

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

October 10, 2001

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

MINUTES

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

District Staff: Mark Stratton, General Manager
 Warren Tenney, Clerk of the Board
 Doug Lemke, Legal Counsel

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 5:00 p.m. Dennis Polley, Jim Doyle, Pete Schlegel, Dan M. Offret and Marlene Wright were present.

Executive Session

Ms. Wright made a motion for the Board of Directors to move to Executive Session. Mr. Doyle seconded the motion and it passed unanimously. The Board went into Executive Session at 5:02 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 Quarterly Review.**
- B. Security Issues.**

The Executive Session adjourned at 6:15 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 6:20 p.m. Dennis Polley, Jim Doyle, Pete Schlegel, Dan M. Offret and Marlene Wright were present.

II. General Comments from the Public

Lisa Chase, Legal Counsel to the District, addressed the Board to inform them of her decision to leave Brown & Bain and open her own legal practice. She expressed that she had enjoyed working with District Board members and staff. The Board thanked Ms. Chase for her professionalism and expertise in serving as Legal Counsel.

John Kulakowski, Sabino Vista Homeowners Association member, advised the Board that members of the Homeowners Association have begun the processes required to annex the Hub area into the District.

III. Consent Agenda

- A. Approval of Minutes – September 10, 2001 Board Meeting.
- B. Approval of Minutes – October 1, 2001 Study Session.
- C. Ratification of Billing Adjustments.
- D. Approval of Bad Debt Write-offs.

Mr. Offret made a motion to approve the items on the Consent Agenda. Ms. Wright seconded the motion. Motion passed unanimously.

IV. General Business – Items for Discussion and Possible Action

A. Recognition of Staff's Efforts with ADEQ Inspection.

Mr. Schlegel explained that Arizona Department of Environmental Quality (ADEQ) is responsible for environmental issues and inspects the District's well sites. In past years, the well sites the District acquired had been neglected and were not in compliance. Staff has worked diligently over the years to clean up and improve the well sites. As a result, all of the District's well sites passed inspection this year with no citations being issued. In an effort to recognize the staff members who contributed to the excellent inspection rating, the Board directed that an appreciation luncheon be planned.

B. Monthly Status of the District.

Mr. Offret asked if the District had a backup system in place or under consideration for the Ina Road/Via Assisi area where a main break occurred on September 15, 2001. Mr. Stratton and

Steve Dean, Utility Superintendent, explained that the District is unable to service this area without doing a tie in connection with Tucson Water. Staff is working on an agreement with Tucson Water for the eastbound Ina Road area as well.

Mr. Schlegel inquired about the status of Tucson National North well. Mr. Stratton said the well was out of service because it was producing a large amount of sand and damaged the pump. Staff is working with Gilbert Pump to determine where the sand is coming from, and will have the well up and running as soon as possible.

Mr. Schlegel asked staff to mark the site where the exploratory drilling for a possible new well site will take place on Mona Lisa Road. He explained that he has had several inquiries as to the exact location of the drilling.

Mr. Stratton said the trailer and equipment has been set up and water testing has begun for the Slow Sand Pilot Study in the Twin Peaks area. Mr. Schlegel asked about a field trip for the Board members and Mr. Maish, District Engineer said staff were in the process of planning a tour.

C. Financial Issues.

Mr. Land, Chief Financial Officer, reported that the District audit has been returned by Pima County. He explained that the audit was provided to the county as a courtesy. Mr. Land will be providing a copy of the audit to Board members prior to the November meeting.

D. Billing Dispute with Customer John Judin.

John Judin, Metro Water District customer, said in June the District called and advised him of excessive water usage at his swimming school. Mr. Judin located a leak which was repaired. His next months bill was still very high and further checks for leaks were negative. He requested a new meter to be installed after refusing to allow a "logger" to be placed on the existing meter. Mr. Judin believes the previous meter registered false readings and requested an adjustment of his water bill. Mr. Land explained when factoring out the water used with the new meter, Mr. Judin's water consumption had still been high and did not lower until August. Staff feels the water went through the meters. Ms. Wright suggested that this item be brought back to the Board at the November 14, 2001 meeting after the previous meter's test is received. The rest of the Board agreed.

E. Proposed Rate Adjustment and Scheduling of a Public Hearing.

Mr. Offret made a motion to approve to schedule a public hearing for January 23, 2002 at 7:00 p.m. for the purpose of discussing the proposal of a 4% adjustment in the water rates. Mr. Polley seconded the motion. Motion passed unanimously.

Mr. Stratton asked if the Board wanted to consider any fee adjustments at the public hearing. Mr. Schlegel expressed concern about instituting a credit card processing fee. He felt based on

his experience with credit card firms that the fee as proposed by staff was not accurate and perhaps illegal. Mr. Land explained that Tucson Electric Power Company had instituted such a fee. The problem was that the District was losing dollars due to the processing cost. Mr. Schlegel asked staff to research the use of credit cards by similar agencies, and to confer with legal counsel and report back to the Board. The Board agreed that this would be considered a separate item from the proposed rate adjustment and scheduling of a public hearing.

