

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

August 12, 2002

**** Board Room **
Metropolitan Domestic Water Improvement District
6265 N. La Cañada Drive
Tucson, AZ 85704**

MINUTES

Board Members Present: Dennis Polley, Chair
Jim Doyle, Member
Pete Schlegel, Member
Marlene Wright, Member

Board Members Not Present: Dan M. Offret, Vice-Chair

District Staff: Mark R. Stratton, General Manager
Phil Higdon, Legal Counsel
Warren Tenney, Clerk of the Board
Alice Stults, Recorder

Executive Session

I. Call to Order and Roll Call

Dennis Polley, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 5:00 p.m. Dennis Polley, Jim Doyle, Marlene Wright and Pete Schlegel were present. Dan M. Offret was not present.

Jim Doyle made a motion for the Board to move into Executive Session. Marlene Wright seconded the motion and it passed unanimously. The Board went into Executive Session at 5:02 p.m.

Executive Session pursuant to A.R.S. § 38-431.03 (A)(1) (discussion or consideration of personnel matters), A.R.S. § 38-431.03 (A)(3) (consultation for legal advice with the attorney or attorneys of the District), and A.R.S. § 38-431.03 (A)(4) (consultation with legal counsel regarding contracts that are in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation) regarding the following:

A. General Manager's Evaluation.

B. Well Maintenance Contract with Duncan Pump.

The Board returned from Executive Session at 6:10 p.m.

Regular Session

I. Call to Order and Roll Call

Dennis Polley, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the regular Board meeting to order at 6:15 p.m. Dennis Polley, Jim Doyle, Marlene Wright and Pete Schlegel were present. Dan M. Offret was not present.

II. General Comments from the Public

There were no comments from the public.

I. Consent Agenda

- A. Approval of Minutes – July 8, 2002 Board Meeting.**
- B. Approval of Minutes – July 22, 2002 Study Session.**
- C. Ratification of Billing Adjustments.**

Ms. Wright moved to approve the consent agenda. Mr. Schlegel seconded the motion. Motion passed unanimously.

IV. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Stratton said there was nothing additional to report at this time.

B. Financial Report.

Mr. Land said the District's yearly audit began last week and should be completed by the end of September 2002. He explained that District revenues were up for the months of June and July.

Ms. Wright asked what service Sun Valley Home Detailing provided the District after seeing it on the financial reports. Mr. Land said it provided office cleaning services. Ms. Wright asked if the District was still utilizing Jewell Coffee & Tea's coffee service. Mr. Land explained that the District does purchase coffee from the coffee service; however, some of the related items such as cups, creamer, sugar, etc., are purchased from Costco.

C. Consideration of Retention of Financial Advisor.

Mr. Stratton said Mark Reader, previously with Peacock, Hislop, Staley & Given, Inc., is now with Stone & Youngberg, L.L.C. Mr. Reader had been the primary individual whom the District worked with on all the District's bond issuances. He has been an essential part of the process of the purchase of assets of the Green Valley Water Company (GVWC) and is well informed regarding past and present issues for the District. Mr. Stratton said it would be advantageous for the District to continue working with Mr. Reader so that the District can meet its time frame with the sale of the bonds for GVWC.

Mr. Schlegel thanked Mr. Reader for the professional services he has provided to the District and commended him for a job well done. Mr. Schlegel asked if the District had a contractual or legal obligation to continue its working relationship with Peacock, Hislop, Staley & Given, Inc. Mr. Stratton said the District did not have a contract. The financial advisor is paid based on the sale of the bonds. Mr. Reader explained that the underwriting and revenues for work generated by the District in its purchase of the GVWC assets would be shared between Peacock, Hislop, Staley & Given, Inc., and Stone & Youngberg, L.L.C. He added that the two companies have been working on a mutual agreement.

Ms. Wright made a motion to select Stone & Youngberg as the financial advisor and underwriter for the District. Mr. Schlegel seconded the motion. Motion passed unanimously.

