

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

February 12, 2001

**** Board Room****

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

MINUTES

Board Members Present: Dennis Polley, Vice-Chair
Jim Doyle, Member
Dan M. Offret, Member

Board Members Not Present: Pete Schlegel, Chair
Marlene Wright, Member

District Staff Present: Mark R. Stratton, General Manager
Warren Tenney, Clerk of the Board
Lisa Chase, Legal Counsel

I. Call to Order and Roll Call

Dennis Polley, Vice-Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District) called the Board Meeting to order at 6:05 p.m. Jim Doyle, Dan Offret and Dennis Polley were present. Pete Schlegel and Marlene Wright were not present.

II. General Comments From the Public

Frank Soto, representative of the Arizona Small Utilities Association (ASUA), commended District staff for their efforts to support the smaller water improvement districts throughout the state.

III. Consent Agenda

- A. Approval of Minutes – January 8, 2001 Study Session.**
- B. Approval of Minutes – January 8, 2001 Board Meeting.**
- C. Approval of Minutes – January 23, 2001 Special Meeting.**
- D. Approval of Minutes – January 23, 2001 Public Hearing.**
- E. Approval of Water Service Agreement –Fountains Casitas Expansion.**
- F. Approval of Water Service Agreement – Panorama Ridge Estates, Lots 1-40.**
- G. Approval of Water Service Agreement – Shannon Business Park.**

Mr. Doyle made a motion to approve the consent agenda. Mr. Offret seconded the motion. The motion passed unanimously.

IV. General Business – Items for Discussion and Possible Action

A. Financial Issues.

Mike Land, Chief Financial Officer, stated that all indications are that everything is right on budget, revenues are running 1.5% over budget and expenses are listed at 2% under budget. He stated that the cash flow is consistent.

B. Ratification of Billing Adjustments.

Mr. Doyle made a motion to ratify the billing adjustments made in January 2001. Mr. Offret seconded the motion and it passed unanimously.

Mr. Land stated that staff is requesting a change in procedure for billing adjustments. He said that the Board previously gave direction to have a maximum \$100 residential adjustment per customer with the General Manager having the discretion to alter any adjustment. Mr. Land explained that in a few cases, customers have an unexplained large increase for one month. Staff has adjusted the bill by using only the commodity rate rather than high use rate. Staff wanted to see if the Board concurred with this approach for these few customers.

Mr. Offret asked if staff investigates the excessive use of water. Mr. Land replied that indications are that the water was registered through the meter properly, but residents did not realize that they had large leaks or could not account for the water use. He stated that staff does investigate each claim for a billing adjustment.

Warren Tenney, Assistant to the General Manager, explained that the Board had previously given the General Manager the authority to review each ratification and approve exceptions to the \$100 maximum adjustment. He stated that with the increase of billing adjustments, staff was seeking authorization from the Board to use commodity rate billing as a tool for adjustments. Mr. Tenney said that all billing adjustments are brought monthly before the Board for ratification giving the Board an opportunity to question billing adjustments.

The Board members had no objections to using the commodity rate in rare circumstances for billing adjustments.

C. Approval of Board Member Committees.

Mr. Doyle made a motion to approve the Board Member Committees as presented to the Board in the attached list to the report. Mr. Offret seconded the motion and it passed unanimously.

D. Approval of Membership in Southern Arizona Water Users Association.

Mr. Stratton stated that this item is for approval for membership for Southern Arizona Water Users Association (SAWUA) which he is currently the president. He explained that this organization was for major water users in southern Arizona, including other municipal providers and agricultural entities to work together on regional water issues. SAWUA is in its second year of existence.

Mr. Doyle made a motion to approve the District's membership in the Southern Arizona Water Users Association by paying the \$6,200 annual dues. Mr. Offret seconded the motion.

Mr. Offret questioned the amount that was expended last year for dues and if the membership fees were expected to drop. Mr. Stratton replied that an initial fee of \$3,100 plus dues in the amount of \$6,200 was paid last year by the District. He stated that SAWUA is expanding its bank account in the hopes of eventually staffing the association with an executive director to facilitate the administrative functions and as of now, all administrative tasks are performed by volunteers, with the exception of the lobbyist. Mr. Stratton said that the organization is comfortable with its number of members and theoretically if it should increase in membership, the dues could be reduced.

Mr. Offret asked about the activities of the SAWUA lobbyist versus the District lobbyist and if their efforts overlapped. Mr. Stratton replied that the SAWUA lobbyist is very active in tracking legislation regarding regional water issues. The District lobbyist focus is with issues affecting the District. He stated he will provide the Board members with copies of legislative reports by the SAWUA lobbyist.

Mr. Polley noted that SAWUA had accomplished much during its first year of existence.

Mr. Polley called for a vote on the motion to approve the District's membership in SAWUA and the motion passed unanimously.

