

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

December 13, 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

Board Members Not Present: Dan M. Offret, Member

District Staff: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
Warren Tenney, Clerk of the Board
Tullie Noltin, Recorder
Keri Silvyn, Legal Counsel

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 5:00 p.m., James Tripp, Reb Guillot, and Bryan Foulk were present. Jim Doyle and Dan M. Offret were not present.

Mr. Tripp made a motion to adjourn into executive session at 5:01 p.m. Mr. Foulk seconded the motion. Motion passed unanimously. Jim Doyle arrived at 5:10 and joined the executive session.

Executive Session pursuant A.R.S. § 38-431.03.A.3 (consultation for legal advice with District Legal Counsel), A.R.S. § 38-431.03.A.4 (consultation regarding contracts that are the subject of

negotiation, in pending or contemplated litigation or in settlement discussions) regarding the following:

A. Proposed Amendment to the Annexation Agreement with Cortessa LLC.

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, Reb Guillot and Bryan Foulk were present. Dan M. Offret was not present.

II. Recognition of Board Directors James M. Tripp and Reb Guillot

Mr. Doyle and Mark Stratton, General Manager, recognized Mr. Tripp and Mr. Guillot for their many years of service and presented each of them with an engraved plaque.

III. General Comments from the Public

There were no comments by the public.

IV. Consent Agenda.

- A. Approval of Minutes – November 8, 2010 Board Meeting.**
- B. Approval of Minutes – November 15, 2010 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.

V. General Business - Items for Discussion and Possible Action.

A. Monthly Status of the District.

Mr. Stratton said the trend of declining pumpage continues at a rate of about 4% year to year. Mike Block, District Hydrologist, noted a higher percentage decline in Metro Hub versus Metro Main. Mr. Stratton said the revenue stream has been significantly impacted since 2006.

Mr. Stratton said the South Shannon facility GAC was changed out in early November. An average of 65-70 million gallons still flows through between change outs. There has been a slight, insignificant reduction in VOCs. The facility has successfully controlled the plume so that other wells in the general vicinity are not impacted.

Hydrology staff continues to examine a variety of options for effluent recharge. Mr. Stratton referred to an agenda item later in the meeting associated with this subject.

Preparations are being made for the approaching Pima County, Regional Transportation Authority (RTA) road projects. The Magee Phase I project bids are due on December 29, 2010 and will be ready for Board for action at the January board meeting. Charlie Maish, District Engineer, has met with County staff and plans to meet again in March and July. The District will remain very active with four overlapping waterline relocation projects for the next year and a half, which will require a predominant amount of staff resources.

Utility crews are continuing the work on the Lucero Road project related to the Oro Valley drainage improvements. Work at Lucero Road should wrap up in two to three weeks. Work on the arsenic treatment improvements for Diablo Village No. 1 is ongoing.

B. Financial Report.

Mike Land, Chief Financial Officer, said revenues were \$917,000 over budget. Actual metered water sales were almost a half million over what was budgeted but should start to taper down as water sales change in December, January, and February. Operating expenditures were \$109,000 under budget overall but some areas were over budget. A truer figure is the comparison with last year; water sales are \$626,000 higher, and expenditures are \$67,000 more, bringing the District \$559,000 ahead of last year's pace overall. Metered applications are much lower than expected; fifty meter applications have been budgeted for the fiscal year and only twelve have been purchased to date. Mr. Land said one item not on the financial report was the bond financing of RTA projects. After discussions with financial advisors, the District will do some pricing of bonds. The market conditions have changed and interest rates have jumped from 3% to 3.6%. Such a change impacts the debt service and puts the District in such a position that the 2002 refunding is no longer an option. Mr. Land said the District will finance \$6.7 million for the RTA projects if the resolution allows. Closing will likely occur the last week of December.

C. Clifton Gunderson Post-Audit Letters.

Mr. Land said the Clifton Gunderson letter indicates there are no discrepancies and nothing fraudulent regarding the District's accounting practices. The management letter to the Board of Directors points out a few minor weaknesses to improve upon. Better internal controls with regards to information technology (IT) procedures will be established in coordination with the IT Specialist. There is a software issue affecting accounts payable, and staff is working with Caselle to solve it. There was a minor oversight in which liability work done in June that was not invoiced until July. Minor record discrepancies associated with CAP reallocations are also being cleaned up.

D. Consideration of Cost of Living Adjustment for District Employees.

Mr. Stratton said that during the budget process, staff was requested by the Board to come back mid-year for a review of possible cost of living adjustments (COLA) for employees. Mr. Stratton said that based on recent discussions with the Board, an employee COLA was not recommended. Mr. Guillot asked if the matter will be reviewed again at the end of the fiscal year, and Mr. Stratton said COLA discussions are always part of the normal budget process. By June 30, 2010 the District may be in a better position to give bonuses or COLAs.

