

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

October 14, 2009

**** 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
Reb Guillot, Member
Dan M. Offret, Member

Board Members Not Present: Bryan Foulk, Member

District Staff: Christopher W. Hill, Deputy General Manager
Michael McNulty, Legal Counsel
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

Executive 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. Jim Doyle, James Tripp, and Reb Guillot were present.

Executive Session pursuant to A.R.S. § 38-431.03 (A) 3 (consultation for legal advice with District Legal Counsel), A.R.S. § 38-431.03 (A) 4 (consultation regarding contracts that are in pending or contemplated litigation or in settlement discussions) regarding the following:

A. Notice of Claims by PM Enclave at Foothills and Sonoran Terrace Apartments.

Mr. Tripp made a motion to adjourn into executive session. Mr. Guillot seconded the motion. Motion passed unanimously.

II. Adjournment

The executive session adjourned at 5:55 p.m.

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 6:00 p.m. Jim Doyle, James Tripp, Reb Guillot, and Dan M. Offret were present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – September 14, 2009 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Approval of Water Service Agreement – Chula Vista, Lots 1-7.**
- D. Approval of Water Service Agreement – Verch Way.**
- E. Ratification of Bill of Sale – Verch Way.**
- F. Renewal of Interim Remedial Action Contract with the Arizona Department of Environmental Quality for the South Shannon Treatment System.**

Mr. Tripp made a motion to approve the consent agenda. Mr. Offret seconded the motion. Mr. Offret asked if Mr. Osterbahn is satisfied with the Verch Way Agreement. Charlie Maish, District Engineer, said there had been no complaints. Mr. Offret said he was pleased the language of the agreement specified Mr. Osterbahn would not use his private well. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Christopher Hill, Deputy General Manager, said more water was produced in both service areas in the past month. Weather is one factor in the increase in production; there was not a lot of rain. South Shannon has treated approximately 603 million gallons since its start up in July 2006.

Staff was planning to put a screen and liner in the Jensen well, but will instead just replace the pump and sand separation for the next several years. There had been some concern about spending so much money on one well repair considering the current budget constraints, so it was decided a simple repair would be best.

Mr. Guillot asked if there had been any feedback since the October 13, 2009 Fruchthendler meeting. Mike Block, District Hydrologist, said the public meeting followed a PTA general assembly and there were about 13 people in attendance to discuss the proposed new well site on TUSD property. At the meeting, Mr. Block explained the replacement well would not pump more than the historical amount of water. One couple there asked questions related to construction noise and aesthetics. Mr. Block explained if the site proved to be feasible, the District would then speak with the public again about construction details. He said the meeting went well.

Mr. Guillot asked whether Immaculate Heart has evaluated an alternative well site. Mr. Block said the Developer's assistant told him they would provide water demand information for the project but Mr. Block has not heard back yet. Charlie Maish, District Engineer, said the Developer is well aware of what is required and the timing depends on their schedule. Mr. Block said the Developer was interested in meeting with the District and Pima County to discuss how to deal with the new county water resources comprehensive plan, but District staff explained project water demand should be understood before such a meeting could take place.

B. Financial Report.

Mike Land, Chief Financial Officer, said July and August show a very positive outlook, with \$400,000 ahead of budget on a straight-line basis. It should be noted, however, that July and August are typically higher revenue months. When compared with July and August of 2008, revenues are running \$188,000 above, and expenditures are \$118,000 below. The District has had only nine new connections in the first three months of the fiscal year, but the budget conservatively estimated 30 for the fiscal year so that number seems achievable. Mr. Offret asked for verification that as of September 30, 2009 there was over \$200,000 in the RTA waterline relocation fee fund? Mr. Land confirmed the District is generating almost \$70,000 per month. Mr. Offret asked if the fee will last two years as planned. Mr. Land confirmed it is on target with about 20 months left.

C. Notice of Claims by PM enclave at Foothills and Sonoran Terrace Apartments.

Mr. Tripp made a motion to direct staff to take such actions necessary to have water usage calculated for fire meter assemblies based on the larger portion of the meter assembly for those meters read following November 1, 2009. Mr. Offret seconded the motion. Motion passed unanimously.

