

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

November 9, 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
Reb Guillot, Member
Dan M. Offret, Member

District Staff: Mark R. Stratton, 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 5:30 p.m. Jim Doyle, James Tripp, Bryan Foulk, Reb Guillot and Dan M. Offret were present.

Executive Session pursuant to A.R.S. § 38-431.03.A.1 (discussion or consideration of personnel matters) regarding the following:

A. Quarterly Appraisal of the General Manager

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

II. Adjournment

The executive session adjourned at 5:59 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 6:01p.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 – October 14, 2009 Board Meeting.**
- B. Approval of Minutes – October 26, 2009 Public Hearing.**
- C. Ratification of Billing Adjustments.**

Mr. Tripp 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.

Mr. Stratton said the Metro-Main water usage in October dropped. People may have used less outdoor water due to the cooler weather. Metro-Hub usage remained steady. The South Shannon project is moving along. Innova is doing a decent job on the La Cañada Mainline Relocation and the 24 inch Transmission Main Project. Action Paving is finishing the La Cañada/Ina Road mainline replacement.

Mr. Offret asked whether the pothole repair on Treasure Drive was part of the District project that occurred there a year ago. Mr. Stratton recalled the project took place longer than a year ago. Mr. Maish confirmed the recent pothole was beyond the area the previous pipeline project took place, where someone is doing other utility work. Mr. Foulk has had several people complain to him about construction traffic because his name appears on project signs.

B. Financial Report.

Mike Land, Chief Financial Officer, said the revenues and expenditures through September show the District has seen a healthy first quarter. The District is running \$342,000 ahead on revenues compared with last year. The District is \$80,000 over on expenditures. October brought a decline

in revenue compared with last year. There were 13 connections in the first four months, but only 30 are budgeted for the entire year.

The 2008-09 Audit is on hold, pending the outcome of the debt service reserve issue. A conference call was held between Mr. Land, Mr. Stratton, the Water Infrastructure Finance Authority of Arizona (WIFA), Mark Reader from Stone & Youngberg, and Fred Rosenfeld, Bond Counsel. The best case scenario is to fund the debt reserves over a 5 year period, for approximately \$3,000,000. There is a little over \$1,000,000 in the Repair and Replacement fund. There may be another \$1,000,000 in savings from the refinance. Staff is working to get that accomplished in line with the Thim acquisition. WIFA has been receptive to help find solutions. A special Board meeting may be called Wednesday, November 18, 2009 or Thursday, November 19, 2009 to begin the process of an amendment to the bond resolution.

C. Approval of Amendment to Fiscal Year 2009-2010 Operating Fund Budget.

Mr. Tripp made a motion to approve amending the 2009-2010 Operating Fund Budget by increasing the Operating Revenues by \$953,689 and increasing the budgeted Capital Projects by \$1,300,000. Mr. Offret seconded the motion. Motion passed unanimously.

D. Employee Medical/Dental Insurance Coverage.

Mr. Stratton said Fringe Benefit Company has provided medical insurance brokerage services for the District over the past two years. The Fringe Benefit Company is based out of Phoenix and the agent, Chris Durkin, comes down about once a year. Another national broker with a local office, CBIZ Benefits and Insurance Services, contacted the District. CBIZ is offering insurance at a cost approximately the same as last year, yet CBIZ provides a more enhanced level of service with a focus on local community participation. Mr. Stratton recommends the District switch brokers in light of the additional services CBIZ can provide at no cost to the District.

Billie Sue Morelli, Human Resources Specialist, explained Fringe Benefit notified the District of a 24% increase in the renewal rate for 2010. CBIZ offered to prepare some numbers and options for Blue Cross Blue Shield (BCBSAZ) and other companies. In turn, Fringe Benefit reduced their numbers, bringing both brokers to about a 15% increase over what the District currently pays. CBIZ believes they can further reduce their numbers to achieve a 13% increase. Ms. Morelli explained there are two other insurance providers on the table with BCBSAZ: United Healthcare and Aetna. United Health represents more of an “apples to apples” comparison with BCBSAZ.

Mr. Land explained the proposed United plan is \$17,000 over what the District paid for BCBSAZ last year, and \$26,000 under the proposed renewal for BCBSAZ.

Mr. Stratton stressed there are slight adjustments to the plan structures under the CBIZ proposal. The current Preferred Provider Organization (PPO) plan is 90-10, and the proposed United Health or Aetna PPO would be 80-20. The current HSA plan deductibles are \$2600/\$5100 and the proposed are \$2500/\$5000.

Ms. Morelli explained the District would still offer a very rich program under the proposed plans. Options on the 90-10 level are rare. Employees who have the HSA do not want to lose it. Both brokers report Aetna customer service is not as good, and they have fewer doctors to choose from. Ms. Morelli believes the doctor rosters are similar between United and BCBSAZ. She would like to do an anonymous survey of which doctors District employees use, to determine whether anyone would be forced to switch doctors under another insurance carrier.

