

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

January 14, 2002

**** Board Room****

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

MINUTES

Board Members Present: Pete Schlegel, 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 5:05 p.m. Jim Doyle, Pete Schlegel, Dan M. Offret and Marlene Wright were present. Dennis Polley was not present due to an emergency in his family.

Executive Session

Mr. Schlegel made a motion for the Board of Directors to move to Executive Session. Mr. Doyle seconded the motion. Motion to move to Executive Session passed unanimously. The Board went into Executive Session at 5:06 p.m.

Executive Session pursuant to A.R.S. §38-431.03(A)(1) (discussion or consideration of personnel matters) regarding the following:

A. General Manager's Evaluation.

The Executive Session adjourned at 6:05 p.m.

Regular Session

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 6:08 p.m. Jim Doyle, Pete Schlegel, Dan M. Offret and Marlene Wright were present. Dennis Polley was not present due to an emergency in his family.

II. General Comments from the Public

There were no comments from the public.

III. Presentation to Stephen Dean – Employee of the Year

Mr. Schlegel said it is an awkward moment when faced with picking only one exceptional employee to be Employee of the Year as others are also deserving of the honor. For the year 2001 Metro Water District peers and employees nominated and bestowed the honor of Employee of the Year upon Mr. Stephen Dean, Utility Superintendent. Mr. Schlegel presented Mr. Dean with the District plaque wherein Mr. Dean's name was placed alongside the names of past Employees of the Year. Mr. Dean was congratulated by the Board and recognized for his commitment to the District, fellow employees and customers; and for his achievement in going above and beyond to cultivate his high work standards and ethics.

IV. Consent Agenda

- A. Approval of Minutes – December 10, 2001 Board Meeting.**
- B. Approval of Minutes – December 20, 2001 Special Board Meeting.**
- C. Approval of Minutes – January 2, 2002 Special Board Meeting.**
- D. Ratification of Billing Adjustments.**
- E. Approval of Bad Debt Write-offs.**
- F. Approval of Water Service Agreement for Pima Community College – Northwest Campus.**
- G. Approval of Water Service Agreement for Santa Fe Park II, Lots 1-8.**

Mr. Offret made a motion to remove Consent Agenda Item IV. F., Approval of Water Service Agreement for Pima Community College – Northwest Campus, from the Consent Agenda in order to abstain from voting on the item due to conflicts with his employment with Pima Community College. Ms. Wright seconded the motion and it passed unanimously.

Ms. Wright made a motion to approve the Consent Agenda with the exception of Item IV. F. Mr. Doyle seconded the motion. The motion to approve the remaining items on the Consent Agenda was passed unanimously.

Ms. Wright made a motion to approve Consent Agenda Item IV. F., Approval of Water Service Agreement for Pima Community College – Northwest Campus. Mr. Doyle seconded the motion. The motion was passed with Mr. Schlegel, Ms. Wright and Mr. Doyle in favor of the motion. Mr. Offret abstained.

V. General Business – Items for Discussion and Possible Action

A. Election of Chair and Vice-Chair for the Board of Directors.

Ms. Wright made the motion to continue the Election of Chair and Vice-Chair for the Board of Directors to the February 2002 meeting of the Board due to Mr. Polley's absence. The motion was seconded by Mr. Offret and passed unanimously.

B. Monthly Status of the District.

Mr. Stratton advised the Board that a detailed status report on the various issues involving the condition of District wells would be forthcoming from staff.

C. Financial Report.

Ms. Wright asked why it appeared that there had not been expenditures out of the Public Relations line item of the District budget. Mr. Land explained that the cost of the public relations person retained by the District earlier during the current fiscal year may have been applied to the Miscellaneous Consulting Services line item in the budget. Mr. Land said he would examine the budget to determine if this was the case.

Mr. Land explained to the Board that a new Financial Report had been created to provide a clearer report of the financial status of the District and allow for more detail. The report will continue to be provided to the Board at future meetings.

Mr. Schlegel inquired about Villanova Insurance Company and what coverage they provided to the District. Mr. Land replied that Villanova provided Workers' Compensation insurance.