D. Approval of Membership in the Water Conservation Alliance of Southern Arizona.

Mr. Stratton said that staff is requesting approval for the annual renewal of the District's membership in the Water Conservation Alliance of Southern Arizona (Water CASA). Mr. Tenney said that Water CASA has been a benefit to the District as well as providing water conservation efforts in the region and the state. Mr. Schlegel complimented Water CASA's efforts.

Ms. Wright made a motion to approve continued funding for the Water Conservation Alliance of Southern Arizona through the contribution of \$21,443.72 for Fiscal Year 2002-2003. Mr. Schlegel seconded the motion. Motion passed unanimously.

Val Little, Water CASA Manager, provided Board members with copies of two new publications, "Practical Plumbing Handbook" and "Graywater Guidelines". Ms. Little explained that Water CASA was able to purchase the publications at a reduced cost and has made them available to the District. The Graywater Guidelines was written by Water CASA in response to the new Graywater regulations.

Mr. Schlegel asked if the District was still contributing monies to the Water Resources Research Center for publications. Mr. Stratton said the District had not contributed for several years. Ms. Little said that the editor of the publications may in the future ask the District to contribute

money for publications, particularly if the publications pertained to issues directly related to the District.

E. Approval of Information System Infrastructure Improvements.

Mr. Stratton said that since the District hired Rick LaPoint as Information System/Telemetry Analyst, it has been able to substantially reduce the need for an outside consultant, thus saving the District money. Mr. Stratton explained that the current network file server is over four years old. The newest desktop computers purchased by the District have more hard drive capacity than the network file server. Additionally, the Novell software utilized by the District is no longer supported by Novell. Mr. Stratton said two proposals were initially sought, one for the purchase of hardware and software, the other proposal for a consultant to do the installation. The consultants were not comfortable with installing hardware purchased from someone else; therefore, the two proposals were combined into one. Mr. LaPoint said the major changes are to replace the main file server, move the tape backup to a new system, and convert the desktops to a more efficient and secure network system.

Mr. Schlegel said that in previous proposals of this nature the Board was provided with comparisons between vendors. Mr. LaPoint said the comparison and scoring information is available for the Board's perusal on the vendors who responded to the bid for proposals. Based on the price of hardware and software components and the professional expertise, Copper State is recommended as the best vendor to perform this work.

Mr. Schlegel made a motion to approve Copper State Communications to acquire and install the hardware and software necessary to make improvements to the District's infrastructure at an amount not-to-exceed \$20,000. Ms. Wright seconded the motion. Motion passed unanimously.

F. Approval of Consultant for Professional Services of Conducting an Analysis of In-house Job Compensation Assessment.

Mr. Stratton said that at the request of the Board, staff solicited bids and received several proposals from consultants to review the procedures used by the District when conducting in-house job compensation assessments. He added that at the request of Mr. Offret the consulting firm would also review the performance evaluation method used to evaluate the General Manager's position. Based upon review of the proposals received by the District, Mr. Offret, Mr. Stratton and Mr. Tenney recommend Fox Lawson & Associates as the most qualified to perform the analysis.

Mr. Schlegel asked if this firm was qualified to conduct the analysis of the District's in-house job compensation assessment as well as the performance evaluation method for the General Manager's position, and if \$12,000 would be enough to cover the cost of the analysis. Mr. Stratton said it was. Ms. Wright asked for examples of entities Fox Lawson & Associates had previously worked for. Mr. Tenney said they had worked with water districts, schools, towns and city governments, many in Arizona.

Ms. Wright made a motion to approve the selection of Fox Lawson & Associates to conduct an analysis of the District's in-house compensation assessment and for the District to negotiate a contract that may be signed by the Board Chair if the cost does not exceed \$12,000 and Legal Counsel has reviewed it. Mr. Schlegel seconded the motion. Motion passed unanimously.

G. Consultant Selection for Engineering Design Services for CAP Transmission Main, Phase I.

Mr. Stratton said Phase I is for the Linda Vista transmission main from the Hartman Lane/Blue Bonnet Road intersection easterly to the District's Herb Johnson Reservoir. This project would allow the District to move its water resource CAP allocation to the Herb Johnson Reservoir thus allowing a number of wells to rest, and recover. Mr. Stratton said the design needs additional work, but the District would like to begin the process as the pigmy owl/endangered species assessment would take at least two years to complete.

