

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

November 2, 2005

**** Board Room ****

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

MINUTES

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

Absent: James Tripp, Vice Chair

District Staff: Mark Stratton, General Manager
 Warren Tenney, Clerk of the Board
 Alice Stults, Recorder

Special Meeting

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 Special Board Meeting to order at 3:09 p.m. Suzanne Downing, Jim Doyle, Dan M. Offret, and Judy Scrivener were present. James Tripp was not present.

II. General Comments from the Public

There were no comments from the public.

III. State of the District and Future – Items for Discussion and Possible Direction

A. Infrastructure.

Mark Stratton, General Manager, said this special meeting was to allow dialogue between staff and the Board of Directors on current and future issues and provide the Board with a better understanding of where the District is headed financially. Staff has been looking at the current and

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future financial status of the District when compiling the reports and information provided to the Board for this meeting.

Mr. Doyle arrived at 3:11 p.m.

Mr. Stratton reviewed the 1999-2005 \$23 million bond program and explained some of the projects that were completed with these bond monies. Projects that were completed within this CIP program included transmission mains, mainline replacements, design of the Northeast Reservoir, acquisition of the property and design of the Northeast Booster Station, six well modifications, two new wells drilled, one well site completed, telemetry improvements in Metro Main and Hub service areas, auxiliary power at five well sites, and the new Hub reservoir. Mr. Stratton said that not all of the planned projects were completed under the 1999-2005 bond program due to monetary constraints.

Ms. Downing asked how many projects were not completed under the 1999-2005 initial bond program. Mr. Stratton said there was planned construction in the area adjacent to the District office that was not completed. Charlie Maish, District Engineer, mentioned that mainline replacement projects not completed were the Tucson National, Northern Hills Phase 2, and Orange Street Hills Estate. Ms. Downing asked if these projects would be prioritized within the new CIP bond program. Mr. Stratton noted that the projects were not completed due to the increased cost of construction and materials. He explained that these projects will be completed.

Mr. Stratton said the Tucson National/Westward Look project is being re-bid due to the contractor not being able to secure bonding. This project has been scaled down due to recent price increases in materials. Ms. Downing asked if other projects could be left undone in order to complete the Tucson National/Westward Look project. Mr. Stratton said staff has reviewed the projects that could be completed at a later date, and have prioritized them by need and customer impact.

Mr. Stratton said that all the new CIP bond monies have been allocated if the remainder of the Tucson National/Westward Look project is also funded out of the new bond monies. Under the Water Infrastructure Financing Authority (WIFA) policies, 85% of the new CIP bond funds must be spent within three years. In March 2005, voters approved the \$28 million CIP bonds. The 2005 bond program first loan of \$15.375 million closed last month with an interest rate of 2.877%. This interest rate is good for the life of the loan.

Mr. Stratton said the first phase of projects included in the new CIP bond program are the Northeast Reservoir, Northeast Booster Station and Northeast Transmission Main. The timing sequence of these projects will be such that the booster station and transmission main will be completed first and be ready for when the reservoir is ready to be filled. Other projects include additional transmission mains, Linda Vista renewable supply line, and five mainline replacements in the Metro service area. Improvements for the Hub service area include mainline replacements, transmission mains, and a new well.

Mr. Stratton said staff looked first at system reliability when considering the projects that would be addressed with the new bonds. He explained that staff will make a formal recommendation through the Bond Oversight Committee to remove a segment of the transmission main projects on the west

side due to the cost of materials. The CAP transmission line will also be put on the back burner at this time.

Mr. Stratton said that staff has been looking at new storage in the Hub service area that was not included in the new bond program. Mr. Offret asked about the transmission main on Cloud Road. Mr. Maish said a portion of the transmission main is undersized. Mr. Offret noted that he was concerned about the ability to pump up to the existing Hub storage tank from the new proposed well site to the south. Mr. Maish said the hub storage expansion and the completion on the Hub transmission line up to the reservoir is included in the second phase of the bond program. Chris Hill, Deputy Manager, said staff is also looking at doing some exploratory drilling in the northern Hub area.

Mr. Stratton said that unfunded transmission main projects include the La Canada Drive 'A' Zone Transmission Main, Overton Road 'C' Zone Transmission Main, La Cholla 'C' Zone Transmission Main, and the Central Reservoir 'A' Zone Transmission Main. He explained that additional storage identified in the unfunded capital improvement projects includes a Central Reservoir that would serve the 'A' and 'Z' zone service areas, and the Northwest Reservoir that would service the 'B' and 'C' zones. Also, proposed storage expansion in the Hub service area is included in the unfunded CIP projects. Mr. Stratton added that when considering proposed sites security and the availability of land is a primary concern. He noted that the cost of land is ever increasing.

