

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

June 6, 2002

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

Special Joint Meeting with Municipal Property Corporation

MINUTES

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

Board Members Absent: Marlene Wright, Member

Municipal Property Corporation
Members Present: Mike Blakley, President
Dan M. Offret, Treasurer
Pete Schlegel, Member
Manfred Eigenbrod, Member

Municipal Property Corporation
Members Absent: Izaro Urreiztieta, Secretary

District Staff Present: Mark R. Stratton, General Manager
Warren Tenney, Clerk of the Board
Alice Stults, Recording Secretary
Michael McNulty, Attorney

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 meeting to order at 5:30 p.m. District Board members Dennis Polley, Dan M. Offret, Pete Schlegel, and Jim Doyle were present. Marlene Wright was not present.

Municipal Property Corporation members Mike Blakley, Manfred Eigenbrod, Pete Schlegel and Dan M. Offret were present. Izaro Urreiztieta was not present.

II. Discussion and Approval of Resolution 2002-5 – To Grant Approval to Finance the Acquisition of Assets and Improvements for Green Valley Water Company and Groundwater Extinguishment Credits and to Authorize the Sale of Bonds by the Metropolitan Domestic Water Improvement District Municipal Property Corporation to Finance the Acquisition and Improvements

Mr. Stratton explained that in addition to the approval of Resolution 2002-5, the intent of the meeting was to provide the Board and Municipal Property Corporation (MPC) background information concerning the financing of the acquisition of assets and improvements, and the groundwater extinguishment credits for Green Valley Water Company (GVWC), and to authorize the sale of bonds by the MPC. At its May 20, 2002 meeting, the Board approved the three contracts for the acquisition of GVWC. Mr. Stratton explained that one of the contracts addressed the irrigation rate agreement for the golf course owned by Fairfield. The contract is specifically with the District, and will not be part of the MPC transactions. He noted that the contract basically sets the rates in exchange for providing additional extinguishment credits for the District.

The District has until June 14, 2002 to complete its due diligence tasks. District staff has been meeting with GVWC staff to discuss operations and review records. Mr. Stratton said Black & Veatch, an engineering firm, will provide an analysis of GVWC for inclusion in the bond materials. He noted that concerns related to the increase in rates for the golf courses are being reviewed, as is the agreement between Farmers Investment Company (FICO) and GVWC.

Mr. McNulty, Legal Counsel for the District, said the contract documents are approximately 99% complete, with one week remaining to complete the due diligence. He explained the FICO agreement and its financial impact relating to the mines in the GVWC service area. The cost per year for the FICO agreement is .4% of the total GVWC budget.

Mark Reader, District Financial Advisor, provided Board and MPC members with documents detailing information on the sources of funds (junior lien water system revenue bonds, series 2002) and a detailed breakdown of expenditures for the bond money. The District has received an AAA insured rating, which enables it to sell the bonds at a good interest rate, and receive a better bond insurance rating. Mr. Reader said the transactions are expected to close the first week of August 2002, and the first debt service payment would be due January 2003.

Fred Rosenfeld, Bond Counsel for the District, explained that all the revenues generated from GVWC will be incorporated into the District and Hub service area revenues for purposes of the bond financing; however, the revenues will be tracked individually to allow the District to separate out the revenues for GVWC. Mr. Rosenfeld said the statutes allow the District to pledge revenues to acquire assets for the District. The District's first responsibility is to pay operating expenses, followed by paying its senior bonds and then junior bonds. Mr. Rosenfeld noted that an amendment to Resolution 2002-5 should be made changing the aggregate principal not-to-exceed amount from \$8,000,000 to \$8,500,000.

Mr. Rosenfeld summarized the upcoming schedule of events required to complete the purchase of the GVWC. The Board approved the purchase of the GVWC subject to the due diligence findings due on June 14, 2002. At that time the earnest money is to be paid. During July 2002, a preliminary official financial statement will be created, and the lease-purchase agreement will be finalized. A bond resolution between the MPC and the District will be finalized and approved, and would obligate the District to make continuing disclosure statements. Mr. Rosenfeld said a trust agreement would be created to authorize the issuance of the bonds by the MPC. The bond issuance and close of the sale will occur at the same time, around the first week of August 2002.

Mr. Eigenbrod voiced concerns regarding the reliance upon revenues from the GVWC golf courses, and asked if the golf courses could drill their own wells or utilize recycled water. Mr. Stratton explained the golf courses cannot drill their own wells, and the majority of effluent in the area is under contract with another entity. He added that it would be very difficult for the golf courses to obtain water from other sources not controlled by GVWC. Mr. Blakley asked if revenues depended heavily upon the new golf course. Mr. Land said that the new golf course is currently under construction, and the revenue projections are much stronger from residential customers than originally projected; therefore, there is not a strong reliance upon the new golf course.

Mr. Offret made a motion to approve Resolution No. 2002-5, financing the acquisition and the improvement of the domestic water system now owned by the Green Valley Water Company, and the acquisition of certain grandfathered ground water extinguishment credits now owned by Fairfield Canoa Ranch, L.L.C., with preliminary authorization not to exceed \$8.5 million. Mr. Schlegel seconded the motion. Motion passed unanimously.

III. General Manager's Report

Mr. Stratton said there was nothing noteworthy to report at this time.

IV. Executive Session of the Metropolitan Domestic Water Improvement District Board of Directors – Executive Session pursuant A.R.S. § 38-431.03 (A)(3) (consultation for legal advice with the attorney or attorneys for the District) regarding Security Issues

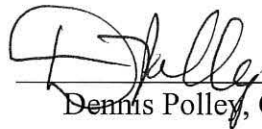
Mr. Offret made a motion to adjourn into executive session. Mr. Schlegel seconded the motion and it passed unanimously. The Board of Directors adjourned into executive session at 6:25 p.m.

V. Adjournment

The meeting adjourned at 7:35 p.m.



Clerk of the Board



Dennis Polley, Chair of the Board