

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
BOARD OF DIRECTORS MEETING**

February 11, 1999

*****Conference Room ***
7235 North Paseo del Norte
Tucson, Arizona 85704**

MINUTES

Board Members Present: Jim Doyle, Chair
 Herb Johnson, Member
 Marlene Wright, Member

Board Members Not Present: Sam Ray, Member
 Pete Schlegel, Member

District Staff: Mark R. Stratton, General Manager
 Joyce E. Osborne, Recording Secretary
 Mike Land, Chief Financial Officer
 Mark Reader, Peacock, Hislop Staley, Given
 Fred Rosenfeld, Gust Rosenfeld
 Warren Tenney, Clerk of the Board

Regular Session

I. Call To Order and Roll Call

Mr. Doyle, Chair of the Board of Directors of Metropolitan Domestic Water Improvement District (District), called the special Board meeting to order at 5:08 p.m.. Mr. Herb Johnson and Ms. Marlene Wright were present. Mr. Sam Ray and Mr. Pete Schlegel were not present.

II. Discussion and Possible Approval and Adoption of Resolution No. 199-1 to authorize the issuance and sale of Metropolitan Domestic Water Improvement District of Pima County Arizona Water Revenue and Refunding Bonds, Series 1999 (the "Bonds"), the sale of the Bond to Peacock, Hislop, Staley and Given, Inc. (the "Underwriter") pursuant to the terms of the Bond Purchase Agreement and the application of the proceeds from the sale of the Bonds to (1) refunding the District's outstanding bonds, (2) constructing the improvements and additions authorized by the electors of the District at the election held on March 11, 1997 and (3) paying the costs of issuance of the Bonds.

Mr. Mark Reader of Peacock, Hislop, Staley & Given, bond underwriters for the District, said his firm had been given direction by the Board to move forward with the sale of bonds. Mr. Reader gave a brief history of what it took to get to this point and said that the bonds had gone to market on Tuesday. He then passed out information relating to the results of the bond sale.

On page 1 of the summary Mr. Reader explained that the bond market has been experiencing 35-40 year lows for interest rates. He said that the insurance bonds were sold with a AAA interest rating with the FGIC with any underlying credit rating of A3. Mr. Reader explained that there had only been a few negatives, with the Tucson settlement being one of them but that the A category rating is what drives and dictates who buys the bonds. Mr. Reader said the 1992 bonds were reissued for \$14,985,000 with an average rate of 4.16% and the new bonds in the amount of \$13 million came in at an average rate of 4.86% which indicates that the refunding portion was shorter than the new money piece. Mr. Reader said that the result of refinancing the 1992 bonds resulted in the ability to release all the assessment liens which was one of the goals that the Board had wanted to achieve. Mr. Reader said that the original goal of releasing the liens was to refinance at no cost and he was happy to say that the present value savings was \$700,000.

Mr. Johnson wanted to know how the lien release would be accomplished and Mr. Reader explained that a press release after this meeting should be issued followed by a second notice to officially release the liens from the properties. Mr. Rosenfeld, Bond Counsel, said that the County records the filings for the release of the liens but agreed that that has little or no effect in informing customers. The press release is the best way to announce the item.

Mr. Reader said page 2 showed the structuring of the new bond money and that the bond sale was structured with the majority of the bonds on the long end of the yield curve. The reason for this is that it is good debt management policy to sell more maturities at such low interest rates and in several years we will be filling in that gap with the shorter end of the yield curve. Mr. Reader said that the debt service that the District has been utilizing throughout the process relates to payments on a long term basis with District residents. Mr. Johnson was pleased that the present rate users are not going to be paying for facilities in the year 2025.

Mr. Reader said page 3 dealt with sources and uses of the bond funds. He said based on the refunding and new money generated through the bond sale, the District has extra cash for the reserve fund and based on federal tax law the District needs to take that amount and pay off the bonds. The rule is if the cash flow savings is higher reflecting the amount of cash, the District put into the deal and is subtracted to get the new benefit.

Mr. Reader then referred to page 11 and the credit report written by Moody's Investment District. Section B shows the detail on the market and how the bonds were priced compared to other issues. The result is that the bonds were priced aggressively and are in line with other issuers with comparable credit quality.

