

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

February 24, 2003

**** Board Room ****

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

MINUTES

Board Members Present: Dennis Polley, Chairman
 Dan M. Offret, Vice Chair
 Jim Doyle, Member
 James Tripp, Member
 Sue Downing, Member

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

EXECUTIVE SESSION

I. Call to Order and Roll Call

Dennis Polley, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board meeting to order at 5:32 p.m. Dennis Polley, Dan M. Offret, Jim Doyle, James Tripp, and Suzanne Downing were present.

Mr. Tripp made a motion for the Board to move into Executive Session. Mr. Offret seconded the motion. Motion passed unanimously. The Board went into Executive Session at 5:33 p.m.

Executive Session pursuant to A.R.S. § 38-431.03 (A)(3) (consultation for legal advice with the attorney or attorneys of the District) 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. First Amendment to Second Amended and Restated Asset Purchase Agreement with Green Valley Water Company for the Purchase and Sale of Certain Assets of the Green Valley Water Company and Settlement Agreement with Green Valley Water Company and Green Valley Domestic Water Improvement District.**

The Board returned from Executive Session at 6:10 p.m.

STUDY SESSION

I. Call to Order and Roll Call

Dennis Polley, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the meeting to order at 6:10 p.m. Dennis Polley, Dan M. Offret, Jim Doyle, James Tripp, and Suzanne Downing were present.

II. General Comments from the Public

There were no comments from the public.

III. Discussion and Possible Approval of First Amendment to Second Amended and Restated Asset Purchase Agreement with Green Valley Water Company for the Purchase and Sale of Certain Assets of the Green Valley Water Company and Possible Approval of Settlement Agreement with Green Valley Water Company and Green Valley Domestic Water Improvement District

Mr. Tripp made a motion to approve the First Amendment to Second Amended and Restated Asset Purchase Agreement with Green Valley Water Company for the Purchase and Sale of Certain Assets of the Green Valley Water Company and Possible Approval of Settlement Agreement with Green Valley Water Company and Green Valley Domestic Water Improvement District. Ms. Downing seconded the motion. Motion passed unanimously.

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

A. Capital Improvement Program.

Mr. Stratton explained that the Capital Improvement Program, Finances, and Growth Opportunities are items for discussion and possible direction that have been continued from the February 12, 2003 Board meeting. He said that due to time constraints the Board was unable to discuss these issues at that meeting. Mr. Stratton explained the items in the Capital Improvement Program (CIP) under the Camp, Dresser, & McKee (CDM) Water System Management Plan. He pointed out the various projects completed or anticipated under the CIP include transmission mains, well modifications/production, telemetry, mainline replacements, and projects in the Hub Service Area.

After expending the funds from the bonds issued in 1997, approximately \$40 million was identified as still needed for future planned CIP projects. This cost has now risen to approximately \$62 million due to inflation. Mr. Stratton said the cost associated with Central Arizona Project (CAP) transmission system with the Bureau of Reclamation, including the treatment plant and system, would be an additional \$65 million. Auxiliary power costs are projected to be \$2 million, and smaller CIP projects needed to improve the overall efficiency of the District's system are

approximately \$1.7 million. Mr. Stratton said that \$108 million is over twice the amount the District is currently in debt for. He said that the District would be unable to bond for this amount at this time as the debt service would be too high. The original cost assumptions for CIP made by CDM in 1994 were valid; however, inflation over time has increased the projected costs.

Mr. Land explained the District's tiered water rate structure that has been in effect since 1995. He noted that most residential customers have a 5/8" meter at a base rate of \$11.96 per month. The District has established a commodity rate of \$2.16, and a summer conservation rate of \$2.88. The high user rate is \$3.62 per month.

