

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

January 11, 2010

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

District Staff:

Mark R. Stratton, General Manager
Keri Silvyn, Legal Counsel
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder

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, Bryan Foulk, 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 – December 14, 2009 Board Meeting.**
- B. Ratification of Billing Adjustments.**

Mr. Tripp made a motion to approve the Consent Agenda. Mr. Foulk seconded the motion. Mr. Offret asked for clarification on one of the billing adjustments. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mark Stratton, General Manager, said water consumption remains similar to last year, and substantially less than November. There was a change-out the previous month at South Shannon. The Hub water exploration is moving along and there have been no archaeological findings so far. The riparian assessment is proceeding along and decisions will be made regarding mitigation. Capital project and mainline relocation activity in the La Cañada area will not be completed for a few months. Other contractors are continuing to hit the District's water lines but staff is staying on top of it. The District is spending additional time and resources on breaks associated with the utility relocations. The Northern Hills project has started.

Mr. Foulk asked if the drop in usage from November to December is typical. Mr. Stratton explained that generally speaking, it is. There are also a number of people who are aware their sewer bill will be calculated based on the winter months, so they conserve during the winter to get the lowest possible average.

Mr. Foulk asked that the signs along La Cañada be removed as soon as the District is done relocating the water lines. Mr. Stratton agreed and mentioned the Regional Transportation Authority (RTA) installed a number of signs along La Cañada after stating it was a Pima County project and they did not want the RTA name associated with it.

B. Financial Report.

Mike Land, Chief Financial Officer, said revenues and expenditures compared to budget are currently \$640,000 higher in revenue, and about \$180,000 over budget in expenses, primarily due to the purchase of power and central Arizona Project (CAP) water purchases subject to mail-in timing. Overall, the District is \$460,000 over budget (almost 16%) and about \$600,000 positive from last year, with the RTA fee accounting for over \$300,000 of that.

Mr. Land said there were two letters from the Auditors. One letter was to inform the Board of Directors there were no inconsistencies, discrepancies or disagreements regarding financial management, and the other letter outlined a couple of weaknesses. One weakness identified was in inventory, and staff will be recounting and reorganizing as a result. The other item was related to an accounts payable software issue. Both items are fairly minor, and the District could have booked a loss with the inventory issue but decided instead to clean it up before a final count. Mr. Offret asked about the Auditor's recommendation to complete inventory reconciliation on a monthly basis. He wondered if that would be time consuming. Mr. Land said the Inventory

Specialist has been instructed to reconcile on a six-month basis. Mr. Tripp stated he agreed that twice yearly is more practical.

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

Mr. Foulk made a motion for Mr. Doyle to continue serving as Chair of the Board of Directors. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Offret made a motion for Mr. Tripp to continue serving as Vice-Chair of the Board of Directors. Mr. Foulk seconded the motion. Motion passed unanimously.

D. Schedule for Regular Board Meetings in 2010.

Mr. Tripp made a motion to approve the date and time for the regular sessions of the Board meetings for 2010 as outlined in this report. Mr. Foulk seconded the motion. Motion passed unanimously.

E. Discussion and Direction for Legislative Issues 2010.

Warren Tenney, Assistant General Manager, said Arizona's legislative session began today. The Governor gave her State of the State address and water was not mentioned. The Governor and Legislature are focused on the budget. A few legislative issues that may impact water are listed in the report. The Central Arizona Groundwater Replenishment District (CAGRDR) revenue bonding authority is seeking that authority again. The matter never went to the full legislature for a vote last year. There is also legislation regarding the Arizona Water Banking Authority (AWBA). Mr. Tenney welcomes any questions regarding these or any other items mentioned in the staff report or in Gallagher & Kennedy's report.

Mr. Tripp made motion to direct staff to support the legislation for CAGRDR bonding authority and excess water for the AWBA. Also to support the general concept of the joint resolution for the Navajo Generating Station and for Central Arizona Water Conservation District (CAWCD) to pursue alternative sources of power assuming the language, when drafted, is consistent with the concept. Mr. Offret seconded the motion. Motion passed unanimously.

F. Approval of Balancing Change Order for the Ina/La Cañada Mainline Replacement.

Mr. Tripp made a motion to approve the Balancing Change Order to the Ina/La Cañada mainline replacement contract with Action Pipeline Contractors in the amount of \$28,627.23. Mr. Foulk seconded the motion.

Mr. Stratton commended Mr. Maish and everyone involved on ensuring the amount of the change order was minimal.

Motion passed unanimously.

G. Approval and Award of the Electrical Repairs and Replacement at the Northeast Reservoir Booster Station.

Mr. Tripp made a motion to approve the repair and replacement of the electrical at the Northeast Reservoir Booster Station and award the repair work to Kelly Electric in an amount not to exceed \$320,991.00. Mr. Offret seconded the motion.