The Financial Report indicated the District has two telephone companies which provide service and Ms. Wright asked why this was the case. Mr. Land explained that Voice Stream is the service provider for District telephones, and Verizon is utilized personally by staff who reimburse the District for telephone charges through payroll deduction.

Ms. Wright mentioned Vopac USA, Inc., and asked what service(s) they provide. Mr. Land said they provide chlorine.

Ms. Wright asked what three checks made payable to Pima County to three separate addresses for \$390.00 each were for. Mr. Land reported that the money was for right-of-way permits.

Mr. Schlegel asked what work TriCon Contracting, Inc. had completed at Orange Grove Park. Mr. Stratton explained it was mainline construction work.

D. Discussion of Revenue Bonds and Subordinate Obligation Bonds.

- 1. Approval of Resolution 2002-1 – Authorization of the Issuance of \$10 million of the District's Water Revenue Bonds. Series 2002 and repealing Resolution 2001-5.**
- 2. Approval of Resolution 2002-2 – Authorization of the Issuance of not to exceed \$17,000,000 of the District's Subordinate Obligation Revenue Refunding Bonds. Series 2002 to refund an existing obligation owed to the City of Tucson, Arizona; to provide funds to prepay an existing Lease-Purchase Agreement; and repealing Resolution 2001-6.**

Mark Reader, District Financial Advisor from Peacock, Hislop, Staley and Given, presented the Board with an updated overview of Resolution 2002-1 outlining the issuance of the District's Revenue Bonds. Mr. Reader said Moody's Investor Service had upgraded the District's credit rating from A3 to A2, which placed the District in the middle A category. Fitch IBCA, Duff & Phelps, another major credit rating agency, increased the District's credit rating by two notches, giving the District an A+ rating for the senior bond obligations. On the junior bond ratings, the District received an A3 from Moody's and an A from Fitch. Mr. Reader provided the Board with analysis reports from both Moody's and Fitch, making note of the District's strengths listed in the reports. The District was described as being a stable and growing service area with limited future borrowing needs, having an adequate water supply, and solid financial performance.

Mr. Reader said that in regards to the bond insurance, an insurer will be selected within the next few days. For the debt service reserve fund, an insurer has been selected and a policy has been secured. Mr. Reader said it appears the time is favorable in the bond market, and if approved by the Board, the bond sell would occur this week.

Fred Rosenfeld, Attorney from Gust Rosenfeld, P.L.C., also recommended the Board approve Resolution 2002-1 and Resolution 2002-2, and pointed out that the definition of revenues in both documents should be amended. This was due to the rating and/or insurance companies requiring that the District not count development fees as part of the District revenues in the past; however, they have agreed to allow the development fees to be considered as revenue for the District. Mr. Rosenfeld explained that there could be some other minor cosmetic changes needed in the resolution documents, and asked that he be notified of any needed changes staff notes. Mr. Rosenfeld said that an important asset created by approving the resolutions was that it would improve the District's ability and flexibility if the District were to require future borrowing on a second lien basis.

Ms. Wright asked who Cede & Company was. Mr. Rosenfeld explained that Cede & Company is actually a division of the Depository Trust Company who owns the major portion of bonds issued in the United States.

Dan Offret moved to approve Resolution 2002-1 to authorize the issuance of \$10 million of the District's Water Revenue Bonds, Series 2002 and to repeal Resolution 2001-5. Ms. Wright seconded the motion. Motion to approve Resolution 2002-1 was unanimously approved by the Board.

Mr. Offret moved to approve Resolution 2002-2 to authorize the issuance of not to exceed \$17,000,000 of the District's Subordinate Obligation Revenue Refunding Bonds, Series 2002 to refund an existing obligation owed to the city of Tucson, Arizona; to provide funds to prepay an existing Lease-Purchase Agreement; and to repeal Resolution 2001-6. Ms. Wright seconded the motion.

Ms. Wright asked if it should be included in the motion that cosmetic changes could be made to the documents. Mr. Rosenfeld explained that cosmetic changes were only those changes which would not alter the intent of the document, for example, a misspelled word or a proper name not capitalized. He added that any substantive changes to the resolution documents would be brought before the Board for consideration.

