

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

**May 12, 2014**

**\*\* Board Room \*\***

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

**MINUTES**

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

**Board Members Not Present:** Richard Byrd, Member

**District Staff:** Joseph Olsen, General Manager  
Diane Bracken, Chief Financial Officer  
Charlie Maish, District Engineer  
Tullie Noltin, Recorder  
Warren Tenney, Assistant General Manager  
John Hinderaker, Legal Counsel

**Executive 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 5:00 p.m. Jim Doyle, Bryan Foulk, Dan Offret, and Judy Scrivener were present. Richard Byrd was not present.

Executive Session pursuant to A.R.S. § 38-431.03.A.1 (discussion or consideration of personnel matters); 38-431.03.A.3 (consult with attorneys for the District); and 38-431.03.A.4 (consider the District's position and instructs its attorneys) regarding the following:

- A. Clerical Correction to Employment Agreement for the General Manager.
- B. Claim against AECOM regarding Magee Road Phase I Waterline Relocation Project.
- C. Claim made by the Arizona Industrial Commission.

D. Claim made by Donovan Hemway in Superior Court.

Mr. Offret made a motion to adjourn into Executive Session. Mr. Foulk seconded the motion. Motion passed unanimously.

The Executive Session concluded at approximately 5:52 p.m.

### **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, Dan Offret, and Judy Scrivener were present. Richard Byrd was not present.

#### **II. General Comments from the Public**

There were no comments by the public.

#### **III. Consent Agenda**

- A. Approval of Minutes – April 14, 2014 Board Meeting.**
- B. Approval of Minutes – April 28, 2014 Study Session.**
- C. Ratification of Billing Adjustments.**
- D. Ratification of Accounts Removed from Active Accounts Receivable.**

Mr. Offret 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. Clerical Correction to Employment Agreement for the General Manager.**

Mr. Offret made a motion to correct a minor clerical error in the employment agreement of the General Manager, which is not a substantive change to the terms of the agreement. Mr. Foulk seconded the motion. Motion passed unanimously.

##### **B. Monthly Status of the District.**

Mr. Olsen said April consumption in Metro Main was approximately 4% lower compared to April of last year. Metro Hub and Metro Southwest showed a consumption increase of 9% and

21% respectively, the latter increase is most likely due to significant new meter activity occurring since April of last year. Consumption fiscal year to date is exactly where the District was last fiscal year. There were 18 new meter applications in April, compared to only 5 in the same period last year, split between Metro Main and Metro Southwest.

Staff has scheduled a pre-application meeting on June 4, 2014 with Arizona Department of Water Resources (ADWR) on the modification of the Designation of Assured Water Supply (DAWS) at Metro Southwest to include the Pomegranate Farms Development, which the Board approved proceeding with at the March meeting. The supplication to modify the DAWS will be submitted after the meeting.

Regarding the Cortaro-Marana Irrigation District (CMID) Groundwater Savings Facility Effluent Delivery Pipeline, the District, Bureau of Reclamation (BOR), and CMID met with Pima County on April 21, 2014 to discuss the alignment, easements, and potential schedules. The County was supportive of the phased temporary and permanent approach and BOR is preparing a design drawing for the County's review. Mr. Offret asked how long the process will take. Mr. Olsen said there is no estimate yet because the design needs to move through the County's due diligence process and an intergovernmental agreement is still being drafted between CMID, BOR, the District, and Pima County for review by staff and ultimately the respective governing bodies. Related next steps will be discussed in the General Manager's report.

Staff has also initiated work on a long-range water resources plan for the District's service areas, which will project forward the tactical information discussed at last month's Board meeting regarding the current snapshot of the District's water resources portfolio to a strategic planning document. The goal is to have this completed by the end of the year and it is even more pressing given the information that Central Arizona Project (CAP) recently published on potential Colorado River shortages, which will be covered in the General Manager's update.

Mr. Olsen said the Oracle Road Regional Transportation Authority (RTA) Bus Pullouts project was completed on April 23, 2014. The Freer/Camino del Sur waterline contract is proceeding with excavation and trenching complete. Mr. Maish noted the arsenic treatment vessels for Hub 1A and Hub 3 will be delivered soon after they pass inspection this week.

### **C. Financial Report.**

Ms. Bracken said revenue and expenditures through March are both favorable, with revenue \$1,004,169 over budget on a straight line projection. Water sales are \$430,557 ahead of the budgeted amount for the first nine months of the year.

Operating expenditures are projected to be \$159,040 over budget on a straight line projection; however, a straight line projection of operating expenditures appears to be artificially inflated based on one-time payouts such as retirement payouts, insurance premiums, the audit, and consulting services.

