

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

October 13, 2010

**** Board Room ****

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

MINUTES

Board Members Present: Jim Doyle, Chair
James Tripp, Vice Chair
Bryan Foulk, Member
Reb Guillot, Member
Dan M. Offret, Member

District Staff: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder
Keri Silvyn, Legal Counsel

Executive Session

I. Call to Order and Roll Call

Jim Doyle, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 5:30 p.m. Jim Doyle, James Tripp, Reb Guillot, and Dan M. Offret were present. Bryan Foulk was not present.

Mr. Tripp made a motion to adjourn into executive session at 5:31 p.m. Mr. Offret seconded the motion. Motion passed unanimously.

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

A. Quarterly Appraisal of the General Manager.

Regular Session

I. Call to Order and Roll Call

Jim Doyle, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 6:01 p.m. Jim Doyle, James Tripp, Reb Guillot and Dan M. Offret were present. Bryan Foulk was not present.

II. General Comments from the Public

Mark Stratton said the District received a letter by mail, written by Gloria Davy of 668 W. Roller Coaster Road. Ms. Davy wanted her letter to be part of the public meeting record. Her concerns were about the Northern Hills Mainline Replacement project. District staff wrote a response to her letter and provided it to the Board of Directors. Mr. Stratton said any questions should be directed to Charlie Maish, District Engineer, or his staff.

III. Consent Agenda.

A. Approval of Minutes – September 13, 2010 Board Meeting.

B. Ratification of Billing Adjustments.

Mr. Tripp made a motion to approve the Consent Agenda. Mr. Offret seconded the motion. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action.

A. Monthly Status of the District.

Mark Stratton, General Manager, said water usage is slightly ahead of this time last year. Metro Hub has not been holding to the same levels as Metro Main but it only accounts for 10% of total usage. Usage has a direct reflection on revenues.

The results are in from the exploration pilot hole for Hub Well No. 1. Metro Southwest staff is working on the application for the designation of Assured Water Supply.

The CAP order for 2011 has been submitted, which included the portion approved by the Board for the Town of Marana.

The Northern Hills Mainline Replacement Project - Phase II, part of the District's capital improvement program, is nearing completion and should have its final inspection within the next week. Charlie Maish, District Engineer, added the waterline paving is complete and crews are working on final clean up.

Mr. Stratton said that he and Mr. Maish, Priscilla Cornelio, and Robert Johnson, both of the Pima County Department of Transportation, have been holding regular meetings to maintain communication and dialogue. The Pima County roadway improvement projects, funded by the Regional Transportation Authority (RTA), appear to be on a tight schedule but the parties should be able to avoid scheduling conflicts.

B. Financial Report.

Mike Land, Chief Financial Officer, said revenues and expenditures through August 1, 2010 for the first two months of the fiscal year show an emphasis on water sales. Metered water sales are \$291,000 ahead of budget for July and August. Operating expenditures are under budget by \$142,000. Even salaries and benefits are slightly under budget. Water sales are \$368,000 ahead of last year and expenditures through the first two months are \$24,000 under last year. Capital improvement expenditures have slowed down; the District has spent about 50% of the WIFA loan and part of those funds could possibly be moved to other projects. There have been no new meter applications. Metro Southwest development started strong but seems to be on hold now.

Mr. Offret said he had discussed putting the budget as it stands online some time ago, and he wondered how that is coming along. Mr. Stratton said the District is having some issues with the website, and staff is looking at alternative web design options to make it easier to upload and display documents online. He would like to hold off on putting large documents online until the District can enhance the website and bring the format up to date. He would like to have this upgrade accomplished by the end of the year.

C. Status of Public Hearing for a Proposed Rate Adjustment.

Mr. Stratton said staff prepared a PowerPoint presentation about the proposed rate adjustments and provided a printed copy to the Board. Staff would like the Board to provide comments and direct staff on any additional items they would like staff to look at before the presentation is shown at the public hearing on October 25, 2010 at 6:00 p.m.