E. Approval of the Metro-Hub Mainline Replacement Project Stage I.

Mr. Doyle made a motion to approve Stage I of the Metro-Hub Mainline Replacement Project and to purchase the material per Option A from US Filter at an amount not-to-exceed \$30,893.36. Mr. Offret seconded the motion.

Mr. Offret noted that funds had been budgeted for the mainline replacement as well as hydrant installations in the Metro-Hub service area. He asked if the District could combine Stage I and Stage III of the mainline replacement project and use any leftover residual funds for the installation of fire hydrants. Mr. Offret also requested clarification on the difference of PVC and ductile iron pipe for the piping material.

Mr. Stratton stated the main difference between the materials is the cost difference. He explained that staff had discussions of PVC versus ductile iron pipe regarding durability, longevity and costs. He indicated that ductile iron pipe is probably a better product overall, but

that PVC is also part of the standard materials. Mr. Stratton said that by requesting bids in these two materials, the District receives more competitive pricing.

Charlie Maish, District Engineer, indicated that PVC is a widely accepted material that is used by municipalities and water providers and is typically more cost effective. More recently, the price of ductile iron pipe has become closer to the price of PVC. He explained that staff considers each project to determine which material best suits that project, whether it be durability or flexibility. He added that both products have about a 50-year life expectancy.

Mr. Polley asked if the products were under warranty for the 50-year duration. Mr. Maish replied they were not.

Mr. Doyle stated that the issue of PVC versus ductile iron pipe was affected by how the pipe was laid. Mr. Maish stated that the District has a standard policy regarding bedding material for pipelines and those pipelines should be protected in rocky terrain. Mr. Stratton explained that if the District wants to use ductile iron for its projects then it should also require developers to use the same material.

Mr. Offret suggested amending the motion to include stages 1 and 3 and any residual funds remaining to be applied towards hydrant installation. Mr. Stratton stated that bids have not been received on stage 3, but that the District can advertise for bids and have that information placed on the agenda for the March Board meeting.

Mr. Polley called for a vote on the motion to approve Stage 1 of the Metro-Hub Mainline Replacement Project and purchase the material per Option A. The motion passed unanimously.

Mr. Polley directed staff to proceed with the bid process for Stage 3 of the Metro-Hub Mainline Replacement Project and have that item for the March 12, 2001 agenda.

Mr. Stratton reminded the Board of the informational meeting in the Metro-Hub service area on February 27, 2001 where staff intends to inform the residents of the impending improvements in that area. Mr. Offret requested a future study session on the topic of ductile iron pipe versus PVC. Mr. Stratton replied that staff would prepare information for that study session including any information from other municipal water providers.

John Kulakowski, resident of the Metro-Hub service area, stated that the Hub area residents do not understand the continual work on Cloud Road and would like staff to work with them to help get information out by way of their homeowner's newsletters. Mr. Stratton stated that information could be forwarded for future newsletters and information would be brought to the February 27, 2001 meeting.

F. Award of the Construction Contract for the Orange Grove Park/Tangerine Acres Mainline Replacement, Phase I.

Mr. Doyle made a motion to award the construction contract for Orange Grove Park/Tangerine Acres Mainline Replacement, Phase I (M-98-18) to Tricon, in the amount of \$1,040,730

(Alternate B) and to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not-to-exceed \$25,000 and 2) increase the original construction contract term a cumulative amount not-to-exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Offret seconded the motion.

Mr. Doyle asked about movement in pipelines based on depth and weight and if ductile iron pipe would have as much movement because of its weight per foot. Mr. Maish stated that movement would depend on pressures and that restraining joints were used in the construction process and there should be no movement.

Mr. Polley called for a vote on the motion to award the construction contract for Orange Grove Park/Tangerine Acres Mainline Replacement to Tricon as per Alternate B. The motion passed unanimously.

G. Award of the Professional Services Agreement for Tucson National/Westward Look/La Colina/Lomas De Oro Mainline Replacements.

Mr. Doyle made a motion to award the Professional Services Agreement for the Tucson National/Westward Look/La Colina/Lomas De Oro Mainline Replacement design to Alpha Engineering for the lump sum amount of \$80,000. Mr. Offret seconded the motion and it passed unanimously.

H. Approval of Water Service Agreement – Chaparral Heights, Lots 1-73.

Mr. Doyle made a motion to approve the Water Service Agreement with Lawyers Title of Arizona, an Arizona Corporation under Trust No. 7922-T, for the Chaparral Heights, Lots 1-73 project. Mr. Offret seconded the motion.

Mr. Offret asked if hydrological studies were done on this property since it was proposed as a future well site and the cost for a new well. Mr. Maish indicated that thorough hydrological studies were performed. To drill a new well is about \$250,000, with another \$250,000 to equip it. Mr. Stratton added that the District has been investigating this site for a number of years for a possible well site and that the previous property owners did perform surface hydrological studies. The District is currently working with Pima County to complete drilling studies.

