

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

February 25, 2002

**\*\* Board Room \*\***

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

**Special Session  
MINUTES**

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

Board Members Not Present: Pete Schlegel, Member

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

**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 Special Session to order at 5:30 p.m. Dennis Polley, Dan M. Offret, Jim Doyle, and Marlene Wright were present. Pete Schlegel was not present.

**II. Discussion of Possible Acquisition of Waterworks for the Delivery of Water for Domestic Purposes**

Mr. Stratton referred to and explained the February 22, 2002 analysis report submitted by Mike Land, Chief Financial Officer, regarding Green Valley Water Company (GVWC). The second page of the report indicates District staff's analysis of the GVWC revenues and expenditures. The large unknown is the cost of water apportioned to the three golf courses in the Green Valley service area. There are approximately 3,700 residential customers and they average 6,000 gallons water usage per month. The three golf courses use approximately 44 million gallons per month and are currently paying \$.65 per thousand gallons. Mr. Stratton said under the GVWC proposed rate increase they would be paying \$.82 per thousand gallons. Canoa Ranch has another 2,500 permitted homes in its development area. GVWC has estimated 200 plus new

connections per year; however, the District took a more conservative approach by estimating 150 new connections per year. Mr. Stratton said the salary and benefits amounts were adjusted upward by the District compared to the amounts reported by GVWC to bring the amounts more in line with those offered by the District.

Mr. Offret asked why the Purchase Power line item was not reflected on the report provided by GVWC. Mr. Stratton said it was included in GVWC's budget and is on their financial reports, and it was factored into the District's analysis. Mr. Stratton also added that on the District's report the amount estimated for insurance provided by GVWC was increased by the District. Mr. Stratton explained that Mr. Logan had pointed out the absence of the inherent cost for administration staff and Board members. These expected expenses total approximately \$150,000 yearly. Mr. Stratton said another item not included in the report is that there is a fourth golf course currently under construction by Fairfield Homes.

Mr. Stratton said there would be some future capital requirements, though overall the system is in fairly good shape. The arsenic levels are similar to those found in the Hub service area of approximately 12 to 14 parts per billion. Recommendations have been made to drill new irrigation wells to provide water specifically to the golf courses, thereby allowing treatment of potable water systems only which would be a substantially lower amount of water requiring treatment. There is no certainty that arsenic levels can be eliminated in the GVWC service area.

Mr. Offret expressed concern regarding the possible line failures due to the age of the pipes. Mr. Stratton noted there are sections of black pipe which has had a history of service line failures. Mr. Stratton said when there is a leak it is more advantageous to replace the entire service line as opposed to making repairs on the line. Steve Dean, Utility Superintendent for the District, advised there are approximately two to three replacements completed per month. Mr. Offret asked what the cost to replace service pipe would be. Mr. Dean provided that it costs approximately \$30 per foot, and when a break occurs approximately \$1,000 is needed for the repair. Mr. Offret is concerned that the District may get into a situation where many of the service lines would need replacing. Mr. Dean advised that the PVC sections in the GVWC are fairly new, and there are not as many older service lines remaining.

Mr. Polley asked about the average use by customer in the GVWC. Mr. Land said the District's use is almost doubled at 12,000 gallons per customer and GVWC is at 6,000 gallons. Mr. Logan explained that there are very few families in the area, most households have only one or two persons. Mr. Stratton added that the newer homes tend to be larger, but they have desert landscaping which is low maintenance. Mr. Offret inquired if the current storage capacity is sufficient at this time and for future expansion. Mr. Stratton replied yes, if the golf courses have their own storage facility and currently they all have lakes.

Mr. Polley asked if the sale of the water company could be inclusive with insurance requirements to address the replacement costs for the breaks. Mr. McNulty said he was unaware of these types of policies being written. If this were to be a condition of sale, he did not know what the insurance carrier might say although it would be reasonable to discuss the matter with an insurance carrier. Ms. Wright asked about the possibility of a reserve fund being established.

