

*MINUTES OF THE
ARIZONA MUNICIPAL WATER USERS ASSOCIATION
BOARD OF DIRECTORS' MEETING
MAY 21, 2009*

MEMBERS PRESENT

Mayor Hugh Hallman, President, Tempe
Mayor Steven Berman, Gilbert
Councilmember Jim Buster, Avondale
Councilmember Trinity Donovan, Chandler, via phone conference
Mayor Jim Lane, Scottsdale
Councilmember Claude Mattox, Phoenix
Mayor Scott Smith, Mesa

ASSOCIATE MEMBER PRESENT

Councilmember Brenda Holland, Goodyear

MEMBERS EXCUSED – NOT PRESENT

Mayor Bob Barrett, Peoria
Mayor Elaine Scruggs, Glendale

OTHERS PRESENT

Marilee Avina, AMWUA
Jo Cook, AMWUA
Patricia DiRoss, SRP
Alan Dulaney, Peoria
Kathy Ferris, Attorney
Dave Iwanski, Goodyear
Eric Kamienski, Tempe
Doug Kukino, Glendale
Doug Kupel, Phoenix
Beth Miller, Scottsdale

Steve Olson, AMWUA
Diana Piña, AMWUA
Bridget Schwartz-Manock, Scottsdale
Don Sehorn, AMWUA
Parrish Spisz, Goodyear
Doug Toy, Chandler
Carol Ward-Morris, AMWUA
Summer Waters, Cooperative Extension
Thalia Williams, AMWUA

1. CALL TO ORDER

The meeting was called to order at 11:18 a.m.

2. APPROVAL OF THE MINUTES FROM THE APRIL 16, 2009, AMWUA BOARD OF DIRECTORS' MEETING

Upon a motion by Mayor Berman and second by Mayor Smith, the minutes from the April 16, 2009, AMWUA Board of Directors' meeting were approved.

3. SET NEXT MEETING DATE

The next regular meeting of the AMWUA Board of Directors was scheduled for Thursday, June 18, 2009, at 11:00 a.m. at the AMWUA office.

4. AMWUA FISCAL YEAR 2009-10 FINAL DRAFT BUDGET

Mr. Olson stated that the budget before the Board was identical to the budget presented at the April Board meeting.

Mayor Hallman asked the Board members if they had any questions regarding the budget's approval. Councilmember Buster asked if a new building had been found or looked at in anticipation of the end of the current building's lease. Mr. Olson said he and others of the AMWUA staff had been in contact with Jones Lang La Salle in an effort to get a feel for the current commercial market and have them work with the current building management to rectify the common area maintenance (CAM) issue. Mr. Olson said he questioned if it was time to begin looking for new space since the end of the current lease was still over two years away (August 2011). He said it may be possible to locate a space where the new management company may be willing to buy-out the remainder of the current lease in order to get AMWUA to move to their location.

Councilmember Mattox asked if anyone on the Board had a sense of where commercial rental rates were, to which Mayor Hallman said rental rates have come down and vacancy rates are on the rise. Mayor Smith confirmed that rental rates were going down. He added that the commercial rental market had not yet hit bottom.

Mayor Berman asked about Mr. Olson's comment pertaining to a new management company being willing to absorb the current lease. Mr. Olson said it is something to consider when looking for space two years in advance of the current lease ending and added that, if "just the right space" were found and the new management company were willing to buy out the remainder of the current lease, it would behoove AMWUA to relocate sooner than later.

Mayor Hallman said that obtaining a low-enough lease on a new building would more than make up the difference, over the long-run, of paying off the remaining two years of the current lease, in addition to paying the new lease for the new space.

The question was asked of Mr. Sehorn what the square-footage and cost per square foot of the current space is. Mr. Sehorn said AMWUA currently has 8,500 square feet and is paying \$22.50 per square foot. Mayor Hallman asked what the final common area maintenance (CAM) fees were for FY 2008 – 2009, to which Mr. Sehorn said \$42,000.00. Mayor Hallman commented that when the CAM charges are added into the amount per square foot, the cost jumps to \$28.00 per square foot, rather than \$22.50.

Councilmember Mattox said that, with new buildings going up in the metropolitan area, a lot of moving around will be taking place, thus opening up additional building space. He said, with that in mind, it may be a little early to consider moving.

Mr. Olson said he also wanted the Board members to know that the Internal Revenue Service (IRS) was scheduled to move into the 4041 Building toward the end of June 2009. With the IRS moving in, he said that visitor parking would also be changing.

