

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

April 28, 2003

**** Board Room ****

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

MINUTES

Board Members Present: Dan M. Offret, Vice Chair
 James Tripp, Member
 Sue Downing, Member

Board Members Not Present: Dennis Polley, Chair
 Jim Doyle, Member

District Staff Present: Mark R. Stratton, General Manager
 Warren Tenney, Clerk of the Board
 Alice Stults, Recording Secretary

STUDY SESSION

I. Call to Order and Roll Call

Dan M. Offret, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the study session to order at 5:33 p.m. Dan M. Offret, James Tripp, and Suzanne Downing were present. Dennis Polley and Jim Doyle were not present.

II. General Comments from the Public

Mr. Stratton explained that the District received an award from the United States Environmental Protection Agency for recognition as a Clean Water Partner for the 21st Century. The prestigious award was presented to the District for its efforts in wellhead protection to ensure that contaminants are unable to enter the District's groundwater supply. Metro Water and the City of Sierra Vista were the only two Arizona water providers to receive an award.

III. Approval of Maintenance Agreement for Telephone System

Mr. Tripp made a motion to approve the maintenance agreement with BLS Communications SW Inc., for the Merlin Legend telephone system at a cost not to exceed \$384 per month for a term of four (4) years. Ms. Downing seconded the motion.

Mr. Stratton said the District looked at various options and pricing to find services that coincided with the needs of the District. Mr. Land said the District was able to save over \$400 per month over the existing contract and still receive the maintenance service for the phone system that is adequate for the District.

Motion passed unanimously.

IV. Discussion of May 12, 2003 Public Hearing for Hub Service Area

Mr. Stratton noted that at the April 14, 2003 Board meeting, Mr. John Kulakowski of the Sabino Vista Homeowners Association, presented the Board with signature petitions for the Hub Service Area to be annexed into Metro Main. He said staff has been working on the petitions to proceed with the next steps in the annexation process.

Mr. Tenney, Assistant to the General Manager, said the District has forty days from receipt of the petition to hold a Public Hearing regarding the annexation. The Public Hearing is scheduled for May 12, 2003 at 7:00 p.m. or after, during the regular monthly Board meeting. A letter was mailed to the property owners in the Hub Service Area with the legal description of the annexation, and notifying them of the Public Hearing date. Mr. Tenney explained that the names on the petitions were verified with property owner lists provided by Pima County Assessors Office. The statutes require that 51% or more of the property owners sign the petitions. Mr. Tenney said after verifying the signatures that over 52% of the required signatures were received.

Mr. Tenney noted that as part of the annexation process, the District must request consent from the City of Tucson for the annexation to take place. A letter will be sent to Mayor Bob Walkup requesting the City's consent. Mr. Tenney said that it appears the City of Tucson is not in favor of the annexation.

V. Discussion of Draft Fiscal Year 2003-2004 Budget

A. Budget Items for Administration Division/General Manager's Office.

B. Review of Overall Budget.

Mr. Land, Chief Financial Officer for the District, provided an update of the proposed 2003/2004 budget for the Utility Division. He explained that budget amounts for some of the capital improvement projects and other line items within the Utility Division budget had been tentatively increased. The line items that were considered crucial were reviewed and increased in anticipation of revenues possibly being generated from elimination of the 1,000 gallons of allowance in the base rate for District customers. A Public Hearing on the District's water rate structure is scheduled for May 19, 2003 at 6:00 p.m.

Mr. Offret asked if revenues from Green Valley Domestic Water Improvement District (GVDWID) were factored into the 2003/2004 budget. The revenue is for expenditures incurred by the District while preparing for the purchase of the Green Valley Water Company (GVWC). Mr. Land said the revenue was factored into the budget; however, it is unknown at this time when the District will receive the monies. Mr. Offret noted that GVDWID must complete the purchase of GVWC by June 30, 2003. He asked if the District was still prepared to make the purchase of GVWC in the event GVDWID was unable to finalize its purchase. Mr. Stratton replied yes, and noted that the District's line of credit for the possible purchase of GVWC is open through August 2003.

Mr. Land said that the District will realize revenue from the interruptible electric power rate during 2003/2004. It is unknown at this time when this will actually occur during the fiscal year. Mr. Stratton said it will depend on when the well and booster sites are equipped with the interruptible rate.

Ms. Downing asked if the District reported the customers that do not pay their water bills to a credit reporting agency. Mr. Land replied that it does not. He explained that the District does use a credit service to attempt to recover monies from unpaid bills. Mr. Land said landlords are advised that water service will not be re-established until the bill is paid in full. Ms. Downing said she believes it should be reported if the debt cannot be collected, and requested staff to research this item. Mr. Stratton was unsure if enough information was obtained from customers in order to notify credit reporting agencies. Mr. Land replied that it was and said staff would research the item and bring it back to the Board for its consideration.

