

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

January 13, 2003

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

MINUTES

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

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

Executive Session

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 5:05 p.m. Dennis Polley, Dan M. Offret, Jim Doyle, Suzanne Downing, and James Tripp 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 5:06 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), 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. Acquisition of Green Valley Water Company.

The Board returned from Executive Session at 6:00 p.m.

Regular 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 6:04 p.m. Dennis Polley, Dan M. Offret, Jim Doyle, Suzanne Downing, and James Tripp were present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – December 9, 2002 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Bill of Sale – Tecolote De Oro Subdivision.**

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. Presentation to Theresa Lutz for Employee of the Year.**

Mr. Polley congratulated Theresa Lutz for being chosen as Metro Water District's Employee of the Year for 2002. He presented Ms. Lutz with a plaque containing her name along with names of previous employees nominated by peers for employee of the year. Mr. Polley expressed his appreciation to Ms. Lutz for her hard work and dedication. Ms. Lutz, who has been with the District seven years, works in the Hydrology Division as a Hydrologist I.

- B. Monthly Status of the District.**

Mr. Stratton said there was nothing new to report.

- C. Election of Chair and Vice-Chair for the Board of Directors.**

Mr. Tripp made a motion to nominate Dennis Polley as Chairman of the Board of Directors for calendar year 2003. Mr. Offret seconded the motion. Motion passed with Mr. Tripp, Mr. Offret, Mr. Doyle, and Ms. Downing voting in favor of the motion. Mr. Polley abstained.

Mr. Tripp made a motion to nominate Dan Offret as Vice-Chairman of the Board of Directors for calendar year 2003. Ms. Downing seconded the motion. Motion passed with Mr. Tripp, Mr. Polley, Ms. Downing, and Mr. Doyle voting in favor of the motion. Mr. Offret abstained.

D. Schedule of Regular Board Meetings in 2003.

Mr. Tripp made a motion to approve the date and time for the regular sessions of the Board of Directors meetings in the year 2003 as outlined in the staff report. Mr. Offret seconded the motion. Motion passed unanimously. Regular Board meetings will continue to be the second Monday of each month.

E. Financial Report.

Mr. Land said the revenues are running approximately 8.6% or \$412,000 above budgeted amounts. The expenditures compared to revenues are approximately \$72,000 under budget for the current fiscal year.

Mr. Land explained that during December 2002 there was a problem with the District's billing system. The problem has been resolved and the bills are being mailed and processed on time.

Mr. Land said there is an issue with the District's investment in the Local Government Investment Pool with the State Treasurer's office. He said the District had been notified in November 2002 that there was a problem with one of the securities and that it would be placed in a separate pool and the District's ratings would be downgraded. Mr. Land said that last week the District received a letter stating they were in bankruptcy resulting in the District securities being approximately \$358,000 short. He explained that as the bankruptcy progresses, he will have more information on how the issues will be handled.

Mr. Tripp asked if there was a course of action currently planned to address the State Treasurer's office issues. Mr. Land said that since they are seeking bankruptcy these issues have affected entities statewide, and the District will wait to determine what the outcome will be as the bankruptcy progresses.

F. Approval of Fiscal Year 2001-2002 Audit.

Mr. Land provided the Board with copies of the 2001-2002 audit and accompanying management letter. Mr. Stratton noted that the Board may want to continue this agenda item until February 2002 after the Board has an opportunity to review the audit. Mr. Land said the instructions on addressing the District's inventory methods were unclear. As a result of the audit, it was recommended that the District address the implementation of GASB 34 in a different manner next fiscal year. Mr. Land also said the District is not receiving the same type of service from Wells Fargo, one of the trustees, as it has been from other trustees. He explained that this had caused an issue for the auditor's and their ability to receive information. Mr. Land said the District may want to change trustees or set up its own accounts in order to provide the requested information to the auditors next fiscal year.

Mr. Tripp made a motion to table discussions on the audit and continue it until the February 2003 Board meeting. Ms. Downing seconded the motion. Motion passed unanimously.

