

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

March 25, 2002

**** Board Room ****

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

**Study Session
MINUTES**

Board Members Present: Dan M. Offret, Vice-Chair
 Jim Doyle, Member
 Marlene Wright, Member
 Pete Schlegel, Member

Board Members Not Present Dennis Polley, Chair

District Staff: Mark R. Stratton, General Manager
 Warren Tenney, Clerk of the Board
 Alice Stults, Recorder

I. Call to Order and Roll Call

Dan M. Offret, Vice-Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Study Session to order at 5:30 p.m. Pete Schlegel, Dan M. Offret, Jim Doyle, and Marlene Wright were present. Dennis Polley was not present due to an injured back.

II. Discussion of Draft Fiscal Year 2002-2003 Budget

A. Budget Items for Utility Division.

Mr. Stratton explained that during the current fiscal year the District focused on security issues because of the September 11, 2001 terrorist incident. As a result, funds and employee productivity shifted from scheduled projects to address and update the District's security. The money spent on security items was paid out of the Utility budget. Mr. Land added that the Board had approved an amount to expend from the Contingency fund; however, that amount is being first used from the Utility Division.

Mr. Schlegel asked if the District could have hired additional employees to address security issues in order to complete scheduled projects. Mr. Stratton replied that it would have taken a considerable amount of time to focus on training new employees and it would have had a financial impact on the District's budget. Mr. Schlegel was concerned that some of the outstanding projects were not completed as planned, such as the Hub Service Area storage tank. Steve Dean, Utility Superintendent, explained the Hub storage tank would be completed in July 2002. Mr. Schlegel asked that staff continue to keep Hub Service Area customers apprised of activities and completion date for the storage tank.

Mr. Land explained that there were no significant changes in the Utility and Hub Service Area budgets. Revenue is projected to be down from previous years due to the slow down of new construction. The cost of insurance is expected to increase approximately 25%. Currently the District "piggybacks" with Pima County for its employee insurance needs; however, staff is researching other resources and alternatives.

Mr. Schlegel asked if the \$90,000 budgeted for well maintenance would be expected to continue at the current amount for future years. Mr. Stratton explained that this amount included maintenance and refurbishing of wells and sites. Mr. Dean added the intent was to be proactive with maintaining a certain number of wells each year; however, invariably one or two wells need emergency repairs. It has been difficult to remain on schedule with proactive maintenance. Mr. Schlegel suggested staff examine the well maintenance account line and perhaps add an additional category to separate well maintenance and well refurbishing. Ms. Wright suggested that the individual wells scheduled for maintenance each year be identified on the budget reports for clarification and tracking purposes.

Mr. Land said that a new category containing \$100,000 for well site security had been added to the Utility budget for fiscal year 2002-2003. Mr. Hill noted that included in this amount was the purchase and installation of hatch sensors, fencing, telemetry enhancements, and lighting at the well sites. Mr. Stratton said that a summary breakdown of the projected cost for well site security was included in the budget materials; however, staff would provide a more detailed report of the proposed projects and purchases at the April 8, 2002 meeting of the Board. Mr. Schlegel requested that security reports provided by staff continue and suggested the reports include more detailed information. He indicated he was concerned the security update program was extending over a longer period of time than originally anticipated and suggested that staff look into different options such as contacting consulting firms to assist with planning for District security.

Mr. Stratton said the District is currently producing more water at this time than during the same period last year which has created an increase in natural gas and electrical cost. Discussion ensued regarding the feasibility of providing the sites with natural gas containers for auxiliary power when electricity is not available. Mr. Schlegel suggested that staff contact Blue Flame or other companies to provide information on the use of propane for emergency backup for the natural gas engines, and what the difference in cost would be to use this as an auxiliary power source.

Mr. Land said that there was not an amount included in the Utility budget for building & grounds, and suggested that \$1,500 be included to cover any unforeseen costs. In prior years there were incurred expenses paid out of this line item. Mr. Land also mentioned that a temporary person had been assigned to inventory control in the warehouse and that staff was working to develop a computerized inventory system for better control of the inventory.

Mr. Schlegel suggested that due to the large amount of money being carried over into the next fiscal years budget, staff consider hiring consultants or temporary help to complete projects. Mr. Stratton commented that staff has become much more efficient over time, and as managers are becoming more experienced and are doing a better job at budgeting expenses. He suggested placing the excess money in the capital items portion of the budget as opposed to the operating budget, which would allow the District to use the funds to purchase major parts and equipment.

Mr. Land said staff was proposing to purchase a new backhoe, as well as a used forklift. Ms. Wright asked if the District had previously purchased a forklift during the current fiscal year. Mr. Dean replied that a forklift had not been purchased; however, a pallet jack had been purchased. Mr. Doyle suggested staff check into leasing a forklift to be used in the warehouse, and also look into purchasing a tool carrier that can be attached to the backhoe and used to unload equipment at the work sites.

Mr. Stratton mentioned the District has completed the first phase of its meter replacement program. Non-bond capital money is being budgeted to cover the cost associated with rebuilding meters, and the continuation of retrofitting meters to accept radio reads.