Mr. Offret asked about the difference between the award and the money the insurance provided the District. Mr. Stratton said some of the monies provided by the insurance company cover things the District can do on its own. The money awarded to Kelly Electric is specifically for the electrical components they will be ordering and installing and backup generator power for the facility. The parts have a lead time 6-8 weeks. Legal Counsel has informed all the other parties of the February 8th deadline to have a plan of action for the pump repairs, or the District will make the repairs and utilize funds on reserve. By the time the parts arrive it will be late spring, which is high-use season. The District cannot go another season without having the facility at full operation.

Mr. Offret asked about the difference in the award amount and the amount the District receives from the insurance company, and how the funds would be applied if there is a problem with the pumps and the District has to purchase the pumps. Mr. Stratton said the District would utilize the funds it has withheld from Sun Western contractors for the repair of the pumps because the District has determined the pumps are covered under warranty and Sun Western is liable for repairing them.

Mr. Offret asked about the \$57,000 figure. Mr. Land explained some of that paid for attorney's fees and staff time.

Mr. Foulk asked if there was a formal bid process for Kelly Electric. Mr. Stratton said the bid process was initiated by the insurance agent in this case. Kelly Electric was familiar with Border States equipment and the parts cost were known, while labor costs were the only unknown factor.

Motion passed unanimously.

H. Update on Staffing Modifications in Utility Division.

Mr. Stratton said long-time Customer Service Supervisor Frank Fotta is retiring, and there is a desire to maintain a high level of customer service. When the current budget was developed and adopted, staff stated the District would not rehire when a vacancy is created. However, customer service is an area critical to the District's reputation and we must maintain adequate coverage and response to customers. In discussions with Chris Hill, Superintendent of the Utility Division, it was decided that at this point in time the District does not need to maintain the supervisor position. Combining the customer service and construction crews and hiring another utility service worker dedicated to customer service was decided to be the best scenario. There will be some cost savings by eliminating one of the supervisor positions and instead adding a utility service worker. Mr. Hill reiterated this is one area in which the District does not want to come up short-sighted. The District invests in its human resources and making that a priority has contributed to the District's momentum and reputation. Mr. Doyle confirmed that no action is needed. Mr. Stratton confirmed this report was an effort to formally justify the District's position to the Board of Directors.

I. Status of Metro-Southwest (Thim Utilities) Operations.

Mr. Stratton said the status update on the newly acquired Diablo Village, E&T, and Lazy B systems, which will now be referred to collectively as "Metro-Southwest" gives the Board of Directors an idea how the first couple of weeks are going. The District plans to keep the area's rates the same until discussions resume on District-wide rate structure, including increases to the base rate to cover operating costs and modifications to the commodity rate.

When the District acquired the Hub area, two employees were hired. While working on the Thim acquisition, it became apparent that a key employee was going to be let go and we saw this as an opportunity to draw on that employee's experience with the area. He came with strong recommendations from Mr. Thim and his Supervisor. When staff interviewed him they were impressed by his work ethic. The final interest rate on the loan was \$21,000 lower than expected, which softens the cost of hiring another employee.

Staff has been working on the Assured Water Supply designation for this area. Arizona Department of Water Resources (ADWR) experienced 48 layoffs last week so it may take a little more time for their staff to review the documents. District staff is ironing out Blue Stake and on-call issues.

Regarding capital expenditures, there were monies in the loan for capital projects but the District feels it is best to implement projects strategically, as there is a two-year timeframe to use those monies. The first priority is completing a certain well that was drilled but never equipped. Mr. Offret asked how much the three projects are going to cost. Mr. Hill said the total estimate was \$800,000. Mr. Stratton said the well requires an electrical panel. Staff will make sure the pump is

functional and other components have survived being exposed outdoors. Mr. Doyle asked if there is any way to scope the well before it is outfitted. Mike Block, District Hydrologist, recalled water quality testing had occurred before the driller left the site. Depth sampling may be possible to isolate the arsenic at a lower zone. Mr. Hill said the new well, which has not been put into service, has been test pumped and is going to be rated at about 600 gallons per minute. There are no known water quality issues.

Mr. Offret asked if there are any other needs, like the replacement of old transmission mains or pipes. Mr. Stratton said the E&T subdivision had its lines replaced recently, and Diablo Village lines are relatively new. Mr. Hill mentioned E&T did get a substantial amount of pipe replaced; however, the District is still assessing the area. Mr. Stratton said when the District is able to eventually dismantle some of the storage tanks in the Metro-Main area that are no longer needed they can replace older, smaller tanks in the E&T area. This will improve peak flow and fire flow. When the revenues and expenditures are better known, such projects can be budgeted.

Mr. Stratton said there are some areas of connection between well #1 and well #2 the District needs to analyze. Well #1 has higher levels of arsenic, so one of the projects is an arsenic treatment facility but also how it can be cross-connected to blending so the arsenic treatment system does not need to be in constant operation but rather in standby position, just in case the new well ever goes down.