Mr. Polley called for a vote on the motion to approve the water service agreement with Lawyers Title of Arizona. The motion passed unanimously.

I. Approval of Salvage for the Deconcini Hydropneumatic Tank.

Mr. Doyle made a motion to approve the salvage of the Deconcini hydropneumatic tank to Mr. Paul Crookston for \$98.00. Mr. Offret seconded the motion.

Mr. Offret asked what relationship Mr. Crookston had with the District. Steve Dean, Utility Superintendent, replied that Mr. Crookston worked for Border States and helped the District

install the telemetry program and still does advisory work on an intermittent basis. Mr. Offret asked if the intended use of the tank was for storage only. Mr. Stratton responded that it would only be used for storage because of the liabilities if it was used as a pneumatic tank.

Mr. Offret asked if any conflict existed in salvaging this tank to a consultant. Lisa Chase, Legal Counsel, stated there was no conflict.

Mr. Offret asked when the tank would be removed. Mr. Stratton replied that staff was coordinating a specific date with Mr. Crookston and the old tank would be removed when the new tank was installed.

Mr. Polley called for a vote on the motion to approve the salvage of the Deconcini hydropneumatic tank. The motion passed unanimously.

J. Approval of Disposal of District Vehicles.

Mr. Doyle made a motion to direct staff to dispose of the two vehicles through a sealed bid process after having the vehicles appraised for a minimum bid price. Mr. Offret seconded the motion.

Mr. Offret asked if these vehicles were used on a daily or weekly basis. Mr. Stratton replied that they were only used for special projects and for use by temporary summer help. Mr. Offret asked how many vehicles the District had in its fleet. Mr. Stratton responded that the District had 16 vehicles for the Utility Division and 6 vehicles for the Engineering Division.

Mr. Offret asked for information on replacement cycles for District vehicles. Mr. Stratton stated that the vehicles in question are 1991 Dodge pickups that had been acquired as part of the Metro Water Company acquisition, and the District has replaced a few at a time over the last two years. He indicated the District hoped to institute sequencing to try and determine when a vehicle is depreciated to a point where the maintenance costs exceed the replacement costs.

Mr. Offret asked if there were any vehicle not disposed that needed to be repainted. Mr. Dean stated the remaining fleet vehicles did not need paint jobs.

Mr. Polley called for a vote on the motion to dispose District vehicles. The motion passed unanimously.

K. Legislative Update.

Mr. Stratton referred the Board to the written Board report and indicated that the District lobbyist was monitoring and working with legislators on Senate Bill 1355 which allows multi-jurisdictions to form a community facilities district as a mechanism to finance future infrastructure for the CDO recharge project.

He stated that the Board should have received a faxed letter from Michael McNulty, Legal Counsel, regarding the issue of hard boundaries. Mr. Stratton explained that Fred Rosenfeld,

Bond Counsel, had determined that drafted language provided was not clear and precise and he felt that legislation at this time was unnecessary. He stated that Ted Poelstra had numerous discussions with other special districts, but based on the recommendation of legal counsel and bond counsel, staff recommended that the District regroup to strategize and formulate language for legislation during the 2002 session.

Mr. Poelstra urged the Board to pursue a bill this year to establish hard boundaries and warned of the District's vulnerabilities to annexation. Mr. Stratton asked Mr. Poelstra to detail some of his conversations with other fire districts. Mr. Poelstra reported that only four or five fire districts would qualify under the draft legislation and they are very interested in pursuing it. He stated another proposal was to combine wastewater and domestic improvement districts in order to be able to bond at a lower cost rate. He indicated that combining the three different groups, there would be a better chance of success at the legislature.

Mr. Polley stated that the Board should hold off taking any action at this time and pursue legislation during the 2002 session. Mr. Offret stated he did not feel comfortable pursuing legislation this year as it was a delicate item with the League of Cities and he would rather wait until everything is organized and the Board can proceed with confidence. He suggested that staff and legal counsel work on this issue and proceed with legislation in 2002 if necessary.

Mr. Doyle expressed his support of Mr. Offret's and Mr. Polley's positions. He added that he felt there needed to be better communication amongst all the Board regarding this issue if any legislative efforts were to be supported by the entire Board.

Mr. Offret asked if the District was considered a special district under House Bill 2408 and it would be eligible for WIFA financing. Mr. Stratton stated that the District currently does have the capability of applying for WIFA funds, but there is a limited pool of monies that can be lent out and the number of entities requesting funds is large. Based on the timing of the District's needs versus the wait on WIFA priority lists, it has been beneficial for the District to sell bonds through voter approval as opposed to gaining WIFA funding.