Mr. Land noted that currently the District charges \$25.00 for returned checks. All checks received by the District are sent to Pima County for deposit. He explained that beginning July 1, 2002 Pima County began assessing the District a \$25.00 fee for all returned checks. Mr. Land said the District is losing the \$25.00 it receives for administrative costs. Staff will be proposing to raise the \$25.00 returned check fee to \$40.00 at a future Board meeting. Mr. Offret asked how many returned checks the District receives during an average month. Mr. Land said it varies, but typically the District receives 5 to 10 per month. He explained that the money the District receives for returned checks covers the staff time involved for handling the bad check.

Ms. Downing asked how many payment methods are currently being offered to customers. Mr. Land said that the District accepts cash payments, checks, credit cards, and electronic fund transfers. At the present time, there are approximately 2,000 customers using the electronic fund transfer option. This option is preferred over the credit card payments as the District loses money whenever a credit card payment is made due to administrative processing fees. Mr. Land said that new forms for electronic fund transfers have been generated and will be mailed to all District customers in the next billing cycle. He also said staff has received inquiries about on-line payment options. He noted that staff will research the possibility of making on-line payment available to District customers.

Mr. Land explained the bulk water rate charges for residential and commercial customers. He noted that commercial bulk water customers have complained of the base rate they are charged, the per 1,000 gallons of water used rate, and the \$1,500 deposit for the meter. The commercial bulk water customers pay a monthly base rate regardless of whether they have used water. Mr. Hill pointed out that contractors often use potable water for dust control, etc., instead of an available alternative such as effluent.

Mr. Doyle asked why commercial customers are charged \$1,500 for the meter deposit when the actual cost of the meter is approximately \$500. Mr. Land said that customers would pick up the meters, not use them immediately, and only pay the low base rate before the meter deposit rates were increased. The larger deposit for the meters provides incentive for the contractors to return the meters when they are no longer needed.

Mr. Doyle questioned why the District's revenue checks are being sent to Pima County. Mr. Land explained that all of the District's deposits go through Pima County Treasurer. He noted that when

the District was originally purchased the revenues were sent to Pima County. Ms. Downing asked if the District was required to send deposits to Pima County Treasurer. Mr. Land said that it is not a requirement. He explained that the District's line-of-credit was derived from its original correlation with Pima County. All deposits are transferred to Pima County Treasurer and the District draws from that account to deposit into Canyon Community Bank for operating expenses. Mr. Land said that over-draft protection is provided to the District through its relationship with Pima County. He added that the bond documents state that Pima County Treasurer is the revenue officer for the District.

Mr. Land explained that the water service connection fees have not increased for the past three years, with the exception of a meter which now includes a radio read meter. The fees charged for service connection are comparable to those charged by other water utilities in the area. The average permits issued per year are currently around 200. In past years the average was approximately 500.

Mr. Land described the water bills currently used by the District. He noted that it provides a great deal of valuable information to the customer. During December 2002, there was a problem with the billing software, and staff is looking at upgrading the current software or purchasing a newer program. A new windows based program would allow for unlimited fields on the bill which would provide more options and additional information for the customer as well as for the District.

Mr. Offret asked how the barcode on the bill was used. Mr. Land pointed out that the District uses a scanner to scan the bill and payments when they are received. He noted that this has significantly decreased the amount of time required by staff for this task.

B. Finances.

Mr. Land provided information on the budget process which began in January, and explained the forms used by the division managers for completing each portion of the budget. Study sessions will be scheduled, beginning in March, for the Board to review each division's budget. The final draft budget will be presented to the Board for its consideration at the May 2003 meeting. The adopted budget will go into effect on July 1, 2003.

Mr. Land noted that staff has been working on establishing projections for financing the District's projects and improvements for the next ten years. Several spreadsheets suggesting various financing scenarios were produced. Mr. Land said that the senior and junior debt coverage ratio is critical as it must be at 1.20% per bond covenant. The worst case scenario is if the District continues over the next several years without making changes in operations to increase revenue funding. Financing scenarios to increase revenues include: 1) remove the current 2,000 gallon allowance in the water rate structure; 2) remove allowances and establish a 4% water rate increase beginning January 2007 and continue rate increases in alternating years; 3) remove allowances and establish a 2.5% water rate increase each year beginning January 2006; 4) remove allowances and establish a 2.5% water rate increase each year beginning January 2007. Mr. Land noted that scenario 3) remove allowances and establish a 2.5% water rate increase each year beginning January 2006, would put the District in

the best possible financial situation and would ensure the junior and senior debt cover ratio remains over 1.20%.

