

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

September 12, 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
 Dan M. Offret, Member
 Judy Scrivener, Member

Not Present: Jim Doyle, Member

District Staff: Mark Stratton, General Manager
 Keri Silvyn, 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 5:02 p.m. Suzanne Downing, James Tripp, Dan M. Offret, and Judy Scrivener were present. Jim Doyle was not present.

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. Disagreement regarding Acquisition of Property for Metro-Hub Well No. 7.

The executive session adjourned at 5:35 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 6:00 p.m. Suzanne Downing, James Tripp, Dan M. Offret, and Judy Scrivener were present. Jim Doyle was not present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – August 8, 2005 Board Meeting.**
- B. Approval of Minutes – August 18, 2005 Special Board Meeting.**
- C. Ratification of Billing Adjustments.**
- D. Ratification of Bill of Sale – Club Carmel Apartments.**
- E. Ratification of Bill of Sale – Grace Community Church.**

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 that water usage was down during August 2005 due to the amount of rain received. He explained that this will impact the District's revenues received during August 2005 compared to the same month last year.

Mr. Stratton noted that the last of the current capital improvement projects (CIP) are finishing up. He explained that the contractor has been issued a notice-to-proceed for the last portion of the work for the South Shannon wellhead GAC treatment system. It is anticipated that the work will be completed during the first part of 2006.

Mr. Tripp noted that the District donated 112 cases of bottled water to victims of Hurricane Katrina. He thanked staff for sending the bottled water to the victims of Hurricane Katrina. Ms. Downing thanked the District on behalf of the Flowing Wells ROTC for the bottled water that has been provided to them for their meetings and training sessions.

B. Financial Report.

Sheila Willis, Controller, said the audit has been completed and the District is waiting for the draft report. Mr. Offret asked if there was a deadline for the final audit report. Ms. Willis said the District no longer has to provide Pima County with a copy of the final audit; therefore, there is not an established deadline.

C. Approval of Amended Intergovernmental Agreement with Pima County for the Collection of Sewer Fees.

Mr. Tripp made a motion to approve the Amended Intergovernmental Agreement with Pima County Wastewater Management for the collection of sewer user fees, extending the termination period to June 30, 2006. Mr. Offret seconded the motion. Motion passed unanimously.

D. Review of Open Meeting Law and Recent Attorney General Opinion.

Warren Tenney, Assistant to the General Manager, said that this item is being provided to the Board as a review of the open meeting laws. The laws are put in place so that all items considered by the Board are done before the public. Mr. Tenney cautioned Board members to be cautious about discussing District business and to be sure and comply with the open meeting law. The Attorney General of Arizona made a recent opinion regarding open meeting law and e-mail communication. The opinion cautioned Board members from communicating about District business with another Board member that in turn could be communicating with another Board member.

E. Update on Costs for the First Phase of the 10-Year Capital Improvement Program.

Mr. Stratton said that this report was provided to keep the Board apprised of the anticipated costs associated with the new CIP program.

Charlie Maish, District Engineer, said that many of the current CIP projects are left over from previous years when there were not enough funds to contribute to the projects. The cost for completing projects has risen sharply over the past several years. He noted that it is difficult to anticipate and estimate project expenses due to the continual increase in the cost of supplies and materials. Mr. Maish explained that Hurricane Katrina will also undoubtedly play a role in the overall cost for supplies and materials. Ms. Downing agreed, and noted that the Board is also concerned with the possibility of rising costs.

F. Resolution 2005-4 – Authorizing Execution of Loan Agreement with the Water Infrastructure Finance Authority of Arizona.

Mr. Tripp made a motion to approve Resolution 2005-4 to authorize the execution of a loan agreement with the Water Infrastructure Finance Authority of Arizona (WIFA), approving related documents and actions. Mr. Offret seconded the motion.

Ms. Downing asked that if the Board was to decide the District should make other projects a priority and to complete them prior to the projects already outlined, would this be acceptable to WIFA. Fred Rosenfeld, District Bond Counsel, replied yes. He explained that this loan agreement is not limited to what work or projects are completed as long as the work is kept going, utilizing the funds during the period of time specified. He noted that annual reports detailing the work being done will need to be provided to WIFA. Mr. Rosenfeld said that the interest rate with WIFA is generally below the prevailing market rate, making the loan more financially viable for the District.

Motion passed unanimously.

