

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

**May 10, 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  
Herb Johnson, Member  
Pete Schlegel, Member

District Staff: Mark R. Stratton, General Manger  
Warren Tenney, Clerk of the Board  
Joyce E. Osborne, Recording Secretary  
Lisa Chase, Legal Counsel

**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. Jim Doyle, Herb Johnson, Pete Schlegel and Marlene Wright were present.

**II. Comments from the Public**

Mary Schuh, a District resident, asked about the certificate of occupancy for the new office space, if the old office building would be leased, if the District was taking a bad debt write-off for the old building and how the Board planned to use the new office campus for public use. Mr. Ray noted that those items would be addressed under the respective agenda items.

**III. Consent Agenda**

- A. Approval of Minutes – April 12, 1999 Board Meeting.
- B. Approval of Minutes – April 28, 1999 Joint Study Session.
- C. Ratification of Billing Adjustments.
- D. Approval of Bad Debt Write-Offs.
- E. Ratification of Data West Contract Addendum.

Mr. Doyle made a motion to approve the consent agenda. Mr. Johnson seconded the motion. The motion passed with Mr. Doyle, Mr. Johnson and Mr. Ray voting in favor and Mr. Schlegel and Ms. Wright abstaining.

#### **IV. General Business – Items For Discussion and Possible Action.**

##### **A. Financial Report.**

Mr. Land, Chief Financial Officer, explained that the cash balance has increased greater than the projections. The increase is due to the bond proceeds reimbursing the general operating fund.

Mr. Schlegel noted that the District had written a number of large checks, expenditures appeared to have increased significantly and the budget summary report differed a lot compared with the same month last year. Mr. Ray noted that attached to the financial report was a list of all the checks issued. Mr. Land said many of the checks issued were for the new office building, the largest check for the general contractor in the amount of \$194,000. These expenses will be reimbursed by the District's Municipal Property Corporation (MPC). Mr. Land explained that the budget summary report showed revenue in excess of 1998 expenditures year-to-date at \$975,000 for 1998 while it is over \$2 million this year for the same period. Mr. Land said in 1998, there were expenditures for the Herb Johnson Reservoir project that were still to be reimbursed to the operating fund to replenish the cash balance due to the construction of the reservoir.

Mr. Schlegel said that he felt an explanation should be provided with the financial report when a large difference, in either revenues or expenditures, is shown. For example, he noted that there is no explanation that the 1998 CAP water charges was \$250,000 but the 1999 charge is already over \$800,000. Mr. Stratton explained that last year the District contracted with the State Land Department to share in the cost of the CAP water. This year, the District began paying for capital costs associated with allocations due to the settlement with the City of Tucson.

##### **B. Approval of Contract with Ernst & Young for Bond Rebate Reporting Requirements.**

Mr. Schlegel made a motion to accept and ratify the contract with Ernst & Young for Bond Rebate Reporting Requirements. Ms. Wright seconded the motion and it passed unanimously.

##### **C. Approval of Cotton, Parker, Johnson & Co., P.C. Audit for Fiscal Year 1998-1999.**

Ms. Wright made a motion to accept the audit proposal from Cotton, Parker, Johnson & Co., P.C. for fiscal year 1998-1999. Mr. Schlegel seconded the motion and it passed unanimously.

##### **D. Fiscal Year 1999-2000 Budget.**

Mr. Stratton said the Business Administration Board Member Committee reviewed the draft budget. The Committee had a number of questions clarified by staff. The Committee recommended that the draft budget be given to the whole Board for its consideration. Staff is prepared to answer any questions about the draft budget that the Board may have. The Board can modify the budget accordingly before considering adoption.

Mr. Ray asked for clarification of the addition of the meter replacement program and how it was to be funded, whether through the contingency fund or added to future budgets. Mr. Land said the \$200,000 marked for meter replacement was placed under miscellaneous capital projects (meter replacement) and included meter testing, meter repair and consulting and contractors. Mr. Ray requested in the future that the Board receive an explanation of the associated costs rather than the information be allotted throughout the budget.

Mr. Johnson noted that figures in the draft budget are determined through the long-term debt service plan that was developed to sell the bonds. Some items may appear to have a high financial commitment, but they needed to be done to acquire a good bond rating.

Mr. Schlegel had understood from the April 12, 1999 meeting that staff had been instructed to provide a report showing the breakdown of the meter replacement program. Mr. Ray referred to the minutes of the April 12, 1999 meeting and noted that the Board had directed the General Manager to use up to \$10,000 in the current fiscal year's budget to purchase meters and that the new fiscal year's requirements would be incorporated into the 1999-2000 budget. This would allow for that item to be reviewed during the annual budget approval process. Mr. Schlegel said the expenditure still appeared high without further explanation.