Ms. Downing asked what a 2.5% increase would mean for the average customer. Mr. Land explained that a 2.5% increase would mean approximately .75 cents per month for the average customer. He noted that the last operating expense increase was in 1995. Mr. Stratton said the 4% rate increases that were implemented for the debt services were not designed to completely pay off the debt services. He explained that the District was also reliant upon existing revenue sources.

Mr. Doyle inquired about the debt owed to the City of Tucson. Mr. Stratton said the debt to the City of Tucson was incorporated into the last bond issuance as a refinanced obligation. The debt will not be paid off until 2019-2020.

C. Growth Opportunities.

Mr. Land said current District revenues have been impacted by the increase in water sales due to the drought continuing. These increased revenues should not be anticipated for upcoming fiscal years. Mr. Land explained that connection fees have declined and will continue to decrease as the Metro Service Area is built-out.

Mr. Stratton pointed out that the Hub Service Area is basically built-out at this time. There is very little room for expansion and development in this area. The District is solely reliant upon metered water sales in the Hub area. In the Metro Main Service Area, there are only approximately 15% to 20% of vacant properties available; however, there are no larger property development areas or parcels remaining.

Mr. Stratton explained that the District continues to look at other opportunities which might be available, such as the purchase of other water companies, or possibly mergers. Discussions have taken place contemplating the feasibility of one or more utilities merging in the Northwest water utility area which would benefit the utilities involved. Mr. Stratton said that politically it is difficult to maintain discussions as control of water becomes an issue. If opportunities do arise, staff will look to the Board for direction. Previous Boards have instructed staff to do an evaluation in the event that other water utilities become available for acquisition. While other water utilities in the area have been considered previously by staff, they were determined to be undesirable mainly due to the high cost of needed improvements to the existing systems, and the value of the water company did not present a positive addition for the District. Mr. Stratton said the number one criteria are that the utility has the ability to stand alone and support itself. Mr. Offret and Mr. Polley agreed that the District should be aggressive in looking at the acquisition of other water utilities that could present a positive asset to the District.

Mr. Stratton asked what the Board had in mind for any changes in direction or policies for the District. He noted that staff would be looking for direction or suggestions from the Board on a wide range of issues including scheduling of special meetings or study sessions to recommendations on personnel policies.

Mr. Tripp asked for an update on the discussions that took place regarding Tucson Water's interest in obtaining the Hub Service Area. Mr. Stratton said this was a scenario in which Tucson Water proposed taking over Hub Service Area in exchange for the District taking over a portion of the Northwest area adjacent to the District's Main Service Area. There was a difference of approximately 300 connections between the two areas. The District would have broken even; however, Tucson Water would have gained approximately \$300,000 per year in revenue. Mr. Stratton said that there was also an issue with the Northeast Reservoir. After middle management discussions with Tucson Water reached a stalemate, the issue was not pursued.

Mr. Stratton said that the City of Tucson sent a letter to John Kulakowski of the Hub Service Area, in regards to the annexation of the Hub Service Area with Metro Water District, indicating the City would not support the annexation. The City of Tucson wants to annex the Hub Service Area with Tucson Water. They said in the letter that if the Hub Service Area is annexed with the District, they do not feel they have the authority to acquire it without appropriate measures. Mr. Stratton said that he will be meeting with the City of Tucson to begin discussions again on the possibility of a service area trade agreement.