Mr. Stratton said the looking for place to hold a public meeting to introduce ourselves to the customers and possibly talk about annexation of the service area into the District. There have also been conversations with the adjoining land owner, Montecito Corporation for Sendero Pass, who is interested in talking about annexation. More information will be gathered and provided to the Board of Directors in the next couple of months. There would probably be two separate annexations because one can be done quickly, and the other involves a portion of existing service area is within the six mile limit of the City of Tucson. If the District does one annexation and then a continuous annexation, we will not need the City's approval. Tullie Noltin, Executive Assistant, has been researching schools and other possible meeting locations in the area. Mr. Foulk suggested Ryan Air Field may have a meeting room to rent.

V. General Manager's Report

Mr. Stratton said since the last Board meeting there were three financial closings on the same day. Mr. Land and Sheila Willis, Controller, worked to make sure the wire transfers were done appropriately. Mr. Land also did an outstanding job reviewing financial documents to ensure their accuracy. The 1999 bonds were refinanced, providing a sizeable net savings, the 2005 WIFA loan was refinanced, and the Thim acquisition was closed. Mark Reader, Financial

Advisor, is putting together a celebration dinner in March at the Arizona Inn, to which the Board Members are invited.

The District is planning to develop a more detailed financial plan for the future considering it has five years of cash reserve funding which will tax the already tight budget. There is additional unfunded capital, and staff would like the Board of Directors to hold a Study Session to review some of the major issues the District will be facing financially and give the Board Members a chance to make recommendations. Mr. Stratton suggested the Bond Oversight Committee could serve as an Advisory Committee to obtain more input from the public. Most of the projects they oversee are coming to close and they are a valuable, talented group of people. More information on this will be provided at the Study Session.

When the rate restructure was previously discussed, plans were made to revisit the issue in March. The Board could decide whether they would like to discuss the issues at a regular Board meeting or hold an additional Study Session coinciding with the start of the 2010-2011 budget process. It might be helpful to discuss the financial plan, the rate restructure, and the fiscal year budget at the same session.

Mr. Stratton said he will be gone from Thursday through Tuesday, January 19, 2010. He will be attending the AWWA Winter Board meeting in St. Petersburg, Florida.

The CAGR D Board Committee action on the Avra Valley Recharge project occurred Thursday. Dorothy O'Brien of Marana Water reiterated the Mayor's letter to the Board. Mr. Stratton spoke and Tom Harbor of CAP, gave a presentation. There was some discussion on recovery issues. The CAGR D Committee approved the recommendation for the sale of the Avra Valley Recharge project to the District at their February meeting. However, one of the Board members expressed interest in being informed on any follow up discussions between the District and Marana and CAGR D may have with respect to recovery. There is a tentative meeting scheduled with Marana on January 21, 2010. Mr. Stratton feels that having an agreement with Metro Water alone does not resolve the more regional issues of having a recovery plan for CAP water stored within the region. He will keep pressing that issue that we should be party to a conceptual plan. Mr. Offret asked if the sale is contingent on the development of this plan. Mr. Stratton confirmed it is not. Mr. Foulk asked who has water stored. Mr. Block said Oro Valley, Rosemont Mine, the Arizona Water Banking Authority, among others. Mr. Stratton said the real issue is recovery of the stored water because when recovery occurs, it may be a substantial amount in a very short period of time. That is not the District's water; it belongs to other entities, so Marana is more concerned with the big picture. Marana cannot dictate any of that; it is governed by state law. It is assumed that CAP will abide by state law and will probably not enter into any binding agreements with a town, limiting their recovery abilities.

Mr. Hill said the District is experiencing frequent mainline failures, and he feels it is worthy of putting into the next newsletter. Mr. Doyle asked if the contractors are hitting areas marked by Blue stake. Mr. Hill said some areas have been recently marked; others were previously marked but covered over by dirt, amidst all the activity. Most contractors are conscientious but they are under strict deadlines, so some of this is inevitable. Mr. Stratton said one of the breaks was due to a large construction vehicle running over wet soil, cracking the line underneath. Mr. Foulk wondered if there may be breaks due to other contractors coming in after the District has completed its relocations. Mr. Hill said he and Mr. Maish are aware of that possibility, and want to be proactive and ready for such breaks.

Mr. Offret asked if it was too early to expect a reply from Sonoran Terrace Luxury Apartments. Mr. Stratton said the multi-family representatives are probably regrouping and planning their response. Mr. Guillot said he thought the letter was a good response.

VI. Legal Counsel's Report

Keri Silvyn 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, February 8, 2010. Study Session on January 25, 2010 at 5:30 pm.

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 6:44 p.m.



Warren Tenney, Clerk of the Board



Jim Doyle, Chair of the Board