Mr. Tenney said the District has met all of the statutory requirements for the public hearing. Inserts were also sent to customers with details on the rate adjustment proposal, inviting them to the public hearing. Staff has been surprised that there had been no phone calls regarding the proposal to date.

Mr. Offret said in previous years the District has provided information at rate hearings, and he asked how staff plans to do that this year. Mr. Tenney said the intention for this hearing is to include the rate adjustment in the PowerPoint presentation.

D. Financial Options for Waterline Relocation Projects Required due to County Road Projects and Refinancing of Water Revenue Bonds and Subordinate Obligation Bonds, Series 2002.

Mr. Tripp made a motion to direct staff to pursue the \$6 million financing of the waterline relocation projects that are required as a result of the Pima County/RTA road widening projects through the issuance of traditional revenue bonds along with the refinancing of the 2002 water revenue bonds and subordinate obligation bonds if such refinancing proves to be beneficial to the District. Approval of the issuance of bonds would be brought to the Board at the November 8, 2010 meeting. Mr. Offret seconded the motion.

Mark Reader of Stone & Youngberg gave a PowerPoint presentation regarding the recommended financial decisions.

Mr. Offret said he would like clarification on the 2002 senior bond, closing on November 30, 2010 with a call feature of January 1, 2012. Mr. Reader said bonds are not like home mortgages where you pay off the old loan when you refinance. With bonds you have call protection; investors know the bond will not be called until a certain date. The bonds are sold and then most of the money is put into an escrow account. On the call date that escrow pays off the bond holders, so at that point, from the District's capital perspective, they are paid off.

Mr. Offret said the bond ratings are pretty good now and asked if bond insurance will raise it. Mr. Reader said he did assume a bond insurance policy in the estimations to be conservative, so that premium is included in the savings. Mr. Offret wondered if frequent bonding will over-obligate the District or affect the District's credit rating. He said that credit is affected whenever an additional debt obligation is added to the debt load. Mr. Reader continued that the nice thing about this one is the District has established a revenue stream in the process, so it can be viewed as somewhat debt-neutral. Mr. Offret said this would appear to lock the District into the revenue stream for the time of this issue, and Mr. Reader confirmed that from a cash flow standpoint, it does. Mr. Land said the District must either use the RTA fee or the rates or another revenue source to pay off the bonds.

Helen Ireland, who resides at 6002 N. Placita Rodeo, asked if the District gets a revenue from the RTA projects because she thought the District had to pay out. Mr. Stratton said the RTA fee is the only related source of revenue. Monies collected through the RTA fee pay for the debt

service from the associated waterline relocations. Ms. Ireland asked about the terms of the bond. Mr. Stratton said a ten year bond would pay for relocation projects at roughly 3% interest.

Motion passed unanimously.

E. Financing for the Riverside Well/La Cañada Drive Transmission Main Capital Projects.

Mr. Tripp made a motion to approve that the three Riverside Well/La Cañada Transmission Main projects be funded by postponing part of the Southern Shannon Transmission Main and Casas Adobes West Main replacement projects scheduled to be funded with the 2007 WIFA loan and utilizing \$1 million of the Repair and Replacement Fund. Mr. Offret seconded the motion.

Mr. Offret thanked Mr. Stratton for reprioritizing and finding a way to finance the Riverside Well improvements. He feels this is a very important project. Mr. Offret said he noticed that \$800,000 of the costs are not covered and asked when the project is expected to be completed. Mr. Land said the design and construction will take 18-24 months. Mr. Maish said the segment that the District is obligated to build in a hurry is the La Cañada transmission main north of Roller Coaster ahead of the road construction. The rest of the project's timetable is uncertain. Mr. Offret said he is hoping the fund balance carryover increases by that time so some of the \$800,000 can be covered. Mr. Land said there is also a possibility the bids come in lower than estimated. Mr. Stratton added that because of the numerous County roadway projects, staff resources will also be stretched so that could have an impact on scheduling later phases of the project.