Mr. Stratton explained that there is a need for additional funding for the remaining capital items that have not been funded. The Board suggested using the Bond Oversight Committee to develop ideas, establish priorities, and provide recommendations back to the Board. Mr. Stratton pointed out that this will also further District attempts to gain community support and trust. He noted that he would like to initiate outreach programs to better educate District customers on where revenues are spent so the customers would be supportive and aware of the needs of the District.

Mr. Doyle asked if the District had considered fuel cells as opposed to natural gas power. He said that there were grant monies available for the use of fuel cells. Mr. Hill said the technology is there, but the cost per kilowatt is 6 times the cost of natural gas. He noted that staff will pursue the possibility of obtaining grant assistance.

Mr. Hill and Mr. Stratton suggested setting up a tour for the Board members to visit some of the District's sites to view the infrastructure. The tour was scheduled for March 5, 2003 at 8:30 a.m.

V. Overview of Human Resource Issues

Mr. Tenney provided an overview of the salary compensation study the Board directed staff to pursue. The purpose of the study is to ensure the District remains competitive in its recruitment of qualified personnel and to fairly compensate employees. Mr. Tenney said that basically, salary ranges will be reviewed after comparative compensation analysis with other entities has been completed. The methods for gathering the information will be conducted according to the recommendations made by Fox Lawson. Staff will first review and update job descriptions, and then gather information from the labor market to determine the appropriate salary range for each position. He noted that some District positions are unique in their varied job duties and would require more in-dept analysis. Mr. Tenney said that once the information is compiled, staff anticipates a report will be ready for Board's review by December 2003.

Mr. Offret pointed out that a good benefit analysis also ensures proper internal equity. He asked about the on-call employees and if the pay was factored into the base salary amounts. Mr. Tenney said that currently it is not factored into the base salary; however, staff would look at how other utilities address on-call salaries. Mr. Stratton said he has been reviewing the amounts paid for on-call situations versus hiring an additional employee to work a second rotating shift. He noted that this would be evaluated and included in the compensation study. Mr. Doyle asked if this would also address holidays and weekends. Mr. Stratton replied that included in this study would be the consideration of working weekends as a part of an employees normal work week. Holidays would require additional compensation. Mr. Doyle said he does not believe that overtime should be budgeted, and that staff should research the times employees are generally called out and for what purpose, and adjust schedules to meet those demand times. Mr. Stratton said that currently the District has in place maintenance programs that have necessitated overtime. He added that there is also safety issues involved if an employee is called to work during the night and works again eight hours that same day.

Mr. Doyle suggested that staff consider observing Caesar Chavez as a holiday. He noted that Pima County observes the holiday, and offers employees a period of approximately 45 days in which to use it as a floating holiday. Mr. Tenney said staff will review District policies involved with adding an additional holiday and bring the information back to the Board.

Mr. Offret noted that during previous discussions it was recommended to take a total compensation approach in determining salaries and consider benefit analysis information. He suggested that while staff is conducting labor market matches they also include asking for the benefits and dollar amounts associated with those benefits for each position. Mr. Tenney said that staff could incorporate this as part of the salary survey. He noted that the District is already comparative to what other public entities offer in the way of benefits, but he would gather the additional information to ensure the District continues to be competitive.

Mr. Land said the District currently has a modified version of the cafeteria health plan. There are pre-tax dollars available on the health and dental plans, and a portion of the life insurance. He said that previously there was not enough interest in dependant care and other items that would validate participation in a total cafeteria health plan. Mr. Polley said that Pima County offers employees the ability to convert a portion of unused sick time to compliment their retirement amounts and suggested staff look into this option. He noted that this creates an incentive for employees not to abuse sick leave.