L. Auxiliary Pumping for Metro-Main and the Inclusion of Interruptible Rate by TEP.

Mr. Stratton stated that this presentation was a continuation of the effort to obtain an interruptible power rate contract with Tucson Electric Power in conjunction with using auxiliary power using natural gas.

Chris Hill, Deputy Manager, gave a comprehensive power point presentation to the Board about expanding auxiliary power and pumping throughout the District. The goal of putting the majority of the District's well, booster and reservoir sites on the interruptible rate from TEP was explained. This goal would be accomplished by including auxiliary pumping at strategic sites. He explained the past attempts with TEP in negotiating an interruptible rate contract and the drawbacks. Mr. Hill stated the potential funding options included obtaining a line of credit through Bank of America, using MPC bonds, a pay-as-you go program and any remaining bond monies.

Mr. Doyle made a motion to direct staff to pursue auxiliary pumping for the entire District and establish a goal to accomplish this project by the end of fiscal year 2004 (3-year program). For the first year, \$480,000 will be used to establish auxiliary pumping and power at least eight sites. Funding shall be provided using the most desirable option presented by staff. Continuation of this project will be decided by the Board after completion of the first year. Mr. Offret seconded the motion.

Mr. Offret expressed his concerns about financing this project and how it might affect the District's bonds. He asked that staff prepare different scenarios combining funding options for the Board's review. Mike Land stated that the Herb Johnson Reservoir was funded through issuance of MPC bonds and as revenue became available, those bonds were paid off. He indicated another option was to renegotiate the Tucson Water Settlement and refinancing the debt. Mr. Offret asked the probability of that scenario. Mr. Stratton replied that based on conversations with the bond financial advisor, staff would explore the District's financial structure and refinancing possibilities as well as renegotiating with Tucson Water. He said that staff would prepare a financial package of alternatives for the Board's review which would include funding sources, overall impact on debt service ratios, timing of issuance and other bonds to give members a clearer picture and a better comfort level of this project. He stated the District did have some funds available to allow staff to begin exploring using auxiliary power/pumping at a couple of sites.

Mr. Offret and Mr. Polley agreed with Mr. Doyle that it was important for the District to proceed with auxiliary power/pumping, but they would like to review more financial options. Mr. Stratton indicated that staff would prepare financial options for the Board and present them at the March 12, 2001 or April 8, 2001 Board meeting.

Mr. Doyle directed staff to proceed with preparation of financial options for the Board's consideration. He made an amended motion to pursue auxiliary pumping for the entire District and to establish a goal to accomplish this project by the end of fiscal year 2004, based on acceptable financial plans that would be brought back to the Board for its consideration. Mr. Offret seconded the motion and it passed unanimously.

V. General Manager's Report

Mr. Stratton stated that his written report was straightforward and he would not elaborate on it. He stated that Northwest Explorer Newspapers were requesting to extend their mortgage timeframe from three to seven years. It will be an agenda item for the March 12, 2001 Board meeting.

Mr. Stratton said that the District had been approached by Malcolm Pirnie, an environmental engineering consulting firm, to participate in an American Water Works Association Research Foundation (AWWARF) project related to the treatment of arsenic. They are requesting to use a well site in the Metro-Hub service area to evaluate different alternatives. He stated the District's participation will consist of contributions of staff resources and some financing to pay for laboratory testing, which should be about \$24,000, but the financial request would not be part of

the 2001-2002 fiscal year budget, but would be part of the 2002-2003 budget. Mr. Offret said he thought the District should proceed with the project with Malcolm Pirnie.

Mr. Stratton told the Board that District staff was investigating communication costs, two-way radios and cell phone packages. The District is presently with Nextel Communications and is seeking to lower costs and have better radio communications. Based on research so far, it is felt that the District can install its own tower and a two-way radio system and substantially increase radio communications while lowering costs. However, since this system will not be ready to be implemented soon, staff is experimenting with cell phones, which are used on a restricted mobile-to-mobile basis to determine their feasibility, and would result in an increased cost savings to the District. Mr. Stratton will keep the Board updated on these issues.

VI. Legal Counsel's Report

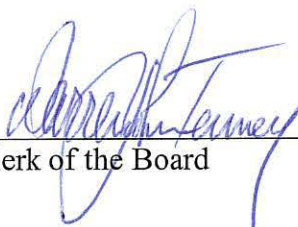
Ms. Chase had nothing to report.

VII. Future Meeting Dates; Future Agenda Items

The next regular Board meeting is scheduled for March 12, 2001 at 6:00 p.m. Mr. Stratton stated that staff is working on budget preparations and at least two study sessions will be scheduled in March and April to discuss the budget.

VIII. Adjournment

The meeting adjourned at 8:00 p.m.



Clerk of the Board

Peter H. Schlegel, Chair of the Board