Mr. Schlegel said he is concerned that the District may be premature to move forward with this project as there are too many variables and unanswered questions. He said there is still discussion of infrastructure financing legislation and uncertainty as to what the Town of Marana and Cortaro/Marana Irrigation District plan to do. Mr. Stratton said that the District's options with renewable supplies and this scenario have been discussed with the Board in study sessions.

The Board and staff is concerned about declining groundwater levels, and the financial impact to the District from the CAGR for meeting the renewable supply requirements of the assured water supply designation. The Linda Vista transmission alignment allows the District to have options both on its own and with partners to utilize renewable supplies. Mr. Stratton added that it will be at least two years before actual construction could begin and at this time the Board is only being asked to approve the consultant for the engineering design services. A negotiated contract agreement will be brought to the Board at a later date for approval. Ms. Wright verified that there would be no cost to the District until the contract was negotiated. Mr. Stratton said that was correct, and that it would take approximately two months to complete the contract.

Bill Bowers of CDM, said the endangered species environmental analysis could not, by law, begin until January 2003 and would take two years to complete. If that period of time is missed, then that two year period will be moved back. Therefore, the design process could not be completed prior to the end of the two year environmental analysis.

Mr. Schlegel said since the Board members are about to change, he was not comfortable obligating the new Board with decisions made by the current Board. Mr. Stratton explained that the new Board would have the option of terminating the contract if they chose to do so.

Mark Myers said that there is concern with the CAGR's ability to provide a future source of water, and there is the potential for a large price increase for CAGR water within the next three

years. Mr. Myers noted that proceeding with plans to design the CAP Transmission Main would be inexpensive insurance compared to relying solely upon CAGRD.

Mr. Schlegel said that explanation helped him to feel more comfortable. He questioned what was the Board being requested to do. Mr. Stratton said this was only a consultant selection and that the contract would be brought back to the Board for its approval.

Mr. Doyle made a motion to approve the engineering consultant ranking and direct District staff to proceed with developing an acceptable scope of services and engineering fees with the top ranked firm to perform engineering design services for the CAP Transmission Main, Phase 1. If staff is unable to negotiate a contract with CDM, then staff will have authorization to negotiate with the next highest ranked firm, and continue this process, if necessary, until an acceptable scope of services and engineering fees is obtained. Staff shall submit the negotiated contract agreement to the Board of Directors for approval. Ms. Wright seconded the motion. Motion passed unanimously.

H. Approval of Water Service Agreement with Casas Adobes Plaza and Casas Adobes Ventures for the Casas Adobes Shopping Center Expansion.

Mr. Stratton said that the owners of the Casas Adobes Shopping Center, in exchange for the Ina/Oracle well property, offered to abandon the well and clean up the well site at that location. He noted that allowing this transaction would provide the District with a cost savings benefit and relieve the District of any potential liability.

Mr. Schlegel made a motion to approve the Water Service Agreement with the Casas Adobes Plaza, L.L.C. and Casas Adobes Ventures, L.L.C. for the Casas Adobes Shopping Center Expansion development. Ms. Wright seconded the motion. Motion passed unanimously.

I. Approval to Replace Hub Well No. 5.

Mr. Stratton said staff has continued to monitor Hub Well No. 5 and determined the well does not have the pumpage capacity/ability as it did in the past. Staff's recommendation is to replace the well. Additionally, staff and legal counsel have discussed reimbursement from the well maintenance contractor in order to recover damages to the well as a result of the contractor's performance.

Mr. Schlegel suggested that staff contact ADWR to solicit their assistance in expediting the replacement of the well.

Mr. Doyle made a motion to direct staff to expedite the replacement of Hub Well No. 5 by having the District's Miscellaneous Hydrogeological Services consultant begin the design and procurement of a drilling contractor. The contingency fund will be used for the replacement well. Ms. Wright seconded the motion. Motion passed unanimously.

