

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

February 8, 2016

**** Board Room ****

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

MINUTES

Board Members Present: Judy Scrivener, Chair
Bryan Foulk, Vice-Chair
Jim Doyle, Member
Helen Ireland, Member
Dan M. Offret, Member

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Clerk of the Board
Steve Shepard, Utility Superintendent
Jeffrey Sklar, Legal Counsel

Regular Session

I. Call to Order and Roll Call

Judy Scrivener, 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, Bryan Foulk, Helen Ireland, Dan Offret and Judy Scrivener were present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – January 11, 2016 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Accounts Removed from Accounts Receivable.**

Ms. Ireland 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. Olsen said the Utility Team was busy this month repairing main breaks on Village Avenue, Montebella, and Ina Road. They also pulled Hub No. 4 and Mona Lisa wells for maintenance. Staff completed annual static and water level roundup measurements of the District's Metro Main wells. Those measurements will be brought to the Board next month as part of the Annual Water Level Monitoring Report.

The Bureau of Reclamation's environmental review process for Cortaro-Marana Irrigation District's effluent delivery pipeline, of which the District is a partner, closed public comments at the end of last month and once all public comments have been received, impacts to the project can be determined. The comments will be reviewed by the Bureau of Reclamation.

Later this week, the District will host a meeting with various northwest providers to determine potential partnership options and discuss various financial contribution mechanisms for partnership on the CAP Recharge, Recovery, and Delivery System (CAP RRDS). The goal of this meeting is to arrive at the best mechanism, identify questions, and arrive at a pathway forward. Purchase documents for the booster and forebay parcel of the CAP RRDS have been reviewed by staff and will be brought to the Board next month for consideration of the purchase along with an update on the CAP RRDS.

The preconstruction meeting was held for the Lazy B interconnect, which is the wheeling agreement with Tucson Water where a portion of the District's renewable resources will be conveyed to that service area. Following construction, any operational details will be worked out with Tucson Water to rapidly begin delivery of those renewable resources to Metro Southwest - Lazy B.

B. Financial Report.

Ms. Bracken said revenue and expenditures through December are both favorable with revenue of \$869,493 over budget using a straight line projection. Increases are largely attributed to water sales of \$503,697 under the budget on a straight line projection. Development revenue has exceeded the fiscal year budget by \$78,929. Operating expenditures are under budget by \$133,240 using a straight line comparison. Revenue in excess of operating expenditures is \$5,152,839 which is favorable when compared to the budget by \$1,002,733 for the first half of the fiscal year. A prior year comparison of revenue for December is higher by \$531,104, largely coming from development revenue, metered water sales, and Water Resource Utilization Fees. Total operating expenses this fiscal year are higher in all categories by \$377,485. The Arizona State pooled collateral program statement for December includes \$4,379,150.48. The collateral coverage is in addition to the \$500,000 of FDIC insurance. All banking fees continue to be covered with the earning credits from the merchant account and checking account. The American Express corporate accounts payable solution card was used for a total of \$43,057.70 worth of purchases, for a 1% savings of \$430.58 for the month. A total of six meter applications were received in January

compared to nine received in January of the prior fiscal year. Meter applications this fiscal year total 93 compared to 53 as of the same time last fiscal year.

Mr. Offret asked about the Canyon Community Bank checking account. Ms. Bracken said there are six outstanding checks on that account with a current balance of less than \$1,000. In April, the checks will be stale-dated and the account closed.

C. Mid-Year Review of Fiscal Year 2016 Budget.

Mr. Olsen said when the Board approved the current financial plan in June 2015, it was envisioned that one of the capital projects, the Hub retaining wall, would be brought back at mid-year for discussion. This was done out of an abundance of fiscal caution to ensure adequate new meter connection revenue was obtained to accomplish this project. The project was paused for the first six months of the fiscal year. Two weeks ago, staff discussed with the Finance Oversight Committee (FOC) where development revenue stands in regards to this project. The Board approved this project within the financial plan and staff now feels comfortable to move forward. The FOC voted 6-0 to proceed with the financial plan with no recommended changes to the Board after reviewing the mid-year figures.