E. Schedule for Regular Board Meetings in 2011.

Mr. Tripp made a motion to approve the date and time for the regular sessions of the Board of Directors meetings in the year 2011 to be as outlined in this report. Mr. Foulk seconded the motion. Motion passed unanimously.

F. Approval of Tucson Area Reliability Agreement.

Mr. Tripp made a motion to approve the agreement for Tucson Area Reliability with the CAWCD. Mr. Foulk seconded the motion.

Mr. Stratton acknowledged the efforts of Warren Tenney, Assistant General Manager, who spearheaded discussions with various water providers regarding this issue. Since the late 1980's, discussions with Northwest providers have evolved and the results of those discussions are finally coming to fruition. CAP costs went from an anticipated \$90 million to \$6 million, so this is a great accomplishment.

Motion passed unanimously.

G. Approval of Groundwater Savings Projects Agreement.

Mr. Tripp made a motion to table this segment for a future meeting. Mr. Foulk seconded the motion.

Mr. Stratton explained that more time was needed to allow the attorney for Cortaro Marana Irrigation District to review the agreement. The matter will be brought back to the Board in January.

Motion passed unanimously.

H. Avra Valley Recharge Project Update.

Mr. Block said the Avra valley recharge Project (AVRP) is near closing. A few minor issues are being addressed. The long term storage credit transfer form was dated for March rather than January, so that detail must be straightened out. CAP has transferred \$1.3 million to the escrow officer and attorneys are putting together a checklist of items to be completed in the sale agreement. The amount of title insurance must be determined. The District is hoping to close on January 1, 2011. The final inspection revealed sediment due to the water level transducers being tested the prior week by CAP, and will be cleaned up. Mr. Foulk asked if the issues can be resolved by January 1st and Mr. Block confirmed it is possible to meet the deadline. Mr. Block noted the purpose of the study is to explore options to improve performance at the four basins. If operating and maintenance costs turn out to be lower, the savings can be used for other purposes.

Mr. Tripp made a motion to direct staff to develop an amendment to the Miscellaneous Water Resources Consulting Service Contract at an amount not-to-exceed \$25,000 for the purpose of analyzing the options of increase capacity at Avra Valley Recharge Project. The amendment is to be brought to the Board for approval in January 2011. Mr. Foulk seconded the motion.

Motion passed unanimously.

I. Approval of Storage Agreement with the Arizona Water Banking Authority at the Avra Valley Recharge Project.

Mr. Tripp made a motion to approve the storage agreement between AWBA and MDWID and authorize the Board Chair to sign the agreement. Mr. Foulk seconded the motion. Motion passed unanimously.

J. Approval to Update Website.

Mr. Tripp made a motion to approve staff proceeding with upgrading and improving the District's website and to utilize the firm of LP&G to complete the work at a cost not-to-exceed \$10,000. Mr. Foulk seconded the motion.

Mr. Stratton said that Mr. Offret asked him to pass along his comments regarding this agenda item. Mr. Offret is a proponent of watching the budget but he has expressed concern about the current website. He has found it difficult to find information online in the past. Mr. Offret told Mr. Stratton he recommends moving forward on redesigning the website.

Motion passed unanimously.

K. Status of RTA Funded County Road Projects and Related Waterline Relocation Projects.

Mr. Stratton said his biggest concern with the current waterline relocation projects is that construction costs are nearly 50% higher than expected. Discussions have been underway with Pima County staff regarding changes in plans occurring subsequent to design submittal. Priscilla Cornelio, Director of Pima Department of Transportation, is working to find out how things got out of hand in their process. Bids are anticipated for the Magee Road Phase I project on December 29, 2010 and the Board will take action at the January meeting. There has been continuous dialogue regarding the Matter Well site property acquisition. The County is considering moving to the west side of the road, and the land owner is willing to part with a portion of the parcel. Drainage issues need to be analyzed but the proposed location is within the 660 feet required by Arizona Department of Water Resources (ADWR). The La Cañada South project will be submitted to the County by early January. The Ina Road to River Road 16" transmission main is part of that project. Other projects include La Cholla North from Magee to Overton, including the Matter Well and the Tucson National booster site. The Magee Road Phase II project from Shannon to Thornydale involves a fair amount of infrastructure, with the Canyon del Oro Wash tied in. The Tucson National golf course was expanded several years back and part of the development agreement was to provide effluent when it became available. Knowing that road projects were planned for the area, that provision had been postponed. Pima County will pay \$400,000 of the costs to provide effluent and the District is coordinating with several agencies. Financing of the projects is moving along. Mr. Land said interest rates are creeping up but they are still reasonable compared with years ago. Mr. Foulk asked if the financing amount has been increased to mirror the increased construction costs. Mr. Stratton stated the amount of the financing has been increased from \$6 million to \$6.7 million.

