

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

March 14, 2005

**** Board Room ****

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

MINUTES

Board Members Present: Suzanne Downing, Chair
 James Tripp, Vice Chair
 Jim Doyle, Member
 Dan M. Offret, Member
 Judy Scrivener, Member

District Staff: Mark Stratton, General Manager
 Michael McNulty, Legal Counsel
 Doug Metcalf, Legal Counsel
 Warren Tenney, Clerk of the Board
 Alice Stults, Recorder

Executive Session

I. Call to Order and Roll Call

Suzanne Downing, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 5:03 p.m. Suzanne Downing, James Tripp, Dan M. Offret, and Judy Scrivener were present. Jim Doyle was not present at roll call but arrived at 5:14 p.m.

Mr. Tripp made a motion to adjourn into executive session. Mr. Offret seconded the motion. Motion passed unanimously.

II. Executive Session

Executive Session pursuant to A.R.S. § 38-431.03 (A)(3) (consultation for legal advice with District Legal Counsel), and A.R.S. § 38-431.03 (A)(4) (consultation with legal counsel regarding contracts that are in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation) regarding the following:

A. Well Maintenance Contract with Duncan Pump.

III. Adjournment

The executive session adjourned at 6:02 p.m.

Regular Session

I. Call to Order and Roll Call

Suzanne Downing, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 6:06 p.m. Suzanne Downing, James Tripp, Jim Doyle, Dan M. Offret, and Judy Scrivener were present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – February 14, 2005 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Bill of Sale – Ina Corporate Center, Units 1-64.**

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 due to the rains in February 2005 the amount of water used by customers continued to be down, resulting in revenues declining somewhat.

Mr. Stratton said installation of the new smaller diameter pump was completed at the Ina/CDO Well. Currently, the well is in a trial period and appears to be functioning properly.

The design of the Northeast Reservoir continues. Mr. Stratton said a public meeting to explain the status of the reservoir design has been scheduled for 6:00 p.m. on April 5, 2005 at Immaculate Heart Hospital.

Mr. Stratton explained that KE&G is continuing to work on the Magee Road transmission main.

B. Financial Report.

Mike Land, Chief Financial Officer, said District expenditures are below average for this time of year, with the exception of salaries. He noted that during the past month there were 38 new meter installations.

Mr. Offret noted there was an expenditure on the financial report for vaccines and asked what they were for. Mr. Land explained that Utility workers are encouraged to receive hepatitis shots due to working around sewer mains and possibly being exposed to sewage.

C. Certification of Results of March 8, 2005 Bond Election.

Mr. Tripp made a motion to approve and certify the result of the special March 8, 2005 bond election. Mr. Offret seconded the motion. Motion passed unanimously.

Ms. Downing noted that the District received phone calls from customers asking where they should go to vote. She asked if the District notified its customers of the change in polling locations for the special bond election. Warren Tenney, Assistant to the General Manager, said sample ballots were mailed out to all registered voters in the District that contained information on the polling precincts. Customers were also notified to contact Pima County Elections if they had any questions.

Ms. Downing said she was disappointed in the lack of news coverage the bond election received prior to the election. She asked if items such as the District's bond election could receive better news coverage in the future. Mr. Stratton said he met with newspaper staff who indicated that because the bond election impacted such a small portion of their clientele in the Tucson area, they do not generally print large articles about the District.

Mr. Stratton wanted to thank members of the citizens committee who volunteered their time and efforts to promote the District's bond election. Their hard work contributed to the successful outcome of the election for the District.

D. Discussion and Direction for Legislative Issues 2005.

Christy Myers, Gallagher & Kennedy, provided brief updates on the current legislative issues.

Ms. Myers said HB2323 Tax Credit for Graywater, passed the House with an amendment that clarifies the budget cap.

Ms. Myers said SB1190 Exempt Wells, passed the House Natural Resource Committee today 8 to 1 and will now go to the full house.

SB1460, which allows two domestic water improvement districts to merge, has passed the Senate and is assigned to the House Natural Resources Committee.

Mr. Stratton noted that the state budget is now on the front burner in the Legislation and asked when these bills would move forward. Ms. Myers said it is unknown at this time when the budget discussions will end.

Ms. Downing asked why so many of the bills are dead now. Myers said that every year there are a number of bills that do not move forward for one reason or another.

E. Approval of Professional Services Contract for the Northeast Reservoir Booster Station Facility.

Mr. Tripp made a motion to award the Professional Services contract for the Northeast Reservoir Booster Station facility to Brown and Caldwell (B&C) in the amount of \$161,577.00. Mr. Offret seconded the motion. Motion passed unanimously.

F. Award of Construction Contract for the South Shannon Wellhead GAC Treatment System.

Mr. Tripp made a motion to award the construction contract for the South Shannon Wellhead GAC Treatment System (M-04-05) to The Ashton Company in the amount of \$346,497.00. And further, to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$15,000.00 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Mr. Offret seconded the motion.

Mr. Offret asked if the treatment system was reimbursable from the State of Arizona. Mr. Maish said yes, and noted that \$360,000.00 is the committed amount from the State.

Motion passed unanimously.

