

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

December 10, 2001

**** Board Room****

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

MINUTES

Board Members Present: Pete Schlegel, Chair
 Dennis Polley, Vice Chair
 Jim Doyle, Member
 Dan M. Offret, Member
 Marlene Wright, Member

District Staff: Mark Stratton, General Manager
 Michael McNulty, Legal Counsel
 Warren Tenney, Clerk of the Board
 Alice Stults, Recording Secretary

I. Call to Order and Roll Call

Pete Schlegel, 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. Dennis Polley, Pete Schlegel, Dan M. Offret and Marlene Wright were present. Jim Doyle arrived at 6:05 p.m.

II. General Comments From the Public

John Kulakowski, Hub service area resident and Sabino Vista Neighborhood Association member, informed the Board of the annexation efforts that had begun. The petitions will be presented to the Board for consideration of annexation of the Hub Service Area into the Metropolitan Domestic Water Improvement District once the required signatures are obtained.

III. Consent Agenda

Marlene Wright made a motion to approve the items on the Consent Agenda. Dennis Polley seconded the motion.

Pete Schlegel instructed staff to make a change on the November 14, 2001 Board minutes, page 11 section 2, changing the third sentence from ‘..believes CAP is attempting to take tax dollars..’ to ‘..believes CAP could attempt to take tax dollars..’. The Clerk of the Board said the change would be made.

The motion to approve the consent agenda was passed unanimously by the Board.

IV. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District.

Mark Stratton reported that while maintenance was being performed on the Rasmussen Well the pump assembly became stuck in the well, and parts of the pump assembly broke off, dropped into the well, and cannot be removed. Staff is currently working to make the necessary repairs on the well to have it operational as soon as possible.

B. Financial Issues.

Mike Land, Chief Financial Officer, reported that new water connections are still on the decline; however, revenue from water sales are making up for the loss of new connections.

Mr. Offret asked why safety supply purchases appeared to be down. Steve Dean, Utility Superintendent, said that a substantial amount of money was budgeted this fiscal year for safety supplies to satisfy Occupational Safety and Health Administration (OSHA) requirements, and these items are being purchased.

Mr. Schlegel inquired as to the exact purchase in regards to a Batteries Plus invoice for approximately \$2,000. Mr. Dean said the purchase was for telemetry system backup batteries. Ms. Wright asked if there was a wholesale company where the batteries could be purchased at a lower price. Mr. Land replied that staff had solicited bids from three vendors and Batteries Plus had the lowest quote, and that Batteries Plus is a wholesale company.

Mr. Schlegel asked why the District was sending out items to be reproduced, as opposed to doing them in-house. Mr. Stratton answered that on items reproduced in large quantities, such as materials that will be used in the bidding process, it is more cost effective and efficient to have the reproductions made by an outside company.

Mr. Schlegel mentioned a discrepancy in the financial report whereas the reported revenues were running at \$462,399 ahead of budget, however; in the following paragraph of the report the revenues were listed as being \$408,815 ahead of budget. Mr. Land explained that the first amount of \$462,399 was compared to the current fiscal years budget, and the \$408,815 compares to the same time period in the prior fiscal years budget.

C. Schedule for Regular Board Meetings in 2002.

Mr. Offret moved to approve the date and time for the regular sessions of the Board of Directors meetings in the year 2002 to be as outlined in the attached report. (Regular meetings of the Board are scheduled for the second Monday each month.) Ms. Wright seconded. Motion was passed unanimously.

D. Purchase of Sound System for Board Room.

Mr. Doyle moved to approve the bid from A V Innovations with the replacement microphones as suggested by the vendor for a total installed price for a sound system in the Board room of \$8,540.48. Ms. Wright seconded the motion. The motion to approve a sound system was passed unanimously.

Mr. Offret explained that A V Innovations appears to be a very competent organization and he believes they will do an excellent job in establishing the sound system for the District Board room.