L. Approval of Amendment to the Annexation Agreement with Cortessa LLC.

Mr. Tripp made a motion to approve an amendment to the Annexation Agreement between the District and Cortessa, LLC as drafted by District Legal Counsel, and that the percentage in 2a of the Amendment be 40%. Mr. Foulk seconded the motion.

Since there was not a staff report on this agenda item, Mr. Stratton gave a background of the Arboles Viejos Annexation Agreement and history of interactions with the property's developer, Stardust Companies. Representatives of Stardust Companies were present and ready to discuss the percentage allotment to the District, which was stated to be 20% in the original agreement.

Bob Spiers, representing Stardust Companies and owner of the Arboles Viejos property, asked the Board of Directors if the 40% figure was open for discussion, and Mr. Foulk said yes. Mr. Spiers said he felt that 75% - 25% would be a fair split. Mr. Foulk explained that since the original agreement was drafted five years ago, the property has not been developed and the District has not been reimbursed for the District's costs associated with the property. In addition, development does not seem probable in the foreseeable future, so the District cannot be certain it can recover those costs. Mr. Spiers said he and his partner purchased the land and knew it was a risk. They understand the District's position but suggested the District take 30%. Mr. Tripp said he would agree to 30% and asked Mr. Spiers when the sale would close. Mr. Spiers replied they would sell all but two acres, and are scheduled to close on December 23, 2010. Mr. Guillot said he would also go along with 30%. Mr. Doyle said he, too would agree to 30%. Mr. Foulk asked if the sale price had been determined. Mr. Spiers stated a non-disclosure clause prevented him from stating the number on public record but said an exception had been made allowing him to privately disclose the price to Metro Water.

The motion was amended to reflect 30%. Mr. Foulk seconded the motion. Motion passed unanimously.

Mr. Foulk said he understands the economic climate and the desire to sell the water rights. He asked Mr. Spiers about the plans for this property. Mr. Spiers said it is impossible to predict when the housing market will come back so timing for development is uncertain.

VI. General Manager's Report

Mr. Stratton said the Regional Water Assessment Task Force (RWATF) think tank sessions have concluded. The RWATF has hired a student intern to help assimilate the information and put together a final report by early spring. The annual Colorado River Water Users Association (CRWUA) conference is being held later in the week. Mr. Doyle, Mr. Offret, and Mr. Stratton will attend. Mr. Tenney will attend on behalf of CAP as well. The ADD Water process at CAP is still progressing. Southern Arizona Water Users Association (SAWUA) members have had strong voice in the ADD Water process. An overview of the operating budget has been posted online at Mr. Offret's request. Mr. Stratton and Mr. Hill have been working with interested parties investigating solar energy for District facilities. There are some ways to potentially invest in solar with minimal financial impact up front and a fairly good return. Future electric rate increases could be avoided and energy costs stabilized. The annual Christmas Luncheon will be held on Monday, December 20, 2010. During that event, the Employee of Year and 10-15 year anniversary employees will be recognized. Mr. Stratton added that Lazy B went down this weekend and Gilbert Pump assisted. It should be back in operation tomorrow.

VI. Legal Counsel's Report

Ms. Silvyn said her Phoenix associate, Sarah Seltzer, will be sending information next week about the litigation interrogatories with Sun Western.

VII. Future Meeting Dates; Future Agenda Items.

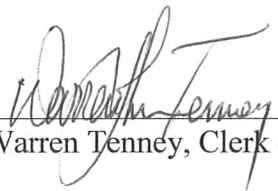
Mr. Tenney said the next regular scheduled session of the Board of Directors will be held on January 10, 2011 at 6:00 p.m. Staff is preparing an Overview of the District for distribution to Board Members before year end.

VIII. General Comments From the Public.

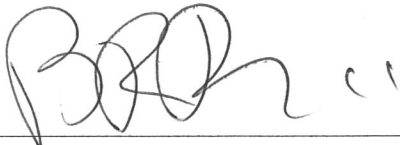
There were no comments by the public.

IX. Adjournment.

Mr. Tripp made a motion to adjourn. Mr. Foulk seconded the motion. The meeting adjourned at 6:50 p.m.



Warren Tenney, Clerk of the Board



Jim Doyle, Chair of the Board
Bryan Foulk