Councilmember Holland said she recommends that AMWUA continue looking for new space because if the right opportunity comes along and AMWUA is not in tune with the market, the best opportunity or space may be missed; whereas, if AMWUA is in tune with the market, AMWUA will know when the right thing comes available and be able to act accordingly.

Mayor Hallman directed Mr. Olson to start looking for new space and get a feel for the market, as well as see what can be done regarding a new management company being willing to buy-out the current lease.

Mayor Hallman asked if there were any other questions pertaining to the proposed FY 2009 – 2010 budget. As there were none, Mayor Hallman asked for a motion to approve the budget, with the word “Draft” being taken out of the title.

Councilmember Mattox motioned for the approval of the FY 2009 – 2010 AMWUA Budget, noting the deletion of the word “Draft.” Mayor Smith seconded the motion. The motion passed unanimously.

5. PROPOSED AGREEMENT WITH COOPERATIVE EXTENSION FOR SMARTSCAPE IMPLEMENTATION

Mr. Olson introduced Carol Ward-Morris, the AMWUA Conservation Coordinator, and Summer Waters of the Cooperative Extension. He pointed out to the Board members the many letters of support and recommendation the Smartscape program had received from entities such as SRP, the ANA, and ALCA.

Mr. Olson turned the floor over to Ms. Ward-Morris to answer any questions the Board members had regarding the proposed Smartscape agreement with the Cooperative Extension.

Ms. Ward-Morris thanked Mr. Olson and the Board for their time and highlighted the important elements of the program, which included increasing the number of Smartscape workshops offered per year, implementing the Advanced Smartscape program, and expanding the workshop locations from being held only at SRP, to being held at various locations throughout the valley so as to increase the program’s availability and to attract landscape professionals in all parts of Maricopa County.

Ms. Ward-Morris said that since its inception in 1994, Smartscape has graduated over 800 participants. She stressed that through Smartscape, the AMWUA Conservation program’s message regarding water conservation is leveraged by the multiplier effect and the train-the-trainer effect. She also noted that the landscape professionals that complete the Smartscape series become true advocates of proper watering principles and plant care for desert-adapted plants. Ms. Ward-Morris continued, saying that 70% of all water use is outdoors. She stressed that with that being the case; Smartscape training has an impact on both residential and commercial water use. She also noted that landscapers are

perceived as trusted experts that can, in turn, train their customers in the proper care of desert-adapted plants.

Ms. Ward-Morris stressed to the Board the need for the Smartscape program and the various ways in which the program meets the needs of the AMWUA members.

Councilmember Mattox asked if it were conceivable or likely that the funds for the program would be cut at the University level due to the uncertain economy. Ms. Ward-Morris said that same question was posed to the Cooperative Extension. She then asked Ms. Waters to address Councilmember Mattox's question from her perspective as an agent of the Extension.

Ms. Waters thanked the Board for their time and began her remarks by saying that since the University of Arizona is a land-grant university with an agreement existing between each land-grant university and the Federal Government, an extension office must be present in each county a state has; the Cooperative Extension office for Maricopa County would therefore continue to be funded. She added that the funding being provided for the implementation of the Smartscape program is, at the current time, solely being provided by AMWUA and would, therefore, suggest that the program would remain until AMWUA's funding was no longer available.

Councilmember Mattox said he was not worried that the Cooperative Extension was going to "go away," but said his concern was that the program could be scuttled, which in turn could have the impact of AMWUA losing the funds invested before the program was fully implemented.

Ms. Ward-Morris said that, should the Cooperative Extension completely go away, AMWUA could get its money back.

Mayor Hallman said he read the agreement earlier, but was uncertain if there was a provision stating AMWUA could receive its money back should something go wrong or if it decided to terminate the agreement.

Ms. Waters said the funds for the Smartscape program would be placed in an account that could only be used for Smartscape purposes. Mayor Hallman said it sounded like a segregated account that is essentially treated like a trust fund. Ms. Waters said that was correct.

Councilmember Mattox said he would be more comfortable if there was language in the agreement that stated exactly what the funds could and could not be used for, along with language stating that, should the program be discontinued, AMWUA would be reimbursed pro rata the unused portion.

Ms. Waters said adjustments to the contract could be made, but stressed that they would take time, as some processes take longer than others at the university, hence the reasoning behind going with the standard agreement.