G. Update on Hub Well #3 and New Hub Well #7.

Chris Hill, Deputy Manager, provided an update on the status of the arsenic treatment plans for Hub Well #3, and the construction of the new Hub Well #7. To date, the biggest challenge has been the acquisition of property in the Hub service area for the new well, which has now been obtained. Mr. Hill said the District is on track with meeting the arsenic rule at Hub Well #3, and should be able to meet the January 2006 arsenic rule compliance deadline.

Mr. Offret asked what the dollar amount would be for treatment of arsenic in Hub Well #3, and where the money would come from. Mr. Hill replied the treatment would cost approximately \$350,000.00. The funds for arsenic treatment will be paid out of the operating fund, as will the monies for equipping Hub Well #7.

Ms. Downing voiced her concerns that she thought from the Board report the District may be behind schedule with these projects. Mr. Hill said staff will know more within the next couple of weeks but still believes the District will meet the deadline. The Board asked staff to keep them

advised of updates as soon as items occur as opposed to waiting until the next Board meeting to provide updates.

H. Award of the Construction Contract for the Drilling Installation, and Testing of the Tucson National Well #2 and Hub #7 Production Wells.

Mr. Tripp made a motion to award the construction contract for the drilling, installation, and testing of the TNW2 and Hub No. 7 production wells to WDC Exploration & Wells in the amount of \$735,582.00 (Alternative B). Also, to grant the General Manager authority to approve the following changes to the construction contract: 1) allocate additional funding accumulative amount not to exceed \$25,000.00 and 2) increase the original construction contract term accumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Offret seconded the motion for purposes of discussion.

Mr. Hill explained that when the bid documents were prepared specific items were accidentally omitted in Option A. Therefore, staff made its decision on the low bidder based on the information from Option B which contained all of the pertinent line items.

Ms. Downing said she wanted Legal Counsel's opinion on the options that were available, and the possibility of the District changing its preferred option. Mr. McNulty explained that he was not familiar with the contract.

Mr. Hill said that WDC Exploration & Wells, the lowest bidder, contacted the District and said if it received the bid it wanted to exercise its rights to raise the price at a later date based on the current cost of steel during the construction phase. After discussions with District staff, the contractor agreed to remove this stipulation from the bid document. Due to the timeline necessity for completion of Hub Well #7, Mr. Hill said that staff decided to give the bid to WDC Exploration & Wells. Mr. Hill said if the other two bidders believe that their bids would have been lower had they not included the price increase of steel, then the District can re-bid the contract.

Mr. Doyle asked on what basis we would evaluate the protest from the other two bidders if they did not agree with the evaluation of the bids by the District. Mr. Hill said he did not believe the bid would be protested.

The motion to award the construction contract for the drilling, installation, and testing of the TNW2 and Hub No. 7 production wells to WDC Exploration & Wells in the amount of \$735,582.00 (Alternative B), and to grant the General Manager authority to approve the following changes to the construction contract: 1) allocate additional funding accumulative amount not to exceed \$25,000.00 and 2) increase the original construction contract term accumulative amount not to exceed sixty (60) calendar days, with any changes in excess of the above limits being submitted to the Board of Directors for approval, was approved with Mr. Tripp, Mr. Doyle, Mr. Offret, and Ms. Scrivener voting in favor of the motion. Ms. Downing voted against the motion.

I. Advanced Replenishment Contract with Central Arizona Groundwater Replenishment District.

Mr. Tripp made a motion to direct staff to negotiate an Advanced Replenishment Contract with the Central Arizona Groundwater Replenishment District (CAGR) for a replenishment volume no greater than 517 acre feet. The negotiated contract will be brought back to the Board for approval. Mr. Offret seconded the motion.

It was noted that the replenishment volume in the motion should have been no greater than 617 acre feet. Mr. Tripp amended the motion to reflect the correct volume of 617 acre feet. Mr. Offret seconded the amended motion.

Mr. Stratton explained that that the contract would need to be presented to the CAGR Board for its approval.

The motion to direct staff to negotiate an Advanced Replenishment Contract with the Central Arizona Groundwater Replenishment District for a replenishment volume no greater than 617 acre feet, with the negotiated contract being brought back to the Board for approval, passed unanimously.

J. Well Maintenance Contract with Duncan Pump.

Mr. Tripp made a motion to direct Legal Counsel to proceed with a settlement agreement with Duncan Pump. Mr. Offret seconded the motion. The motion passed unanimously.

K. Annexation Agreement with Cortessa, L.L.C.

Mr. Tripp made a motion to approve the annexation agreement with Cortessa, L.L.C. This agreement would secure a new subdivision for the District's service area that would also be annexed as an official part of the District. Mr. Offret seconded the motion.

Chris Harmon, Stardust Development, provided information to the Board regarding the subdivision development. He explained that Stardust Development is a lot developer for Cortessa, L.L.C., and not a homebuilder. There are 1,857 lots on the property available for development. Mr. Harmon said that after investigating water utilities in the Tucson area that his firm determined Metro Water had an excellent reputation for delivery of water. Stardust Development approached the District with the idea of being the water provider for the new development subdivision.