Revenue in excess of operating expenditures is \$845,127 favorable when compared to the budget for the first nine months of the fiscal year. A prior year comparison of revenue through March is \$1,711,263 ahead of March 2013, mostly due to water sales, which are \$847,368 higher in the current fiscal year. Operating expenditures in all categories are higher than the prior fiscal year, with the exception of purchased power.

Expenditures for capital improvement programs funded with 2007 Water Infrastructure Financing Authority (WIFA) loan equal \$11,629,955, with the \$546,286 remaining to complete the Hub 1A well, the Hub 1A vessels, and a variable frequency drive at Magee La Cholla. This includes the \$70,000 change order being requested this evening. Closeout of the 2009 WIFA loan is pending approval of construction.

This month's financial report includes the addition of a new American Express vendor pay card, which allows the District to receive a 1% savings on vendor purchases. Staff is contacting vendors to make sure they accept American Express and do not have additional fees for paying with a credit card. The vendor payments still require authorization through a signature form but Board Members will not have to sign each individual check. In the first two months, the District has received \$1,283 in savings.

Meter applications so far this year total 275 compared with a year-to-date total of 47 in April 2013.

The office solar system continues to generate a small savings in electric costs. The total for the first ten months of the fiscal year is \$28,892 which is favorable by \$900 compared to the same period in 2011 for a savings of \$762.

**D. Call November 4, 2014 Election for Board of Directors.**

Mr. Tenney said since three Board Members' terms will be completed at the end of this year, the District is required to call an election. This is a statutory requirement and the District Election will be held at the same time as the General Election, on November 4, 2014. The District has set aside funds for the election in the requested budget.

Mr. Offret made a motion to approve Resolution 2014-2 to call an election for November 4, 2014 for the purpose of electing members of the Board of Directors to fill three seats for a four-year term beginning January 1, 2015. Mr. Foulk seconded the motion. Motion passed unanimously.

**E. Approval of Change Order #2 for the Hub Well 1A Site Improvements.**

Mr. Olsen said this item is to request a change to the contract with Innova in the amount of \$70,000. This will allow for the installation of necessary piping and valve infrastructure to integrate the new arsenic vessels and treatment media into the Hub 1A well site operation.

Mr. Foulk made a motion to approve Change Order #2 to the Hub Well 1A Site Improvements contract with Innova Engineering, LLC, which establishes a new contract amount of \$515,045. Mr. Offret seconded the motion. Motion passed unanimously.

**F. Adoption of the Fiscal Year 2015 Budget.**

Mr. Olsen said the proposed Fiscal Year 2015 Budget was previously discussed at the Finance Oversight Committee (FOC) meeting and Board Study Session.

This year, since the General Manager and Chief Financial Officer are both new to the District, the budget was approached differently with a priority driven process. Managers and team leaders were asked to submit, discuss, justify, and prioritize their line item changes and requests. Mr. Olsen and Ms. Bracken then compiled a District-wide priority list based on needs, with regulatory required items appearing at the top of the list.

Revenue was projected based on actual year-to-date consumption and the planned reductions from previous fiscal years were adjusted from 2.1% to 1.1%. The revenue projection determined where the recommended funding line was drawn on the integrated priority list. About half the requests fall below the recommended funding in this fiscal year budget and will be used to start the budget discussions next year.

This is a reset year for the District's Capital Improvement Program (CIP). Revenue coming in will be directed towards the appropriate program, for instance, revenue from the operating budget (or water consumption) will be directed toward the operating expense, revenue coming in from development fees from new meters will go to fund capital infrastructure needs, and revenue from the Water Resources Utilization Fee will go to projects that directly utilize or leverage the enhancement of the District's water resources.

The recommended funded CIP projects include the CMID effluent recharge pipeline which would pay for itself in short order through accumulated storage credits; a generator to provide backup power and resilient production capabilities at Diablo Village 2; Ranch House Estates waterline extensions and private service relocations; and the Oracle Jaynes Station well replacement, which will begin a series of future well replacements to increase well capacity in Metro Main.

A pressing item in this discussion is the projected 50% increase to healthcare costs. After reviewing multiple scenarios, staff arrived at a balanced approach to share the increased costs between the employees and the District. Even with that cost sharing, employees could see a substantially negative paycheck, so Mr. Olsen is recommending not funding any merit increases this year, but instead funding a larger cost of living allowance (COLA) of 3.6% based on the consumer price index and the average family increase to healthcare costs. This plan will mitigate the substantial impact of the healthcare costs while ensuring that over 90% of staff will see neutral or slightly increased paychecks. Approximately 8-9% of employees will see a slightly decreased paycheck with this methodology. The FOC discussed the COLA methodology and the priority-driven budget and passed a motion (9-0) to move the requested budget forward to the Board of Directors.

