rate increase. The District appears to be in a good financial situation.

Ms. Cramer asked if a loan would be considered for a new office building. Mr. Stratton said that staff may recommend considering the contingency fund.

Mr. Schlegel said he was pleased with the budget and that the revenues exceed expenditures.

Mr. Tripp made the motion to approve the Fiscal Year 1996-1997 as presented though with the discussed changes. Ms. Cramer seconded the motion and it passed unanimously.

VI. General Manager's Report

Mr. Stratton informed the Board that different property is being explored as potential office sites. The Board and Mr. Stratton briefly discussed possible sites as well as characteristics that the property should have.

Mr. Stratton reported that a revised contract is being presented to Fairfield Green Valley for the purchase of the assets of the Green Valley Water Company. A meeting is scheduled with Fairfield Green Valley to discuss the current status of the negotiations. Mr. Schlegel noted that when Mr. Johnson, Mr. Stratton and he met with Green Valley residents, they supported the idea of the District helping them to form a water improvement district that the District would then annex.

Mr. Stratton noted that Pima County Board of Supervisors have agreed to explore the possibility of using a gravel pit at I-10 and Orange Grove as a recharge or terminal storage site. Mr. Schlegel

attended the Supervisors' meeting and spoke personally in favor of the project, but refrained from referencing the District. The site has potential as being the source of bringing CAP water up CDO Wash to be recharged. This would be less costly in comparison to the proposed Tangerine Road transmission. Mr. Johnson, Mr. Schlegel and Mr. Stratton discussed some potential benefits of the project, especially in relationship to the Northwest Replenishment Program; however, it was recognized that more needs to be studied though the project also may be slowed through bureaucratic and consultant studies.

VII. Adjournment

The Board adjourned at 9:14 a.m.


Peter H. Schlegel, Chair

ATTEST:


Clerk

