

CANYON WATER DISTRICT FACT SHEET
November 13, 2014

Re. Intergovernmental Agreement (IGA) between the Canyon Water District and the City of Globe

The first portion of this factsheet is dedicated to specific points from the original agreement and information concerning the installation of the system. The second portion is a timeline relating to the termination of the original agreement and negotiation of the new IGA.

- The District was created as, and continues to be, a separate governmental entity with all of the responsibilities and authority attached thereto.
- District members are not City residents, are not City water customers, and do not reside within the City of Globe limits.
- The intent during district formation was to buy water from the City instead of hauling water or utilizing existing wells in the area.
- The Gila County Board of Supervisors created the District.
- The District obtained its own funding to install the existing system and is obligated to pay for the existing note, system maintenance, and improvement of the system.
- The water system was not installed to municipal or industry standards. Funding was an issue and corners were cut. For example, no fire hydrants were installed with the system, proper control infrastructure was not installed, and pressures exceed industry standards throughout.
- The District water system was not permitted by the City or designed and inspected to City standard.
- The District did not provide as built plans or the certificates of right-of-way, easements, permits, licenses and other applicable documents. These actions are contrary to the IGA.
- The District agreed to pay all fees and charges imposed by the City in a Timely manner. Multiple accounts have had outstanding balances since the District became operational. District accounts risked being depleted. Amounts owed for the repair of pump #1 (\$15,000) went unpaid. Pump #2, a ten year old pump, also risked needing substantial repair. The City had to act to avoid having City funds expended for which reimbursement was not likely.
- The District agreed to not incur any debt after the initial construction bond indebtedness without the express written consent of the City and the County. The District has accrued debt and did not cure when given proper notice, per the IGA.
- Either party may terminate the agreement if the terms of the agreement are violated and the other party is notified. If the violations are not cured within 120 days, the IGA will be terminated. The City triggered this

remedy as an inducement to get the District to negotiate a new IGA. The new IGA includes a formal termination of the prior IGA by both parties; the new IGA was approved by the Council in a public meeting.

- The IGA required the City, State, and Federal requirements for backflow prevention be met by the District. The requirements have not been met.
- The IGA set forth that the City was to perform all maintenance and repairs on the system and was to bill the District for said repairs. The District was not happy with the costs associated with repairs and maintenance of the District's system charged by the City and wanted to explore other options.

Timeline:

On April 16, 2002, the IGA was approved between the District and the City. Since the IGA's adoption, the City has fulfilled a number of responsibilities for the District which includes but is not limited to, system monitoring, meter reading, all repairs to the water system, and billing of the District's customers. Until recently, the District has paid for repairs as they were required and District customers were assessed a monthly fee to pay for the administration of the bills.

On July 15, 2013, the City sent a letter to the President of the District Board informing her that pump #1 had failed and the City received a bill for \$15,000 to rebuild the pump. There was not sufficient funding in the District's account for maintenance and repair to pay for the rebuild. As a result, the account had a negative balance. Furthermore, the letter informed the President that pump #2 had not been serviced for over 10 years. City staff was concerned that pump #2 may fail in the near future. For this reason, staff obtained quotes to rebuild and replace pump #2. Staff recommended that a new pump be purchased to replace pump #2.

The next formal interaction between the City and the District was in a letter from the City on October 30, 2013. The letter served as a written notice for the District to cure the unauthorized indebtedness incurred by the City from rebuilding pump #1. The District had 120 days from the date of the letter to cure the debt otherwise the IGA would be terminated. To accommodate the District in order to provide time for an orderly transition of service and the negotiation of a new IGA that would replace the existing IGA, this deadline was to be extended multiple times as allowed by the existing IGA and as detailed below. In addition, City staff met with representatives of the District Board to discuss the following: the presented letter, ARS codes related to water distribution, the condition of the pumps, the need and requirement for customers or the District provide backflow preventers, and the need to amend the existing IGA.

On November 22, 2013 the District sent a letter to the City demanding a detailed accounting of the District's accounts.

Informal conversations and meetings occurred during this time. The District and the City determined that the best course of action was to meet and discuss how to move forward.

On February 11, 2014, City staff, representatives from the District, and representatives of the City Council, but fewer than would constitute a quorum, met together. During the meeting the following was discussed: (i) if the debt was not cured, then under the terms of the existing IGA, the City's position was that the existing IGA would effectively terminate on February 27, 2014; (ii) the outline for a new IGA that would benefit both entities; (iii) the District requested additional information from the City; and (iv) the process that the District needed to go through to hire someone to maintain the system and manage the billing for the District.

The next letter was sent on February 24, 2014 by which the City granted the first extension of the deadline to cure the debt until April 30, 2014, as permitted by the existing IGA, thereby allowing the District time to cure the default and avoid termination of the existing IGA. This extension was at the request of the District.

Informal conversations and meetings occurred which included emails between the City's and District's attorneys involving IGA negotiation.

By April 30, 2014 debt not cured, as a result, under the express terms of the existing IGA, the City's position was that the existing IGA had terminated, not by an action by the City but as a result of the failure of the District to cure the default. The City took this position, not to abandon the District, but to allow time to assist the District. For example, the City agreed to continue to provide water and agreed to continue to provide limited repairs. The parties continued to negotiate a new IGA to accomplish a transition of services. The City, however, needed to protect City tax payers from potentially significant capital repair costs. At this time, both parties (the City and the District) had not reached a mutual agreement to terminate the existing IGA and replace it with a new IGA. As a result, the period of time to avoid termination of the existing IGA was again extended.

In May of 2014 the SCADA system (water level monitoring system) failed. In response, City staff assessed the damage, reported the damage to the District President, and determined what staff could do to repair the SCADA. City staff repaired what they could with the resources on hand, but the full repair would require more resources than the City had available. On May 13, 2014 a letter was hand delivered to the President. The letter stated that the District received keys to their facilities and the City staff would train the District on how to run

specific components of the system. The letter also stated that City staff would no longer repair the District's water system because the IGA had been terminated and the City had not yet received a response to the proposed IGA. The City would not have been able to assert that it would no longer repair the District's water system absent the foundation set with the City's notice of default, the District's failure to cure and the multiple extensions granted by the City. This allowed the party's time to negotiate a new IGA that would formally terminate the existing IGA and provide for an effective transition of service.

Additional informal meetings and conversations occurred between the District and the City. This included the District's new attorney and specific changes to the proposed IGA. As a result of these negotiations, the parties were prepared to then terminate the existing IGA and replace it with a new IGA.

The Globe City Council approved the new IGA on July 22, 2014 and it was submitted to the District for their ratification. The District President was present at this meeting and provided positive comments to the Council concerning her experience with the City throughout the amendment of the IGA.

The District ratified the new IGA on August 5, 2014. A City staff member attended the August 5th meeting. Many District customers attended the meeting and the staff member answered questions from the Board and the customers.

During August 2014, the District's pump#2 failed. City staff was notified of the failure and assessed the pump for the District. City staff also worked with the District in order to contact a number of qualified contractors who could complete the work.

The ratification of the IGA began a 180 transition period (ends February 2, 2015). During this transition period, the City has provided all of the requested information to the District. The information collected will be used to submit applications to ADEQ and ADWR in order for the District establish an independent water district.

Since the ratification, City staff and Council members have received requests for information and fielded questions about the Canyon Water District. Staff has responded to inquiries and is prepared to respond to further questions from the public and District customers. Lastly, City staff is working with the District's operator in order to localize the SCADA to the District's system.