

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

March 13, 2000

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

MINUTES

Board Members Present: Pete Schlegel, Chair
 Jim Doyle, Vice-Chair
 Marlene Wright, Member
 Dennis Polley, Member
 Sam Ray, Member

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

I. Call to Order and Roll Call

Marlene Wright, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board meeting to order at 5:32 p.m. Dennis Polley, Pete Schlegel and Sam Ray were present. Jim Doyle was not present.

Executive Session

Dennis Polley made a motion for the Board of Directors to move to Executive Session. Mr. Schlegel seconded the motion and it passed unanimously. The Board went into Executive Session at 5:33 p.m.

Mr. Doyle joined the meeting during the Executive Session at 5:36 p.m.

Executive Session pursuant to A.R.S. §38-431.03(A)(3) (consultation for legal advice with the attorney or attorneys of the District) and/or pursuant to A.R.S. §38-431.03(A)(4) regarding the following:

- A. Possible Theft of District Property.
- B. Rules for Water Compliance Standards.

Regular Session

Marlene Wright, 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. Jim Doyle, Dennis Polley, Pete Schlegel and Sam Ray were present.

II. General Comments From the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – February 14, 2000 Board Meeting.**
- B. Approval of Minutes – February 22, 2000 Public Hearing.**
- C. Ratification of Billing Adjustments.**
- D. Renewal of Loan Agreement with Bank of America.**
- E. Approval of Water Service Agreement with New World Homes for La Cholla Plaza.**

Mr. Polley made a motion to approve the consent agenda. Mr. Schlegel seconded and the motion passed unanimously.

IV. General Business – Items for Discussion and Possible Action

A. Election of Chair and Vice-Chair for the Board of Directors.

Ms. Wright stated that she was stepping down from the position of Chair of the Board of Directors and would entertain motions for nominations of a new Chair and Vice-Chair.

Mr. Polley nominated Pete Schlegel to serve as Chair of the Board. Mr. Ray seconded the motion and it passed unanimously.

Mr. Schlegel assumed the Chair and asked for nominations for Vice-Chair. Mr. Polley nominated Jim Doyle to serve as Vice-Chair. Ms. Wright seconded the motion and it passed unanimously.

B. Financial Issues.

Mike Land, Chief Financial Officer, told the Board that revenues were running at 5.84% over budget mainly due to revenue from bonds where expenses were running about 2.34% under budget because bond monies were not part of the calculation of expenses. He stated the cash accounts decreased because the arbitrage consultant recommended that a minimal balance be kept in the checking account, therefore staff transferred \$600,000 to the State Treasurer.

Mr. Ray requested more detail in the reports as to where CIP monies were being distributed. Ms. Wright asked for a breakdown explanations for the contingency fund.

Mr. Schlegel noted that the operating expense numbers for February 2000 versus February 1999 were up 85%. Mr. Land explained the main reason was due to the debt retirement on the bond issued in 1999 and that it was up \$600,000. Mr. Schlegel questioned the difference between the two reported cash balances. Mr. Land responded that one report reflects the cash flow based on operating funds solely and the other report reflects the daily deposit and all accounts including the CIP construction in progress.

C. Update of the Cooperative Study between the District, the Arizona Department of Water Resources and the Town of Oro Valley to Complete Supplemental Vadose Zone Studies for Cañada Del Oro Recharge and Recovery Project.

Denise Weiland, from the Arizona Department of Water Resources (ADWR), gave an update to the Board. She explained that this project was to determine if CAP water in the CDO wash would recharge below the vadose zone and thus be an effective use of a renewable water supply. There are three tasks to this project, a surface investigation, a substantive investigation and constructing an analytical model. Ms. Weiland stated that it was too soon to discuss any results, but there is definitely layering along the CDO and whether or not the model will work depends on the layers and extensive build up of water. She said that the participants are preparing for a meeting with outside reviewers and technical staff working with consultants to discuss the results from the report. Ms. Weiland indicated that the project is on budget, but off schedule. She stated that the proposed amendment was to cover administrative details such as adjusting the end date of the IGA so it is consistent with the consultant schedule and replacing David Hook as the Oro Valley sponsor as well as amending the name of the Chairman of the Board.

