

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

July 12, 1999

****Board Room****

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

MINUTES

Board Members Present: Sam Ray, Chair
Marlene Wright, Vice-Chair
Jim Doyle, Member
Pete Schlegel, Member

Board Member Not Present: Herb Johnson, Member

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

I. Call to Order and Roll Call

Sam Ray, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board meeting to order at 6:00 p.m. Sam Ray, Pete Schlegel and Marlene Wright were present. Jim Doyle and Herb Johnson were not present.

II. General Comments From the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – June 14, 1999 Board Meeting.**
- B. Ratification of Billing Adjustments.**

Mr. Schlegel made a motion to continue approval of the June 14, 1999 minutes until next meeting as the minutes were not sent out in a timely manner. Ms. Wright seconded the motion and it passed unanimously with the members present.

Mr. Jim Doyle arrived at the meeting at 6:02 p.m.

Mr. Schlegel made a motion to approve the ratification of billing adjustments. Ms. Wright seconded the motion and it passed unanimously.

IV. General Business – Items for Discussion and Possible Action

A. Financial Report.

Mr. Michael Land, Chief Financial Officer, advised the Board that a budget summary was not presented since year-end accruals and other adjustments were being made in preparation for the fiscal year audit. Revenue and new water connections are ahead from last year.

B. Presentation of Fiscal Year 1999-2000 Budget for Metro's Hub Service Area.

Mr. Mark Stratton, General Manager, informed the Board that the budget for the Hub service area is being presented as a draft to give the Board the opportunity to discuss it before considering its approval at next month's meeting. No capital projects are quoted in this budget with the understanding the Bond Oversight Committee will address the use of monies originally designated for OV#1 District to make improvements in the Hub service area. Staff has identified a few of the needs in the Hub service area including the booster facility at the reservoir site and an additional storage tank at that same site as well as auxiliary power for at least one of the well sites. That information is still being developed and the Board Oversight Committee is expected to make recommendations to the Board.

Mr. Land explained that the budget was developed by using Arizona Corporation Commission reports from the Hub Water Company for the last two years and using some expenditures that already have occurred. Consumption information based on our fee structure was used to calculate revenue source. Division Managers submitted recommendations based on their assessments of the Hub systems, which were then applied to the operating expenditures. The budget summary report does show total revenues estimated at \$782,000, the majority of that being meter sales, based on our first month of Hub usage. The estimated revenue is possibly low, but staff hopes to build conservation into metered sales. The other revenue source would be from Pima County Wastewater that will start being billed during the month of July.

Mr. Land explained that the operating expenditures of salaries and benefits were based on the two Hub employees. Work done by other employees will be tracked so the District can arrive at a determination of a true number of what Hub is actually costing. Expected supplies were based off of the ACC reports and input from the Utility Superintendent. There may be an increase of installed service lines to implement, but that action will be brought back before the Board before the final adoption. The other operating expenses were basically obtained off of the ACC reports, including the purchased power that was based off the well sites and facilities in the Hub service area.

Mr. Land reported that the debt service is the largest expense. We have a 20-year note with the former owner at 6 percent interest, which will run \$171,000. We also went ahead and paid the \$500,000 down payment from our line of credit that is at 5.3% interest currently and we will try

to pay that as soon as possible. Right now it is structured on a four-year payback and could possibly be paid off sooner. Total debt service is calculated at \$138,000 on that line of credit for a four-year payback period. Regarding the consulting services, \$50,000 is for an assured water supply study needed for the Hub service area. The capital expenditures largest request is for \$50,000 to be used to purchase property and some type of manufactured structure for a satellite office for staff. Budget includes vehicles on lease purchase and some office equipment. The only other item is for a contingency fund for unforeseen emergencies that may arise.