Mr. Stratton said that approximately \$10 million in unfunded mainline replacement has been identified that will need to be addressed at some point; however, probably not within the next ten years. The areas that were truly in need of mainline replacement have been completed, or are scheduled to be completed under the new CIP bond program.

Mr. Stratton said that staff has determined that future water supply requirements for the District includes 6 to 12 wells that will pump 500 gallons per minute (gpm) to 1,000 gpm each. These wells will be necessary to replace low production wells and wells nearing their useful life capacity. He explained that additional work still needs to be done on well siting. A few sites are available at Casas Adobes Terrace at Ina and Shannon, and Riverside Crossing.

Mr. Offret asked if a well is shut down for whatever reason, can it be started back up in 10 years or so after it has had a chance to recover. Mike Block, District Hydrologist, said it depends on the pumping that is taking place in the area that affects the water table. Mr. Hill added that parts of the well deteriorate after it has been allowed to sit idle for a number of years.

Mr. Stratton explained that pressure differences between zones in the distribution system will also need to be addressed in the future. These improvements will enable the District's system to meet fire flow requirements. Mr. Stratton noted these may be funded out the general fund.

One of the items that the District does not have control over is growth, Mr. Stratton said. The roadway system within Pima County needs improvements, and it is expected that a regional transportation plan will go to the voters next spring. If the voters approve the plan, there are several Pima County roadway projects in Metro Water's service area that will result in the need for the

District to address line relocation. Mr. Stratton said that these relocations have typically cost the District a substantial amount for construction in the past. Hopefully the District will know well in advance of the proposed projects so that it can plan and budget for these projects.

Ms. Downing asked if there is any way that the District can work this to its advantage with other work that the District is possibly planning in the same area of the Pima County roadwork projects. Mr. Stratton said that whenever possible staff coincides District projects with those of Pima County.

Mr. Offret asked if WIFA provides monies for relocation work. Mike Land, Chief Financial Officer, said yes; however, WIFA loans require prior voter authorization. The District could alter any planned projects currently funded under the new CIP if there was an unexpected line relocation. Mr. Maish said that some of the other utilities in the Tucson area have Pima County bid out their work to be included with that of the County, and then reimburse the County. This is generally more expensive than if the District bids out the project or does the work itself. Mr. Offret noted that he would like the District to be able to set aside money for relocations.

Ms. Downing explained that she would like to see a map created that would reflect all planned transmission mains as being completed, along with those that have been completed. She asked about the proposed and completed transmission mains for the reservoirs. Mr. Stratton explained that there will be two new transmission lines off Herb Johnson Reservoir. He said that one of the transmissions lines will tie into the future CAP supply, and the other will tie into the proposed Northwest Reservoir.

Ms. Downing said it is her understanding there is a concern in getting the customers to the south end of the District water if a problem were to occur. Mr. Maish explained that there is a 12 inch mainline that goes to the southwest of the District's boundaries. Mr. Stratton said there is a lot of mainline redundancy on the southwest corner of the District's boundaries. On the southeast corner there is not a lot of new growth.

B. Water Quality.

Mr. Hill provided information about the new arsenic rule of 10 parts per billion (ppb) that will take effect January 23, 2006. He explained that the District is on schedule in complying with the arsenic rule. Large amounts of arsenic in the water have been determined to cause bladder and other cancers.

Mr. Offret asked about a legal challenge that was made to the arsenic rule. Mr. Stratton said that WESTCAS had reached an agreement with the EPA on a number of critical points; however, the allowable amount of arsenic in drinking water was not changed to 20 ppb as WESTCAS had hoped. Mr. Stratton explained that some states are allowed to occasionally exceed the 10 ppb rule if their annual average remains 10 ppb or less. Arizona has allowed this also based on quarterly samples.

Mr. Hill said lead and copper exposure to children is a concern and EPA standards have been established at 15 ppb of lead and 1.3 parts per million (ppm) of copper are allowed in drinking water. If a water utility meets these standards 90% of the time on a yearly basis, then the utility

only has to test for these items every three years. If utilities do not meet these standards, they are required to do corrosion control. The number of samples taken at different sites depends on population. Mr. Hill noted that older fixtures tend to contain more lead and copper.