Ms. Bracken said the District has collected 55% of total budgeted revenue and 53% of metered water sales with 50% of the year completed. The revenue stabilization plan, implemented with the adoption of the budget has been successful at mitigating the impact of declining water consumption on revenue in the first half of the fiscal year. An accumulation of revenue sources are expected to be in a favorable position by the end of the fiscal year by about \$152,000. Wages and benefit expenses are planned to be right on target with the budget. Consultant and contracted services are projected to be about \$12,000 over budget with additional premiums paid out for new water connections in the Metro Southwest service area. General operating expenses are forecasted to be about \$16,000 under budget by the end of the fiscal year. Natural gas, electric, and supplies are all planned to be at or near the budgeted amount by the end of the fiscal year. Other operating expenses are expected to be about \$91,000 higher with the purchase of additional CAP water but that is offset by additional income, or revenue, from water storage. Capital equipment requests are projected to be about \$21,000 under budget. Capital projects are currently projected to be about \$20,000 over budget but that could change with incoming bids throughout the end of the fiscal year. Overall, expenses are projected to be in a favorable position by more than \$400,000 with no current plans to spend the emergency funds budgeted.

Mr. Olsen emphasized the revenue stability measures the Board approved last May. Even though the District is down on fiscal year to date water consumption by 3.5%, revenue is only down by 0.6% and revenue reductions were budgeted at 1.4%. The fact that the District has had such a small decrease in revenue with a large decline in demands shows the measures taken to stabilize revenue have been proven and were the appropriate action. Other utilities across Arizona and in adjacent states are trying to accomplish revenue stability with similar measures and inquired how the District was successful in this initiative.

Mr. Doyle asked what the price of vehicle fuel has done to the budget. Ms. Bracken said fuel will probably be lower than what was budgeted this fiscal year but the trick is how to budget for the coming year with uncertainty about prices. Mr. Olsen said when there is a varying line item that exceeds the budgeted amount, staff must figure out how to cover it from another area to maintain balance. Low fuel costs this year will offset other areas that may have had unplanned overruns.

D. Review and Possible Action Regarding RTA Fee.

Mr. Olsen said when the RTA waterline relocations project began in the District, a funding mechanism needed to be determined to accomplish all the required relocations. In 2009, the Board approved the RTA Fee of \$3.00 per month for standard residential connections. Bonds in the amount of \$6.6 million were taken out to accomplish what was envisioned under RTA projects at the time. Many questions at rate hearings and public meetings have been customers wanting to know when the RTA Fee will end. The fee was approved by the Board to be collected through the end of 2020, which coincides with the final payment on the \$6.6 million debt service.

Additional projects are coming under the RTA that were not envisioned in the \$6.6 million, at an estimated additional cost to the District of about \$1.5 to \$2 million. To address this, staff had a lengthy discussion with the FOC and posed two options: to continue collecting the RTA Fee beyond the end of 2020 until such point that the additional \$1.5 to \$2 million is fully collected to reimburse what would have to be paid out of the operating fund for the additional projects, or the other option, to honor the promise and commitment to customers and allow the fee to sunset at the end of 2020 and accomplish additional projects out of the operating fund without reimbursement from the RTA Fee. There are many pros and cons to each option. After a lengthy discussion, the FOC voted 6-0 to recommend to the Board not to extend the collection of the RTA Fee beyond the end of 2020, and honor the commitment to customers.

What that would mean is that the RTA projects would be prioritized with all capital projects and some other projects may be shifted lower on the list. One of the planned Fiscal Year 2017 capital projects would likely be shifted to the following year to be able to accomplish the must-pay RTA project. Should the Board decide to collect the fee beyond 2020, which is not the recommendation from staff and the FOC, it still wouldn't solve the problem of now because the District would be reimbursing in Fiscal Year 2021 or 2022 expenditures that were made in Fiscal Year 2017. The FOC and staff wholeheartedly recommend not collecting the fee past 2020.

Mr. Foulk asked how many other RTA projects are expected. Mr. Maish said there are a couple of RTA projects that will affect the District but there may be other County projects not funded by the RTA in the future. There are also some previously approved projects that are possible, such as the Thornydale Road north of Cortaro Farms Road.

Mr. Offret asked about engineering estimates. Mr. Maish said the District will not receive any plans until around July but staff uses a general estimate of \$800,000 to \$1,000,000 per mile based on past projects.

Mr. Offret made a motion to reaffirm collection of the RTA Fee as previously approved through the year 2020 to pay off the existing debt associated with past RTA projects and that the fee not be extended beyond what was previously authorized. Ms. Ireland seconded the motion. Motion passed unanimously.

E. Overview of Engineering Team.

Mr. Olsen said this is the third in a series of presentations. Each team manager was asked to give an overview of their team and showcase their unique missions, challenges, and accomplishments.

Mr. Maish explained the numerous steps in the design phase of capital projects, which includes project identification, planning and analysis, hydraulic modeling, survey, utility investigation, cultural investigation, environmental investigation, biological investigation, native plants investigation, 404 permit investigation, coordination with other entities, regulatory requirements, project specifications, and completion of the bid and contract award process. Consultants are utilized for certain requirements.