Mr. Stratton informed the Board that the Hub service area currently does not have a designation for a assured water supply. To bring Hub under our assured water supply designation, we need to do the hydrological analysis to ensure that there is sufficient groundwater available for pumpage. It is hoped that within a year's time staff will be able to complete necessary paperwork to include Hub within the District's assured water supply designation.

Mr. Stratton told the Board members that since the time of the report, Mr. Steve Siegfried tendered his resignation primarily due to health reasons; however, he has agreed to work part time and help with the transition of a District employee into his role and providing consultation. The District is looking in-house for a promotional opportunity to fill Mr. Siegfried's position and Mr. Siegfried will assist in the training.

Ms. Wright asked where Hub's old office was located. Mr. Stratton explained that Hub operated out of a small office in the Canyon Ranch complex because the owners of Canyon Ranch were also the owners of Hub Water. They have given us a four-month timeframe to relocate the satellite office and are charging us \$200 a month for rent. Due to security reasons, the former owners requested that we not be located within the Canyon Ranch complex.

Mr. Ray inquired if it was possible to move the District's Hardy Site trailer out there. Mr. Stratton responded that this trailer would probably be too large for the needs of the satellite office. Staff is looking for something smaller to accommodate one office, a small meeting room and one restroom. Staff has identified a location on Cloud Road adjacent to one of the well sites. There have been discussions with the homeowner's association that controls that common area and they seem fairly willing to work out an arrangement. With the location being on Cloud Road, it would provide visibility for a drop box for bills.

Mr. Ray asked about the time frame regarding the implementation of capital improvement projects. Mr. Stratton answered that with the excessive water usage and their existing storage, they only have 186,000 gallons of existing storage to meet all their needs. This does not meet Hub's peak demand or fire flow needs. Storage was one of the critical areas identified by the analysis performed by Malcolm Pirnie when some of the customers were exploring the possibility of forming a district. The booster facility will be necessary to make room for a new storage tank. It would be ideal to have the auxiliary power in place before the year 2000 in the event there are any problems.

Mr. Schlegel requested staff to provide information about the number of hook ups for the Hub service area, an up-to-date map of Hub, the percentage of property built out within the Hub

system and present salary breakout of the employees. Mr. Ray asked if Mr. Schlegel requested a map of the geographical area or outline of the piping system, or both. Mr. Schlegel indicated he wanted both to determine build-out and demand. Mr. Schlegel also requested the opportunity to review Hub's budget last year to compare metered sales. He further questioned the other expenses and regulatory fees listed in the report and requested clarification of all the monies. He felt there was a lot of looseness in the numbers with big numbers listed without specifics given to explain them, particularly under "other operating expenses. He wanted Board members to be able to defend the budget.

Mr. Schlegel further asked if a satellite office could be built at one of the well sites. Mr. Stratton responded that the only site that has land of any consequence is Well No. 2. That is where maintenance, spare parts and inventory is located, but no sewer is available. Further the site is not visible to the general public driving by so that they will not be able to see a bill drop-off box. Since it is not permissible to install a septic tank within 100 feet of a well, staff determined another site needed to be found.

Mr. Schlegel noted under the debt retirement section, there were two items listed, i.e., a line of credit for 5.3%, not 5.0%. He inquired if there was a possibility of getting these from the same bank when borrowing the \$2 million at the same rate? Mr. Land stated that the former owner requested those terms. Mr. Stratton added that the contract required a long-term payment plan without the ability for short-term payoff as a protection against capital gains for the former owner.

Mr. Schlegel asked if the requested computer and copier were needed or if staff in the field might be able to utilize a lap top computer. Mr. Stratton said that the computer would be in the office for the primary supervisor to be inputting information into the records and link it up to the District's system so all the information would be accessible regarding the maintenance program. It would basically be a main communication link between the satellite office and the District's office. A laptop is not needed in the field. Mr. Schlegel asked if the employees were trained to use this system. Mr. Stratton advised that Mr. Siegfried did all of the administrative work for Hub, including billing and adjustments. He further added that the old computer equipment is not Y2K compatible. Mr. Land informed the Board members that Hub's old computer equipment is at the District Office site and has all the customer histories on it so that information can be accessed.