Mr. Hill said water utilities must also check for volatile organic compounds (VOC's), synthetic organic compounds (SOC's), and inorganic contaminant compounds (IOC's). Within a three year period the District must conduct 90 different tests in 27 separate locations. Mr. Hill said to track testing schedules staff has included the testing schedules in the District's computer system. South Shannon is the only well with VOC concerns. This well is being retrofitted to address the VOC concerns.

Mr. Hill said the District also conducts 64 sampling tests a month for total coliform. The amount of samples required by EPA is based on population. These tests are taken at customers homes. Mr. Hill noted that the EPA standards are rigid and staff must be very careful when taking the samples so that they do not become contaminated. Additional tests conducted include testing for total trihalomethanes, haloacetic acids, and radionuclides.

Ms. Downing asked what additional, if anything, does the District need to be able to accurately address the reporting issues for contaminants. Mr. Hill said the District needs a data base that all users would be able to access, and also to be able to add GIS to that data base. He explained that water samples are taken with different methods, equipment, varying time schedules, locations, etc.

Mr. Offret asked if sample testing is done in-house. Mr. Hill said all of the samples are sent out to be tested. Currently the District spends approximately \$90,000 a year on testing. Most of the sample testing is done locally, with only a few samples sent out of state. The labs pick up the District's samples. Mr. Stratton said discussions are taking place on potentially creating a large regional lab to test all the area utilities samples.

Mr. Hill explained that the Environmental Protection Agency Notification Rule for contaminants is a three tier process. The rule states that for some contaminants the public must be made aware of the contamination in the water. The rule also states that a utility only has to notify customers that are in the direct area where the water is affected. Mr. Stratton said that the District is quick to respond in notifying customers and the State if there is a concern regarding water quality.

Mr. Hill said that some of the new rules that will be coming in the future addressing water quality and monitoring include a groundwater rule for wells that are susceptible to contamination, radon rule, distribution rule regarding infrastructures, methyl tertiary butyl ether (mtbe), perchlorate, and viruses. He explained that in the future the cost for testing could become substantial.

Ms. Downing asked what the District could do to inform customers of the damaging effects of flushing prescriptions in their toilets. Prescription drugs have a potentially harmful effect on water that causes the water to have to be treated. Mr. Stratton suggested the District consider coordinating its educational efforts with Pima County Wastewater.

C. Water Resources.

Mike Block, District Hydrologist, said that Metro Water has four water supplies; groundwater, CAP water, effluent, and remediated water. Mr. Block explained the graphs provided to the Board and said the graphs reflect water usage and how the amount of water used is affected by weather. There are approximately 28 working wells within the Metro main service area at this time, down from the approximately 34 wells in 1992. Currently the District is using approximately 18 million gallons of water per day. Mr. Block explained the District's groundwater credits and assured water supply. He noted that the District is presently delivering ground water; however, it is anticipated to lessen that usage amount with a conversion for delivering CAP water.

Ms. Downing asked how much water storage the District had in 1992 compared to today's amount. Mr. Maish said the District has approximately 11.5 million gallons of storage today, and between 5 and 6 million gallons in 1992.

Mr. Block said the District's CAP allocation is 8,858 acre feet and we are expecting to receive an additional allocation of 4,602 acre feet in 2008. This would be the build out for the Metro main service area.

Mr. Offret asked if the District were to buy another water company what effect this would have. Mr. Block explained what happened with the Hub service area when it was acquired by the District. He said the District had the option to get the Hub area designated or to keep the area as it was and only use groundwater. Any new development that the District might acquire has to join the CAGR. In the Hub service area the CAGR does the replenishment; however, in the District's main service area the District has chosen to do the replenishment on its own to minimize cost. The District has used its full allocation of CAP for the last three years and projects that it will continue using all of it in future years. All of the District's storage is done with the groundwater savings projects which are with the farmers in the area. Mr. Block said the District is hoping to convert that use to the CAP treatment plant. Issues that need to be addressed when considering the treatment plant include financing of the CAP treatment and delivery system, and ownership.

Mr. Block explained that the District secured an agreement with Tucson in 2001 for effluent. The District presently receives an allocation of 2,927 acre feet of effluent each year. In 2003 the managed recharge project began which is a joint project with surrounding utilities. The participating entities each shared in the cost of the project. Mr. Block noted that one of the challenges has been using the river as the recharge mechanism. The District only receives credit for up to 50% of the credits. The District has the ability to use its permitted wells as recovery wells and it is allowable to recover effluent or CAP water. The District is also currently working with Pima County to utilize the effluent at the Omni Tucson National Resort and Spa.