Mr. Foulk asked if Aetna and United are the same price. Mr. Land said Aetna was \$329,000 and United was \$367,000, but brokers claim the overall service and doctor rosters are less appealing with Aetna.

Mr. Offret remembered a past employee survey showing staff wanted to stay with BCBSAZ because of the doctors.

Mr. Foulk said his experience has shown it is harder to deal with United than BCBSAZ, from the doctor's standpoint.

Mr. Land said he learned United Health uses Medco for mail-order prescriptions, which differs from the BCBSAZ process. Mr. Offret said his insurance carrier uses Medco for prescription drugs. He has had a good experience with Medco but prescriptions can take 4-5 days to fill.

Mr. Foulk asked if the District had a lot of utilization last year. Mr. Land said of the 23% increase, 13% was straight rate increase, 7% demographics aging, and only 3% was usage or health-risk related. Ms. Morelli said there are 47 employees enrolled in BCBSAZ, with several employees opting-out. Mr. Land added there are currently 20 employees under the HSA and 27 using the PPO.

Mr. Stratton said staff is looking at changing the PPO from the 90-10 level to 80-20 to keep the costs down. Last year the PPO deductible had been raised from \$250 to \$500. HSA costs have not increased as much so changes are not necessary. Ms. Morelli explained under the United PPO the deductible would be \$500 (at 80-20) and the HSA deductible would be \$2500. Both brokers also provided renewal rates for the 90-10 level. United 90-10 costs came in at \$367,000 whereas the BSBCAZ 90-10 revised costs were about \$404,000.

Mr. Foulk said he believes most people are happy if they can keep the same doctors. He said if the 90-10 is changed to 80-20 with the deductibles remaining the same, it will be easier for

people to accept. Ms. Morelli said the broker explained people do not notice much of a difference in out-of-pocket costs between 90-10 and 80-20 coverage, depending on their usage.

Mr. Stratton said there had been discussions about converting more employees from the PPO to the HSA because those on the HSA really enjoy it and it saves the District money. The first year can feel scary, not having a lot of money in account. Ms. Morelli added the CBIZ agent is willing to bring his marketing tools and promote the HSA plan at no cost to the District; employee testimonies could be included in that discussion. Mr. Stratton said staff will keep working with CBIZ as they ratchet down the numbers and employees will be asked for their input. The goal is to bring a full recommendation to the Board in December.

Mr. Foulk said he liked the idea of finding out which doctors employees use and cross-checking the different carriers. Ms. Morelli agreed.

Mr. Guillot asked if those who decline coverage receive any compensation. Ms. Morelli said the District does not compensate for opting-out, and there are only three employees doing so.

Ms. Morelli said the cost of Met Life Dental went up a little. Staff has reported positively on dealing with Met Life. Mr. Stratton concluded EDS and Met Life will remain the recommendations for dental coverage.

E. Approval of District Lobbyist for 2010 Legislative Session.

Mr. Tripp made a motion to approve the hiring of Gallagher & Kennedy as the District's lobbyist for the 2010 Arizona Legislature. Mr. Foulk seconded the motion.

Mr. Offret asked Mr. Stratton about the specific hourly per-service rate the Lobbyist could bill the District aside from the \$3,000 monthly fee, as that detail is omitted from the schedule. Mr. Stratton said the contract could be clarified and returned to the Board in December. Mr. Offret said the information is missing and he does not want to get involved in a contract without knowing the hourly rate.

Mr. Foulk asked when the hourly rate would be charged over and above the \$3000 per month. Mr. Stratton said it would apply any time the District introduces something to the Legislature, which does not happen often, but has happened in the past.

Mr. Offret asked when the contract expires. Mr. Tenney replied at the end of 2009 and added Gallagher & Kennedy has represented the District for twelve years.

Mr. Stratton said the Lobbyist monitors water and District-related bills and if there is anything above and beyond that which requires them to go out and lobby the District's goal, it would be

brought to the Board for approval as a policy decision. Mr. Offret said he would be fine as long as such an item include specific language as to the hourly rate charged.

Mr. Guillot asked whether recent multi-family issues at the Legislature were included in the basic \$3000 rate and Mr. Tenney confirmed.

Motion passed unanimously.

F. Support for Tucson Metropolitan Regional Efforts on Safe Disposal of Pharmaceuticals.

Mr. Tripp motioned to direct the Board Chair to sign a letter of support to PAG on the proposed resolution in support of safe disposal and collection of pharmaceuticals to educate and provide opportunities to District customers to protect the region's water quality and public safety. Mr. Offret seconded. Motion passed unanimously.

