

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

March 22, 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
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

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. James Tripp, Reb Guillot, and Dan M. Offret were present. Bryan Foulk was not yet present.

II. General Comments from the Public

There were no comments from the public.

III. Report on March 15, 2010 Finance Oversight Committee Meeting.

Mr. Stratton said that Mike Land, Chief Financial Officer, and Warren Tenney, Assistant General Manager, attended the March 15, 2010 Finance Oversight Committee (FOC) meeting. Mr. Land said the FOC willingly accepted its newly-defined role, especially those members who have careers in the financial sector, like Bernie Weigandt, Clare Strom, and Jeffrey Ratje. Staff reviewed with the FOC the District's historical rate structure, increases and basic budget information. FOC members requested different information that showed they would be engaged in this process.

Mr. Offret asked if the FOC saw the ten year budget projection. Mr. Land said they were provided the five-year projection with no rate increases. They understand the projections are a work in progress until we see what Metro Southwest generates. Mr. Tenney said because of the length of the meeting, the FOC did not get to go over the various RTA and capital projects in detail. The goal was to make sure the information was provided and the make sure the FOC members understand they can ask questions about the different improvements and projects.

IV. Discussion of Draft Fiscal Year 2010-2011 Budget

Mr. Land provided an overview memo on the key issues and explained some of the highlights included therein. Mr. Land said this budget does incorporate Metro Southwest for the first time. Operating revenues are currently projected to be \$1.3 million above last year, primarily due to water sales. That would mean a 9% increase in revenues. The rest of the revenues have been brought in line with last year. New connections in the Metro Southwest area are currently surpassing budgeted projections; therefore the proposed budget includes 100, up from 30 last year. The District must reimburse Robin Thim a portion of the system development fees of the water service connection fees for Metro Southwest.

Mr. Land continued that based on the \$1.3 million operating revenue increase, operating expenditures were increased \$1,266,000. The CAP water purchased expenditure was increased and the holding cost for the reallocation, restored to the full 8,858 acre feet, will be paid off in December 2011. Expenditures increased slightly in most categories from last year's skeleton budget. Cash on hand is projected to be a little over \$1.5 million, and District staff feels comfortable with that range. The debt service dropped from just over \$6,000,000 to \$5,800,000 due to the recent refinancing. On the other hand, the District must set aside monies for the debt service reserve fund, which is nearly \$500,000. Mr. Land said these are initial projections. The Metro Southwest revenues and expenditures are looking strong and are provided separately.

Mr. Foulk arrived at 6:11 p.m.

Mr. Stratton encouraged the Board to look at the general summary showing all the divisions and various categories. One of the biggest expenditures is salaries and benefits, and although it is 3% over last year, the District is still not funding four positions.

Mr. Land said there are increases in health insurance costs and Arizona State Retirement System (ASRS) contributions. Mr. Offret said he is happy that the District does so much for its employees, and he hopes the employees recognize the value in their benefits. Mr. Offret suggested offsetting increases to the ASRS by the District covering that increase for them. Mr. Doyle, Mr. Foulk, and Mr. Guillot expressed concern about changing the District's matching contribution because the ASRS is a long-term investment benefitting staff.

Mr. Offret said he was concerned that employees could go 3-4 years without a cost of living allowance (COLA). Mr. Land said a one-time COLA that would not impact the salary base was considered. A 2% one-time COLA would cost the District \$67,000. Mr. Guillot and Mr. Foulk said they were more inclined to a one-time bonus near Christmas time if the budget was looking more positive.

Mr. Land said the Consultant Contact Services increase is related to the maintenance of wells. In the 2008-2009 just over \$500,000 was budgeted for Consultant Contract Services. An amount of \$125,000 was allowed for GAC replacements for the coming fiscal year because there have been uncertainties about the State's budget and repayment. The District has the need for a backup plan in case the State is unable to reimburse the scheduled GAC replacements. Mr. Land said the other large increase is in Miscellaneous Services, due to the Avra Valley upgrade telemetry assessment design. Mr. Land said the Water Treatment Meter Replacement for Hub is also lower than projected for this year, so there are potential savings there.

Mr. Land talked about the General Operating Expenditures. Some monies are built-in for Metro Southwest, like purchased water. Mr. Land said the District has budgeted \$40,000 for blending water from Tucson Water at Metro Southwest.

Mr. Stratton explained Well No. 1 has been blended with Tucson Water but the District has to use a substantial volume of water to minimize arsenic levels using this method, so arsenic treatment will be done to get off the Tucson Water system as soon as possible. The Tucson Water bill for Metro Southwest was \$11,000 last month so it is important to move from blending to treatment as soon as possible. Mr. Hill said the District hopes to see improvement by summertime and although that is only six months away, Staff has been working very hard to achieve this goal. The treatment is pending approval by Arizona Department of Environmental Quality (ADEQ). Mr. Foulk pointed out that six months at \$11,000 is more than the \$40,000 shown budgeted to Tucson Water. Mr. Hill acknowledged, saying the six month period begins in the current fiscal year budget and spans a few months into next year's budget. Mr. Stratton said the District is also working on equipping Well No. 2 with the pump and electrical components.

Mr. Foulk asked about bad debt expenses this year. Mr. Land said \$15,000 will be close to the actual amount by the end of the 2009-2010 fiscal year.