D. Approval of Amendment No. 2 to IGA with the Arizona Department of Water Resources and the Town of Oro Valley to Complete Supplemental Vadose Zone Studies for Cañada Del Oro Recharge and Recovery Project.

Ms. Wright made a motion to approve Amendment No. 2 to the Intergovernmental Agreement with the Town of Oro Valley and the Arizona Department of Water Resources for the supplemental vadose zone investigation at the proposed CDO Recharge and Recovery Project. Mr. Polley seconded the motion.

Mr. Ray asked where the funds would come from to fund the changes. Mike Block, District Hydrologist, replied that there were no additional costs associated with this amendment.

Mr. Schlegel called for a vote on the motion for approval of Amendment No. 2 to the Intergovernmental Agreement with the Town of Oro Valley and the Arizona Department of Water Resources and it passed unanimously.

E. Requests for Acquisition of Casas Adobes Park Well Site (aka Sumaya Well).

Mr. Stratton stated that this item dealt with an abandoned well that the District inherited with the assets of Metro Water Company. He said that this 25'x32' property was located in the backyard of the Campbells, who are the owners of the Sumaya Place location. Mr. Stratton indicated that since the well was not in use, maintenance was haphazard at best. He said that the Campbells had inquired as to the upkeep and the District had installed a temporary fence and tried to keep the weeds under control, but maintenance has become an issue. Mr. Stratton told the Board that the Campbells have approached the District requesting the District to abandon the well and their assuming responsibility of it. He stated that the Campbells suggested they would assume liability of the fence in return for the District's abandonment of the well and return of the property to them. Mr. Stratton indicated that another party had written to District staff to express his interest in the same property. Both parties interested in the property were notified of this Board meeting and only the Campbells were in attendance.

Mr. Ray asked if the well in question was an open well. Mr. Stratton replied that it was capped, but it was an accessible conduit to groundwater and that staff has taken groundwater measurements and determined that the well was of no use to the District. Mr. Ray asked about the procedures established by the District for abandonment of wells to property owners. Mr. Stratton replied that no written procedures have been established as the District's previous attempt to sell abandoned property to Auto Executives failed because of the lien that was placed on that property when Metro Water Company sold to the City of Tucson who in turn sold to the District. He noted that he informed the Campbells that a lien would exist on the Sumaya property until all debt was paid by the City of Tucson to the Metropolitan Water Company.

Mr. Doyle asked if the well were abandoned it would not be put back into service without the proper procedures. Mr. Stratton replied that staff would ensure all documentation was filed with ADWR so the well could not be used. Mr. Doyle asked if staff would need to do a Phase I search to limit the Campbell's liability. Mr. Block responded that a Phase I environmental assessment would not be an expensive proposition and it would benefit the District. He explained that a Phase I environmental assessment included researching records to determine what types of uses the well was used for to see if there was a potential for pollutants and doing a site inspection and viewing aerial photographs of the area.

Mr. Schlegel noted that Pima County has a policy for disposing of capital products and inquired if the District needed to comply with that policy. Mr. Stratton stated that Michael McNulty of Brown and Bain had advised staff that the District can dispose of assets as it chooses because it does not fall under County guidelines for disposal of assets. Phil Higdon, Legal Counsel, advised that County policy is not a binding guideline and the District cannot be faulted for not choosing to follow it based upon good reasons. Mr. Schlegel asked the basis of the reason for not following the guidelines. Mr. Stratton replied that the appropriateness of the property being disposed of to the Campbells was based on the fact that the property was located in their backyard. Mr. Polley noted that the other interested parties had been notified of the Board meeting and they failed to appear.

Mr. Ray made a motion to direct staff to prepare the proper documentation for the abandonment of the well site property known as Casas Adobes Park well site (aka Sumaya Well). On

completion of transfer of ownership, subject to applicable liens, to the owner of 2318 West Sumaya Place and to bring back any final documentation on the transfer of the property to the Board for final approval. Ms. Wright seconded the motion.