E. Purchase of Radios for Two-Way Communications System.

Chris Hill, Deputy Manager for the District, provided the Board with a summary of the radio equipment quotes, as well as a vehicle inventory list outlining the radio equipment to be placed in each of the Districts vehicles. He explained that the purchase amount for the radios had changed since his last communication with the Board at the November 14, 2001 meeting. This was due to the change in number and type of radios, and the cost was now lower than originally stated. Mr. Hill said a change had also been made in the purchase of an antenna as he had located an antenna at a lower cost through another vendor. The antenna has been installed and is functional at this time.

Mr. Offret asked if the antenna had the capabilities of reaching the entire District, including the Hub service area. Mr. Hill said that it did not and explained that the staff working in the Hub service area will have other two way radios and cell phone communication. Mr. Hill said that it will take one to three weeks to install the radios and equipment and have the two-way communications system available. Mr. Hill also mentioned that in an effort to expand security, new protocol has been established for access to well sites. He said that any persons, including District staff, will have to notify the appropriate Utility staff prior to entering a well site.

Mr. Stratton said that the antenna had been painted Palo Verde green to match the fencing surrounding it. He added that the District had sent letters to neighbors to inform them of the antenna, and to date the District has not received any comments of concern or opposition from the surrounding neighbors in regards to the placement of the antenna.

Ms. Wright made a motion to approve Creative Communications be awarded \$13,390 for the installation of three base stations and providing thirteen portable radios, and Kelley Communications be awarded the installation of twenty three, 2-way radios in District vehicles for the price of \$12,466 for the District's 2-way radio system. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Offret asked what the savings would be for the use of the 2-way radio system as opposed to the cell phones currently used by the District. Mr. Stratton advised the 2-way radio system would save money; however, the payback would not be immediate. Mr. Hill explained that some District staff, mainly supervisors, would retain their cell phones.

F. Discussion of Background Checks for New Employees.

Mr. Stratton provided an update regarding the record and criminal history checks conducted by other agencies. He said staff learned that most agencies they contacted limit the background checks to reference checks only. Mr. Tenney said that staff has located a vendor who completes in-state background checks for employers at a cost of \$25 per employee, and a higher rate is charged for checks outside Arizona.

Mr. Schlegel clarified that legal counsel had changed the background checks to provide for new employees only, and not all employees, as current employees would have to receive prior notification if criminal history checks were conducted. It is Mr. Schlegel's contention that although other utilities do not conduct background criminal history checks, with the low yearly volume of employee turnover, the District could support having the background checks accomplished.

Mr. Offret said that for the background checks to be complete and effective, the District would need to include information solicited outside the state for those employees not native to Arizona. Mr. Schlegel added that it would put the District in the position of assuring it had done everything possible to hire quality employees. Mr. Polley said that by notifying potential employees ahead of time of the criminal history checks to be conducted it would possibly deter individuals who have had a history which the District would not be favorable to.

Mr. Tenney summarized by saying that all future employment advertisements will contain a statement notifying potential applicants of criminal history background checks and will confer with legal counsel regarding the wording to be used. He conveyed that staff will contact other vendors for pricing of conducting the checks, and inquire as to the guaranteed thoroughness of the information provided. Mr. Tenney said he will also provide the Board with information on the cost of conducting the checks in jurisdictions outside of Arizona.

G. Approval of Stipulation and Order with ADWR for Non-Per Capita Conservation Program.

Mr. Stratton said it has been difficult for staff to determine if it should recommend that the District continue in the Non-Per Capita Conservation Program for the Third Management Plan

(TMP) or return to the Total GPCD Program under ADWR's regulations of the District's conservation efforts. Under the Non-Per Capita Program, the District would continue with fulfilling specified reasonable conservation measures (RCM's). However, it appears the District would meet the targets of the Total GPCD Program. Mr. Stratton explained that the Arizona Water Company filed a lawsuit against ADWR, which has put a hold on any compliance action under the Total GPCD Program. He added that ADWR is currently calculating the census, to determine if the District would meet the GPCD requirements.

Michael McNulty, Legal Counsel, said he had recently spoken with Linda Stitzer, Director of the Tucson Active Management Area, and she acknowledged that the District could be regulated under either program, but the District may want to decide after the census numbers were analyzed.

Mr. Schlegel suggested, and the Board agreed, that this item would be held over until the next regularly scheduled meeting of the Board on January 14, 2002.