F. Security Issues.

Ms. Wright moved to adopt immediate procedures discussed in the executive session to increase security in the Metro/Hub Water District. Mr. Polley seconded the motion. Motion passed unanimously.

Mr. Schlegel said that during executive session the Board discussed security measures and procedures for the District. Mr. John Kulakowski asked if District customers would be notified of the measures being taken. Mr. Schlegel said the District would prepare information to be included in the District's newsletters. Mr. Schlegel said that he is very confident that the District has done everything within its power to assure safe water.

G. Establishment of Personal Development Program and Consideration of Specific Education Reimbursement.

Mr. Offret said that the cost to establish this program for staff would be minimal. He added that Mr. Land will administer the program and that the program would be a tremendous benefit to the District as well as the employees.

Mr. Offret moved to establish a Professional Growth Program for the benefit of District employees to be administered and funded as described in this report. Ms. Wright seconded the motion. Motion passed unanimously.

Discussion then focused on Mr. Dean's request for partial reimbursement of tuition expenses. Under the new Personal Development Program, large amounts of monies would not be available for course work or tuition. However, Mr. Dean had submitted his request prior to the adoption of the new Personal Development Program. Ms. Wright asked about the classes Mr. Dean had taken, and if he had received a passing grade. Mr. Stratton said he had reviewed information provided by Mr. Dean and determined that the classes taken by Mr. Dean were directly related to his employment with the District, and that he had received a passing grade. The Board directed the General Manager to allow for the reimbursement of education requests that had been made while the Professional Growth Program was being drafted.

Mr. Maish mentioned that Theresa Lutz had also submitted a request for reimbursement of tuition expenses. Mr. Stratton advised that he did not recall seeing a reimbursement request from Ms. Lutz and added that she had not yet completed the class. Mr. Tenney explained that if an education reimbursement request had been filed, it would still be covered per the direction given by the Board.

H. Negotiations with ADWR for Non Per Capita Conservation Program under Third Management Plan.

Mr. Stratton said this agenda item was meant to let the Board know the status of the Districts negotiations on the Non Per Capita Conservation Program. Mr. Stratton said Arizona Department of Water Resources (ADWR) emailed District staff a letter prior to this meeting and a few more wrinkles have been added to the negotiations. ADWR is questioning the effectiveness of the District's tiered rate structure, among other items. Mr. Tenney said most of the program is similar to last years with some new Reasonable Conservation Measurements (RCMs) being proposed, however, the process has changed and so it has been difficult to reach conclusion on some RCMs. Mr. Stratton stated it would probably be December before an actual agreement is presented to the Board.

I. Legislative Issues and Approval of District Lobbyist for 2002.

Mr. Schlegel asked if there were any concerns with retaining the firm of Gallagher & Kennedy as the District had not done a Request for Proposal (RFP). Mr. Stratton replied that an RFP was not required as the District was not just seeking the lowest bidder, but also a company with previous knowledge and background of the District policies and procedures. Mr. Schlegel asked about the hourly billing rate from Gallagher & Kennedy and the additional \$2,500. Mr. Stratton said the \$2,500 per month is only when they are in legislative session.

Mr. Schlegel requested that the Board be kept apprised of issues and developments as they occur. Susan Charlton of Gallagher & Kennedy was present and said that she would be assisting Dana Belknap oversee the lobbying for the District if their firm were retained. She assured the Board that weekly updates could be provided to keep staff and Board aware of any developments or issues that may arise during the legislation.

Mr. Offret moved to approve the hiring of Gallagher & Kennedy as the District's lobbyist for the 2002 Arizona Legislative Session. Mr. Polley seconded the motion. Motion passed unanimously.

J. Approval of Amendment to Agreement between Metropolitan Domestic Water Improvement District and the Cortaro Water Users Association for In-Lieu Water Deliveries and Storage.

Mr. Lemke, Legal Counsel, suggested changing the proposed motion to "review and approval".

Mr. Polley moved to approve the amendment of the "agreement between Metropolitan Domestic Water Improvement District and the Cortaro Water Users Association In-Lieu Water Deliveries and Storage" for calendar year 2002 subject to Cortaro's approval and final review and approval by District legal counsel. Mr. Offret seconded the motion. Motion passed unanimously.

K. Temporary Access Agreement between the Arizona Department of Environmental Quality and District for Monitoring Work in the Remedial Investigation of Shannon Road-Rillito Creek WQARF Site.

Mr. Doyle moved to approve the Access Agreement between the Arizona Department of Environmental Quality and the District with an expiration date of December 31, 2003. Ms. Wright seconded the motion. Motion passed unanimously.