Ms. Downing asked if private residences can use reclaimed water for landscaping, etc. Mr. Stratton said that economics might provide for the reclaimed water use if water becomes too expensive in the future; however, it will require additional systems. A number of developers currently want to use reclaimed water for landscaping and are looking at their options. Marana is providing for non-

potable water to be used for landscaping and will have the infrastructure in place shortly to accomplish this.

Mr. Block said the Avra Valley recharge project would provide the District with more flexibility in storing recharge water and effluent. BKW farms are also interested in doing recovery agreements with the District. If the District were to acquire new service areas south it would have the potential ability to do this.

Mr. Block noted that the last water resource is remediated water that will be treated at South Shannon. The water that is pumped and treated at South Shannon will not count as ground water; therefore, the District does not have to replenish that water. It is anticipated that this treatment system will be completed in the spring of 2006.

Warren Tenney, Assistant to the General Manager, explained that Water CASA has been working on a three year study that looks at what is the actual cost of the conservation projects taking place in Arizona, as well as other western States. This project is anticipated to be completed in January 2006. Mr. Tenney said that one of the things that study will show is what the results would be if a person were to take part in a conservation effort, and what their anticipated financial savings would be. The District will not make any changes to its conservation efforts until this study has been completed. Also, Mr. Tenney noted that the lack of response to District sponsored workshops has been frustrating. Staff has been working on trying to determine what curriculum might interest customers. He added that the results from the Water CASA study should assist the District in its conservation efforts. Mr. Hill noted that the District's population is increasing faster than the amount of increase in water pumped; therefore, conservation efforts that are presently taking place appear to be working.

D. Growth / Expansion.

Mr. Stratton said that over the years the District has looked at acquisition of several water systems for consideration of expansion. He explained that there are not many opportunities for procurement of existing systems currently in the market. A possibility for procurement in the future may be that of the Vail Water Company. Mr. Stratton said that it appears their goal is to utilize Vail Water Company in development of some of the properties they have and once the system approaches build out that may provide acquisition opportunities. Mr. Stratton added that Mr. McNulty is a strong advocate that has assisted the District in marketing its visibility to area water utilities that the District may become interested in acquiring. Many of the smaller utilities will not be economical for the District to acquire as most of them have old infrastructure in need of repair and would require a significant sum of money to bring their systems up to par.

Mr. Stratton said the largest potential annexation for the District is Rancho Maria, and explained some of the issues with its incorporation. The District will need to use its CAP allocation as there is no groundwater in the area. ASARCO has adjacent lands to Rancho Maria that they want to develop, and there are also State lands that adjoin Rancho Maria. Mr. Stratton said that presently there is arsenic in the water on these adjoining sites. He explained that a CAP treatment plant could be built in the area that would treat the CAP water as well as address the arsenic issues. Mr.

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Stratton said a Memorandum of Understanding between the District and the Town of Sahuarita is being drafted to get the land annexed. There will be approximately 12,000 residential units located in Rancho Maria. Mr. Stratton said that annexation of the State lands and ASARCO is also being discussed with the Town.

Mr. Stratton said the developer of Southlands is not ready to commit to anything at the present time, they are still reviewing their options. To date, the District has not invested a lot of time on this development project; however, staff will continue to monitor any possibilities. Mr. Stratton said Pima County representatives are beginning to understand that Metro Water offers a potential alternative to providing water services outside the District's current boundaries, and they can make mention of the District as a potential water service provider to new developers.

Mr. Stratton said there are some concerns with staffing that will need to be addressed when considering extending the District's operations. Staff has conducted a preliminary review of current staffing needs and identified several areas that staff felt needed attention. One of the areas identified is the duties associated with the Safety Officer. This position is currently doing safety and serving as Backflow Inspector. Because of the work load for this position, there is not the amount of safety training taking place that staff has identified that the District needs. Also, in the Utility Division staff identified the need for an Asset Coordinator. This position would be combined with the Backflow Inspector for the time being, as both of these positions may eventually turn into full time.

Mr. Stratton said also that Mr. Tenney's work load is heavy. Mr. Tenney currently handles most Human Resources issues, with a few being handled by Administration under Mike Land. Mr. Stratton said staff recommends the creation of a Human Resources position that could potentially take over Mr. Tenney's responsibilities in this area. He explained that Mr. Tenney spends a great deal of time attending State and regional meetings that he does not have time to cover, and would like Mr. Tenney to continue with these tasks.