Mr. Guillot asked if the estimate is considered to be on the high side, what variables it is based upon. Mr. Maish said the estimates are not assuming the temporarily lower construction costs because if the economy picks up those costs will also increase. E does not anticipate higher costs within the next 2-3 years but it is impossible to predict.

Motion passed unanimously.

F. Approval of New Joint Funding Agreement for the Lower Cañada Del Oro Basin Aquifer Storage Monitoring Project with Unites States Geological Survey.

Mr. Tripp made a motion to approve the new joint funding agreement between United States Geological Survey (USGS) and MDWID. The contract will be subject to the Board's annual review and renewal and will expire on September 30, 2013. The District's contribution will not exceed annually \$7,500 and will be contingent upon matching funds from the USGS, the Town

of Oro Valley and the Town of Marana. Mr. Offret seconded the motion. Motion passed unanimously.

G. Fruchthendler Due Diligence Summary and Well Site Purchase from Tucson Unified School District.

Mr. Tripp made a motion to complete the purchase from Tucson Unified School District (TUSD) of a well site in the Hub service area. Mr. Offret seconded the motion.

Mr. Offret asked for confirmation that the final payment would be \$130,000 and the District did have \$200,000 budgeted. Mr. Stratton confirmed.

Greg Hess and Seth McCauley of Clear Creek Associates gave a PowerPoint presentation on the Hub Well Exploration project.

Helen Ireland, of 6002 N. Placita Rodeo, asked where the well site is located. Mr. Hess said the well is located south of Fruchthendler Elementary School on the north side of Tanque Verde Wash and west of Sabino Canyon.

Motion passed unanimously.

H. Office Hours on the Friday after Thanksgiving.

Mr. Tripp made a motion to approve the closing of the District office on Friday, the day after Thanksgiving Day. In addition, administrative leave with pay would be granted to District employees on the day following Thanksgiving. This policy would become effective this year. Mr. Offret seconded the motion.

Mr. Offret asked why the District must record the hours as administrative leave. Mr. Tenney said that legal counsel felt that it was better to do administrative leave because setting new holidays is the State Legislature statute. There was some discussion about employees who work only 4 hours on Fridays versus employees working a full day. Mr. Stratton said that since employees will get 8 hours of holiday time on Thursday, and 8 hours of administrative leave on Friday, all employees should be scheduled for 8 hour days for the entire work week. Mr. Offret agreed that would alleviate the possibility for inequity.

Motion passed unanimously.

V. General Manager's Report

Mr. Stratton said that based on recent communication with the Board, he had nothing further to report.

VI. Legal Counsel's Report

Ms. Silvyn said she had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the Public Hearing will be held on October 25, 2010 at 6:00 p.m. The next regular session of the Board of Directors will be on Monday, November 8, 2010.

VIII. General Comments From the Public.

Gary Burchard, residing at 1635 W. Hudson, addressed the Board regarding use of the Board room by non-profit groups. He said that as a customer, it bothers him to see the facility used heavily on evenings and weekends free of charge. While he appreciates the Board's generosity, he feels it would be better to charge a fee to cover carpet cleanings and wear and tear on tables and chairs. He pointed out that even school districts charge a fee to use their facilities.

Joseph De Lauro, residing at 6431 N. Treasure Drive, said that his property is home to about 60 mature orange trees. Most of his neighbors have their own wells but he does not. He said that a while back there had been a little glitch in his water meter, and the cost of his water has gone up quite a bit; the last bill was almost \$800 and even in winter months the bill is \$100-\$200. He asked the board to recognize his orange grove, one of the historic orange groves that gave Orange Grove Road its name, as a special part of Tucson. He would like to see if the Board is willing to negotiate the cost of irrigation of the grove to keep the trees alive. He donates about 8,000 pounds of fruit to the food bank every year and would like to be able to continue doing so. Mr. Doyle said the Board could not make comments but staff will contact Mr. De Lauro to discuss the matter.

IX. Adjournment.

Mr. Tripp made a motion to adjourn. Mr. Offret seconded the motion. The meeting adjourned at 6:56 p.m.

Jim Doyle, Chair of the Board

Warren Tenney, Clerk of the Board