Mr. Offret suggested that the training and professional growth fund be separated into two line items. The professional growth fund could be put into its own account to earn interest. Mr. Stratton said that staff will research this item and bring suggestions back to the Board.

Ms. Downing asked staff to consider a 10 month return of deposits paid by customers. Currently the District returns deposits after 12 months and pays interest on the amount to the customer. Returning the customers deposits after 10 months would save the District interest monies. Mr. Land noted that staff would check the statutes to ascertain if the time period for holding deposits is addressed.

Mr. Stratton said Senator Kyl has introduced Federal Legislation that would approve the water settlement agreement with the Indian Tribes. The appropriation of the remaining CAP allocation will be distributed to those entities already receiving allocations. Mr. Stratton said that other Indian Tribes have now filed law suits believing they should have been included in the settlement. The District's portion of the CAP allocation is 46,000 acre feet. Mr. Stratton explained that the District is using nearly its total amount allowed of existing CAP allocation.

Mr. Stratton said that there is an increase of \$153,000 in total staffing costs for the District. This is in part due to an increase in State Retirement and 17.9% increase in health insurance. In reviewing the Administration Division and General Manager's Office budget, Mr. Land noted that there is an increase due to four positions being moved from Engineering's budget. Mr. Land said that after reviewing Pima County's health insurance options, it is staffs recommendation to stay with Blue

Cross/Blue Shield of Arizona. Mr. Stratton said more formal recommendations will be provided to the Board at the May 12, 2003 meeting for its consideration.

Mr. Stratton said staff contacted entities in the Tucson area to determine how and when cost of living adjustments (COLA) are made. Staff learned that some of the entities provide the COLA July 1, while others provide it January 1. He noted that COLA percentages also vary amongst entities. Mr. Offret asked if staff researched which indicators were used by the other agencies to determine COLA amounts. Mr. Land replied yes. He explained that some used CPI, while other agencies used other sources and indexes to establish COLA amounts.

Mr. Offret explained that he preferred that the Board not vote on the COLA in December as it could potentially be voted on by Board members going out of office. He suggested the COLA be voted on 1 July. Mr. Stratton asked when the COLA would then be provided to the employees. Mr. Offret explained that he preferred voting on a COLA during the budget process and implementing it July 1. He noted that many of the entities will not be providing employees with a COLA for 2003/2004 due to budget constraints.

Ms. Downing said she would prefer that employees be provided with adequate health care in lieu of a COLA if both could not be funded by the District. Mr. Stratton noted that the District has been generous each year by providing employees with a COLA, and understood if the Board waited until July 1, 2004 to consider the next COLA. Ms. Downing explained that a COLA could be included in the budget process, and implemented either January 1 or July 1.

Mr. Offret said he believes health benefits are the most important issue. He said the cost to employees for medical benefits should be held at the same level. Mr. Offret suggested that in order to fund the medical expenses, merit increases could be held at a maximum of 2% instead of 4%, and the COLA not be budgeted for fiscal year 2003/2004.

Ms. Downing agreed with Mr. Offret regarding health benefits, but believes that merit increases should continue at 4%. She believes merit awards are important and benefit the employees and the District. Ms. Downing recommended including the COLA in the budget, but was not sure that she would vote for it. She also believes that the employee educational fund is important and that monies should continue to be used to fund this item.

Mr. Tripp commented that if it isn't broke, don't fix it. He believes that the District has done well during the last 10 years providing adequate medical and health insurance, merit increases, and COLA's. He believes the amounts can be funded by the District.

Mr. Offret asked what the increase was that the employees would have to pay for the Arizona State Retirement benefits. Mr. Land said employees will pay an additional 3.2%. He noted that the average merit increase is 2.7%.

Mr. Tenney said that if increases continue to occur in personnel services, the only way to fund those items would be through a water rate increase, or layoffs. Mr. Stratton said that to fund the monies for the merit increases would be equivalent to one staff position.

Mr. Stratton reviewed that the Board was requesting the COLA be included in the budget, and it would vote for the COLA during the July Board meeting. He noted that based on Resolution 1996-5, COLA information will be provided to the Board in December. Mr. Stratton said staff will draft an amended resolution to identify the new date COLA information will be provided to the Board. Mr. Offret asked that staff obtain additional information regarding the indicators that will be used to establish the COLA.

Mr. Offret explained that after these discussions, he believed the merit increase amount should remain at 4%. Mr. Tripp agreed with Mr. Offret and said he felt it was important for employees to have the opportunity to earn a merit increase.

Ms. Downing asked Mr. Tenney to provide additional information on the District's Conservation Program. Mr. Tenney explained the graywater, water harvesting, and toilet rebate programs encourage District customers to implement water saving programs. Workshops are held periodically to educate customers on these programs, as well as other water saving/conservation issues. WaterCASA provides instructors and materials for the District.

