

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

January 25, 1996
7235 North Paseo del Norte
Tucson, Arizona 85704

MINUTES

Board Members Present: Marty Cramer, Vice-Chair
Jim Doyle, Member
Herb Johnson, Member
Pete Schlegel, Member

Board Member Not Present: Barbara Johnson, Chair

District Staff: Mark Stratton, General Manager
Fred Rosenfeld, Bond Counsel
Warren Tenney, Clerk of the Board

I. Call To Order and Roll Call

Ms. Marty Cramer, Member of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the study session to order at 7:35 a.m. Mr. Jim Doyle, Mr. Herb Johnson and Mr. Pete Schlegel were present. Ms. Barbara Johnson was not present.

II. Resolution 1996-2 - Leasing of Land Owned by the District to Norwest Investment Services, Inc., and the Leasing Back of Such Land with a Reservoir Constructed Thereon -- Discussion and/or Possible Action

Mr. Mark Stratton, General Manager, noted that the Board of Directors had received draft documents, which had been prepared to allow the District to receive short-term financing from Norwest Investment Services. Mr. Fred Rosenfeld had prepared the draft documents and was prepared to discuss them in detail.

Mr. Rosenfeld explained that the documents are fairly complete; however, Norwest still needs to provide some information, including clarification of how the District could pay the short-term financing through a future revenue bond. The Board will probably be asked to ratify any minor changes. Presently, the agreement involves the following. Since the District owns the property for the Linda Vista Reservoir site, the District will lease it to Norwest through an agreement that is longer than the lease back arrangement. Due to some unknowns related to litigation with the City of Tucson, Norwest has asked for the security of this type of arrangement, which gives financial agencies the ability to recoup their losses if a borrower defaults. The ground lease is the District's lease with Norwest and in essence Norwest will pay up front for the lease by building the facility.

Norwest's lease will stay in place until the District has paid off the lease purchase agreement. The lease purchase agreement is the main document that obligates the District to pay back the loan. The District should deposit the monies for the payments into a separate bank account from which Norwest can then draw. The agreement will require that the District to keep its revenues at 120% of the bonds to cover the bonds and the short-term loan. This requirement should pose no difficulty to the District. Since this is a lease purchase agreement, Norwest will put the money in an escrow account to pay for the needed engineers and/or contractors. The engineers and/or contractors should be informed that they will be paid out of an escrow agreement account.

Ms. Cramer clarified that the District has not used this financial means before. Mr. Stratton said that was correct. Mr. Schlegel asked why the District was now using this method. Mr. Rosenfeld noted that pursuing this financial means was based on the Board's decision to have the Linda Vista Reservoir constructed. The short-term loan is the only viable option available to the District.

Mr. Stratton said that the bids for construction of the Linda Vista Reservoir are due on January 29, 1996 at 3:00 p.m., but will not be awarded until the March 13, 1996 Board meeting. The District will be providing the Norwest agreements to the Board of Supervisors for their review; however, it is not anticipated to be placed on their agenda as an item of discussion. Mr. Rosenfeld noted that on the language on the last two pages of Resolution 1996-2 provide that the three agreements are to be sent to the Board of Supervisors and with the suggestion that they take action by the February 15, 1996 to allow for closure by February 20, 1996.

Mr. Schlegel questioned if Norwest can call for payment of the loan anytime and if the Town of Oro Valley is to be included in the agreement with Norwest. Mr. Rosenfeld said that Norwest cannot call the loan unless the District fails to meet its obligations. The Town of Oro Valley does not need to be included in the agreement.

Ms. Cramer asked what action staff and counsel recommended. Mr. Rosenfeld explained that approving Resolution 1996-2 will allow the agreements to be sent to the Board of Supervisors. Additionally, construction of the reservoir cannot begin until monies to pay the contractor are secured through this financial agreement.

Mr. H. Johnson made the motion to pass Resolution 1996-2. Mr. Schlegel seconded the motion and it passed unanimously.

Mr. Schlegel requested that for future items as important as this, staff should distribute the material sooner. Mr. Stratton said that he appreciated Mr. Schlegel's comments; however, staff wanted to present the Board with the most recent version of the documents to avoid confusion due to substantial changes made; however, this did not provide sufficient time for review.