Mr. Land pointed out that the District currently budgets merit increases at 4%, and cost of living adjustments (COLA) are based on the Consumer Price Index (CPI). Mr. Offret noted that Board resolution requires Board members to vote on the COLA in December each year. He suggested changing the date to July 1, in part due to newly elected Board members being tasked with voting on the COLA in January if the Board did not approve the COLA in December, which is what happened in January 2003. If the Board members would have voted in December, they would have voted on an issue that would affect the budget of newly elected Board members. Mr. Offret said that most

public agencies make the COLA adjustments effective July 1 of each year making it easier for budgeting purposes. Ms. Downing agreed and said that as a newly elected Board member she was uncomfortable voting on the COLA in January. Mr. Stratton said that the December date was originally established for December as July 1 was the date all employees were eligible to receive merit increases. Mr. Tripp said he felt it was appropriate to approve the COLA because it had been included in the fiscal years budget that was approved in June 2002. Employees are now eligible to receive merit increases on their anniversary date, which is their hire date. Mr. Stratton suggested changing the COLA date, and establishing a new resolution to be presented to the Board for consideration at a future meeting.

Mr. Offret noted that the City of Tucson does not use the CPI but rather the Purchasing Power Deflator. He recommended staff research this option and make a comparison between the two for future considerations. Ms. Downing asked that parameters be established for the Board to approve a COLA. Mr. Stratton said that budgeting monies for a COLA is not an assurance that employees will receive a COLA, but is determined by a vote of the Board.

Mr. Tenney said merit awards were put into place during 2000 as a means to encourage better performance by employees. Employees are eligible to receive a 4% merit increase yearly on their anniversary date when their performance is evaluated. The average merit increase is 2.7% and is made at the recommendation of the supervisor. Mr. Tenney noted that as staff has become more familiar with the performance evaluations, they are becoming more aware of the expectations of their performance. He explained that when considering incentives for good performance, salaries and benefits were highest on employees list.

Mr. Tenney said that staff will be reviewing the District Personnel Manual for updates or revisions during the current calendar year. After the manual is updated, suggestions or revisions will be provided to legal counsel for its review. Once approved by legal counsel, the document will be provided to the Board for its consideration.

Mr. Land explained that some employees have not taken advantage of their professional growth program funds. Each employee has available to them \$350 per year to spend on professional growth, and can roll the money over for a period of three years. After three years, the accumulative amount would be \$1,050 but would not go higher than this amount. Ms. Downing asked if the employees were provided information on various training opportunities. Mr. Land said yes. Mr. Dean pointed out that some employees are carrying the money over from year to year to build up a larger amount to attend more costly seminars. He said staff is often times confused as to what seminars or programs actually fall under the professional growth program. Mr. Tenney said staff will look at better educating the employees so that it is clearer for what the funds can be used.

Ms. Downing asked if staff evaluates employees and duties to ensure that employees have an adequate amount of duties to keep busy during the workday. Mr. Stratton said division managers were asked to do an evaluation of their departments and staff to determine if the workloads were adequate and if efficiencies could be enhanced. He also asked managers to check for proficiencies in possibly combining positions. Mr. Stratton said he was in the process of evaluating the responses

from the managers. He noted that the front desk receptionist recently began working a shorter work day and no longer qualifies for benefits, thus creating a savings for the District. Also, a customer service representative has recently began working in the warehouse approximately four hours per day, eliminating the need to hire a person to do the inventory. Mr. Offret asked about the District's summer student help and asked if there was a possibility that another agency would be willing to fund the monies for a training program. Mr. Stratton said he was unaware of any such program.

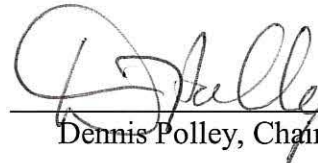
VI. General Manager's Report

Mr. Stratton said a managed recharge meeting for the storage of effluent was scheduled for February 25, 2003 and noted this may be the last meeting required to make final revisions on the Intergovernmental Agreement.

During March, representatives from Almaty, Kazakhstan will be visiting the City of Tucson. Mr. Stratton said that he will keep the Board updated as to meetings or events involving the representatives.

VII. Adjournment

The meeting adjourned at 8:29 p.m.


Clerk of the Board
Dennis Polley, Chair of the Board