Mr. Stratton said in response to Mr. Schlegel's inquiries, the summary expenses are listed in a detailed analysis including a break down of the other operating expenses. Mr. Stratton explained prior to the authorization of the purchase of the Hub service area, it was discussed that the Hub service area is pretty much all built out. Additionally, Hub has approximately 1562 connections.

Mr. Schlegel pointed out that the General Manager's report indicated two different needs for storage capacity and asked if these projects will totally meet Hub service area requirements for peak demand and fire flow capacity. Mr. Stratton responded that staff only had the Malcolm Pirnie report to work from and wanted to investigate the dynamics to see what the needs are as

well as conservation potential. He further stated that staff would be learning more and more about the Hub water service area just like they did upon the purchase of the District.

C. Appointment to Bond Oversight Committee.

Mr. Ray indicated that three people originally applied for the opening on the Bond Oversight Committee with a late fourth application that was included. Mr. Schlegel asked if the applicants were invited to the Board meeting. Mr. Stratton stated that all applicants were made aware that the Board Members would be acting on this issue tonight.

Ms. Wright made a motion that Eldon Cummings be appointed to the District's Bond Oversight Committee. Mr. Schlegel seconded the motion and it passed unanimously.

Mr. Stratton informed the Board members that the next Bond Oversight Committee meeting was to be held on Monday, July 19, 1999 at 4:15 p.m.

D. Approval of Agreement for Landscape Maintenance for New Office Campus.

Mr. Schlegel noted that only one firm responded to the advertisement. He asked staff about District policy regarding publication and he hoped that on contracts of significant amounts that the District published beyond one source, citing possible publication in Phoenix area papers. He felt that the broadest publication would provide the best service for the District. Mr. Stratton stated that one of the District's general practices is to meet the legal requirements by advertising in the Daily Territorial; however, the District does contact a number of vendors, either through the Yellow Pages or through other sources, including consultants and contractors and let them know that we have a proposal package that might be of interest to them. Ms. Joyce Osborne, Administrative Services Manager, informed the Board members that four people in the local area were faxed information regarding the request for proposals. Mr. Ray noted that the contract amount was small.

Ms. Wright requested clarification as to the \$35 hourly rate listed on the proposal. Ms. Osborne responded that the \$35 hourly rate was for services performed above and beyond regular services in the agreement.

Mr. Doyle made a motion to accept the proposal of The Groundskeeper to perform landscape maintenance for the new offices for a monthly fee of \$236 as per their agreement dated July 21, 1999, for the period of July 19, 1999 through June 30, 2000. Mr. Schlegel seconded the motion.

Mr. Schlegel stated that in the past the District has used summer help to perform landscaping tasks. Mr. Stratton indicated that this was no longer feasible due to the size of our campus and staff felt it would be better to have contractors take care of the landscaping instead of unskilled labor.

Mr. Ray called for a vote on the motion to accept the proposal of The Groundskeeper to perform landscape maintenance for the new office building. The motion passed unanimously.

E. Approval of Amendment to the Water Service Agreement with Netwest Development Corporation for the Amber Lights Development.

Mr. Schlegel made a motion to approve the amendment to the water service agreement with Netwest Development Corporation for the Amber Lights Development. Ms. Wright seconded the motion and it passed unanimously.

F. Approval of Purchase Materials to Install Additional Telemetry System at District Facilities.

Mr. Doyle made a motion to approve an agreement to purchase materials for the construction of telemetry with Border States Electric Supply for the amount not-to-exceed \$103,284.51. Mr. Schlegel seconded the motion.