The motion to approve Resolution 2002-2 was passed unanimously.

Mr. Schlegel addressed the Sabino Homeowners Association members that were present in the audience and explained that the District would not have a need to go out again for new bonds for many years.

E. Discussion of Proposed Rate Adjustment and January 23, 2002 Public Hearing.

Mr. Stratton asked if any of the Board members wished to make any recommended changes to the proposed rate increase report that was provided to the Board. There was none. Mr. Schlegel asked Mr. Tenney if there had been any comments received from the public in reference to the proposed rate adjustment information mailed to District customers. Mr. Tenney reported that there had not been any comments.

F. Consideration of Sound Barrier for Alcott Well, Storage and Booster Site.

Mr. Schlegel said he was pleased to see that Pima County had volunteered to pay half the cost involved with the sound barrier.

Mr. Wright said she did not feel the report completed by staff provided enough detailed information concerning the cost associated with the sound barrier. She believed that the report should have contained more complete information outlining the proposed corrective measures, actual quotes, and price comparison information.

Ms. Wright moved to continue consideration of the sound barrier for Alcott well, storage and booster site to the February 11, 2002 Board meeting. Mr. Offret seconded the motion.

Mr. Maish said that the preliminary designs and cost estimates for the Alcott well had not been completed. He added that staff would provide the Board with the information and contract recommendations. Mr. Maish indicated that the information could be made available in one to two months. Ms. Wright suggested having the due date for the information to the Board open-ended to allow staff to time to complete the report.

The motion to continue consideration of sound barrier for Alcott well, storage and booster site was approved unanimously.

Mr. Offret said there seems to be some concerns by neighbors regarding the visual impact, and questioned why the pine trees at the location had not grown. Mr. Stratton replied that the pine trees are slow growing and added that the recommendation had been to slat the fencing. Mr. Offret asked that the staff report contain suggestions addressing the visual impact. Mr. Schlegel said this well site had been there for many years and there had not been prior complaints to his knowledge.

Ms. Wright asked if the residents were experiencing high frequency noise levels at the Alcott well site. Mr. Maish said the levels of noise are at a medium frequency.

Mr. Schlegel asked if Tucson National North was up and running at this time. Mr. Maish replied that it is not.

G. Approval to Lease/Purchase One New Vehicle.

Mr. Doyle moved to approve the lease/purchase of one new Extended Cab truck from Courtesy Chevrolet for the principal amount of \$18,187.41. Ms. Wright seconded the motion.

Mr. Offret said that he did not agree with purchasing the vehicle at this time and added he believed that the vehicle could be purchased from the State bid list for a lesser amount. He offered an alternative suggestion of paying an employee mileage reimbursement to drive his/her own vehicle as an approach to saving money. Mr. Stratton replied that the District also has other fleet vehicles available for employees use in the interim. Ms. Wright agreed and said that she had noted that several District vehicles were not currently assigned to specific individuals.

Mr. Schlegel said he concurred, and requested that justification be made on the need for an extended cab, long bed, or the type of vehicle requested to ensure that the appropriate vehicle was being considered for the type of work the individual would be doing. Mr. Stratton replied that he will have staff revisit the type of vehicle necessary for the staff's position and duties.

Mr. Schlegel called for a vote on the motion and the motion was opposed unanimously by the Board.

Mr. Offret asked that staff pursue the State bid, and consider a smaller vehicle that would better suit the needs of the District.

H. Discussion and Direction for Legislative Issues 2002.

Mr. Schlegel commented there will be additional legislative issues forthcoming and more complete details on the issues outlined in the report; therefore, he suggested waiting until this information is available before considering the issues presented to the Board at this time. Mr. Stratton agreed and said it may be too early to determine the legislative direction and outcomes as legislation is still being introduced. He suggested a special session of the Board be scheduled at a later date to discuss legislative issues as more information will be available for discussion. Susan Charlton, District Lobbyist, was present and Mr. Stratton asked that she be allowed to make an overview and background presentation to the Board. He added that the Southern Arizona Water Users Association had scheduled a forum to be held on January 18, 2002 in the District Board room to discuss House Bill 2022, the Agricultural Conservation Bill.