L. Comments to the Governor's Water Management Commission's Recommendations.

Mr. Tenney reported the Commission process is winding down, and the Commission is accepting comments or recommendations until October 19, 2001. A letter was drafted to enable the Board to make formal comments. Mr. Tenney added that SAWUA was drafting a letter and their comments were similar to those of the District. Mr. Schlegel thanked staff for their hard work and efforts working with the Governor's Water Management Commission.

Mr. Offret made a motion to approve the sending of the attached letter to the Governor's Water Management Commission. Mr. Polley seconded the motion. Motion passed unanimously.

M. Resolution 2001-4 – Preliminary Intent to Refund Subordinate Obligations.
Consider, and if deemed advisable adopt a resolution declaring the preliminary intent to issue subordinate obligation refunding bonds to refund the following outstanding contractual obligations: the Lease Agreement dates as of May 1, 1998, between the District and the Metropolitan Domestic Water Improvement District Municipal Property Corporation pertaining to the construction of the District's new administration building and reservoir and the Amended and Restated Settlement Agreement dated as of the 26th of January 1998, by and among the City of Tucson, the District and Oro Valley.

Mark Reader distributed to the Board a packet of information that reviewed the District's outstanding municipal bonds and provided an analyses of the debt service and what would be involved with refinancing the junior bonds. Mr. Reader explained that refinancing bonds is complicated but the District has the potential to save some money with the interest rates presently low. He reviewed in detail the District's current debt requirements and then discussed the District's junior bonds, specifically the finance for the settlement with the City of Tucson and the financing for the District office building and a reservoir. He reviewed the nature of the current bond market and some of the extra steps that may be needed due to the effects of the events of September 11, 2001. Overall, Mr. Reader summarized that the District should be able to have an approximate \$222,000 nominal savings and \$374,000 present value savings.

The Board expressed interest in pursuing the refinancing. Mr. Reader noted that the Board was being asked to approve beginning the process to refinancing the junior liens; however, he would need direction as to the percentage that the Board would want to use that the debt service savings net of all costs associated with the Bond would not be less than. This number would provide a threshold of what the Board wants as the minimum savings achieved at the time of the

refinancing. The Board discussed with Mr. Reader the pros and cons of different percentages. The Board decided upon 2.25%.

Mr. Reader and Mr. Stratton explained to the Board that March 2002 was targeted for when the District would issue the remaining \$10 million of the \$23 million approved bond for the Capital Improvement Program and the advantages of issuing those bonds sooner at the time of the refinancing. The Board discussed the possibility of issuing those bonds at the time of the refinancing. Mr. Reader explained that by the time the refinancing is done it will probably be December 2001; therefore, it will only be three months sooner than originally planned. Mr. Stratton said that the District's projects for the Capital Improvement Program have been on schedule and so the District should be able to avoid any arbitrage issues. The Board requested that the \$10 million issuance be scheduled for further discussion at the November 14, 2001 Board meeting.

Mr. Doyle made the motion to approve Resolution 2001-04 for the intent to refund the Tucson settlement and MPC bonds with Subordinate Obligation Refunding Bonds pending the net savings available to the District with the present value of the debt service savings net of all costs associated with the Bonds shall be not less than 2.25% of the total present amount now owed on the Subordinate Obligations being refunded. Marlene Wright second the motion and it passed unanimously.

V. General Manager's Report

Mr. Stratton said an arsenic pilot study will take place in November 2001 by the AWWA Research Foundation at the District's Hub #3 well site. Utilities must be in compliance by the year 2006; however, for small systems under certain conditions the date would be extended to the year 2014. At this time it appears the acceptable arsenic amount will be 10 parts per billion.

Mr. Stratton reminded the Board of the WESTCAS conference scheduled for October 24-26, 2001. He mentioned the "Water Planning for the Future" conference planned for November 13, 2001, organized by the University of Arizona Water Resources Research Center. Mr. Stratton also informed the Board of the groundbreaking for Pima Community College Northwest Campus and University of Arizona North and the reception to celebrate the development of the Pima Community College Education Park to be held on November 2, 2001.

Mr. Schlegel mentioned that the Governor would be in Tucson the weekend of October 13, 2001 to discuss security issues in Southern Arizona. Mr. Schlegel said Mr. Offret and he met to discuss the Board room microphone system, and will be meeting with vendors to further discuss the needs and requirements.

Mr. Tenney said the District sponsored a Desert Landscape Workshop that took place earlier in the day and it was well attended by 36 customers. Another workshop on Drip Irrigation is scheduled for Friday, October 12, 2001.

VI. Legal Counsel's Report

There were no items reported from Legal Counsel.

VII. Future Meeting Dates; Future Agenda Items

The next regular meeting of the Board will be November 14, 2001.

VIII. Adjournment

The meeting adjourned at 8:45 p.m.



Peter H. Schlegel, Chair of the Board



Clerk of the Board