Ms. Downing asked if money was budgeted for community sponsored events such as scholarships. Mr. Stratton replied yes. He noted that the monies are budgeted under the Public Relations line item. Mr. Offret asked if the monies budgeted for community sponsored events could be placed under a separate line item. Mr. Stratton said staff would look at creating a separate line item so that the monies could be more easily tracked.

Mr. Stratton suggested that the Board wait until the June 9, 2003 meeting to adopt the budget. There are two public hearings scheduled for May 2003, as well as another study session which will allow for closing discussions on the budget. The Board agreed to postpone adopting the budget until the June 9, 2003 meeting.

VI. General Manager's Report

Ms. Downing asked what the District had done to assist Mr. Nanini with the vegetation issues along Magee from Mona Lisa to Como Drive, and the claim of low water pressure in the Mona Lisa Village subdivision. Mr. Stratton said staff had met with Peter Vokac, Field Manager for Mr. Nanini, and determined that their irrigation system in the Mona Lisa Village is tied in with their domestic system. The irrigation system is being operated at peak domestic water usage times, which lowers the pressure. Mr. Stratton said that the two meters used in the subdivision are not adequate to handle the water demands. He added that he will provide Mr. Nanini a letter explaining the pressure problems and the solution which would be to add the two meters as outlined in Mr. Nanini's engineering plans.

Mr. Tripp noted that he lives in the area of Mona Lisa Village and continues to observe County trucks and vehicles using the right-of-way along Magee from Mona Lisa to Como Drive. Mr. Maish said that he contacted Pima County and they advised that Metro Water had met the re-vegetation requirements along this area.

Mr. Stratton said the Bond Oversight Committee (BOC) met to discuss the unfunded capital projects per the Board's direction. The BOC was asked to prioritize the unfunded capital projects, and discuss possible ways to fund the projects. Mr. Land said the BOC realized that rate increases appear to be one answer for possible funding. He explained that the BOC requested to meet with the Board to discuss funding, project priority, and the expectations of the Board in relation to the BOC. The BOC was unclear as to the expectations of the Board and wanted to get a better idea and clearer direction from the Board. They believed having a joint meeting with the Board would assist the BOC in staying on track and focusing on a common goal. Mr. Maish explained that the BOC was overwhelmed by the information provided by staff, and noted they felt meeting with the Board would enable them to move forward in the direction provided by the Board.

Ms. Downing asked staff if suggestions had been made to the BOC regarding staff's priority list. Mr. Maish replied no. Mr. Stratton said that he believed staff needed to meet with the BOC to provide additional information and answer any questions the BOC may have prior to the BOC meeting with the Board. Mr. Offret suggested staff provide the BOC with the CDM report. Mr. Land noted that the BOC does not typically meet during the summer. Mr. Stratton recommended staff meet with the BOC and noted that the BOC could meet with the Board at a later date when recommendations are prepared.

Mr. Stratton said he and Chris Hill, Deputy Manager, attended a conference last week. One of the presenters, Greg Schwartz of the Water Infrastructure Finance Authority (WIFA), said their borrowing power was very good at this time. Mr. Stratton recommended putting as many of the District's projects on WIFA's priority list in anticipation of the projects being fully or partially funded by WIFA. The interest rate and payments would be considerably lower by financing through WIFA as opposed to bonds. Staff will research the possibilities and provide the Board with an update.

Mr. Offret asked if staff researched the availability of Federal grant monies. Mr. Hill said staff had learned that most of the available grant funds were for economically depressed regions and communities. Mr. Offret suggested that funds may be available from the Federal Homeland Security Program. Mr. Hill noted that much of this money has been temporarily tied up. He said staff would check into the availability of grants for energy and auxiliary power.

Ms. Downing asked if the Casas Adobes Reservoir was registered as a historical site. Mr. Stratton said staff has researched this and believes that it can be registered as a historical site although there is little information available on the Casas Adobes Reservoir. Ms. Downing recommended checking with the Historical Society as there may be funds available to assist in the repairs and restoration of the building and site.


Mr. Stratton said the Arizona Water and Pollution Control Association (AWPCA) is holding its annual conference this week in Tucson at the Convention Center. He suggested that if Board members wished to attend any portion of the conference to contact him.

Mr. Stratton said in an attempt to control the District's inventory, staff has assigned a person to reorganize the warehouse and track when and where items are being used. A system is being developed to better organize staff time and the purchase of warehouse items.

Mr. Stratton noted that Steve Davis of Malcolm Pirnie, contacted staff regarding an American Water Works Association Research Foundation (AWWARF) project. Mr. Stratton said the project addresses lost and unaccounted for water. He said the District has agreed to assist by providing staff time in the development of the project. Mr. Stratton said the Board will be kept advised of the status of the project.

VII. Adjournment

The meeting adjourned at 7:45 p.m.



Clerk of the Board

Dennis Polley, Chair of the Board