Mr. Schlegel pointed out that this contract was also only published in the Daily Territorial and only one bid was received. He still believed that contracts should go out to other sources for further publication. Mr. Ray explained that when the Board approved the installation of the telemetry system a few months ago for the District, at that time competitive bids were requested throughout the State and the Southwest on different systems. The District reviewed all those systems and it was determined that one manufactured system would meet the requirements. So the only vendors we could solicit bids from would be from distributors who carried that type of system and most of the dealerships were locked in. Mr. Schlegel said he did not want to argue the point and felt that if additional publication would not be pursued then he would require from staff a copy of requests for bids over \$10,000.

Ms. Wright requested information on Border States. Mr. Chris Hill, Deputy Manager, responded that Border States had an office in Tucson, but their main office was located in Phoenix and the District has worked with them in the past on the telemetry program. Ms. Wright said she questioned having more than one bidder participate. Mr. Hill responded that when the District started the in-house telemetry installation, staff asked permission of the Board to go with a certain type of telemetry, which was felt to be the best the industry could provide. The Board approved \$40,000 for the purchase of materials, staff did the installation and programming in-house. What was being requested at this meeting was only an extension of what has been previously approved by the Board. With the original purchase, the District decided to use one type of telemetry so all the equipment would be uniform through the District. This meant the District would only be able to get those parts and materials from a supplier who has it and Border State Distributors has the distribution. Ms. Wright wondered if other suppliers would provide more competitive bids. Mr. Stratton referred the Board members to the written report where it indicated that requests for proposals were sent to known vendors. Mr. Hill stated that the last time the Board approved this item, there were three different quotes received from three different Border States and we do have a history to compare these prices with. Mr. Warren Tenney, Assistant to the General Manager, stated that the Daily Territorial has gained the reputation in the Tucson and Southern Arizona areas the primary publication for notices and bids that are issued.

Mr. Ray called for a vote on the motion to approve an agreement to purchase materials for the construction of telemetry with Border States Electrical Supply for the amount not-to-exceed \$103,284.51. The motion passed unanimously.

G. Status of Cooperative Study between the District, the Arizona Department of Water Resources and the Town of Oro Valley to Complete Supplemental Vadose Zone Studies for Cañada Del Oro Recharge and Recovery Project.

Michael Block, District Hydrologist, reported to the Board members regarding the three phases of the Cañada Del Oro Recharge and Recovery Project. The first phase dealt with surface geological mapping of outcrops along roadway adjacent to the CDO and collection of undisturbed soil samples for permeability testing and grain size analysis. This provided information and reporting of assessment of the Ft. Lowell formation, which the water was to recharge through. That is the one difference between the District's study and the U.S. Geological Study of the Rillito. The second phase, or the drilling phase, is about to begin, which is to confirm the findings of the first tests, to corroborate whether or not the findings are true that essentially 95% of the sediments are sandy or fine grain sandy materials. This is to address the concern of whether or not 30,000 acre feet of water could be annually recharged through sediments in the CDO. One problem facing the District is that we do not have a real water source to do on-site testing. The second phase will be actually testing through the drilling method called sonic drilling. The consultant is in the process of getting access for boring locations within our service area, we have four locations, and Oro Valley has four locations. Three of the locations are located on County property at the Oasis Recharge Site. The study is on time and within budget.

Denise Wieland of the Arizona Department of Water Resources commented that this study is different from the U.S.G.S. study of the Rillito. That study is for three years, whereas this study is tightly focused. She noted that the drilling technique to be used is new and considered highly effective. The technical reviewers for this study are pleased and excited about the methodology to be used.

Mr. Schlegel commented that he had the opportunity to attend the presentation of the study's first report and was very impressed with the attitude of the entire group for doing things. Those involved are doing the study as expeditiously as possible and as inexpensively as possible and they were doing an outstanding job.