Mr. Chris Hill, Deputy Manager, explained that as described in the April 12, 1999 report, the meter replacement program would be a 2-1/2 year program, targeting approximately 9,000 residential meters to be replaced along with testing and replacing large meters and retrofitting for radio read meters. The program is to cost \$230,000 for the first year with the majority of the work targeted for this year. Mr. Schlegel wanted to know how much staff would be required for the program. Mr. Hill said in-house staff and summer staff are considered all that is necessary.

Mr. Schlegel said that he felt before approving an \$8 million budget, he needed more time to go through it. He felt more information should have been given to the Board including a report from the Board Member Committee. He did not feel without more discussion he could defend questions that would be asked of him by the public at meetings or at the grocery store. He did not feel anything inappropriate was in the budget but he wanted still to review it and have questions answered.

Ms. Wright said that she participated on the Committee, and the Committee felt the draft budget should be brought before the whole Board so that questions could be asked rather than prepare a report. She said since it was her first time serving on the Committee, she went through everything and asked a lot of questions and thought that other Board members should have that same option.

Mr. Schlegel made a motion to hold a study session regarding the budget and to have the opportunity to hear the questions that the Committee had when they reviewed this draft budget. Ms. Wright seconded the motion and it passed unanimously.

**E. Approval of Revised Standard Water Service Agreement.**

Ms. Wright made a motion to approve of the revised water service agreement language to be used as the standard water service agreement. Mr. Johnson seconded the motion.

Mr. Schlegel asked if legal counsel had reviewed the language. Ms. Lisa Chase of Brown and Bain said yes.

Mr. Ray called for a vote for the motion to approve the revised standard water service agreement. The motion passed unanimously.

**F. Approval of Amendment No. 1 to IGA with 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.**

Mr. Schlegel made a motion to accept the recommendation to approve Amendment No. 1 to the Intergovernmental Agreement with the Arizona Department of Water Resources and the Town of Oro Valley to Complete Supplemental Vadose Zone Studies for Canada Del Oro Recharge and Recovery Project. Ms. Wright seconded the motion.

Mr. Johnson said that this study had been pursued for 3 to 4 years and that the District has contributed to spend \$15,000 annually. Mr. Ray noted that the District has also contributed in kind services by staff contributing to the study. Mr. Johnson said that the District should continue to complete this study before the District makes any major investments on any experimental work with models and comprehensive completion of this project. The District needs to be aware that it has often paid for studies and done work that also benefits other water providers. Mr. Johnson said he would appreciate a presentation updating the project and its benefits. Mr. Schlegel agreed. Mr. Michael Block, District Hydrologist, said the District will be receiving in June a printed update of the Cañada del Oro study, which will be copied for the Board, and then also make a presentation to the Board.

Mr. Ray called for a vote for the motion to approve Amendment No. 1 for the Vadose Zone Studies for the Cañada del Oro Recharge and Recovery Project. The motion passed unanimously.

**G. Approval of Change Order No. 3 to Martin C. Lang General Contractor, Inc. Contract for the New District Office and Maintenance Building.**

Mr. Johnson made a motion to approve Change Order No. 3 to Martin C. Lang General Contractor, Inc. Contract for the New District Office and Maintenance Building. Mr. Doyle seconded the motion.

Mr. Doyle asked if it was correct that Change Order No. 1 has not been agreed upon. Mr. Stratton said the Board approved of Change Order No. 1 with specific conditions that Lang has not yet agreed to. Change Order No. 2 has been agreed upon. Change Order No. 3 is for

roadway improvements for La Cañada Drive. Mr. Stratton said that the contractor had built the roadway improvements, which involved widening the road, based on plans provided by the engineer. The roadway improvements were inappropriate and unsafe, and those changes needed to be redone. The District needs the roadway improvements finished regardless of who is at fault and the contractor needs to be reimbursed. Mr. Stratton explained he would like to seek from the engineer reimbursement for the difference of the actual project versus what the correction costs were. He said the licensed engineer should be responsible.

Ms. Wright asked if the engineer was required to obtain County approval Mr. Stratton said yes, but the County still does not have all the factors, leaving the responsibility to the registered engineer despite County approval.

Mr. Doyle questioned that with the amount owed for Change Order No. 1 and the amount that will be paid for Change Order No. 3, the District may want to negotiate a balance to ensure the District does not pay Lang too soon for a lot of the work. Mr. Charlie Maish, District Engineer, said the change orders are for work over and above the contract price and the contractor is legally due the money. However, the District is holding full payments to the contractor for the full amount of the original contract until the contractor completes the project in the time frame and standard of the original contract.

Ms. Wright wanted to know if the District could negotiate with the Civil Engineering Consultant since he is the one that made the mistake. Mr. Stratton said since the engineer has already been paid for their service, staff and legal counsel will need to determine the extra cost to the District before pursuing a reimbursement by the engineer, which is staff's recommendation.