Mr. Doyle made a motion to direct the General Manager to pursue arbitration as permitted under the well maintenance contract in order to recoup damages to Hub Well No. 5 resulting from the contractors' performance. Ms. Wright seconded the motion. Motion passed unanimously.

J. Status of Acquisition of Green Valley Water Company.

Mr. Stratton said the Arizona Corporation Commission (ACC) has scheduled a hearing for August 30, 2002 regarding the intervention filed by the golf course owners within the Green Valley Water Company (GVWC) service area. He explained that an intervention was also filed by the Residential Utility Consumer Office (RUCO). Mr. Stratton said District staff and legal counsel met last week with the golf course owners to discuss their issues and the possible rate structure. The golf course owners said they understood the intervention of the sale of the GVWC was slim; however, they felt it was necessary to voice opinions regarding the rate structure as it applied to them. Mr. Stratton said staff and legal counsel also met with RUCO, and provided much information about Metro Water District. Legal counsel is attempting to get the RUCO intervention dismissed.

Mr. Higdon said the golf courses have been approved by the ACC as interveners. However, RUCO is a part of the ACC structure and was established to protect consumers in rate making proceedings. Mr. Higdon said this process only involves the sale of the GVWC, and is not establishing rates at this time. Mr. Stratton said the public hearing date to establish the rates will not be set until after the purchase of the GVWC.

V. General Manager's Report

Mr. Stratton said staff will continue to closely monitor the Environmental Protection Agency (EPA) so that the District will be ready to apply for any possible grant monies that may come available for funding of water security for small to medium size water facilities. EPA previously provided funds to the larger facilities.

Mr. Stratton said the first meeting of the ADWR Omnibus Bill was on August 5, 2002. It appears that last years legislation does not have a great deal of strength, and new bills will be proposed by the water entities, as well as by CAWCD and ADWR.

Approximately 555 new apartments are planned to be constructed at Cortaro and Thornydale, Mr. Stratton said. Staff's recommendation is to extend the transmission main at Shannon and Magee up Jensen Drive to tie into the existing 12" main, and the apartments would receive water from the Herb Johnson Reservoir. Ms. Stratton said the cost would be approximately \$400,000; however, the developer could fund the project and be reimbursed through a credit on the system development fees. It is anticipated the system development fees will be approximately \$450,000.

Mr. Stratton said that the Division of Elections reported that three candidates submitted petitions for the upcoming vacancies on the District Board of Directors. Mr. Stratton explained that the statues allow if there are no more candidates than positions for the Board, then Pima County

Board of Supervisors appoint the candidates to fill the positions, thereby negating the need for an election. This will save the District approximately \$10,000. Mr. Schlegel asked if the Board could have access to the filings of the two new candidates. Mr. Tenney said the application information is filed at the Pima County Division of Elections. Mr. Schlegel suggested as a future agenda item that the Board not automatically appoint candidates, but rather have a procedure for validating the candidates. Mr. Tenney noted the validating of candidates is statutorily the responsibility of the Division of Elections and that State Statutes and trial cases provide that the information is valid unless challenged.

Mr. Stratton noted he will be on vacation the week of August 19, 2002.

VI. Legal Counsel's Report

Mr. Higdon said there was nothing further to report at this time.

VII. Future Meeting Dates; Future Agenda Items

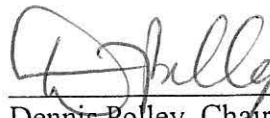
The next regular meeting of the Board is scheduled for September 9, 2002 at 6:00 p.m.

VIII. General Comments from the Public

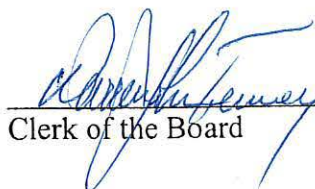
There were no comments from the public.

IX. Adjournment

The meeting adjourned at 7:32 p.m.



Dennis Polley, Chair of the Board


Clerk of the Board