Mr. Schlegel said he had spoken with Ted Poelstra regarding his position on exempt wells, and said the bill being presented would be better for the District as it will include residential and commercial. He added that Mr. Poelstra would be willing to address the Board or SAWUA to explain the details of the bill in length. Mr. Schlegel said that Representative Poelstra would keep a keen eye on any water issues and added that he was a good source for the District. Mr. Schlegel apologized to Ms. Charlton for having to travel from Phoenix to Tucson for the Board meeting and the legislative discussions being continued.

Ms. Charlton said that as of this date, only one of the water related bills had been introduced in the legislative sessions, and none of the Governor's Water Management Commission bills has been introduced yet. She asked if the Board wished to discuss the politics surrounding the bills. Mr. Schlegel replied that since there was not enough information available he preferred to wait until a later time for discussion. Ms. Charlton advised she will keep the District informed with continuous updates.

Mr. Tenney asked Ms. Charlton if there was information available on the bill initiated by the District. Ms. Charlton said it was given to the Chief Clerk's Office for a bill number, and Representative Huffman had solicited sponsors. Ms. Charlton will advise staff when the bill is placed on the committee's agenda.

V. General Manager's Report

Mr. Stratton said that at the January 11, 2002 Managed Effluent Recharge meeting, CMID and Marana said they would be having a joint study session of their governing bodies regarding the direction in which to proceed on the Managed Recharge permit application. This was planned prior to an Internal Governmental Agreement (IGA) being drafted for all parties involved and has initiated concern by the other utilities. Depending on the direction CMID and Marana take, Mr. Stratton said the District needs to be prepared to file for a separate permit application and

staff will prepare the necessary documentation. The meetings are scheduled to continue through the end of January to discuss the principles, reporting requirements, etc by the interested water utilities.

VI. Legal Counsel's Report

Michael McNulty, Legal Counsel, reported they are working on finalizing the Tucson settlement agreement. Regarding the contract between Brown & Bain, Mr. McNulty said a draft contract was being prepared and the information would be presented to the Board during a special study session.

Mr. Offret asked if the District had received the permit from Pima County for the LaCholla Transmission Main Project. Mr. Stratton replied that the District had not received the permit and Pima County has not approved the District plans as of this date. He added the County had also failed to show up for the preconstruction meeting. Mr. Stratton said staff had sent Pima County a letter saying the District was prepared to begin work on February 4, 2002.

Mr. Offret asked that due to this project being held up by Pima County since November 2001, would Mr. McNulty attempt to contact the County to determine what could be done to speed up the process. Mr. Stratton will provide Mr. McNulty with the history of events regarding LaCholla Transmission Main Project so that contact with Pima County can be made.

VII. Future Meeting Dates; Future Agenda Items

There will be a Board study session on January 23, 2002 at 6:00 p.m., and a Public Rate Hearing on January 23, 2002 at 7:00 p.m. The next regular meeting of the Board will be February 11, 2002.

VIII. General Comments from the Public

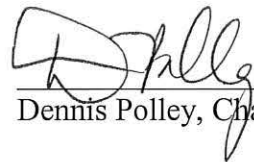
Mr. John Kulakowski, Sabino Vista Homeowners Association, reported to the Board that the Homeowners Association had sixteen persons gathering signatures for the petition to annex Hub into Metro Main Service Area. Mr. Schlegel recommended that the petition be presented to the City of Tucson for approval of annexation and Mr. McNulty agreed. Mr. Kulakowski said he will present the petition to the City of Tucson. Mr. McNulty suggested gathering the required signatures first, and then present the information to the City of Tucson. A meeting has been scheduled for February 13, 2001 to gather more signatures from the Hub area residents, and Board members were invited to attend. Once the time and place has been confirmed, Mr. Kulakowski will inform the Board.

IX. Adjournment

The meeting adjourned at 7:37 p.m.



Clerk of the Board



Dennis Polley, Chair of the Board