G. Discussion and Direction for Legislative Issues 2003.

Susan Charlton of Gallagher & Kennedy provided the Board with a brief description of the legislators that will be responsible for determining Arizona's water policy for the next few years. She said the legislature had convened; however, there were no water bills or special district bills introduced as of this time. Ms. Charlton said there are three bills that are expected to be introduced at a later date. Two bills are being considered by Southern Arizona Water Users Association (SAWUA), one is regarding water infrastructure financing districts, and the other addresses exempt wells. The third bill that is expected to be introduced will be presented by the Governor's Groundwater Management Commission regarding CAWCD provisions dealing with CAGRDR replenishment reserves and requirements of having a 100-year planning horizon. Ms. Charlton explained that this an excellent time to educate the new legislative members, and noted that seven of the twelve members of the House Water Committee are freshman and have little current knowledge of water issues. She suggested the District meet with them for discussions on what the District does and how it operates, and/or provide them with literature regarding the District. Ms. Charlton advised the Board that she would be providing the District with updates on water issues and legislation as soon as she receives the information.

Ms. Stratton reiterated that SAWUA is working on two pieces of legislature, infrastructure financing and exempt wells. Mr. Tenney said the multi-jurisdictional water facility district would provide a mechanism for two or more water providers to form a district to finance water infrastructure of mutual benefit. Examples of projects are treatment plants and transmission lines. Mr. Tenney said that some of the concerns regarding this piece of legislation are the financing abilities of the district, and specific general obligation bonds. He explained that a user obligation bond concept is being researched at this time. Mr. Tenney said the District sees this legislation as an opportunity to work together with other communities on individual projects that will be beneficial to all the participants.

Regarding exempt wells, Mr. Tenney said that currently if the District wants to drill a new municipal well it must consider all exempt wells that have been drilled in the area. This could force the District to have to down size the capacity of its new wells, or look at new well sites. Mr. Tenney said that the proposed legislation would not have the exempt wells prevent a municipal water provider from drilling a new well. Mr. Tripp asked if the District has had this problem in the past. Mr. Tenney said that there was an issue in the past. He explained the District's main concern is that it has had to down size proposed wells to accommodate existing exempt wells.

Mr. Stratton said it takes a substantial amount of staff time to determine where the existing exempt wells are located and the exempt wells limit the District's ability to locate ideal sites for new municipal wells. He also noted that after the District locates a new site there is a lengthy process it must go through before the actual drilling can begin. During this process, an adjoining property owner could drill a new exempt well which would then prohibit or establish restrictions on the District's ability to proceed with its plans. Mr. Stratton said it was staff's recommendation that the Board support the proposed current legislation.

Mr. Offret said he supports the issues, and the proposed education of the new legislatures. He asked if the proposed education would place a financial burden on the District. Ms. Charlton said this would be included in the monthly fee currently paid to Gallagher & Kennedy. If the cost were to exceed this amount, Ms. Charlton said she would advise staff.

H. Job Compensation Assessment

Mr. Tripp made a motion to approve the job compensation assessment be conducted by District staff. Mr. Offret seconded the motion.

Mr. Offret said that he believes that possibly as a part of the budget process or a separate study session during the budget process, there are a few issues the Board needs to discuss. Among those would be a program for internal equity analysis, benefits analysis, and an evaluation of the District's performance appraisal process. Ms. Downing agreed with Mr. Offret.

Mr. Stratton said that in the analysis completed by Fox Lawson and Associates they had suggested some items that the Board will need to consider regarding the establishment of policy decisions in the areas of compensation assessments for the District. He suggested that in a study session in the near future the Board discuss the policies and direction for staff.

Mr. Tripp asked what kind of time frame the District would be looking at to implement new policies. Mr. Stratton replied that it will take staff approximately one year to provide a full report for Board's consideration. He said that to gain and identify compensation information from other entities is a lengthy and time consuming process.

The motion to approve the job compensation assessment be conducted by District staff passed unanimously.

I. Consideration of Cost of Living Adjustment for District Staff.

Mr. Tripp made a motion for the Board to approve a 2% cost of living adjustment (COLA) for District employees. Mr. Offret seconded the motion.

Mr. Offret said he believes the Board needs to discuss at a future meeting the timing of the vote by the Board for a COLA as well as the implementation date of the COLA. He said the District should also research options for determining the amount of the COLA and noted the City of Tucson is now using a purchasing power deflator instead of the consumer price index.