Mr. Offret said he agrees with establishing a Human Resources generalist position. He believes that the District will continue to need to collaborate with other entities and wants to free up existing staff to accomplish this goal. Mr. Offret said he believes there are enough duties to keep a full time Human Resources person busy.

Ms. Downing said she also believes Mr. Tenney's job has grown and developed to the point where the District needs a Human Resources specialist. Mr. Tenney explained that with the creation of a new Human Resources position some of his duties as well as some of the duties of Administration staff will be transferred, allowing time for all positions to more thoroughly address important items and be more effective. Ms. Downing suggested that when considering the salary for a new Human Resources position to look at entities in other states to determine pay, and not necessarily stay within Arizona for salary comparison. Mr. Tenney explained that the District primarily looks at Tucson and Phoenix when considering job classifications and pay. He noted that in the past the District has looked at some of the rural areas because they were similar in size to the District. Mr. Stratton said staff can provide the Board with more formal and complete information at an upcoming Board meeting for its consideration.

E. Use of Renewable Water Supplies.

Mr. Hill explained that the S&T Pilot Study is a slow sand study for water filtration. This is a two year study that includes halophyte irrigation to determine if salt tolerant plants can utilize a concentrate reverse osmosis treatment. The University of Arizona is watching this study closely to determine its feasibility, among other things. The participants of the pilot study still need permission from the three property owners at Tangerine and I-10. The study should be up and running within a couple of weeks. The Board will be provided with a Memorandum of Understanding naming the District as the head of the project. Mr. Hill said progress reports will also be provided to the Board.

Mr. Stratton explained the proposed CAP treatment system and treatment plant, the location, and what amount the partnership is looking at when considering financing of the project. It is anticipated a fee would be charged to Flowing Wells Irrigation District for pumping their water through the District's system. Based upon the updated cost and the SWARMS report the District's share of the estimated cost would be approximately \$66 million. The District would be paying approximately 33% of the total cost for the CAP treatment and distribution system. Mr. Stratton said this cost estimate is based on a 30,000 acre feet per year treatment plant capacity for our system. The partners of the proposed CAP treatment and distribution system are working on a Memorandum of Understanding (MOU). There are several groups working on the different aspects of the MOU. The biggest obstacles will be the financial mechanism, and who will be the manager of the system. Mr. Stratton said that if federal money is available, it would probably be the wisest source of funding as it would come with a low interest rate. The entities are still considering how all the information will be presented to each entity's Board of Directors. Mr. Stratton said the partner entities have also been discussing the reliability reservoir.

Mr. Tenney said the entities have been working with the Bureau of Reclamation and CAP staff to determine the best way to use CAP resources. If the entities are going to treat and deliver CAP water, they need to have a reliability feature. Mr. Tenney explained that if something were to happen to the water source, there still needs to be water to treat. There was a federal commitment made to provide reliability to the Tucson area; however, it has not yet come to fruition. There is a meeting tomorrow of the CAP Board and it is anticipated that Tucson Water will provide its plans for reliability. Funding for the construction of the reservoir using federal government monies for the next several years looks bleak. Mr. Tenney noted it is better to keep moving forward and get all of the plans and paper work done now to be prepared whenever funds may become available.

F. Finances.

Mr. Land explained the purposed District 10 year revenue and expenditure plan beginning with fiscal year 2006/2007, including the 4% rate increase beginning November 1, 2005. He said that after fiscal year 2006/2007 only a 2% rate increase was budgeted for the next three years. In 2007-2008 the District's ending fund balance drops down to \$583,000; however, the amount rises in succeeding years. Mr. Land said that in this 10 year scenario, only \$700,000 was budgeted for Capital Equipment and projects, and for the current fiscal year the unfunded projects exceed \$1 million. He explained that if the Board were to approve a 4% rate increase for the two years

following 2006/2007 instead of the 2% increase, this would add to the District's fund balance at least \$300,000 to \$500,000.

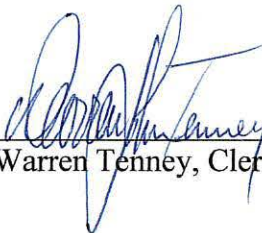
Mr. Land also briefly explained the projections for the Arboles Viejos Subdivision, and noted the positive cash flow balance would range from \$200,000 for the 2006-2007 fiscal year to \$3.7 million at the end of 10 years.

IV. General Manager's Report

There was nothing new to report.

V. Adjournment

The meeting adjourned at 6:45 p.m.



Warren Tenney, Clerk of the Board



Suzanne Downing, Chair of the Board