Mr. Johnson asked if the District had a scope of work stating the grade for the roadway improvement. Mr. Maish said it did not. Pima County had required the District to provide a turn lane but provided no real detailed specifications for the consultant. Ms. Wright asked if a uniform code exists for turn lanes. Mr. Maish said that the engineer designed the improvements to normal specifications but had failed to verify field conditions.

Mr. Ray called for a vote for the motion to approve Change Order No. 3 with Lang General Contractor. The motion failed with Mr. Schlegel, Mr. Ray, and Ms. Wright voting against, and Mr. Doyle and Mr. Johnson voting in favor.

Mr. Schlegel made a motion that the District approve Change Order No.3 for \$16,987 with Martin C. Lang General Contractor. Inc. and for an additional number of days equal to the actual number of days required to perform and complete the roadway modification; and that staff be directed to recover as much of that amount as possible. Ms. Wright seconded the motion. The motion passed with Mr. Johnson, Mr. Doyle and Mr. Schlegel voting in favor, and Ms. Wright and Mr. Ray voting against.

#### **H. Sale or Lease of Old Office Building.**

Mr. Stratton reported that staff recommended that the old office building be sold by requesting purchase proposals. An appraisal of the property had been completed and already distributed to the Board. Discussions with representatives from the Town of Casas Adobes had indicated the Town was not interested in leasing because they were not in a position to pay for the utilities. Mr. Stratton distributed a letter from Explorer Newspapers expressing interest in acquiring the building.

Mr. Schlegel asked if Ms. Melanie Larsen, owner of Explorer Newspapers, had seen the appraisal and if this was their legal offer. Ms. Larsen said she had. Ms. Chase, Legal Counsel, said that the letter should only be considered an expression of interest.

Mr. Ray said a determination needs to be made whether to lease or sell the building. Mr. Stratton said the appraisal did look at comparable leasing rates. The District could get \$14/square foot for leasing it, which would provide an annual payback of \$30,000 in income.

Mr. Johnson said the sale of office building would provide some income, but he wanted clarification of what the District could do in selling property. Ms. Chase said that unlike other public entities, a county improvement district is not required to advertise. She said the Board has the power to dispose of the old office building as it so decides.

Ms. Wright made a motion for staff and legal counsel to initiate the sale of the old office complex, advertise and purchase for no less than its appraised value and continue to present to the Board at the June meeting. Mr. Schlegel seconded the motion.

Mr. Schlegel said that it appears that the Explorer Newspaper is willing to make a unique offer and was willing to come in and start proceedings this evening with our decision rather than the District advertise to the public. He said the Board should consider her offer. Ms. Larsen said the letter expressed her intent to purchase the building and was ready to work the District now and save the District money from having to be involved with realtors.

Mr. Ray said he understood the intent of the motion was to make the process public as much as possible by requesting competitive purchase proposals rather than favoring one party over another. He would encourage this be done before the Board's June meeting by holding a special meeting. Mr. Stratton said legal counsel and staff could generate an advertisement for proposals and have them due in a shorter time frame for the Board's consideration at the already requested meetings for the budget.

Ms. Chase said she would not recommend that the Board enter into negotiations orally at this meeting. She concurred with staff to solicit a written proposal with key terms and that the Board give proper consideration to any and all bids submitted. She said her firm could issue those proposals in a timely fashion after determining some of the conditions wanted by the District.

Mr. Schlegel asked if Brown & Bain was comfortable with this process or would they recommend engaging a realtor. Ms. Chase said a realtor was not necessary since the appraisal was done. Brown & Bain can work with staff to come up with what is a reasonable and straight forward sale transaction with no obligating factors. The proposals could then be discussed in executive session.

Ms. Wright moved to amend the motion to change the presentation of purchase proposals to the Board from the June 14, 1999 to the next scheduled meeting of the Board. Mr. Schlegel seconded the amendment and the amendment passed unanimously.

Mr. Ray called for a vote on the amended motion to request purchase proposals for the new office building at the minimum appraised value, to be submitted at the next scheduled meeting. The amended motion passed unanimously.

### **I. Public Use of New Office Campus.**

Mr. Schlegel declared a conflict of interest and would not participate in this discussion.

Mr. Stratton said that based on the discussion at the April 12, 1999 meeting, staff had surveyed other entities' policies for making their facilities available to the public. Staff presented in its report recommendations based on reviewing those policies.

Mr. Doyle made the motion that the Board should provide verbal direction as to the public use of the new office building. Mr. Johnson seconded the motion and it passed unanimously.

Mr. Ray noted that staff had recommended that non-profit youth groups be allowed to use the building, but wondered if a parity problem would arise. Staff also recommended that the building be limited for use only twice a week. Staff would be required to open the facility.