V. General Manager's Report

Mr. Stratton reported to the Board that there has been some interest by a few individuals representing homeowners associations in the Hub service area annexing into the District so that they could have a right to vote on District issues. Bill Adams, one of the originators of the formation of a homeowner's group to try and create a district a few years ago, has offered to get all of the associations together for a joint meeting to discuss the requirements of annexation. Lisa Chase of Brown & Bain clarified that for annexation that 51% of the property owners or,

not and, 51% of the land valuation are required. Mr. Schlegel questioned if the issue of being contiguous had been dealt with. Mr. Stratton said that issue was addressed in legislation to allow for noncontiguous annexation; however, approval from the nearest municipality within 6 miles may be needed. Mr. Stratton further indicated that Mr. Michael McNulty, Legal Counsel, did not feel the 6-mile issue applied in this case, but he would verify it. If this issue does require approval from the City of Tucson, staff will seek approval from the City. If that is not possible, perhaps staff will seek legislative change.

Mr. Stratton stated that Warren Tenney, Mike Block and Theresa Lutz attended the AWDR audit on July 7, 1999, which was to review the District's pumpage for 1997, 1996 and 1995. He referred the Board members to Mr. Tenney's memo, which outlined the audit and possible approaches ADWR will request when they finalize the report of the audit. At that point in time, the issue will be brought before the Board of Directors for their consideration and direction.

Regarding Southern Arizona Water Users Association (SAWUA), Mr. Stratton indicated that a fairly productive meeting was held last week to develop bylaws. There does seem to be strong support for the formation of a regional entity. The group will continue to look at structure, funding, budget and directives. As the organization continues to grow, Mr. Stratton said he would provide additional information to the Board members for their consideration of joining along with others in this organization. With the issues facing the District, especially with the immediate task force that AWDR has created, there is a need for unity for all water users to have a strong voice in these issues which will bring us all together.

Mr. Stratton reported to the Board members that OV#1 transition is complete. The transition went fairly smooth and there were no major glitches. Staff needs to be commended since the transition did go smoothly and there was much work needed to complete the task by July 1, 1999.

Mr. Stratton stated that there is an Open House scheduled for July 22, 1999 and the Board members have previously received correspondence regarding this. Invitations have been mailed. Everything is progressing and a number of staff is involved to make sure the open house is successful. If the Board members have any suggestions, input or comments, staff would appreciate hearing them.

Mr. Stratton mentioned the ADWR task force dealing primarily with safe yield issues that have arisen out of the Third Management Plan. The task force is on a fairly tight timeframe. Every Wednesday, the task force committees are meeting. Mr. Stratton was elected co-chair of the Renewable Supply Issues Committee. This is a very intensive process, but the need for involvement is very necessary based on the fact that this could be the groundwork for proposed legislation that may be developed out of this process. These task force issues are moving quickly and Mr. Stratton said he would update Board members with information as it becomes available.

Mr. Stratton reported that the General Manager's Office is working on updating the water resource management plan to see what our supplies are, how much we have, other possibilities to enhance that future supply, and how we intend to use it. The report should be presented in six

weeks and to begin discussions with the Board about how it can be modified and to implement a time frame to deal with those issues.

Mr. Schlegel said that he thought future plans is as an important issue for the Board members to address as the ongoing daily items and he would like to spend more time on those issues. He further noted that he had not seen Mark Myers contract renewal on the agenda. He would like to have that addressed as Mr. Myers has been a great asset in the past and will be a great asset in the future. Mr. Stratton stated that the District has been working with Mr. Myers on pending projects as he is an essential expert in a lot of areas and very helpful.

Ms. Wright inquired if anyone on the Bond Oversight Committee received invitations to the Open House. Mr. Stratton said that invitations were sent to the members of the Bond Oversight Committee.

VI. Legal Counsel's Report

Ms. Chase reported that she had nothing further to discuss.


VII. Future Meeting Dates; Future Agenda Items

The next scheduled Board meeting is August 9, 1999.

VIII. Adjournment

The meeting was adjourned at 7:12 p.m.



Clerk of the Board

Sam E. Ray, Chair of the Board