Mr. Logan replied this would also be difficult. The District would need to look at establishing its own reserve.

Mr. Polley asked if GVWC would become a part of the District and Mr. Stratton replied that like Hub, it would become a service area. Mr. Polley mentioned staffing requirements and Mr. Stratton explained they currently have five staff persons, but could operate with one less customer service person and would probably require one additional utility person.

Ms. Wright asked if the District would be free to raise rates if GVWC was not annexed into the District. Mr. Stratton replied yes. Mr. McNulty explained that an increase in rates has been applied for, and the new rates will probably become effective towards the end of summer 2002. The last rate increase occurred seventeen years ago, and customers have been notified that GVWC is pursuing a rate increase with the ACC. Mr. Polley wished to clarify that it is more difficult for small utilities to impose rate increases to address EPA requirements such as the arsenic rules. Mr. McNulty agreed and added that there is a task force that was formed which will address how to assist small utilities in meeting federal regulations.

Mr. Stratton said that consideration could be given to the issuance/selling of bonds to address the capital improvement issues. Ms. Wright asked how the GVWC customers feel about the selling of the water company. Mr. Stratton said this information could be obtained from Mr. Oros. Mr. Logan said it is his belief the customers would be favorable toward the District acquiring GVWC.

Mr. Polley asked Mr. Stratton what his recommendation is at this time. Mr. Stratton suggested making a counter offer to GVWC of \$6,500,000. He added that previously discussed issues regarding the treatment system for the arsenic, drilling irrigation wells out of the arsenic zone, and extinguishing credits would be considered in the negotiations.

The Board instructed Mr. Stratton to enter into negotiations and offer Fairfield Homes \$6,500,000 to purchase GVWC. If during negotiations the amount of sale reaches \$7,000,000, Mr. Stratton will come back to the Board for any further instruction.

### **III. General Manager's Report**

Mr. Stratton reported that very little is being accomplished in the Legislature due to the budget conflict. Several staff members and Mr. Offret attended the Sabino Vista Homeowners Association meeting on February 13, 2002 to answer questions regarding the annexation of the Hub service area. Mr. Stratton said the meetings to discuss the effluent managed recharge project are continuing.

Mr. Stratton noted that the Municipal Property Corporation committee has been inactive for some time. However, it has been discovered that there are currently three District Board members serving on the MPC committee and the existing policy states that no more than two District Board members can be on the committee at one time. Mr. Stratton suggested that one of the Board members be replaced by a citizen at large. Ms. Wright asked if the Bond Oversight

Committee was still meeting. Mr. Land said they continue to meet bi-monthly; however, there has not been any recent action taken by the committee.

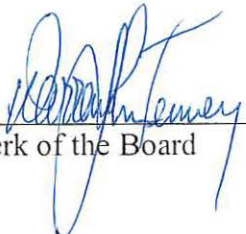
Mr. Stratton explained that the annual water level changes at Metro-main wells in the CDO Wash area during 2001 are a concern. There were six wells that exceeded the five year ADWR average decline criteria which allows them to be used as recovery wells. The District has been utilizing these wells in the recovery of CAP water to offset its obligations to the CAGR. If this trend continues, the District will no longer be allowed to use these wells for this purpose. Mr. Stratton said the District needs to look at recovering CAP water from the Santa Cruz basin and a means to pump it up to the District to allow the wells to recover. He added that a joint venture with the Town of Marana to construct a transmission main would cost the District approximately \$2,500,000. There is \$1,500,000 in the Capital Improvement Program designated for the CAP recharge project which could be utilized to fund this project. Mr. Stratton said staff will continue to look closely at any available options and keep the Board updated.

**IV. Future Meeting Dates; Future Agenda Items**

The next regular meeting of the Board is scheduled for March 11, 2002 at 6:00 p.m.

**V. Adjournment**

The meeting adjourned at 6:47 p.m.

  
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Clerk of the Board

  
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Dennis Polley, Chair of the Board