III. Strategy for a Bond Election

Mr. Stratton noted that the Board had received a staff report including a memorandum from Mr. Warren Tenney, Assistant to the General Manager, to him that discussed various issues regarding a strategy for a bond election. The memorandum included a possible time line of some items that need

to be done before a bond election. The time line is only in draft form and may not cover all the issues but provides an overview of the work that needs to be done. Mr. Tenney's memorandum noted some restrictions that may be placed on the District in using a public relations firm to promote a bond election.

Mr. Rosenfeld said that the District can provide objective education about the reasons for a bond election, which includes the use of a public relations firm. In Arizona, someone contesting an election must prove that action taken by the District changed the outcome of the election. However, the District and the Board of Directors can be held personally liable if monies are spent inappropriately to encourage the public to vote in a particular way.

Mr. Stratton questioned the difference of advertising before and after the call for election. Mr. Rosenfeld said that his above-noted advise applies both before and after a call for election. However, before the call for election the District needs to follow carefully the open meeting laws. The agenda should mention the contemplation of a bond election. If the District has a newsletter, it can be used for bond elections, but a newsletter should not be created specifically for the bond proposal.

Mr. Schlegel said that the District newsletter's format is limiting in its effectiveness. The newsletter could be used to discuss general improvements being done by the District. The newsletter could be changed in appearance, such as a tabloid, to increase reading. Mr. Rosenfeld said that the District can also encourage voter turnout through the newsletter.

Mr. Stratton noted that to develop the bond strategy further, the capital improvement program needs to be finalized, which has been difficult to accomplish due to the lack of a District Engineer. A final draft of the capital improvement program will be presented soon to the Board. The District should try to inform its customers about what the District has accomplished and plans to achieve through the capital improvement program.

Mr. Stratton said that one item according to the time line strategy that needs to be done soon is the selection of a Bond Advisory Committee. He will be soliciting suggested names of individuals who are active in the community. Mr. Rosenfeld noted that the Bond Advisory Committee could form on its own a separate committee that could actively promote the bond election, but that the new committee would need to comply properly with election laws. The Board could also disband the Bond Advisory Committee at the time of the call for election to allow those members to not be constrained by open meeting laws.

Mr. Schlegel asked what the preliminary forecast would be for rate increases if the bond proposal passes. Mr. Stratton said that Mr. Michael Land, Chief Financial Officer, had suggested that an \$18 million bond election would have a minimal rate increase of less than five percent. After deciding capital needs, the Board may want to also include with the bonds a refinancing of the original bonds and thus remove the liens from the property, which could be a positive selling point.

Mr. Rosenfeld discussed with the Board the possibility of developing legislation that would allow a water improvement district to refinance bonds when it is beneficial for the district.

Mr. H. Johnson and Mr. Rosenfeld discussed how the bonds would be issued and having the bonds tied to growth. A detailed analysis will need to be conducted to determine the best means for issuing the bonds and bond debt services. Mr. H. Johnson said that having consistent, stable rate increases to pay for the bond debt were preferential to method used for the original bond proforma. Mr. Rosenfeld noted that the federal government expects the money to be spent within three years after the bond has been issued to avoid arbitrage. Mr. H. Johnson noted that many projects will take longer than three years to complete. Mr. Rosenfeld said that the District can gain approval through an election of a bond for a certain amount. Then, the District borrows the amount that it believes it can spend during a three-year period.

Ms. Cramer said that the time line noted conducting a survey relatively soon to know better if District residents would be receptive to a bond election. Mr. Tenney said that Mr. Land had contacted a couple of firms who could poll District residents regarding their opinion of a bond proposal. The Board and Mr. Stratton discussed the benefits of surveying District residents to gauge public opinion.

Mr. Stratton said that based on the discussion of the study session, staff would present further information to the Board regarding the conducting of a survey as well as investigate the possibility of favorable legislation for bond financing. Ms. Cramer noted that a financial analysis needs to be done of the bond process. Mr. Schlegel requested that the time line strategy for the contemplated bond election should be considered flexible to allow for adjustments.

IV. Agenda Items for Future Board Meetings

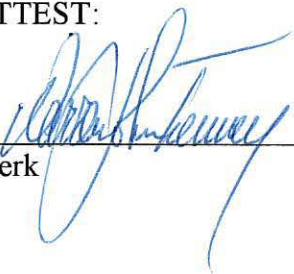
Mr. Stratton said that he would continue to update the Board of Directors regarding various issues.

V. Adjournment

The Board adjourned the study session at 9:06 a.m.


Barbara L. Johnson, Chair

ATTEST:


Clerk