Mr. Land said the salary and benefits line item for Hub Service Area are unchanged in the fiscal year 2002-2003 proposed budget. The overall proposed budget amount decreased from the 2001-2002 budget. There was an increased amount for chlorine which Mr. Land explained was due to security measures calling for doubling the chlorine level. Ms. Wright asked if the District could lower the chlorine amount and increase it only if the need were to arise. Mr. Hill explained that it would take at least two days for the additional chlorine in the system to take effect. Mr. Schlegel suggested that an article be included in the District Newsletter to explain to customers how to rid the taste and smell of chlorine in drinking water.

Mr. Schlegel believed that Hub area customers may be concerned with the Hub budget for fiscal year 2002-2003 being considerably lower than in 2001-2002. He noted that with projects still planned the customers may believe the projects will not be completed. Mr. Stratton explained that many of the capital projects are being paid out of bond monies. He also added that if additional repairs were noted, they could be reconsidered once all the portions of the District budget are completed.

B. Budget Items for Engineering/Hydrology Division.

Mr. Schlegel asked if Pima County had been contacted regarding temporary summer help for the District. Mr. Stratton replied that the District had received several applications and staff would contact Pima County shortly.

Mr. Maish explained that the District is in the process of considering wells for abandonment. He noted that the money budgeted in 2002-2003 for well abandonment would be used for examining the wells to determine if any of the wells can be converted to monitoring wells or could serve other purposes. Mr. Maish mentioned that the well sites the District is considering selling are undeveloped sites.

Mr. Maish said there is a Civil Engineer position which has been left vacant for the time being, but has been included in the 2002-2003 budgets. It is hoped the position will be filled shortly by a Civil Engineer Assistant who is currently working for the District and has applied to be a registered engineer.

Mr. Stratton said when the District has a more precise estimate of the amount of revenues expected for budget year 2002-2003, it will be in a better position to re-examine the non-bond capital projects to determine which projects can be completed. He said staff will bring the noted changes to the draft budget back to the Board at its April 2002 study session for further discussion.

III. General Manager's Report

Mr. Stratton explained that all the signatures had been obtained for the term sheets for the purchase of the Green Valley Water Company. Fairfield Homes is envisioning three separate contracts to break down the costs; however, this will not affect the total cost for the District. Mr. Stratton noted that once the contracts are signed, there is a sixty days due diligence period in which the District will be allowed to inspect financial records and documents. He explained that staff will conduct some of the financial inspections, and outside financial consultants will be considered to review the documents also. Mr. Stratton said the District should have draft contract documents within one to two months.

Mr. Stratton reported that the advertisement for the Municipal Property Corporation (MPC) has been completed and staff has received several notices from interested persons. Mr. Schlegel asked if the Board had decided to finance the Green Valley Water Company acquisition through the MPC. Mr. Stratton replied that it had not yet been determined.

Mr. Stratton said the District's legislation was assigned to the Rules Committee; however, Representative Johnson who is Chair of the committee was not supportive of the fee increase for the Board members. Susan Charlton, District Lobbyist, discussed the amount of the rate increase with Representative Johnson and a compromise was reached to reduce the amount of compensation from \$100 to \$75 for Board members. Mr. Schlegel said he felt Representative Huffman had not been an effective legislator.

Chris Hill will be attending meetings next week in Washington DC to discuss upcoming EPA regulations on radon. Mr. Stratton said the District is receiving nationwide recognition in regards to its involvement on radon issues. WestCAS is attempting to create a consortium so that the same message and agenda is presented, and Mr. Hill has taken the lead on this process.

Oro Valley has indicated its desire to use the District's Board room for annexation meetings. Mr. Stratton explained that he advised Oro Valley there was limited space in the Board room and that perhaps a local church could provide more adequate space for the meetings.

Mr. Stratton noted that ADWR has determined that its interpretation of the Assured Water Rules are that the District, as designated water provider, has a designation for all areas it serves, including the Hub Service Area. Mr. Stratton said it is the District's belief the Hub area has been built out and there is no real need for an assured water supply. He added that Canyon Ranch Estates II wants to develop and build twenty-one lots in the Hub area. ADWR is not allowing them to join the CAGR for a certificate. Mr. Stratton said the District does not believe its designation covers the Hub area and Canyon Ranch Estates II is being caught up in the middle. He noted that Linda Stitzer of ADWR is in agreement with the District's concern regarding Canyon Ranch.

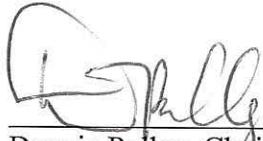
The annual groundwater report is due the end of this week. Mr. Stratton said groundwater declines have pushed six of the District's high production wells over the limits allowed for the year 2001. He said that as a result, the wells cannot be classified as recovery wells for CAP water recharged. The District cannot use its recharge credits if the wells are not classified. Mr. Stratton said that this means the District now has to meet a groundwater obligation overdraft with the GRD at a cost of approximately \$50,000. He said that if water levels continue to drop, the District will not be able to use recovery credits and its CAGR obligation will increase. Mr. Stratton explained that this means the District needs to expedite the construction of a pipeline for recovered CAP water from the Santa Cruz Basin.

IV. Adjournment

The meeting adjourned at 7:40 p.m.



Clerk of the Board



Dennis Polley, Chair of the Board