The District has been doing mainline replacements since the initial 1994 Capital Improvement Program, which was two voter-approved bonds. About 50% of the projects included in the CIP have been completed. Now that the District has moved to a priority-driven budget process, these projects are incorporated and prioritized with the other requirements, which shift each year. This year, the Casas Adobes Estates mainline replacement is planned for completion. He talked about the Oracle Jaynes site improvements, the Hub Storage site retaining wall extension, and the possibility of two upcoming RTA road improvement projects within the District's service areas.

Mr. Maish described the construction phase of capital projects, which includes inspection, conflict resolution, re-design, contract management, shop drawing reviews, pay requests, requests for modification, and as-built plans.

The project management contract component of engineering includes the development of scope of services, request and review of statement of qualifications, consultant selection, contract negotiations, contract award, tracking work progress, processing invoices, and approval of final work products. Project management projects include miscellaneous design, miscellaneous geotechnical and material testing, miscellaneous survey, and the CAP RRDS land and easement acquisitions.

Engineering staff is always updating and maintaining specifications, which are aligned with the City of Tucson's. Engineering staff assists the Utility Team with operations and field issues, such as analysis, preliminary engineering, and sizing.

Mr. Maish went over the various facets of private development, including development plan review, providing information to other entities and consultants, tentative and final plat review, hydraulic modeling, water improvement plan review, approval of easement legal descriptions for dedication or abandonment and documentation for owners. Inspections, Blue Stake activities, and

valve checks are coordinated and preconstruction meetings are conducted before Pima County Department of Environmental Quality issues the approval-to-construct.

Staff also maintains valve maps, as-built records, and provides information for the website and internal information systems. The District's GIS system is currently not in use, though a request will be made through the budget prioritization process to resurrect the GIS system in AutoCAD format. GPS locators are used to map the District's infrastructure.

Engineering staff assists customers in determining ideal meter size for the greatest cost efficiency. Dual metering waterline reconfiguration is also handled by private development staff. Only a few customers have taken advantage of this program because there are usually challenges that make reconstruction of private waterlines unaffordable.

Engineering staff also coordinates the exchange of information of unrelated projects in the District's service areas to ensure they do not pose any risk to the infrastructure.

Mr. Maish went over water quality compliance, which is also completed within the Engineering Team. Sampling and lab analysis are done according to specific schedules that must be recorded in databases and reported to regulatory agencies. The water quality specialist also keeps track of well pumpage, compiles data for annual water quality reports, and provides special location testing for customers who have questions.

Ms. Ireland asked who took up the asphalt on the Casas Adobes project and whether the material is still useful. Mr. Maish said the District performed the work and the County allows the material to be used as backfill if broken up into a smaller size. Mr. Offret said he once contacted the Department of Environmental Quality about asphalt and was told it is considered inert material.

Mr. Maish showed many examples of diagrams, plans, programs, and documents District engineering staff uses in the course of their work.

Mr. Olsen introduced a few Engineering staff in the audience and thanked Mr. Maish and the Engineering Team.

V. General Manager's Report

Mr. Olsen said Tim Thomure has been announced as the new Director of Tucson Water. Mr. Olsen has no doubt Mr. Thomure will continue the collaboration and communication between Tucson Water and the District.

Mr. Olsen represented the District as a Board Member at the Multi-State Salinity Coalition's annual conference last month. Subject matter experts at all levels gathered and a few salient points came to light. If one takes all the desalinization and water recycling efforts across the country, the amount of water that is generated is roughly equivalent to half of the current municipal demand in the country. Security and governmental experts from Sandia Labs looked at all the challenges in the 21st century and the consensus is that the biggest challenge for the next 100 years is going to be water security on a global level.

The Water Resources Research Center's annual conference will be held at the University of Arizona on March 21, 2016 and is entitled Tech, Talk, and Tradeoff. Board Members are welcome to attend.

VI. Legal Counsel's Report

Mr. Sklar said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items

The next Board meeting is scheduled for Monday, March 14, 2016.

There is a Finance Oversight Committee meeting scheduled for Monday, March 21, 2016 at 4:00 p.m. on the requested financial plan and proposed rates and revenue.

Board Members may also wish to hold a study session on Monday, March 28, 2016 to review the outcome of the March 21st FOC meeting.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 7:06 p.m.

Judy Scrivener, Chair of the Board

Tullie J. Noltin, Clerk of the Board