Mr. Doyle and Mr. Ray were opposed to the handing out of keys to people renting. Mr. Doyle was concerned about the cost to have staff available when the facility is rented. Ms. Joyce Osborne noted in her new position as Administrative Services Manager that she would be responsible for opening and locking the facility and since she is salaried, overtime is not required.

Mr. Ray questioned if the matter had to be decided at this meeting and suggested the discussion continue to the next meeting. Mr. Wright agreed and suggested that the issue be discussed further at the special meeting being planned later in the month.

Mr. Stratton asked if there were any additional clarifications the Board would like staff to research. Ms. Wright said she wondered what type of meetings would be allowed, if food would be permitted, and the policy regarding smoking. Mr. Doyle wanted to verify the Board room's compliance with the American Disability Act and what the permitted occupancy was for the room.

## **J. Legislative Update.**

Mr. Warren Tenney, Assistant to the General Manager, said there were no new developments since the writing of the staff report. He reemphasized that the District's legislation, Senate Bill 1230, had been signed by the Governor. This removes Pima County Board of Supervisors' veto authority over the District's financial issues and the requirement for non-resident property owners in elections.

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

Mr. Stratton gave a verbal report update on different issues. The Hub Water Company acquisition is scheduled to be closed in May. Staff is working to make certain the transition moves smoothly. Staff was also working with the Town of Oro Valley to ensure a smooth separation when Oro Valley assumed responsibilities for Oro Valley Water Improvement District #1. Legal Counsel completed a review of the separation agreement with Oro Valley and made a number of changes. The separation agreement will be presented to both the Town Council and the Board. It appears that the District will need to pay \$270,000 to Oro Valley for assets and reserve funds in escrow per the Intergovernmental Agreement.

Mr. Stratton reported that the District has tried to provide leadership in regional water issues. District staff is working with other water providers on the possibilities of forming an organization, similar to the Northwest Water Alliance, which could provide a forum for working jointly on issues in common.

Mr. Stratton reported that District staff will meet with ADWR on how to deal with Hub Water Company and Oro Valley Water Improvement District in relations to the District's conservation requirements.

Mr. Stratton noted that an open house would be planned for July.

Mr. Johnson said the District should consider a study of master meter versus individual meter readings to show that irrigation water is the area that needs to be targeted in conservation. Mr. Ray asked if the fire districts have the ability to tap fire hydrants and record consumption when they flush and flow test. Mr. Hill said he is not sure if all fire districts have been forthcoming in notifying the District of their hydrant testing. This year the District has had to remind them that it is the District's water they are using and wasting. The District is working to get the fire districts to record the water consumption used in their testing

Mr. Schlegel asked if staff could report on what will be happening with the building of homes and apartments in the area of La Cholla and River. Mr. Stratton explained that most of the water lines have been installed and that the Trisha Lane 16" line was for water to that entire subdivision near Lulu Walker Elementary School. He said that the well site still needs to be finalized and that locations are being sought that will give the maximum amount of productivity.



**V. Legal Counsel's Report**

Ms. Chase reported that since the last meeting, the Arizona Department of Water Resources (ADWR) has suggested they will do an audit for 1997 water usage and a re-audit for 1995 and 1996 usage because they cannot find the audits for those years. Based on the audit, they may then state the District is in noncompliance for conservation targets and have to look at a way to resolve the matter, which may entering a stipulation. Ms. Chase recommends that if ADWR audits the District, that the necessary information be provided. The Board does not need to take any action at this time and if ADWR wants to pursue formal action, then the Board can decide how to proceed.

Mr. Schlegel asked if ADWR had sent a letter to other water providers. Mr. Stratton said he knew at least letters had been sent to the City of Tucson, Marana Picture Rocks, Flowing Wells Irrigation District, and Community Water Company of Green Valley.

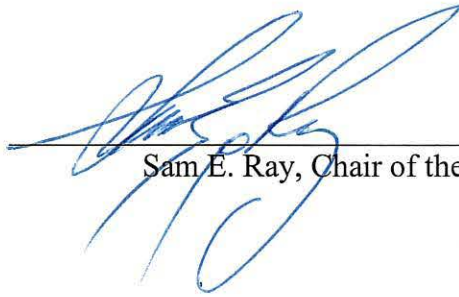
**VI. Future Meeting Dates; Future Agenda Items**

The Board decided to hold a special meeting to discuss the budget, sale of the old office building, public use of the new office campus, and OV#1 separation termination agreement. The meeting is scheduled for May 26, 1999.

**VII. Adjournment**

The meeting was adjourned at 7:50 p.m.

  
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Clerk of the Board

  
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Sam E. Ray, Chair of the Board