Mr. Land said changes in water efficiency programs could trim \$21,000 in the coming year. Mr. Tenney said the Water Conservation Alliance of Southern Arizona (Water CASA) Director, Val Little, is planning to retire soon. He said the future of the program is uncertain but \$21,000 was paid to Water CASA last year. He reported there had been a Native Plant Workshop the previous weekend and all the participants were pleased with it. The toilet rebate program has been quite popular this year, and the Board allowed the use of \$5,000 from the graywater rebate fund to

meet the toilet rebate demands. He said the program has paid out \$9,500 to date. Staff had wondered whether it should continue or modify the program. Board Members expressed a strong interest in seeing the toilet rebate program continue and to be properly funded.

Mr. Land said one of the largest expenditures is purchased power. He said that TEP rate increases and the addition of Metro Southwest accounts for the increase in that category. Natural gas has increased substantially over the last year. There is also a planned increase for the Supplies category, in part because of Metro Southwest. Mr. Land went on to say the replacement of meters category is being increased, which normally recaptures revenues. Another increase accounts for several new computers and software upgrades. Mr. Tripp pointed out there was a discrepancy with the totals on the detail sheet provided to the Board, and Mr. Land said he would see that it was corrected. Mr. Offret asked if the District has a cascade program for computers like the one in place for fleet vehicles. Mr. Stratton said the District had purchased only four laptops over the last year, and explained most computers are replaced on a four-year rotation. He pointed out there are varying needs for the different divisions, according to software capabilities. Mr. Land said again the biggest expenditure is CAP water purchased. Mr. Stratton and Mr. Block explained the basic concept of allocations and water credits. Mr. Land pointed out the salaries and benefits related to capital improvement projects will be reduced due to the fact Staff will be less involved in such projects in the coming year. He touched on a few other changes.

Mr. Foulk asked if the District had ever considered restructuring the reserve fund. He suggested the District set aside \$500,000 every year, with excess money rolled into a separate fund at the end of each year, building up for future capital projects. He said small business owners cannot save large amounts without being taxed but Metro is not taxed so he sees an opportunity to accumulate funds. He envisions a separate fund being allowed to grow, to be ready for upcoming projects. He feels this could reduce the need for bonds and loans. Mr. Land said the District has set aside a monthly amount since 1992 for the Repair and Replacement fund, which now holds \$1.6 million and can be used for anything that improves the District. Mr. Foulk suggested maybe more could be set aside monthly so that the fund would grow more quickly. Mr. Stratton asked if he would like to see something come before the Board as the formal adoption of a policy. Mr. Foulk said he would like to see the existing Repair and Replacement fund rolled into a special account at the end of each year so it could grow faster. Mr. Stratton said those funds are only able to be used for repair and replacement. Mr. Stratton said draft language on a future needs fund could be brought to the Board before the end of year. Mr. Foulk recalled a time when things were going well and as soon as connection fees fell off, the budget was hurt. He feels it is wiser to budget a smaller amount, and let the actual connections exceed expectations. He suggested employee COLAs could come from the excess revenues collected through underestimation of connection fees.

Mr. Stratton said Mr. Land's categories show the substantial changes from last year and the rationale behind them. Mr. Stratton said the new budget will be similar in that categories are reduced and need versus want is the underlying factor. The District will be putting back some utility related necessities and CAP water but the rest of the budget remains in its minimal state. If the Board has individual questions on line items after reviewing, there will be more opportunities to do so. Staff wants to make sure the Board understands. Next month there will be another study session.

V. General Manager's Report

Mr. Stratton said he did not have much to report since he had been gone the previous week. Mr. Land responded to a customer inquiry about charges by Ben Tuchi, who is the Treasurer of his Neighborhood.

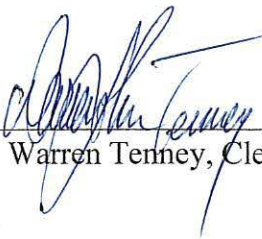
The Board discussed some of the coming roadway improvements near Magee Road and Shannon Road, to include a new bridge over the Cañada Del Oro wash. Mr. Stratton mentioned there is an agreement with Tucson National regarding effluent lines that may come into play after the improvements. He said he would be meeting with Pima County Department of Transportation Director Priscilla Cornelia on March 29, 2010 to discuss incorporating water line designs as part of roadway planning. The Board will need to establish a price for effluent. As previously agreed, Pima County will contribute \$400,000-450,000 towards the cost of constructing that line, because they wanted reclaimed water for their linear park along the river.

Mr. Stratton said he will be gone to Washington DC meeting the Arizona Congressional Delegation on March 23-25, 2010. Tullie Noltin, Executive Assistant, has been trying to set appointments with the Delegates but the Health Care Reform Bill is attracting their attention.

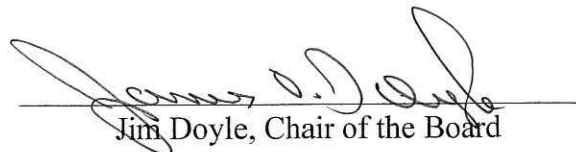
Mr. Tenney reminded the Board that Mr. Stratton's performance appraisal is due.

IX. Adjournment

Mr. Tripp made a motion to adjourn. Mr. Foulk seconded the motion. The meeting adjourned at 6:58 p.m.



Warren Tenney, Clerk of the Board



Jim Doyle, Chair of the Board