G. Award of the Construction Contract for the Northern Hills Mainline Replacement, Phase 2.

Mr. Tripp motioned to award the construction contract for the Northern Hills Mainline Replacement, Phase 2, bid Alternative B to SQP Construction in the amount of \$756,315.01. To authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$25,000 and 2) increase the original construction contract term a cumulative amount not to exceed sixty calendar days. Any changes in excess of the above limits will be submitted to the Board for approval. Mr. Offret seconded the motion.

Mr. Offret asked Mr. Hill if he anticipates any problem using Alternative B rather than ductile iron in that rocky soil. Mr. Hill responded the area has been excavated appropriately, and the key to successful installation is proper bedding of the pipe. He has confidence in the inspectors.

Motion passed unanimously.

H. Intergovernmental Agreement with City of Tucson and Town of Oro Valley for Joint Funding of a Cost of Service Study for the Wheeling Central Arizona Project Water.

Mr. Tripp motioned to approve the IGA between the District, City of Tucson and the Town of Oro Valley for the joint funding of a cost of service study for wheeling CAP water. Mr. Foulk seconded the motion.

Mr. Offret asked for more information about the study because \$150,000 seems expensive. Mr. Stratton said that figure represents the high end of the estimate; it is anticipated to fall well below \$150,000 but it will not exceed that amount. Tucson Water has never done this either, so nobody is certain of the exact components of a wheeling agreement. The costs will be shared among all parties. Mr. Stratton said the analysis will include information about what other entities across the country incorporate into wheeling agreements.

Motion passed unanimously.

V. General Manager's Report

Mr. Stratton said he and Mr. Maish met with Priscilla Cornelio and Rick Ellis of the Pima County Department of Transportation regarding the three County projects to occur in 2011. Mr. Stratton is trying to convey the potential financial impact of designing the roadway projects in the same fashion as the La Cañada Road improvements. It presents a large burden to the District when extensive relocations are required, especially when there are three projects within the same year. They talked about different options in the design to minimize the impact. There are some major lines along the La Cholla/Magee area that may or may not be impacted. The engineer is trying to redesign the culvert in the area so there is no need to relocate waterlines from Herb Johnson Reservoir. Staff is hopeful they are listening and their design engineers will take steps to reduce the impact to the District. The smaller pipe that is more vulnerable to heavy equipment is often in need of relocation. Meanwhile, until they are further along in project design, the exact impact will remain unknown. Hopefully the needs will be understood before the RTA Waterline Relocation Fee expires.

Mr. Stratton said reduced staff planning has continued. Cross-training is ongoing. Staff is making sure there is a firm program in place should a pandemic occur. The primary goals are to maintain communication with customers, ensure the ability to deliver water, protect revenue sources.

At its November 5, 2009 meeting, the CAP Board heard presentations by Bureau of Reclamation regarding Tucson area reliability. A memo outlining the meeting will be prepared and provided to the Board. Mr. Offret asked if the 30 foot, one mile long berm is part of the \$60,000,000 cost of the reclamation for the reservoir. Mr. Tenney confirmed.

VI. Legal Counsel's Report

Mr. McNulty said that Mr. Stratton requested that Mr. McNulty offer his assistance to the lawyers at CAP regarding the acquisition of the Avra Valley Recharge project. They were very receptive and suggested he write the first draft of that contract. Mr. McNulty did so, and the negotiations are within 2% of completion. Mr. Tenney added the CAGR committee will make

recommendation regarding the Avra Valley Recharge Project to the CAP Board for January's meeting.

Mr. McNulty said an interesting lawsuit is making its way through the court system in the Show Low area. Ponderosa Domestic Water Improvement District tried to condemn a lot for a well site and the landowners took the matter to court. The Judge said Ponderosa was not allowed to condemn because it was more like a business rather than a government. The case is proceeding through the Court of Appeals and the lawyers for Ponderosa are asking for help. Mr. McNulty is watching closely; they are providing him copies of the paperwork. It is hard for him to imagine the Court of Appeals would not overturn it. If the decision is ratified, it would be terrible for water improvement districts. It could go to the Arizona Supreme Court. Mr. Offret asked if Mr. McNulty could provide limited participation. Mr. McNulty said he and Mr. Stratton have discussed that. Mr. Foulk asked what would happen if the decision is not overturned. Mr. McNulty said it would cause alarm with any and all special districts including schools, fire districts. The situation could become dire and everyone would need to pull together.

VII. Future Meeting Dates; Future Agenda Items

There may be a special meeting called on Wednesday, November 18, 2009 or Thursday, November 19, 2009 at 5:30 pm for approximately one half hour. Mr. Stratton will confirm with Board Members on Monday, November 16, 2009. The next regularly scheduled meeting of the Board of Directors will be held on Monday, December 14, 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 6:45 p.m.

Jim Doyle, Chair of the Board

Warren Tenney, Clerk of the Board