After a lengthy discussion between the members of the Board regarding the language and the timing involved to make changes to the contract, Mayor Hallman suggested submitting a letter to the University, after the contract is signed, stating that the money

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for the Smartscape program is to be put in trust and that the first \$30,000 will be paid up front, but should the deliverables not come to fruition, AMWUA will not pay the second \$30,000 and will press for any remaining funds to be reimbursed. Mayor Hallman said the letter being sent after the contract was signed would act as an incorporation clause, so long as there was acknowledgement of receipt.

Mayor Hallman asked if the Board members were ready to make a motion to approve the contract and program, as stated, with the understanding that if there is a failure on the part of the University or the Cooperative Extension to deliver the deliverables in the first year, AMWUA will not go forward in the second year. Mayor Hallman added that the agreement will include a cover letter, transmitting after the contract is signed, indicating that the funds are supplied "in trust."

Mayor Lane motioned and Mayor Smith seconded the recommendation made by Mayor Hallman, as stated, to proceed with the implementation of the Smartscape Program at the Cooperative Extension. The vote in favor of the motion was unanimous.

6. UPDATE ON 2009 LEGISLATIVE ISSUES

Mr. Olson said State legislators were still in session working on the budget and that SB 1288 had not yet been heard or moved out of the Senate.

Mr. Olson said a specific issue of concern to AMWUA was the Arizona Department of Water Resources' (ADWR) budget and their reliance on funds being transferred from the Water Bank to make up for the loss of funds from the General Fund. He added that over the past two years, ADWR's budget has been reduced. Mr. Olson said the current budget up for consideration gives ADWR a base of \$10 million, with \$7.9 million being transferred from the Water Bank, and an additional \$1 million coming from other sources, for a total of \$18.9 million.

The reason Mr. Olson said he was reporting on this item is AMWUA's concern over ADWR's continued dependence on the Water Bank to fund a major component of ADWR. He said that, at some point, there will be a reckoning.

Mr. Olson said AMWUA and other interest groups have been working together to address the proposal to move money out of the Water Bank and into ADWR's base as the means by which ADWR would remain funded. Mr. Olson continued, saying that AMWUA is very carefully saying that it is important to have a fully functioning ADWR, one that can fulfill its core mission. He stressed that AMWUA did not want to identify a dollar amount or a funding source, but did want to express the importance of keeping ADWR at a level that would allow them to perform their duties.

Mr. Olson said, regarding SB1288, that AMWUA staff and others of the water community met on May 13, 2009, with the City of Eloy, Global Water, and Johnson Utilities, groups currently in opposition to the legislation, to try and find a way to help them and, in turn, have them then support the bill. Mr. Olson said several proposals have been considered, but language that is clear and concise has yet to be presented.

Mr. Olson said that since the legislators are completely engrossed in the State's budget, he and others were unsure if bills would be heard in the Senate. He said Senator Nelson, the sponsor of the bill, was personally in favor and supportive of SB 1288. What was unclear was if the bill would even be heard, which would necessitate submitting the bill again in 2010.

Councilmember Mattox asked for clarification on the meeting with the bill's stakeholders scheduled for May 22 and wanted to know what was to be discussed. Ms. Ferris said the discussion would be the language for the proposal directed at those in opposition to the bill. Ms. Ferris added that she had spoken with CAWCD staff and questioned if it was in the members' best interest to support an amendment that was unlikely to change the opposition's position.

Mayor Hallman asked if the entire subject could wait until the next Board of Directors' meeting before making a decision, to which Councilmember Mattox asked why a meeting was going to be held if AMWUA had not had the opportunity to go over the concept, to which Ms. Ferris and Mr. Olson said CAWCD was calling the meeting.

Mayor Hallman asked the Board members if they had any thoughts on the bill's status and suggested that AMWUA's stance should be not to move ahead if CAWCD's language was not going to change the opposition's position. The Board members agreed, but took no formal action.

7. CAWCD ADD WATER PROCESS

Mr. Olson said the ADD Water Process was now to a point where the stakeholders were talking about substance and how to structure the financing and the allocation of the water. He directed the Board members' attention to the attachment in the packet and said eight groups of stakeholders were instructed to independently develop answers to the questions that had previously been asked. Mr. Olson noted that each of the eight groups had at least one member of AMWUA actively involved in them. He added that the Water Resources Advisory Group (WRAG) developed a proposal for the AMWUA members to take back to the eight stakeholder groups. He emphasized that it was of great importance that the same message go back to those eight groups.

