

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

December 14, 2009

**** Board Room ****

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

MINUTES

Board Members Present: James Tripp, Vice Chair
Bryan Foulk, Member
Reb Guillot, Member
Dan M. Offret, Member

Board Members Not present: Jim Doyle, Chair

District Staff: Mark R. Stratton, General Manager
John Hinderaker, Legal Counsel
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

Regular Session

I. Call to Order and Roll Call

Jim Tripp, Vice 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. James Tripp, Bryan Foulk, Reb Guillot, and Dan M. Offret were present.

II. General Comments from the Public

Lisa Sandahl, 7887 N. La Cholla Boulevard, asked the Board to include her comments in the record verbatim, and provided a typed copy to the Clerk of the Board:

“Hi, my name is Lisa Sandahl. I am the Community Manager of the 374-unit Sonoran Terraces Apartment Community located at 7887 North La Cholla Boulevard. I also serve as Tucson District Manager for Nevins Adams Lewbel Schell, a multi-family owner operator of over 13,000 apartment units throughout the United States. I am here this evening to communicate our continued disappointment with Metropolitan Water

Improvement District tiered billing structure. We are especially concerned with the recent tier limits placed on four and six inch meter customers.”

“As all of you are aware, we have been in front of the administration with continued attempts to change what we believe to be a completely unfair billing structure. We originally approached Metro’s administration in June of 2008 and subsequently agreed to enter into discussions along with other multi-family owner operators to find a solution. Metro’s administration was unwilling to address the fundamental issues of fairness noting they would not support a shifting of revenues from one class being the multi-family user to another. The administration also indicated the Board would be unwilling to listen to a solution as long as multi-family owner operators refuse to address the so-called lack of conservation behavior we have been falsely accused of over the last few years. We are dismayed that the administration has yet to clearly define what conservation is and continues to accuse us of this transgression. We would like to point out that, on average, our residential dwelling unit uses less than half the water of a single family home and we are constantly looking for ways to improve conservation. We realize that nobody is interested in paying more for water and we try our best to act appropriately. We monitor water usage across our entire apartment portfolio on a monthly basis and we know when there are leaks before the water suppliers do and repair them quickly. Again, we disagree with the vilification of the multi-family water customers as it relates to water conservation and believe the administration is only using this to cloud the fairness issues we continue to raise.”

“Within the multi-family class, there are a handful of us who have compound fire-meters. The way these meters were billed until last month’s billing cycle tended to exaggerate the cost of water relative to usage by billing the bypass lines independently from the large meter. The recent change to the billing methodology was not easily achieved. We were not able to affect change of this billing practice until we threatened litigation. After a meeting between the management teams of Sonoran Terraces, Enclave at Foothills, numerous attorneys, and Mark Stratton, we were informed Metro would bill the bypass line flows as part of the 4” flows. We viewed this as a positive development in our relationship with Metro.”

“Our feelings were quickly dashed once we reviewed the 2009 rate proposal. At this point I’d like to introduce you to one of the residents at Sonoran Terraces. Mr. Ernie Pile has been living at Sonoran Terraces for 10 years and lives on a fixed income. In addition to the monthly rent payment, he pays for water, \$22.00 per month as part of his lease agreement. Assuming the modified 2008 rate structure where our bypass line flow is added to the adjacent larger meter, in an average consumption month of 5,600 gallons per

unit and assuming Sonoran's water service was balanced through both of its 4" meters, he would pay 26% more per gallon of water than the average single family home owner. Under the proposed rate structure, he will pay 40% more per gallon of water. This is caused by the departure from using AWWA factors to determine tier limits. The current rate proposal instead sets arbitrary tier limits at 20% less for four inch meters and 50% less for six inch meters as compared to other meter sizes. This rate structure methodology change represents punitive action against us for engaging the Metro administration to resolve the billing inconsistencies in the fire meter structures. We will not tolerate the continued action by Metro Water to discriminate against us."

"We would ask, in the very least, that Metro return to using the AWWA factor to determine tier limits for four and six inch meters. That way, Mr. Pile only has to pay 30% more per gallon of water as compared to the single family home owner, not 40%. I've brought along a typed copy of this comment for the minutes and ask that it be included verbatim for the record. Thank You."

Mr. Tripp stated he does not recall any representation of large meter users at the recent Public Hearing, in which comments on tier adjustments promoting conservation by large meter users could be heard. He recalled the Board supported the staff recommendation on adjustments to the rate structure.