Ms. Downing asked for legal counsel's view of the annexation agreement with Cortessa, L.L.C. Michael McNulty, Legal Counsel, said it is a good agreement that stands on its own merit.

Mr. Stratton noted there is stipulation within the agreement pertaining to the structures. The developer will drill all wells, build all lines, equip the well sites, etc., and will be reimbursed by the District through development fees.

The motion to approve the annexation agreement with Cortessa, L.L.C., and secure a new subdivision for the District's service area that would also be annexed as an official part of the District passed unanimously.

L. Resolution 2005-1 - Consideration of Annexation of Property Owned by Cortessa, L.L.C.

Mr. Tripp made a motion to approve Resolution 2005-1 for the annexation of the property owned by Cortessa, L.L.C. as an addition to the Metropolitan Domestic Water Improvement District. Mr. Offret seconded the motion. The motion passed unanimously.

(Mr. Doyle left the meeting at approximately 7:00 pm.)

V. General Manager's Report

Mr. Stratton said on February 28, 2005 there was a small fire in the computer room at the District office. A UPS unit for the file server was the source of the fire and smoke. A fire alarm was activated and the fire department responded. Mr. Stratton said as a result of this incident, staff has been having meetings focusing on emergencies in the office building, and the evacuation of the building. He said staff is also discussing disaster recovery; i.e., if the computer room were to completely burn down or be destroyed by some other means. Staff will be putting together suggestions and plans on what the District can do for emergency backup systems as it recovers from a disaster. Mr. Stratton said the Board will be kept updated as policies and procedures are established for disaster recovery.

Mr. Offret asked if Paychex, human resource consultants, could assist the District with training for emergencies. Mr. Tenney said Paychex has been contacted and is assisting the District's safety officer with the development of emergency plans and procedures.

Mr. Tripp asked if the District had a fire system in the computer room. Mr. Stratton replied yes; however, he noted that the current fire system in the computer room is not an appropriate system. He explained that staff will prepare recommendations for fire protection in the computer room and bring those recommendations to the Board for its consideration.

Mr. Stratton said the budget process is underway and he recommended that as in past years study sessions be scheduled for Board's review of the budget. The Board agreed to meet on March 28, 2005 for the first of several study sessions to review the District's budget.

Mr. Stratton said that with the projects for Hub #3 and Hub #7 wells being approximately \$1 million, he has asked staff to provide a list of priorities for budgeting purposes. He will apprise the Board of the availability of funds when those funds are determined.

Mr. Stratton reminded the Board that the public meeting regarding the Northeast Reservoir is at 6:00 p.m. on April 5, 2005 at Immaculate Heart Hospital.

Mr. Stratton said the District received a letter from a homeowner whose property is located near the Tucson National West well. The homeowner, noting that the District will be doing additional work at the well site, would like a wall constructed in place of the chain link fence for aesthetic purposes. Mr. Stratton said staff will provide the Board with information on the construction cost of a brick wall, and would note the exact location of the homeowners residence in regards to the well site.

Mr. Stratton noted that at the February 14, 2005 Board meeting the Board approved the purchase of La Colina Lot #19 for a future well site. However, prior to District staff being able to secure the purchase of this property, it was purchased by another buyer.

District staff has been notified by CAP that payment for additional allocations can be paid over a three year payment plan. Mr. Stratton said CAP will contact the District once a payment option has been determined.

Mr. Stratton noted that he will be out of town on vacation the rest of this week.

VI. Legal Counsel's Report

Mr. McNulty said over the past month his focus has been on the annexation of the property owned by Cortessa, L.L.C. for the District. He mentioned that he was also working on two additional items for the District. The first item is the development of an IGA with Pima County that allows for "fingerprinting" water if emergency water quality testing is needed. The second item was the agreement with the Cobo Catalina Homeowners Association (CCHOA) regarding the Northeast Reservoir. It was discovered that CCHOA is not considered a legal entity because it is not an incorporated home owners association or corporation. Mr. McNulty explained that this meant there was not an individual that could sign a legal binding contract with the District. He noted that legal counsel is still working with the CCHOA in an attempt to secure an agreement with the association and will provide updated information at the next Board meeting.

VII. Future Meeting Dates; Future Agenda Items

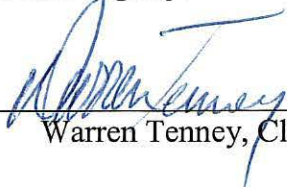
The next regular meeting of the Board is April 11, 2005 at 6:00 p.m. A study session has been scheduled for March 28, 2005 at 5:30 p.m.

VIII. General Comments from the Public

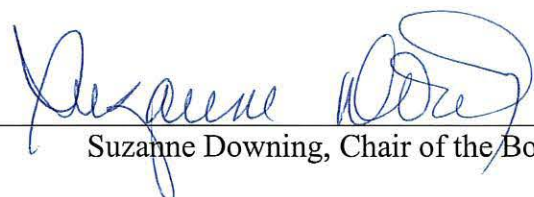
There were no comments from the public.

IX. Adjournment

The meeting adjourned at 7:25 p.m.



Warren Tenney, Clerk of the Board



Suzanne Downing, Chair of the Board