Mr. Stratton said historically the Board has been in favor and supportive of a strong conservation program, and the District's conservation efforts will not change. He added that Tucson Water was also delaying its decision on the Non-Per Capita Conservation Program. Mr. Tenney said that the District could apply any time in the year 2002 for the Non-Per Capita Conservation Program. Mr. Schlegel thanked staff for being active in its conservation efforts.

H. Establishment of New Conservation Rebate Program.

Mr. Polley asked what the range in cost for the hot water demand units would be, and what the \$50 rebate amount was based upon. Mr. Tenney replied that the units cost between \$150 and \$250. Mr. Stratton said the \$50 was based upon Tucson Water's rebate program amounts. The District currently provides a \$50 rebate for customers who purchase low flow toilets.

Mr. Schlegel made mention that the intent of the toilet rebate program was not for developers, but an opportunity for homeowners to replace older toilets which were using more water. Ms. Wright asked if the District had a written policy stipulating the toilet rebate program was for residential purposes only. Mr. Tenney said no, and added that the District has used the program as an RCM under the Non-Per Capita Conservation Program and it applied to both commercial and residential customers.

Mr. Tenney said that in the past the District replaced toilets in an apartment complex. Mr. Schlegel recalled the circumstances and pointed out that it was an older apartment complex and it was to the District's advantage to replace the older toilets. Mr. Stratton said that since there are limited funds in the rebate program, staff could consider a reasonable yearly amount that could be spent on commercial rebates, and that an established amount could be set aside to ensure that rebate monies would still be available for residential customers.

Mr. Doyle said he believed that new toilets available for purchase are all low flow toilets. Mr. Tenney said that the District has a number of older homes which have not yet replaced the old

toilets, and the rebate is being used as an inducement to encourage homeowners to replace the old toilets.

Mr. Schlegel asked if it were possible for the District to make the instant hot water units a requirement in all newly constructed homes. Mr. Stratton and Mr. Lemke said this would have to be done as a building permit requirement through Pima County.

Ms. Wright mentioned that conservation efforts considered by the District should also include graywater. Mr. Stratton commented that the biggest savings is through graywater usage, and the challenge is to determine the appropriate incentives for harvesting of graywater and monitoring the amount harvested. Mr. Schlegel suggested that Water CASA, with the assistance of the District, put out an informational brochure to encourage graywater harvesting. Mr. Tenney said this is currently being worked on by Water CASA.

Ms. Wright asked if a demonstration could be done on a District customer's home. Mr. Tenney replied that a retro fit and demonstration workshop had been completed last summer. Mr. Wright asked if there was information available on the amount of water saved by the homeowner. Mr. Tenney replied that the information could be made available.

Mr. Schlegel asked that staff consider rebate incentives for the various suggestions brought forth. Ms. Wright said workshops along with information on potential savings are a greater incentive than a one time rebate as the savings would occur monthly if customers were better educated on conservation efforts and graywater harvesting. Conservation efforts could also be tracked and substantiated.

Mr. Schlegel said that by giving a rebate the District would be sending out a message to ADWR that the District is pro-active in its conservation efforts. He suggested that inserts could be added to the newsletter to address the educational aspect of water conservation.

Mr. Offret asked if there was a method by which the District could track water usage savings per month by customers receiving a rebate. He suggested that a rebate for graywater or water harvesting should be contingent upon a guaranteed monthly savings. Staff will examine suggestions and alternatives, and bring this item back to the Board at a future meeting.

I. Status of Revenue Bonds and Subordinate Obligation Bonds.

Mr. Stratton said conversations have continued with the City of Tucson to discuss finalization of the settlement agreement and discount for early payoff of the settlement agreement. The item has been placed on the City of Tucson's January 7, 2002 agenda. Mr. Stratton said once all the amendments have been made to the settlement agreement, the Board will be provided with a copy for its review.

Regarding the issuance of new bond monies, Mr. Stratton said the interest rates in the bond market have increased; however, the rates could drop down by the time the District issues the bonds. A trip to New York has been arranged to meet with bond rating agencies and insurance

companies regarding the sale of the District's bonds. Mark Reader, Mr. Schlegel, Mr. Stratton, and Mr. Land will be attending the meetings in New York later this week.