G. Presentation of the Northeast Water Reservoir Final Design.

Jim Pembroke, HDR Engineering, provided a presentation to the Board on the Northeast Water Reservoir. The reservoir site evaluation process consisted of five criteria, and based on those criteria the Cobo Catalina site was picked as the preferred site. Staff and HDR worked with the Cobo Catalina Homeowners Association when considering the design, construction, and projected dates for beginning and completion of items. Mr. Pembroke explained that plants and vegetation located on the site will be salvaged and replanted on the site. There will be only one building located on the site and it is designed to blend in with the landscaping. There will be security cameras and alarms at access points to the reservoir. Noise will not be an issue as there is no major pumping equipment. Mr. Pembroke said construction costs are projected to be \$5,668,237. Final design plans are scheduled to be completed later this week. It is anticipated that construction of the Northeast Water Reservoir will be completed during February 2007.

Ms. Downing asked if there was a possibility that the reservoir will leak. Mr. Pembroke said due to the type of construction materials used there should be minimal leakage.

A District customer from the audience asked about an agreement between the District and the Cobo Catalina Homeowners Association (HOA) that was previously written. Mr. Maish said there cannot be an agreement signed by the HOA as they do not have an organized HOA entity. He noted that the District will still abide by the terms of the original agreement that was created per the CC&R.

Ms. Downing asked how hard it would be for a person to have access to the top of the reservoir tank. Mr. Pembroke noted that it will be difficult to dig down to the top of the tank which is buried underground.

H. Proposed Rate Structure Adjustment and Scheduling of a Public Hearing.

Mr. Tripp made a motion to approve to schedule a public hearing for October 26, 2005 at 6:00 p.m. for the purpose of discussing the District's rate structure and paying the debt service associated with the WIFA loan to finance the Capital Improvement Program. Additionally, the public hearing will be an opportunity to discuss increasing the water resource fee and the system development fee. Mr. Offret seconded the motion.

Mr. Stratton noted that included with the Board report were three alternatives or suggestions to a proposed rate structure adjustment for the Board's consideration. Mr. Stratton said that consumption increases were considered as well as increased development fees. The District has not increased its system development fees and water resource fees for some time. Mr. Stratton explained that staff also considered the amounts that other utilities in the area are charging when considering the rate structure adjustment.

Warren Tenney, Assistant to the General Manager, provided a brief summary of what the information fliers would look like that will be mailed to all District customers. He explained that the flier would provide the customers with information regarding the proposed rate structures. The fliers would be mailed to the customers prior to the public hearing. Ms Downing asked about the newsletter possibly conflicting with the mailing of the fliers. Mr. Tenney noted that the timing of mailing the newsletter could be altered somewhat, if needed. The Board asked that the information sent to the public in the fliers be as clear as possible.

The motion to approve to schedule a public hearing for October 26, 2005 at 6:00 p.m. for the purpose of discussing the District's rate structure and paying the debt service associated with the WIFA loan to finance the Capital Improvement Program passed unanimously. Additionally, the public hearing will be an opportunity to discuss increasing the water resource fee and the system development fee.

I. Assured Water Supply Designation for Metro-West.

- 1. Resolution 2005-5 – Authorization to Submit Application for a Designation of Assured Water Supply.**
- 2. Approval to Apply for Membership with the Central Arizona Groundwater Replenishment District.**

Mr. Tripp made a motion to approve Resolution 2005-5 to submit a Designation of Assured Water Supply application for Metro-West with the Arizona Department of Water Resources. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Tripp made a motion to approve the application for membership for Metro-West with the Central Arizona Groundwater Replenishment District. Mr. Offret seconded the motion. Motion passed unanimously.

J. Approval of Groundwater Savings Projects Agreements.

Mr. Tripp made a motion to approve the amendment to the agreement between the District and the Cortaro Water Users' Association for "In-Lieu Water Deliveries and Storage" and that the agreement be in effect until December 31, 2006, unless renewed by the District and Cortaro Water Users' Association for an additional year. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Tripp made a motion to approve the amendment to the agreement between the District and the Herb Kai for "In-Lieu Water Deliveries and Storage" and that the agreement be in effect until

December 31, 2006, unless renewed by the District and Herb Kai for an additional year. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Tripp made a motion to approve the new agreement between the District and BKW Farms for "In-Lieu Water Deliveries and Storage" and that the agreement is in effect until December 31, 2006, unless renewed for an additional year by the District and BKW Farms. Mr. Offret seconded the motion. Motion passed unanimously.

K. Ratification of Professional Services Agreement for South Shannon Wellhead GAC Treatment System.

Mr. Tripp made a motion to approve to ratify the Professional Services Agreement with Malcolm Pirnie, Inc. for Phase 2 construction services at the South Shannon Wellhead GAC Treatment System in the amount of \$21,499.00. Mr. Offret seconded the motion.

Mr. Offret asked if this amount is reimbursable from the State. Mr. Maish replied yes.

Motion passed unanimously.

L. Update on New Well Installations and Approval of Contract Amendment: Hub No. 7 and Tucson National West Replacement Well.