Mr. Ray amended his motion to direct staff to prepare the proper documentation (including performing a Phase I environmental assessment) for the abandonment of the well site property known as Casas Adobes Park well site (aka Sumaya Well). On completion of transfer of ownership, subject to applicable liens, to the owner of 2318 West Sumaya Place and to bring back any final documentation on the transfer of the property to the Board for final approval. Ms. Wright seconded the motion and it passed unanimously.

F. Status of the District's Annual Groundwater Level Monitoring.

Mr. Stratton explained to the Board that the provided map detailed the level of decline of the District's wells. He indicated that this information was presented previously to the Board by way of memo. He pointed out that this map depicted the severity of some of the drops in well levels. Mr. Stratton said the general purpose of this agenda item was for staff to receive direction from the Board regarding this information being made public. He stated that it was a requirement for the District to file an annual groundwater report with ADWR and once that document is filed, it is considered a public document. Mr. Stratton said that staff felt it appropriate for the District to take a proactive stance to provide customers this information as well as using it as a tool to encourage acceptance of utilizing CAP water within the District for recharge use and eventual membrane utilization of more CAP water. He also indicated staff wanted to be proactive because in discussions with Bureau of Reclamation, the SWARMS report should be issued within two months. This information would tie in the plan of installing infrastructure to bring a renewably supply of water into the basin. He pointed out that ADWR rules state that if wells decline an average of more than four feet they cannot be used as recovery wells for recharge credits and if our rate of decline does continue, we will not be able to use the wells for recovery plus continued decline at these levels would impact subsidence levels.

Mr. Stratton stated that staff had prepared a press release. He stated that staff wanted to create a positive position as opposed to being perceived as not willing to deal with this issue. He indicated that he has heard that Tucson Water has also experienced significant declines in their well levels. Mr. Stratton stated that the significant growth in the District will have an impact on golf courses continuing to use groundwater to irrigate and indications are that this is the beginning of a long-term drought.

Mr. Ray stated that he would like to have the press release clarified to indicate what the District intended to use the CAP water for recharge purposes, to avoid the impression it was only for drinking water. Mr. Schlegel agreed with Mr. Ray and stated the press release should stress that this is a universal problem, not regional one and suggested getting a quote from a third party entity, such as Water CASA.

Mr. Ray suggested that the map be provided to all customers who requested them. Mr. Block also suggested that the map could be placed on the District's web page.

G. Legislative Issues.

Mr. Schlegel indicated that the report was good. The Board had no further discussion for this agenda item.

H. Recommendation for Performance Awards.

Mr. Stratton stated that after the last Board meeting, he understood that the Board wanted more input from District staff. Therefore, a memo was sent to all staff discussing issues and possible recommendations and a staff meeting was held March 2, 2000. During that meeting, 45 staff unanimously recommended preference of staff to keep the Cost of Living Adjustment (COLA) separate from merit increases to be awarded at the employee's anniversary date if appropriate. Staff was supportive of the process.

Mr. Schlegel questioned if this item should be discussed in a study session.

Mr. Polley stated that this issue has been pending for some time and he thinks that 45 employees expressing their position is significant and the Board should proceed with this agenda item. He agreed with the staff recommendation of separating COLA from merit increases. He said the issue to be decided should be the amount of the percentage of increase available for merit.

Mr. Stratton explained one concern of employees was that enough money would be budgeted to allow for the possibility of everyone getting a 4% merit increase. He further stated that the employees do not expect everyone to get a 4% merit increase, their concern is that enough money is budgeted to cover merit increases throughout the entire fiscal year. He also stated that based on the history of past merit increases, there was a possibility of an exemplary employee receiving a 5% raise and the average increase was 2-1/2 percent.

Ms. Wright stated that the Business Advisory Committee recommended that the District has been generous with COLAs at approximately 2.5% for the last few years. The Committee felt the merit raises should be capped at a conservative amount for the first year. The salary ranges should be reviewed every two years to ensure ranges are competitive. The District has had a rate increase regularly and needs to be accountable with its salaries. If there were any funds left over from the budget line item for merit raises, it would be rolled over into the next year's amount, thus allowing for the possibility of larger merit increases.