D. Audit for Fiscal Year 2008-2009.

Mr. Land said the 2008-2009 Audit Draft was provided in the Board Report. He pointed out the District prepares a section of the Audit, and if the Board would like to revise anything in that section, Board Members should talk with Mr. Land. The final document is scheduled to be ready the week of October 26, 2009. There was a \$500,000 write-off associated with the abandonment of Hub No. 7 well, so the District suffered a net loss of \$144,000 last fiscal year. This marks the first loss since the District's formation in 1992.

E. Status of the RTA Waterline Relocation Project and Financing.

Mr. Land said the District has been discussing a line of credit with Bank of America but was recently told that line of credit could only be used for operating costs. Bank of America suggested putting together a short-term loan. Staff decided to also contact Canyon Community Bank, which the District deals with more frequently. Bank of America came back and said the short-term loan would have to be made on parity with the District's senior bonds. Fred Rosenfeld, Bond Counsel, expressed concern about agreeing to such parity. Mr. Land said funding may be possible without a loan mechanism, and he asked the Board if they thought it would be appropriate to draw on the District's Repair and Replacement fund, which would be repaid and supported by the \$70,000 per month generated by the RTA fee. Mr. Offret said he was wondering if it was plausible to get a short-term line of credit for future capital projects. Mr. Land said he would like to have further discussions with the original contact at Bank of America, because the line of credit stipulations were mentioned to him by another loan officer. Bank of America was attractive because it is tied to Pima County and has a lower interest rate. Mr. Offret asked Mr. Land to look into it, because he believes most of the District's needs are capital. Mr. Land also recalled the last time the Bank of America line of credit was used was in 1998, to help fund the Herb Johnson Reservoir, a capital project.

F. Liability and Property Insurance Renewal.

Mr. Tripp motioned to approve the insurance proposal by the Rural Special Districts through the Clements Agency, LLC at a premium cost of \$111,912 for the twelve month period from October 1, 2009 through October 1, 2010. Mr. Offret seconded the motion. Motion passed unanimously.

G. Approval of Influenza Policy for Personnel Manual.

Mr. Tripp motioned to include the Influenza Policy to be part of the District personnel manual. Mr. Offret seconded the motion.

Mr. Offret asked if the time would be recorded as sick leave. Billie Sue Morelli, Human Resources Specialist, explained the new policy goes along with sick leave. If an employee shows

obvious signs of being ill, they will be asked to go home and use sick time. Ms. Morelli said there has already been one such incident. Mr. Offret expressed concern about the legal ramifications of forcing an employee to use sick time at management's discretion. Mr. McNulty mentioned under the Pima County policy, employee can be fired if they refuse to go home when asked. Mr. Hill said the Influenza Policy was developed to enhance existing policy and prevent the spread of infection. Ms. Morelli explained that she consulted the Federal Hourly Wage Act, and the employer can legally ask an employee to use sick time. Mr. Offret noted some entities are mandating flu shots, and he wanted to make sure first amendment rights are not in question with the District's policy. Motion passed unanimously.

H. Resolution 2009-5 – Authorization to Refund (Refinance) District Senior Lien Water Revenue Refunding Bonds.

Mr. Tripp motioned to approve Resolution 2009-5 to refinance the District's senior lien water revenue funding bonds. Mr. Offret seconded the motion.

Mark Reader, managing Director of Stone & Youngberg LLC, gave a PowerPoint presentation on the opportunities that exist on refinancing bonds. He said interest rates in municipal bond market are around 40 year lows, and it appears to be an ideal time to move forward with refinancing. Mr. Reader explained the credit rating process. Mr. Offret asked whether the District could purchase insurance to raise the credit rating, and Mr. Reader confirmed.