Mr. Rosenfeld explained that Resolution 1999-1 authorized the Chairman of the Board and the Clerk of the Board to sign bonds and to sign the bond purchase agreement. The bond purchase agreement is an offer to purchase bonds at interest rates set forth in the agreement and resolution. Those interest rates are the end product of the sale of the bonds. It is extremely important that all statements in the purchase agreement are true and correct and do not omit any material facts which would be material to the buyer of the bonds. An official statement is put together so that any buyer in the open market has a reasonable understanding of the District and has the ability in the future to generate monies. The buyers need reasonable insurance that his return is in "sync" with the risk that he is taking in buying the bonds. Mr. Rosenfeld explained that when the District buys insurance the rating of the bonds go to AAA. You do not buy insurance unless the present cost of the insurance factored over the life of the bonds is cheaper than the interest savings. Mr. Rosenfeld's company will authorize the signing of the insurance commitment and a portion of the new reserve fund will be funded with a surety bond from FGIC. This simply means that we do not borrow on the insured fund but create a cash reserve fund.

Mr. Rosenfeld said that the bond resolution has the first supplement to the Depository Trust and this becomes complex. The reason is that in 1992 the system was purchased jointly with Oro Valley and Oro Valley bought about 7% of the system and issued one million plus in bonds. Until Oro Valley separates itself from the District in July, 1999, the current District bonds are on equal parity with the Oro Valley bonds. Under the current Intergovernmental Agreement with Oro Valley, there is a trustee that holds all the monies for both Oro Valley and the District. If Oro Valley bonds are outstanding, their operation needs to continue to pay the trustee. The District has to meet the coverage requirement that includes the Oro Valley bonds until they are fully provided for. The major difference is once the Oro Valley bonds are gone, the District is on its own but until that time, the District needs to live under the terms of the 1992 IGA. The District also needs to set up an irrevocable trust under the 1992 agreement where Bank One takes refunding proceeds, buys a set of securities from the USA and holds them in trust. Mr. Rosenfeld said that he has retained an accounting firm to do two computations, one on the sufficiency of that trust and will the trust produce enough principal and interest over the term until the bonds are called and secondly, that accountants need to compute interest rates on bonds that are being sold and that rates need to be greater than on obligations that we purchased to pay off old bonds. This forces a procedure to make sure that what is in the trust has lessor yield than the bonds you issue. Once this trust is certified it will meet that requirement and the 1992 bond requirement.

Mr. Rosenfeld explained the paying agent and registrar contract. The registrar keeps books on everyone selling bonds including their names and the dates of issuance. All bonds must be registered so people do not buy at one price and sell at another. You cannot have a bond where the owner is the bearer. The IRS says that to sell a bond you need to keep adequate records which are done by the paying agent and the registrar. The annual cost for this service is \$1,500 and Mr. Rosenfeld thought it was well worth the price instead of doing the recording keeping in house and taking on that added risk.

Mr. Rosenfeld explained the continuing Disclosure Statement. The District will be responsible for annually filing audited statements and certain information about operations of the District and if we do not file in a timely fashion, the District can be penalized. By the Board adopting the resolution, the District agrees that every year we will file this disclosure statement which includes information about a notice of events filing, default on bonds, change of rating, and failure to draw down on the reserve fund.

Mr. Rosenfeld said Resolution 1999-1 authorizes the Chairman of the Board and Clerk of the Board to sign bonds, promising to pay solely from net revenues from the operation of the system. The District must also agree to the efficient operation of the system, and each person will have a fidelity bond and other covenants that are current with utilities, keeping it insured and in good condition and meeting environmental requirements. The District will also annually make a bottom line profit, and produce revenues equal to 1.20% of the debt payment on the bonds. He said there are two other covenants, junior lien bonds where the District will keep a certain net revenue of 2 and ½ times the debt service of the bonds. The obligation is not only to meet all three requirements but is a matter of discipline.

Mr. Rosenfeld explained that the additional bond covenant is where the District issues bonds again on an equal basis with the net debt service scheduled immediately after the bonds are issued, where the maximum debt service must meet the 120 coverage requirement. Mr. Rosenfeld said that the District can sell lessor lien bonds but must meet the Junior lien bond test.


Mr. Herb Johnson made the motion to approve and adopt Resolution No. 199-1 to authorize the issuance and sale of Metropolitan Domestic Water Improvement District of Pima County Arizona Water Revenue and Refunding Bonds, Series 1999 (the "Bonds"), the sale of the Bond to Peacock, Hislop, Staley and Given, Inc. (the "Underwriter") pursuant to the terms of the Bond Purchase Agreement and the application of the proceeds from the sale of the Bonds to (1) refunding the District's outstanding bonds, (2) constructing the improvements and additions authorized by the electors of the District at the election held on March 11, 1997 and (3) paying the costs of issuance of the Bonds. Ms. Marlene Wright seconded the motion and it passed unanimously.

III. Adjournment

The Board adjourned at 6:00 p.m.


Vice Chair of the Board

ATTEST:


Clerk of the Board