III. Consent Agenda

- A. Approval of Minutes – November 9, 2009 Board Meeting.**
- B. Approval of Minutes – November 23, 2009 Special Session.**
- C. Ratification of Billing Adjustments.**

Mr. Offret made a motion to approve the consent agenda. Mr. Foulk seconded the motion. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mark Stratton, General Manager, said the water usage is holding fairly close to last year's levels. There was a change-out at South Shannon change-out recently, and 70 million gallons of water were treated between change-outs, which is longer than anticipated. The project at Fruchthendler is moving along as planned, and is being fenced this week. Westland Resources will begin the archaeological work soon, and they will be required to notify the school anytime they will be working. The school is being provided a key in case staff needs to access the area inside the

fence. ADWR notified the District that Metro-Main was in compliance for water use targets and losses in 2007 and 2008. Lost and unaccounted water in 2007 and 2008 were at 3.3% and 2.0% respectively, well below the 10% limit. Mr. Stratton said the La Cañada Drive "C" Zone Transmission Main is moving along well. Work on the Ina/La Cañada Mainline Replacement is done. Work on the Northern Hills Mainline Replacement will start in the near future.

Mr. Guillot asked about the gallons per day per person (gpcd) requirement for Metro-Hub. Warren Tenney, Assistant General Manager, said the Metro-Hub service area is now positioned under the large municipal provider category, so gpcd data will be reported in the future.

B. Financial Report.

Mike Land, Chief Financial Officer, said that as of October 31, 2009, the District was \$400,000 ahead of budget, with regards to budgeted revenue in excess of operating expenses. The budgeted operating expenditures for 2009-10 are \$263,000 over budget, including payroll, purchased power and CAP water purchased, both of which are due to timing. Compared to last year, the District is \$670,000 ahead of budget, with RTA fees now a part of that figure. There have been 15 new connections in the last five months but only 30 were budgeted for the year.

C. Audit for Fiscal Year 2008-2009.

Mr. Offret made a motion to approve the Audited Financial Statements of the District for the fiscal year 2008-2009. Mr. Foulk seconded the motion. Motion passed unanimously. Mr. Land noted that bound copies had been prepared for the Board.

D. Resolution 2009-9 – Refinancing the 2005 WIFA Loan Agreement.

Mr. Offret made a motion to approve Resolution 2009-9 to allow the District to refinance its 2005 loan agreement with the Water Infrastructure Financing Authority (WIFA). Mr. Foulk seconded the motion.

Mr. Rosenfeld said normally one would not refinance without an expected savings but the situation is atypical. He briefly explained the Resolution allows the District to refinance its 2005 loan agreement with WIFA, effectively refinancing the original guarantor out of the situation.

Motion passed unanimously.

E. Resolution 2009-10 – Approval of Amendment to the Subordinate Bond Purchase Agreement in Resolution 2002-2.

Mr. Offret made a motion to approve Resolution 2009-10, which will amend the subordinate bond purchase agreement included in Resolution 2002-2. Mr. Foulk seconded the motion.

Mr. Offret asked Mr. Rosenfeld of his opinion of the related \$40,000 consent fee. Mr. Rosenfeld said the fee is a point of contention. He feels it is unjust to be required to pay for another party's failure. Mr. Offret asked AMBAC's approximate cost involved in reviewing and approving this amendment. Mr. Rosenfeld knows of one person at AMBAC involved in the review and the amount of time is unknown. Mr. Stratton pointed out AMBAC has taken the matter to their committee for review. The District Financial Team is still trying to negotiate a lower fee, using the fact that Assured Guaranty charged only \$10,000. Mr. Guillot asked what number would be considered reasonable. Mr. Stratton said he hopes to negotiate the fee down to \$20,000.

Motion passed unanimously.

F. Amendment to Asset Purchase Agreement for Diablo Water Company, Thim Water Company, and Thim Water Corporation.

Mr. Offret made a motion to approve the amendment to the Asset Purchase Agreement for the Diablo Village Water Company, Thim Water Company, and Thim Water Corporation to extend the agreement until January 15, 2010. Mr. Foulk seconded the motion.

Mr. Foulk asked for verification that Robin Thim, current owner, is in agreement with the extension. Mr. Stratton confirmed he met with Mr. Thim and he wants to continue the deal even if it takes another two months.

Motion passed unanimously.

G. Resolution 2009-11 – Authorization and Execution of Loan Agreement with the Water Infrastructure Financing Authority for the Assets of the Diablo Water Company, Thim Water Company and Thim Water Corporation.

Mr. Offret made a motion to approve Resolution 2009-11, which will authorize and execute a loan agreement with WIFA for the assets of the Diablo Village Water Company, Thim Water Company, and Thim Water Corporation. Mr. Foulk seconded the motion.

Mr. Foulk asked if the deal is still expected to be executed December 29, 2009. Mr. Rosenfeld said the Team is determined to make the December 29th deadline, closing all deals simultaneously.

Motion passed unanimously.

H. Employee Medical/Dental Insurance Coverage.

Mr. Offret made a motion to approve the 2010 calendar year contract with Blue Cross Blue Shield of Arizona (BCBSAZ) with CBIZ Benefits and Insurance Services (CBIZ) serving as

broker. District employees will have the option to select their medical coverage either through the PPO or the HSA plan. It is further approved to accept the premium rates, employee deductions and HSA Contributions as outlined under Alternative 2. Mr. Offret also moved to approve to continue with the same dental insurance carriers. Mr. Foulk seconded the motion.