Mr. Offret said he read the minutes from the April 21, 2014 FOC meeting and he is happy to have these nine members on the FOC. They are well qualified and asked fantastic questions. From a financial standpoint, it was a good meeting. The Board of Directors thanked the FOC for their work on this budget.

Mr. Foulk said he wants to see discussions of not only the non-funded requests, but also what was funded, and whether those items were really needed. Mr. Foulk wants to make sure, especially since this is the first time some have made these decisions, that staff learns from hindsight about what worked and what could be done better. He believes the process will be good for the District. Mr. Olsen said staff will be encouraged to remain engaged and discuss the outcomes each year to increase ownership of their teams' budgets.

Mr. Foulk made a motion to adopt the Metro Water District operating budget for the Fiscal Year 2015 as presented with the total disbursements no to exceed the budgeted amount of \$21,485,636. Mr. Offret seconded the motion. Motion passed unanimously.

Ms. Scrivener thanked staff for the great approach to the budget.

#### **V. General Manager's Report.**

Mr. Olsen said the CMID Effluent Delivery Pipeline will deliver District effluent to the CMID Groundwater Savings Facility to increase effluent credit generation by approximately 300%. Parallel to that, a \$35,000 grant application was submitted to WIFA to support efforts for that pipeline. WIFA determined that the District's grant application did not qualify under the Drinking Water Grant program and should instead be submitted under the Clean Water Grant program. Staff will resubmit the application by the August 31, 2014 deadline and WIFA will make their decision in October.

Concerns about recovery outside the active management area (AMA) were raised by CAP staff with regards to the inter-AMA firming concept. District staff, CAP, City of Phoenix, City of Tucson, Arizona Water Banking Authority (AWBA), and Arizona Department of Water Resources (ADWR) held a meeting about the concept this afternoon. Initial results of that meeting are that ADWR is interested in looking at other vehicles, perhaps credit exchange agreements, as well as the potential for AWBA to be a wheeler. Some concerns were raised and ADWR and AWBA are trying to leverage other vehicles to arrive at the same result. The next step is to work with CAP to develop a series of questions to be answered by ADWR, so that it can be determined what is achievable moving forward.

At the recent CAP Board meeting, CAP staff presented a projection of water resource availability within the Colorado River System, along with shortages and cuts to CAP water resources year by year. While not explicitly stated, the information showed that by 2020, nearly all Non-Indian (NIA) or agricultural CAP water could be shorted on a downward slope trajectory. All of that water would be shorted before municipal and industrial (M&I) subcontracts are hit, which is what the District holds. Previous projections by CAP said M&I subcontracts would not be affected until about 2040, now it appears M&I could be affected in 2020 or 2021, so more dialogue is needed to understand the information that was presented. As the District talks about its long range water resources plan, the shortage trajectory changing from 2040 to 2020 raises concerns.

The Board previously directed District staff to move forward with the process to acquire 299 acre-feet of NIA priority water for Metro Southwest at approximately \$300,000. That process will not be completed for another couple years, and if the CAP projections are realistic, this water may not be available for utilization in the near future. If subsequent discussions and analysis support that outcome then the District will need to determine whether it makes sense to pursue NIA water at this time. Staff will continue to gather information for the Board's future discussions.

Mr. Foulk asked how often CAP reviews the allocations and flows for projections. Mr. Tenney said analysis is performed monthly with shortage projections calculated annually in August. When anticipating shortages, the amount of water coming into and going out of Lake Mead is considered. The situation has been exasperated over the last decade by the drought and cuts were deeper than anyone anticipated. CAP staff is working on soliciting dialogue from other basin states and the Secretary of the Interior to address this problem so that a severe shortage is not on the back on Arizona, due to our junior priority status.

## **VI. Legal Counsel's Report**

Mr. Hinderaker said he had nothing to add to the earlier discussion.

**VII. Future Meeting Dates; Future Agenda Items.**

The next Board meeting will be held on Monday, June 9, 2014 at 6:00 p.m.

**VIII. General Comments from the Public.**

There were no comments from the public.

**IX. Adjournment.**

The meeting adjourned at 6:23 p.m.

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Judy Scrivener, Chair of the Board

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Warren Tenney, Clerk of the Board