Mr. Tripp made a motion to approve the contract amendment with Layne Christensen to an amount of \$100,859 and if necessary, utilize up to \$3,281 from the contingency fund to pay for the new well, site development and improvements, and arsenic removal for Hub Well No. 7. Additionally, to approve the contract amendment with Brown and Caldwell be increased by \$9,000 to a total contract amount of \$104,524. Also, to approve that \$80,000 from the contingency fund of the Fiscal Year 2005-2006 budget be used for the Tucson National West No. 2 well. Mr. Offret seconded the motion.

Mr. Offret asked if sufficient funds were available in the contingency fund. Mr. Stratton replied yes, and noted that none of the contingency fund has been spent to date.

Motion passed unanimously.

M. Update on Arsenic Treatment for Hub Well No. 3.

Chris Hill, Deputy Manager, said staff anticipates providing the Board, for its consideration and approval, a contract for arsenic treatment for Hub Well No. 3 at its next meeting. At this time, staff is preparing to go out to bid for a treatment system. Mr. Hill explained that the District may not be able to meet the January 26, 2006 deadline for arsenic treatment. Meeting the deadline will be dependent upon ADEQ's time frame for approval of the system.

V. General Manager's Report

Mr. Stratton explained that the District received an inquiry from Tucson Water regarding the District's interest in acquiring the Tucson Water service area adjacent to the recently annexed Arboles Viejos subdivision. Staff is currently conducting a system evaluation on this service area and will provide the Board with its findings and recommendations when the system evaluation is complete. Mr. Stratton said that the Town of Marana also considered acquiring this service area and ultimately declined the offer. He explained that water quality and infrastructure were two of the concerns of the Town of Marana when it completed its evaluation. Mr. Stratton noted that staff is also looking at other satellite water systems around the Tucson area.

Mr. Tripp asked why the City of Tucson would want to get rid of this service area. Mr. Stratton replied that the service area is located a fair distance from any of the City of Tucson's other systems, and from an operational standpoint it is a long way for its staff to travel.

Mr. Stratton said staff is currently working on the District's bi-annual salary compensation survey and analysis to ensure that the District is in line with current industry standards. Paychex will assist in making evaluations of the District's process for the salary compensation survey, which should be completed during December 2005 or January 2006. Mr. Offret asked if staff could have the salary compensation survey completed in December 2005.

Mr. Stratton said that the Southern Arizona Water Users Association (SAWUA) will meet next week to define the presentations that will be provided to the Boards of the SAWUA members regarding the white paper on regional water issues. Mr. Stratton noted that some area utilities, such as Pima County, do not provide water but would like to be included in the process. He said SAWUA members will continue discussions on the participation of these entities. Mr. Stratton added that once the items are outlined and the entity is formed, financing will be discussed to meet the needs of the members.

Mr. Stratton said that the annual Tri-State seminar is September 22 through September 24, 2005. There is a number of District Staff that will be attending using their Professional Growth funds. Chris Hill and Gary Burchard will also attend and give presentations during this seminar. Mr. Stratton added that he, Ms. Scrivener and Mr. Doyle will also be attending.

Mr. Stratton said the Colorado River Water Users Association will hold their annual seminar in December 2005. Staff will provide the Board with information on the seminar when it is received by the District.

VI. Legal Counsel's Report

Keri Silvyn, Lewis & Roca, explained that she did not have anything new at this time to report. Ms. Silvyn introduced Brian Curley who is a new attorney with Lewis & Roca. Mr. Curley will also be working on water issues for the District.

VII. Future Meeting Dates; Future Agenda Items

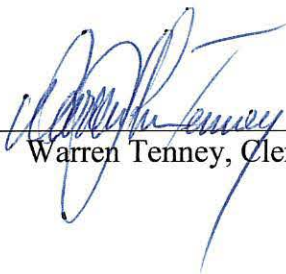
The next regular meeting of the Board of Directors is October 12, 2005 at 6:00 p.m. A Public Rate Hearing is scheduled for October 26, 2005 at 6:00 p.m.

VIII. General Comments from the Public

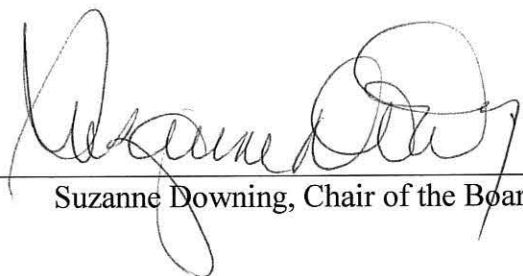
There were no comments from the public.

IX. Adjournment

The meeting adjourned at 7:13 p.m.



Warren Tenney, Clerk of the Board



Suzanne Downing, Chair of the Board