Mr. Tenney explained that the current procedure is for all merit increases to be distributed in July. He stated that one of the employees' concerns was that if the merit awards were to be distributed at the time of the employee's anniversary, whether there would be enough money in the budget to cover the entire fiscal year.

Mr. Ray stated that any monies left over at the end of the fiscal year should be rolled over into the next budget. He said he felt that 3% of funds should be set aside for merit raises to be divided among employees in the four divisions based on the number of their employees.

Ms. Wright expressed her support to have a performance award as a whole package, the CPI plus a possible merit increase.

Mr. Ray said he felt the COLA should be separated and awarded once per year, possibly in November. He also said that the merit awards should be budgeted to be distributed on anniversary dates. Mr. Stratton noted that Resolution 96-5 did establish the award of a COLA, if approved by the Board annually.

Ms. Wright asked if the Board wanted to separate COLA from merit awards and not combine the two. She further stated the committee wanted to have performance reviews by managers and have a complete packing deal including CPI and COLA, whereby the employees meeting job description would be awarded by a CPI and any extra performance to be awarded by a merit raise.

Mr. Polley said that the employees were supportive of keeping COLA and merit awards separate. He agreed with Mr. Ray that COLA and merit awards were two separate and distinct issues. He further stated that the District has implemented the rate increases based solely on the sale of covenant bonds and that previous COLA and merit awards have not been a severe impact upon the budget.

Ms. Wright reiterated the position that the Committee was looking at changing the process of performance appraisals and giving the supervisors more power over the employees progress and potential rewards plus giving everyone more awareness and communication regarding the performance appraisal process. Mr. Tenney added that staff was very supportive in improvement of communication and understanding the merit award process and the committee went through a lengthy process to come up with a recommendation to involve more dialogue with supervisors who would perform the appraisals. He stated that staff is hopeful and very supportive of the proposed performance evaluation process whether or not the COLA and merit awards are separated. Mr. Tenney said that staff was informed of this meeting and they hoped that their unanimous vote for separation and implementation would be conveyed to the Board.

Mr. Schlegel asked if the supervisory staff would be determining the employees' merit amount and cautioned that they use discretion and realize that it should be based on the employees' actual performance. He felt the likelihood that an employee can earn the maximum percentage should be very slim.

Mr. Block stated that the Staff Incentive Committee proposed a big enough award of merit raises to provide employees with additional incentives to perform well. He said that the supervisors should review their employees' job descriptions and identify what needs to be accomplished in order for the employee to receive a merit award; then supervisors should discuss that criteria with the employee and it would then be up to the employee to achieve that goal.

Ms. Wright stated that supervisors needed to be educated as to what constitutes above and beyond performance. Mr. Stratton agreed that was a concern of staff and that supervisors needed

to be trained to adequately and appropriately evaluate employees and make recommendations. Mr. Tenney added that staff was working with legal counsel to have in-house training for supervisors.

Mr. Schlegel said he felt supervisors should evaluate their employees quarterly or semi annually. Mr. Ray said that if an employee is performing his job it may not be necessary to have a review quarterly, but if not doing his job, the supervisor should talk to him more frequently.

Mr. Doyle made a motion to approve the establishment of performance awards for District staff as outlined in the recommendation of this report and the February 14, 2000 report, with all employees who perform above their job description can receive up to a maximum of 4 percent increase on the anniversary date of hire, annually. Furthermore, funding for the performance award will be included as a line item in the budget. Funding for the cost of living adjustment will be also included as a line item in the budget to be issued January of each year. Mr. Polley seconded the motion.

Mr. Schlegel asked if a friendly amendment to the motion could be made to add language to include quarterly evaluations could be added. Mr. Doyle asked if he needed to amend his motion. Mr. Higdon advised that the movant can agree to make the amendment to his motion and if there is no agreement, then a motion to amend the motion would need to be made.

Mr. Doyle amended the motion to approve the establishment of performance award for District staff as outlined in the recommendation of this report and the February 14, 2000 report, with all employees who perform above their job description can receive up to a maximum of 4 percent increase on the anniversary date of hire, annually, with supervisors to perform evaluation appraisal on a quarterly basis. Furthermore, funding for the performance award will be included as a line item in the budget. Funding for the cost of living adjustment will be included as a line item in the budget to be issued January of each year. Mr. Polley seconded the motion. The motion passed unanimously.