Ms. Downing asked if the Board would be discussing the issues of salary compensation during a study session within the next month. Mr. Stratton replied yes. Ms. Downing said she believed the Board should also address the COLA at the same time as the salary compensation.

Mr. Offret said since these issues may mean a change in District policy, he believes the Board and staff should move slowly with the issues but proceed with the COLA.

Mr. Tripp said the District has appropriated the money in the current fiscal year for the COLA increase and believes the employees are entitled to the money. He said that if changes are made in the COLA process and/or policies they should be built into the 2003/2004 budget.

Mr. Stratton said that in 1994 the Board of Directors passed a resolution stating that each December the General Manager would bring the COLA to the Board for its consideration. He said this is a budgetary concern, and agrees that it should be included with the discussions on compensation assessments. Mr. Stratton said in order to anticipate budget expenditures for 2003/2004 staff will need direction from the Board.

The motion for the Board to approve a 2% cost of living adjustment for District employees passed unanimously.

J. Award of the Construction Contract for the Mona Lisa Well Collector Line.

Mr. Tripp made a motion to award the construction contract for the Mona Lisa Well Collector Line to Tricon Contracting, Inc., in the amount of \$51,648 and to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$5,000 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Offret seconded the motion.

Mr. Offret asked Mr. Maish where the line going from the Mona Lisa production well ends. Mr. Maish said it terminates along Magee Road where the Thornydale transmission main was completed. Mr. Maish said the line would be connected to this transmission main in the future.

Mr. Tripp explained that this was a temporary collector line put in place to pump water into the wash for recharge. He said this line has been disconnected and the pump is now gone.

Motion passed unanimously.

K. Award of Professional Services Agreement with Malcolm Pirnie for a Feasibility Study Associated with the South Shannon Treatment System.

Mr. Tripp made a motion to award the Feasibility Study associated with the South Shannon Treatment system to Malcolm Pirnie for a not to exceed amount of \$17,955. Mr. Offret seconded the motion.

Mr. Hill said this is the only well out of the District's 36 wells that requires treatment for volatile organic compounds (VOC). He said the well is important to the District to meet water demands. The treatment has allowed the District to deliver water free of contaminants. Recently, an increase in contaminant levels at the well head was detected. While the water delivered shows no detection and meets the Safe Drinking Act, the District has had to reduce the wells pumping amount. Mr. Hill said the feasibility study will provide the District with a recommendation on which treatment modification option is most feasible at the site and an estimate of the capital and

maintenance costs in order to bring the system into compliance and keep the well. He explained that to abandon the well would allow migration of the contaminants underground to other existing wells. Mr. Hill said expenditures to bring the system up to compliance levels, as well as energy cost at this site, are currently quite expensive. He noted that the District has asked ADEQ to reimburse the District for the feasibility study as well as future capital and O&M costs. ADEQ has not yet made a decision on the District's request. Mr. Hill said staffs believe it is important to move forward with the study as it is unknown when ADEQ will respond with a decision. Mr. Hill offered to provide a tour for Board members to visit the South Shannon Treatment System site.

Mr. Tripp asked if a treatment system had previously been installed at this site. Mr. Hill replied yes, and noted that the District was not reimbursed by ADEQ for that system. He explained that the levels of VOC have increased nine fold since 1994.

The motion to award the Feasibility Study associated with the South Shannon Treatment system to Malcolm Pirnie for a not to exceed amount of \$17,955 passed unanimously.

L. Acquisition of Green Valley Water Company.

1. Ratification of Seconded Amended and Re-stated Asset Purchase Agreement for the purchase and sale of certain assets of the Green Valley Water Company.

Mr. Stratton said the Asset Purchase Agreement contract for the purchase and sale of certain assets of the Green Valley Water Company was presented and approved by the Board in December 2002. He said that minor changes had been made and the Board was asked to ratify the amended agreement.

Mr. Offret made a motion to approve the ratification of the Second Amended and Re-stated Asset Purchase Agreement between the Metropolitan Domestic Water Improvement District and the Green Valley Water Company for the purchase and sale of certain assets of the Green Valley Water Company. Mr. Tripp seconded the motion.