Mr. Rosenfeld spoke about a recently discovered technical issue regarding reserve insurance. He said the challenge must be corrected before the District can refinance. The District faces potential default if a solution is not found, and the District will have to deal with this situation whether or not refinancing occurs. He said he will work hard to resolve the issue, and the Water Infrastructure Finance Authority of Arizona (WIFA) has been receptive. He suggested if the Board of Directors chose to adopt the Resolution, it would grant the authority to move forward on finding a solution. If the team is unable to figure it out or if the Resolution required significant amendments, the matter could be put on the agenda for Board approval once again. Mr. Tenney asked if there would be delays if the technical issue resulted in the Resolution coming back to the Board, and he indicated Mr. Stratton is concerned how this might impact the Thim acquisition. Mr. Rosenfeld said the technical issue has the potential to impact the Thim acquisition but there is also the possibility of a WIFA waiver for Thim. The District may be able to refinance through WIFA, and try to correct the situation that way. He said there could be some special meetings as the issue unfolds. Mr. Reader said the goal is to be transparent with the District as they try to figure out a solution.

Mr. Tripp again motioned to approve Resolution 2009-5 to refinance the District's senior lien water revenue funding bonds. Mr. Offret seconded the motion. Motion passed unanimously.

I. Approval of Consulting Agreement for Lobbyist for Northwest Central Arizona Project Water Treatment and Delivery System.

Mr. Tripp motioned to approve the consulting agreement with J.C. Herrick Consultants, Inc. for a one year period. Mr. Offret seconded the motion. Mr. Offret asked whether the consultant provides itemized billing with specific clients and times listed. Mr. Tenney replied the invoices had not been itemized, but there has been a conversation about more specific accounting. Mr. Doyle, Mr. Tripp, and Mr. Guillot voted aye. Mr. Offret voted nay. Motion passed.

J. EPA Rulemaking on the Navajo Generating Station Emissions.

Mr. Tripp motioned to direct the Chair of the Board to sign a letter to express the District's concerns about Environmental Protection Agency's rulemaking on the Navajo Generating Station. Mr. Offret seconded the motion. Motion passed unanimously.

K. Status of Northeast Reservoir Booster Station Facility Flood Repair.

Mr. Hill reported the scenario has changed slightly. A settlement proposal was received and rejected. An equipment repair contract will require Board action. The attorneys involved have ongoing dialogue. There is a need to take extraordinary measures because two of the pumps are ready to fail. Mr. Hill explained staff attempts to communicate with the other parties frequently. Staff meets weekly, sometimes more often, to discuss the ongoing issues.

L. Status of AZWARN Agreement.

Mr. Offret congratulated Steve Shepard, Assistant Utility Superintendent, on his new position as the AZWarn Chair. Mr. Shepard gave a PowerPoint presentation on the AZWarn program.

M. Status of Public Hearing for Proposed Rate Structure Adjustment.

Mr. Tenney said the public hearing was approved and notices have been mailed. It will be held on October 26, 2009 at 6:00 pm. Staff has also been looking at the proposed rate structures with the goal of promoting conservation and maintaining equity and stability for the larger meter sizes. Staff had presented a proposal for combining the larger meter sizes in the Board report. Mr. Land explained staff discussed the possibility that while the adjustments might encourage conservation, they also might result in rate shock, so staff was looking at modifying that specific proposal. Staff would like to present more detailed information to the Board at the public hearing.

V. General Manager's Report

Mr. Stratton was not present. Mr. Hill referred to the updates in Mr. Stratton's written report.

Mr. Tenney reported a development in the Toilet Rebate program, which began in 1995. The Board approved an annual budget of \$5000 for the 2009-2010 fiscal year. He wanted the Board to be aware that more people are applying for the rebate than ever before, and \$3500 has been distributed in the first three months of the fiscal year. The Board may have to make a decision on how to proceed at a future meeting.

VI. Legal Counsel's Report

Mr. McNulty said he had nothing further.

VII. Future Meeting Dates; Future Agenda Items

There will be a Public Hearing on October 26, 2009. The next regularly scheduled meeting of the Board of Directors will be held on Monday, November 9, 2009.

VIII. General Comments From the Public

There were no comments by the public.

IX. Adjournment

Mr. Tripp made a motion to adjourn. The meeting adjourned at 7:27 p.m.

Jim Doyle, Chair of the Board

Warren Tenney, Clerk of the Board