

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

November 23, 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
Bryan Foulk, Member
Dan M. Offret, Member

Board Members Not Present: Reb Guillot, Member

District Staff: Mark R. Stratton, General Manager
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 5:33 p.m. Jim Doyle, James Tripp, Bryan Foulk, and Dan M. Offret were present.

II. Discussion and Possible Approval of Resolution 2009-7 – Approval and Authorization to Execute An Agreement to Amend Bond Resolution Pertaining to Amendments to Resolution 1999-1 adopted February 11, 1999.

Mr. Stratton said Mark Reader from Stone & Youngberg will be going over the specifics regarding the restructuring of the reserve fund. He said during recent efforts to refinance, a clause in the 1999 Bond Resolution was discovered that requires the District to have a reserve fund or be insured with a company having a “AAA” rating. The District learned the insurance companies no longer hold “AAA” ratings, which means a reserve fund is necessary. Fred Rosenfeld, Bond Counsel, sent information to the Board Thursday of last week and is also here to explain the documents in greater detail.

Mr. Reader thanked the Board for their continued patience while the financial team works to correct the problem and minimize the impact on the District's financial condition. He provided copies of a four-page presentation and a letter sent to the Water Infrastructure Financing Authority (WIFA) to the Board and District staff. He said the next 30 days will be fast-paced as the issue is resolved simultaneously as the District closes on the Thim acquisition.

Mr. Reader talked about the original language within the documents relating to the insurer's ratings. At the time of the original bond issuance, nobody anticipated the insurance companies would be in predicaments they are in today. At the time, they were "AAA" rated firms with sound business models. As they gravitated toward mortgages and mortgage-backed securities, many bonds went bad. The language specified those companies' ratings must be maintained or the bonds would have to be refunded by the District. As a result of the downgraded ratings, the District finds itself in a precarious position. The matrix shows the exact dates each company was downgraded below the "A" rating, triggering the one-year time frame.

Mr. Reader said once the challenge was discovered, the goal to amend the 1999 Master Resolution emerged. The financial team has been in constant communication with the insurance companies which has not been easy because some of them are no longer in business. He pointed out changes can be made with two-thirds approval from bond holders. He believes that goal is achievable with WIFA. Rather than debt service reserve fund being due within the year, the team is asking to be allowed a gradual five year buildup. The bond holders essentially agreed. One company offered a two year term but that portion can be refinanced out with a WIFA loan. The team was able to get the two-thirds through the refinance of the WIFA 2005 issue.

Mr. Reader said another goal is to keep the same debt service reserve fund buildup for future obligations. In the 1999 deal there was an \$85,000 monthly buildup in the repair and replacement reserve which has resulted in \$1,300,000 in reserve funds. Mr. Rosenfeld drafted the document to allow the District to use those funds in the case of a reserve fund shortfall. The document was also amended the language from "or" to "and" regarding the Moodys and S&P ratings, requiring both to be downgraded rather than one.

Mr. Reader explained the team is struggling with the 2002 bonds insured by AMBAC. This will be refinanced through WIFA. The District will fund the requirement of \$850,000 over five years, or approximately \$170,000 per year, beginning in February 2010.

The District is still drawing down on the 2007 WIFA loan, which started at \$12,600,000 and has a current balance around \$4,000,000. That loan was insured by CFIG, whose rating has been downgraded below "A". They sold off their insurance policy to another company called Assured Guaranty which is rated "AAA" by one of the rating agencies. Assured Guaranty will give the District a six-month waiver because when Assured Guaranty bought CFIG, the rating did not

follow. Assured Guaranty is trying to get the rating to follow in the next six months. Mr. Rosenfeld talked about the District's responsibility to contribute as if the rating will not follow until decided. If the rating does follow, the District's cash requirement would fall, thereby reducing the monthly payments to the reserve.

Mr. Reader said the 2005 portion will be refinanced because the insurance provider, as mentioned before, only offered a two-year refunding term. The team goes before the WIFA Board for a five year term on December 16, 2009 and has the support of WIFA staff.

Mr. Reader went on to say the 2009 bond refinancing of the 1999 bonds (which were partially cash-funded) will transfer over in a way similar to cash so it will be in good shape.

Mr. Reader explained there is an unresolved issue with the 2002 subordinate bonds, also insured by AMBAC and rated below "A". The financial team is asking not to have to fund that \$1,400,000 portion over five years. If AMBAC does not waive it, the District will have to deal with the decision and possibly borrow new. This will be negotiated within the next ten days. He explained AMBAC charges an amendment fee of \$50,000. Efforts are being made to avoid paying this outrageous fee.

Mr. Reader said the old WIFA loan will be refinanced with a new WIFA loan and he was pleased to learn the new interest rate, 2.9%, will be very close to the old rate of 2.87%.