Mr. Doyle asked if the ratified contract still included a clause stating following the closing, the buyer shall take such steps and make such applications as shall be necessary to become designated as having an assured water supply. Mr. Stratton replied yes.

Motion passed unanimously.

2. Status of Negotiations with the Green Valley Domestic Water Improvement District.

Mr. Stratton said Mr. McNulty and he had met with members from the Green Valley Domestic Water Improvement District (GVDWID) and Mr. Williamson, owner of the Green Valley Water Company, to discuss negotiations for the transfer of the assets to the GVDWID. He explained

that in the contract ratification it was noted that Mr. Williamson did not want the District to assign the contract for the sale of the water company without his consent. He said the clause negated the ability for direct assignment of the contract to the GVDWID. Mr. Stratton said another change in the contract approved in December is the assured water supply designation. It guarantees replenishment of all water produced in the service area to ensure there is a replenishment obligation according to the Arizona Department of Water Resources rules and regulations. Mr. Stratton noted that several citizens from Green Valley were in the audience and invited them to provide comments.

Frank Raymond, GVDWID Board of Directors, explained he believed they would have an opportunity to speak to the Metro Water District Board prior to it voting on the ratification of the Second Amended and Re-stated Asset Purchase Agreement between the Metropolitan Domestic Water Improvement District and the Green Valley Water Company. Mr. Raymond said it was GVDWID's contention that water management would be changed in Green Valley and would be unfair to its citizens if Metro Water District were to purchase and control the Green Valley Water Company. The GVDWID concerns included the assured water supply designation, replenishment requirements, variance in the amounts charged to individual golf courses, and water rate increases to customers. Mr. Raymond explained why he felt the assured water supply designation was costly, and not needed for GVDWID. He noted that the District did not impose the same policies in the Hub Service Area as those it is proposing to impose in Green Valley. Mr. Raymond said he does not believe Metro Water has acted in good faith due to the changes in the contract and GVDWID inability to voice their concerns to Metro Water prior to the Board's motion to approve the amended and re-stated asset purchase agreement.

Jim Davis, Green Valley resident, said he was puzzled and concerned regarding the Board's approval of the amended and re-stated asset purchase agreement, and why the District no longer appears to be interested in helping them establish a DWID. He questioned the District's apparent interest in establishing water management policies for GVDWID. Mr. Davis noted that when the District acquired Hub it did not impose the same policies as it is proposing for GVDWID regarding the assured water supply rules. He voiced concerns over the three golf courses paying a higher rate than the rate promised to Canoa Ranch Golf Course for a fifteen year period. Mr. Davis said he does not believe the District has negotiated in good faith as the contract was changed in December after negotiations between GVDWID and the District took place and were agreed upon. He said GVDWID was denied the opportunity to speak to the Board prior to its vote on the ratified contract. He added that there is no question that Green Valley citizens want control over their water company. He asked that the Board reconsider its motion and vote on the amended purchase agreement.

Mr. Stratton explained the circumstances surrounding the purchase of the Hub water system by the District. He noted that at the time of the Hub purchase, it was believed that the District's reallocation of CAP water from CAWCD would occur in the near future. This was not the case and the Board made a decision to hold off until there was enough CAP supply to meet the both the Hub Service Area and the District's northwest section. Mr. Stratton said that a hydrology report was recently completed for the Hub Service Area and it was determined that there were adequate water supplies in preparation for the eventual assured water supply application. Mr.

Stratton also noted that at the time the District was formed in 1992 the City of Tucson imposed requirements upon the District which amounted to a cost of over \$12 million dollars to the District related to the delivery of CAP water. Mr. Stratton said that the first meeting with GVDWID members occurred just last week and they have not asked for any assistance from the District.

Mr. McNulty explained that the Board adopted Resolution 2002-8 which states that the GVDWID could purchase the Green Valley Water Company from the District. He asked if this had changed. Mr. Polley said this was correct. Mr. McNulty briefly explained the assured designated water supply policy. Mr. Tripp noted that the assured designated water supply was one of the conditions of the purchase of the District from the City of Tucson.

V. General Manager's Report

Mr. Stratton noted in his report that staff were recommending the Board have a Public Hearing regarding the use of a new size of meter and the proposed rates for the new meter size. The District currently uses a 5/8" meter and a 1" meter. However, to meet fire district requirements staff is recommending a 3/4" meter which would meet the needs more adequately.