Mr. Olson said the issue of governance of the ADD Water Process was now up for discussion and stressed that AMWUA and the other interested parties firmly believe they need to have direct involvement in the decision making process, specifically as it pertains to the acquisition of new water. He said the question that popped up, with regard to that involvement, came from CAWCD being a fully elected body and the stakeholders or participants not being part of that elected body. Mr. Olson said a solution developed by the stakeholders involved a Participants Council that would work with the CAWCD Board to implement contractual agreements between the participants and the CAWCD Board.

Referencing the Participants Council, Mr. Olson said the subject of how that council would be compiled came up. He said the question was asked if every participant on the council would have a vote, and if they did have a vote, would every vote be counted as equal or would the votes be weighted based upon the amount of financial commitment

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participants contributed to the process. He said AMWUA believes that these topics warrant further discussion, but for now, he sees that the votes should be weighted based upon the amount each participant contributes to the process.

Mr. Olson said additional questions were raised in the ADD Water meetings, including whether ADD Water would only be developed to meet assured water supply requirements or would it include water that will be available during times of drought or shortage. He said the topic of how to budget for ADD Water also came up. He noted that exactly what was being budgeted for, such as the expansion of the canal and the actual acquisition of the water, were also discussed.

Mr. Olson turned the floor over to Ms. Ferris to provide an update on her participation in the process and what she saw as important issues. Ms. Ferris said a few over-arching issues that had not previously been addressed or resolved came to her mind. She said they were legal issues, but issues that need to be addressed and resolved because of their impact on whether an alternative could be evaluated fairly. She noted that the question of exactly what is considered to be CAP project water was in the forefront because of its impact on subcontractors and other entities that have rights to or are entitled to CAP water. She stressed that knowing what is actually CAP project water impacts the amount of capacity in the CAP canal that is left for moving new ADD Water supplies. She added that a wheeling agreement with the Federal Government may affect the use of the canal for ADD Water supplies.

With regard to the legal issues, Ms. Ferris said the AMWUA staff and WRAG members have put together a list of the overall legal issues and questions and believe a discussion about them needs to occur. She said they are extremely important and the discussion needs to take place much sooner than later.

Councilmember Mattox asked if the legal issues were such that they should be taken from the staff-level of decision making and moved up to the Board of Directors' level. Mr. Olson replied that a Joint Board meeting between the AMWUA Board of Directors and the CAWCD Board of Directors was being looked at and said he thought it would most likely take place in late September.

No motion or vote was called for.

8. CAWCD ACCESS TO EXCESS CENTRAL ARIZONA PROJECT WATER PROPOSAL

Mr. Olson said he wanted to report on what he believed was a success in the Access to Excess CAP Water process. He said the new proposal put forth by the CAWCD staff was over ninety percent of what AMWUA had originally proposed and included the four pools for excess water (#1 – The Arizona Water Banking Authority and the CAP Reserve Pool; #2 – The Municipal Pool; #3 – The Industrial and Other Pool; and #4 – the CAGR Pool) AMWUA believes are necessary to make the system work. Mr. Olson said the weaning process of entities that have based their water supply on the use of excess water at the incentive recharge rate still needs to be addressed, as well as how to determine if an entity is purchasing water for speculative purposes, but stressed that he

thought that the overall proposal was acceptable. Mr. Olson added that CAWCD intends to carry the incentive recharge rate forward for at least one more year, which is beneficial to AMWUA members that are currently making use of that water.

Mayor Hallman asked why the Industrial Pool was being characterized as such, rather than just “excess” water. Ms. Ferris said it had to do with where CAWCD pulls that particular water from that determines what name it is given.

No motion or vote was called for.

9. EXECUTIVE DIRECTOR’S REPORT

Mr. Olson handed out the latest Conservation Committee update. Mr. Olson said it provided an informative synopsis of the variety of projects and outreach the committee was involved in on a regular basis.

Mr. Olson said he wanted to acknowledge and thank Mayor Berman and Councilmember Holland for their time, effort, and work on the AMWUA Board of Directors and wished them well in their new endeavors, as this Board meeting would be their last.

10. ADJOURNMENT

Upon a motion by Mayor Smith and second by Mayor Lane, the AMWUA Board of Directors unanimously agreed to adjourn their meeting.

The meeting adjourned at 12:12 p.m.