Mr. Reader recalled in October the 1999 refinance proposal was brought before the Board with an opportunity to save approximately \$1,000,000 in cash up-front. He believes the refinance will still be efficient, although the savings may be closer to \$600,000 considering market conditions.

Mr. Reader said the credit rating process should begin next week. Red Oak Consulting has been working with the financial team on a revised feasibility study that independently verifies how all of this will affect the District's cash flow. Although two Resolutions are up for the Board's approval at this time, another Resolution regarding the WIFA refinance will require Board approval on December 14, 2009. The WIFA Board hears the 2005 matter on December 16, 2009. The refunding bonds will be marketed December 17, 2009. If all of that happens as we hope, the District will be in the position on December 29, 2009 to close all three issues (WIFA refinance, Bond refinance, and Thim acquisition).

Mr. Doyle asked what would happen if the Board does nothing. Mr. Reader said if nothing is done the District could not refinance. Mr. Reader said after the challenge was discovered the rating agencies called. When the bond insurance companies were downgraded they should have sent notification.

Mr. Rosenfeld added the District would face obstacles if it ever needed to borrow money in the future. He agreed with Mr. Reader that there was a terrible breakdown in communication with the insurance companies. He explained the District is out of compliance but technically not in default because a default would take a demand by 25% of the bondholders. Mr. Rosenfeld recalled the Board adopted Resolution 2009-8 to refinance in September. The Amended Resolution now before the Board additionally requires that, as a condition to closing, the initial purchaser must stand in the shoes of the former bond holders and must agree to allow a five-year buildup for the existing reserve, as well as any future senior bond issues that would require a five-year buildup. Assuming we cannot get the 2005 WIFA agreement from the 2005 insurer, the 1999 bonds and the 2005 WIFA loan will be refunded, effectively getting rid of both insurers. The new buyer of these refunding bonds would have to agree to the change in the Resolution to allow five-year buildup. WIFA will also have to agree to the five-year buildup. This resolution authorizes the refinancing of the 1999 bonds but does not authorize the refinancing of the WIFA loan, which will have to be approved at the December 14, 2009 Board meeting. If the Board approves the Amendment to the Resolution, it will be sent to each of the insurance companies for approval. Mr. Rosenfeld does not expect to obtain approval from Syncora, and he is uncertain about AMBAC. The refinance of the WIFA loan will do away with Syncora. The full 66.23% approval should be attainable. Mr. Rosenfeld recommended adoption of the first Resolution, authorizing the Amendment to start the five-year buildup early next year.

Mr. Tripp made a motion to approve resolution 2009-7. Mr. Foulk seconded the motion.

Mr. Foulk confirmed the buildup would begin February 1, 2010.

Mr. Land summarized the District is looking at \$1,000,000 in savings from the refinance, and has \$500,000 above the \$800,000 replacement fund. So that is \$1,500,000 out of the \$3,000,000 and \$1,500,000 over five years is \$300,000. The District has been putting \$100,000 per year into the replacement fund. The Thim acquisition is looking at positive cash flow after debt service of approximately \$200,000 per year.

Mr. Offret asked whether the District will be obligated to maintain Thim Water rates. Mr. Stratton said until we have actually operated that system for awhile, it would be best to keep the rates as they are. As time goes on, the Thim rates may blend in accordance with recent rate structure discussions.

Motion passed unanimously.

III. Discussion and Possible Approval of Resolution 2009-8 – Authorization of the Issuance and Sale from Time To Time of Not To Exceed \$22,380,000 Aggregate

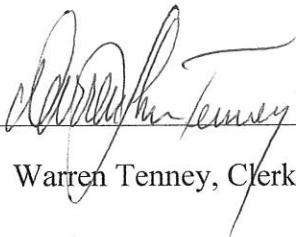
Principal Amount of Metropolitan Domestic Water Improvement District of Pima County, Arizona Water Revenue Refunding Bonds, Series 2009.

Mr. Tripp made a motion to approve 2009-8. Mr. Offret seconded the motion. Motion passed unanimously.

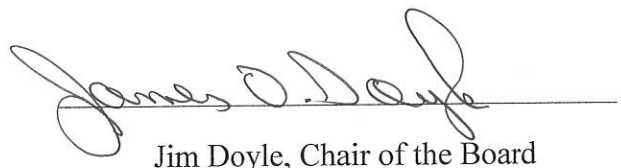
Mr. Stratton reiterated at the December 14, 2009 meeting, the Resolution for the WIFA refinance of the 2005 bonds will be on the Agenda. All Resolutions for the Thim and Diablo Village Acquisition have been taken care of. Mr. Rosenfeld said there will be quite a bit of paperwork for the Chairman to sign when the refinancing and acquisition is completed.

IV. Adjournment

Mr. Tripp made a motion to adjourn. The meeting adjourned at 6:06 p.m.



Warren Tenney, Clerk of the Board



Jim Doyle, Chair of the Board