Mr. Offret asked if it would be possible to sell all the bonds by the end of January 2002. Mr. Stratton said that this is the goal. He added that the due date for payment to the City of Tucson is February 1, 2002; however, there is an amendment to the agreement with Tucson wherein the due date could be delayed.

J. Consideration of Cost of Living Adjustment for District Staff.

Mr. Polley moved to approve the cost of living adjustment as described for District employees in the second scenario of the attached report for the first payroll period beginning in January 2002. Mr. Doyle seconded the motion. The motion failed with Mr. Polley and Mr. Doyle in favor of the second scenario, and Mr. Offret, Mr. Schlegel and Ms. Wright opposing.

Ms. Wright moved to approve the cost of living adjustment as described for District employees in the third scenario of the attached report for the first payroll period beginning in January 2002. Mr. Offret seconded the motion. The motion was passed with Ms. Wright, Mr. Offret and Mr. Schlegel voting in favor of the third scenario, and Mr. Polley and Mr. Doyle opposing.

K. Legislative Issues.

Regarding support for the domestic water improvement districts expenses bill, Mr. Stratton said Senator Hellon has agreed to sponsor the bill when it goes to the Senate, and Senator Gunther has agreed to co-sponsor. State Representative Huffman has also agreed to sponsor the bill, and Representatives O'Halleran and Polstrea agreed to be co-sponsors. Additional support will be solicited at the upcoming DWID meeting.

Mr. Offret explained that he is not fully supportive of the section of the bill regarding compensation expenses as it is written. He believes the language is open ended and may allow for possible abuse of expenses. Mr. Offret added that it does not say who is responsible for determining what is considered official business, and it does not offer an explanation of what exactly necessary expenses are. He believes the Board of Directors as a whole should be responsible for making these determinations, and a member of the Board would be required to seek prior approval from the Board to attend conferences and seek reimbursements.

Mr. Polley agreed with Mr. Offret, and added that each water improvement district could establish their individual policies and procedures, as could Metro Water's Board of Directors. Mr. McNulty agreed with Mr. Polley and said the District Board of Directors would have the ability to establish procedures for the District policies only. Mr. Schlegel said the criteria has not been established, only the cost involved.

Mr. Tenney said he believed the intent of the language 'engaged in official business' indicated that official business means that it is Board approved. Mr. Offret does not believe this is made clear, and asked if the draft language could be changed to make it clearer. Mr. Tenney said staff

would work with the lobbyist to make the intent clearer and check into changing the draft language.

Mr. Schlegel said the Phoenix AMA is having a meeting with Maricopa AMA to discuss the commission report in details. He said that if a similar meeting is to be held in Tucson he would like to have media coverage to educate the public prior to going to the polls.

V. General Manager's Report

Mr. Stratton said the La Cholla Boulevard transmission main bids are due December 17, 2001, and a special meeting of the Board will be held later that week to consider and award the bid.

Regarding managed recharge for effluent, Mr. Stratton said several jurisdictions are disappointed that Cortaro/Marana Irrigation District, Cortaro Water Users and the Town of Marana have submitted draft applications for a permit from Ina Road to the Pinal County line without further deliberations with others. Mr. Stratton added that discussions are continuing. Mark Myers said he did not believe Marana was attempting to shut out the others; they are only attempting to be the first to manage the facility and invite others to participate.

VI. Legal Counsel's Report

Mr. McNulty informed the Board that the review of the contract between Legal Counsel and the District had not been completed and he hoped that it might be done before the January 14, 2002 meeting.

VII. Future Meeting Dates; Future Agenda Items

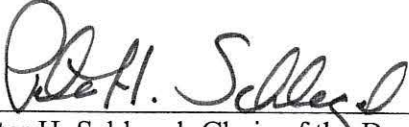
The next regular meeting of the Board will be January 14, 2002.

VIII. General Comments from the Public


There were no comments from the public.

IX. Adjournment

The meeting adjourned at 7:20 p.m.



Peter H. Schlegel, Chair of the Board



Clerk of the Board