Mr. Schlegel thanked everyone on the committee for its hard work.

Mr. Doyle left the meeting at 7:37 p.m.

I. Direction for Performance Appraisal and Employment Agreement for the General Manager.

Mr. Stratton stated that his current contract expires April 14, 2000 and he was also requesting direction on how to proceed with his performance appraisal. He stated in the past, his performance evaluation and contract negotiations had been performed both by the entire board and also by the Chairman of the Board who solicited information from other Board members. There are no set standards regarding his performance evaluation and contract negotiation.

Ms. Wright stated she wanted all the Board members to complete the performance evaluation.

Ms. Wright made a motion that all Board members complete the performance appraisal scheduled for April 10, 2000 for the General Manager. Mr. Stratton stated that it might be appropriate for the Clerk of the Board to provide copies to all Board members. Mr. Polley seconded the motion.

Mr. Ray asked that the evaluations be completed prior to the next Board meeting. Mr. Tenney suggested that the performance evaluations be completed by each Board member by March 31, 2000 and that he would make copies of all the evaluations to be distributed to all Board members. This would give the Board ten days to review the evaluations and they can be discussed in an Executive Session prior to the next scheduled Board meeting.

Ms. Wright made an amended motion that all performance evaluations for the General Manager be submitted to the Clerk of the Board by March 31, 2000, who will distribute to all Board members. The performance evaluations will be discussed in Executive Session prior to the scheduled April 10, 2000 Board meeting and the General Manager's contract renewal will be placed as an agenda item. Mr. Polley seconded the motion and it passed unanimously with the Board members present.

V. General Manager's Report

Mr. Stratton stated that staff was requesting a study session in March to review budget issues with the Board and suggested that review of draft budgets for Engineering and Utility divisions might be appropriate. He stated that draft copies would be provided to the Board members at least a week in advance allowing them the opportunity to review and ask questions during the study session.

The study session was set for Monday, March 27, 2000 at 5:30 p.m.

Mr. Stratton told the Board about the mainline breaks in the Hub-Metro service area that were caused by rain and the ground settling. Mr. Ray asked if these breaks occurred in a construction area along a main line. Steve Dean, Utility Superintendent, replied that Tucson Water had installed a 24" line along Cloud Road and after a heavy rainfall, the ground settles and causes breaks in the distribution line.

Mr. Stratton updated the Board on the emergency well replacement program. He stated that staff is very pleased with the new contractor, Duncan Pumps, as their work is coming in under budget and they have been very responsive to performing the jobs in a timely manner.

Mr. Stratton said that Mr. Tenney had submitted the Non-Per Capita Conservation Annual Report ahead of time. He stated that the District is in compliance with that program's requirements and staff has had no comment from ADWR regarding the previous allegations of non-compliance.

Mr. Stratton also stated that staff is working on completing the ADWR Annual Groundwater Report. He informed the Board that Kathy Jacobs of ADWR has been advised of the declines in the District's wells and she provided some helpful comments for the press release.

Mr. Schlegel asked for a status on the Tucson Electric Power (TEP) proceedings with the ACC. Mr. Stratton replied that a representative from the ACC had advised that it received the District's letter and provided it to TEP for their comment. Mr. Stratton stated that he and Mr. Hill had been meeting with representatives from Touchstone to discuss different electrical provider options.

Mr. Schlegel asked if the District had acquired a modular unit for the Hub-Metro service area. Mr. Hill responded that based on the Board's prior approval on two options, the District was in the process of obtaining a modular. He explained that the first option approved providing for purchase of a used modular was unacceptable, so staff pursued the second option of purchase of another used modular and it should be delivered shortly. He further stated that modifications had been made on the fencing at the modular site.

VI. Legal Counsel's Report

Mr. Higdon stated he had nothing to add.

VII. Future Meeting Dates; Future Agenda Items


The next regular scheduled Board Meeting is Monday, April 10, 2000.

VIII. Adjournment

The meeting was adjourned at 7:30 p.m.



Pete Schlegel, Chair of the Board



Clerk of the Board