Mr. Stratton introduced Chris Gordon of CBIZ to answer the Board's questions. The Board thanked Mr. Gordon for compiling the benefits booklet, which was easy to read and understand.

Mr. Stratton pointed out a meeting with District staff was held to provide information, answer questions, and share opinions. Staff overwhelmingly expressed an interest to stay with BCBSAZ.

Motion passed unanimously.

I. Approval of Amendment No. 2 to the Professional Services Agreement for Design of the La Cañada Drive Transmission Main, Phase 1 Project.

Mr. Offret made a motion to approve Amendment No. 2 to the Professional Services Agreement with HDR Engineering, Inc. for an additional amount not to exceed \$15,000 and a new Contract Termination date of June 30, 2010. Mr. Foulk seconded the motion. Motion passed unanimously.

J. Rebate Program.

Mr. Offret made a motion to approve the use of funds in the graywater/water harvesting rebate program to continue to fund those rebates as well as continue high efficiency toilet rebates. Mr. Foulk seconded the motion.

Mr. Foulk asked for clarification the rebate is being honored for 1.2 gallon models, and not 1.6 gallon models. Mr. Tenney verified. Mr. Foulk also asked why the graywater rebates are not used as much. Mr. Tenney speculated those rebates require more effort and are probably more cost-prohibitive than toilet rebates. Homeowners generally install water harvesting systems before a graywater system that would require laundry facilities or showers positioned on an exterior wall.

Motion passed unanimously.

K. Resolution 2009-12 – Authorizing the Execution of Documents Necessary for Consummating the Transaction for the Assets of the Diablo Water Company, Thim Water Company, and Thim Water Company.

Mr. Tenney explained this item was added to the agenda as an emergency. The Resolution involves authorization to sign documents with the Title Company regarding the Thim purchases. The Title Company assisting with the transaction notified the District the morning of December

14, 2009 that a special authorization would be required before the end of the year and subsequently the agenda item was added.

Mr. Offret made a motion to approve Resolution 2009-12, authorizing the execution of the documents necessary for consummating the transaction outlined in the February 13, 2009 Asset purchase Agreement. Mr. Foulk seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Stratton said the audit by Immigration and Customs Enforcement (ICE) was underway. Billie Sue Morelli, Human Resources Specialist, met with Senior Special Agent Eduardo Reyes last week to provide him with copies of the District's I-9 hiring forms, which predate the formation of the District. Ms. Morelli had gone through the forms with Legal Counsel. Information as to the outcome will be provided to the Board as soon as it is available.

Mr. Stratton explained the La Cañada Waterline Relocation is underway. There are some lane utilities running underneath existing water mains that the district had not planned to relocate. The compaction is inadequate and has caused a number of failures to the system. The District will be replacing some sections of AC pipe with ductile iron pipe to minimize breakage during the project.

Mr. Stratton said the City/County water study is complete. Final documents will be presented to a joint Tucson City Council and Pima County Board of Supervisors. Copies of the report will be available to the Board upon request. There has been discussion within the Committee about the necessity to include other providers in the region. Mr. Foulk asked whether there are any riparian areas in the Metro service area. Mr. Stratton said there are a few, including an area in the Metro-Hub service area and areas near the Canyon del Oro (CDO) wash.

Mr. Stratton said a value planning workshop was held the first week of December regarding the system reliability feature for the Central Arizona Project (CAP). David Ruiz, Charlie Maish and other Northwest Partners representatives attended, along with CAP staff. The purpose was to discuss lower-cost alternatives to the surface storage reservoir. There was a discussion about building a bypass around the pump stations between the Northwest portion of the aqueduct and Phoenix to allow continual flow during maintenance. Catastrophic emergencies were also being considered. Future discussions are being planned, and the Board will be updated on the status.

Mr. Stratton said there had been progress on the Northwest Reservoir Booster Station situation. A Memorandum of Understanding (MOU) was signed, providing a payment of nearly \$360,000 to the District. A copy of the MOU was provided to the Board. Mr. Offret asked if the payment

requires the District to replace with the exact pump. Mr. Stratton explained the money covers the replacement of electrical components.

Mr. Stratton reminded the Board there will be a Christmas Luncheon on Thursday, December 17, 2009 at 12:00 pm. Board Members and their guests are welcome.

Legal Counsel's Report

John Hinderaker of Lewis & Roca, LLP said there was nothing to report.

VII. Future Meeting Dates; Future Agenda Items

The next regularly scheduled meeting of the Board of Directors will be held on Monday, January 11, 2010.

VIII. General Comments From the Public

There were no comments by the public.

IX. Adjournment

Mr. Offret made a motion to adjourn. The meeting adjourned at 6:49 p.m.

Jim Doyle, Chair of the Board

Warren Tenney, Clerk of the Board