Mr. Stratton said that a new contract was required with Mr. McNulty and the new firm of Lewis & Roca with which he is now associated. He noted that a new contract would be presented to the Board for consideration at its February 2003 meeting.

Mr. Stratton said that staff has been advised by Pima County Transportation that there will be a substantial re-vegetation requirement along Orange Grove Road for the La Cholla Transmission Main, Phase 3. He explained that the cost of re-vegetation would be between \$90,000 and \$100,000. The County does allow for an appraisal method where the District could submit the monies to Pima County and they would do the re-vegetation work for approximately \$50,000. Mr. Stratton said that staff is concerned that a significant amount of vegetation would be removed now, and Pima County's road project is not scheduled to begin until approximately 10 years down the road. This would leave the area scarred for a considerable amount of time. Mr. Stratton said all of the monies for the re-vegetation would come out of the Capital Improvement Program. Mr. Stratton said staff would have more information available at the February 2003 meeting.

Mr. Doyle asked if any of the vegetation could be salvaged. Mr. Maish said that all vegetation that can be salvaged would be, in addition to providing Pima County with the monetary value based on Pima County's appraisal method. He said the salvaged plants would be taken to another location and not destroyed.

Mr. Stratton said the managed recharge meetings are continuing between the participants. He said the Phoenix Office of the Bureau of Reclamation is having difficulty meeting some of the terms that managed recharge participants feel they can accept. Mr. Stratton said one of the issues is the quality of recovered water if in fact it is not from a location in which the entity wants to recover the water. Progress continues to be made on the attachment to the IGA that addresses

the facility plan of operation which is the focus of current meetings. Mr. Stratton said the permit for the facility has been placed on temporary hold by ADWR at the request of the participants until all issues have been resolved.

Mr. Stratton said a contract should be completed in the near future for installation of the infrastructure at the Mona Lisa well site. The re-development at the Lambert/La Cholla well site is currently taking place by the contractor as the quantity of water has not met the amounts originally anticipated. Mr. Stratton said the Hub #5 replacement well is not on-line at this time. Mr. Maish said the pump at this well will be installed on Wednesday and inspections will take place on Thursday.

Mr. Offret asked what the re-development at the Lambert/La Cholla site entailed. Mr. Hill said the well is being re-developed in attempts to get the water capacity out of the well that is needed and originally anticipated. Mr. Offret asked how far under anticipated amounts the well is producing compared to the expectations. Mr. Hill said it is pumping considerably under the amounts initially anticipated.

VII. Future Meeting Dates; Future Agenda Items

The next regular meeting of the Board and Public Hearing is scheduled for February 10, 2003 at 6:00 p.m.

Mr. Tripp made a motion to approve to establish a date for a Public Rate Hearing regarding the use of a new size of meter and the proposed rates for the new meter size. Mr. Offret seconded the motion. Motion passed unanimously. The Board unanimously agreed on February 10, 2003 as the date for the Public Rate Hearing.

Mr. Stratton suggested having a mini-retreat for staff and the Board to discuss current issues and future plans and goals for the District. The Board agreed to meet on January 25 2003 at 9:00 a.m. at a location yet to be determined.

VI. Legal Counsel's Report

Mr. McNulty said he had been diligently working to complete the purchasing agreement between the District and Green Valley Water Company. He explained that as a part of this process he has been working with Pima County regarding a franchise.

Mr. McNulty said he anticipates having a contract agreement between Lewis & Roca and the District for the Board's consideration at the February 2003 Board meeting.

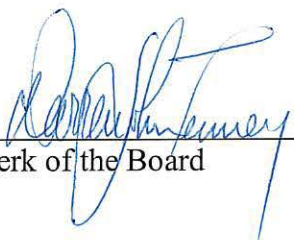
VIII. General Comments from the Public

Sam Ray asked if all meter rates would increase and if the information would be made available at the Public Hearing. Mr. Stratton explained that a rate would be established for a new size of

water meter the District will begin using. The current rates for all existing size meters would remain the same.

IX. Adjournment

The meeting adjourned at 7:30 p.m.



Clerk of the Board



Dennis Polley, Chair of the Board