

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

MONDAY, FEBRUARY 12, 2018

****BOARD CONFERENCE ROOM**
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
6265 N. LA CAÑADA DRIVE
TUCSON, ARIZONA 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
Sheila Bowen, Deputy General Manager / District Engineer
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility Superintendent
Theo Fedele, Clerk of the Board
John Hinderaker, 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 M. Offret, and Judy Scrivener were present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – January 8, 2018 Board Meeting**
- B. Ratification of Billing Adjustments**
- C. Ratification of Accounts Removed from Active Accounts Receivable**
- D. Amending the Schedule for Regular Board Meetings 2018**
- E. Approval of Water Service Agreement for Hardy 30 (M-16-010)**
- F. Ratification of Bill of Sale Montaretto Estates, Lots 1-95 (M-16-012)**

G. Ratification of Bill of Sale Hardy Preserve, Lots 1-55 (M-16-013)

H. Ratification of Bill of Sale Diablo Village Townhomes, Lots 1-53 (M-17-003)

Mr. Foulk asked how many lots were at Hardy 30 and Ms. Bowen stated there are 84 lots.

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 stated that last month the fiscal year-to-date consumption was up 8.5% and has since increased to 10.8%. The increased consumption revenue and power utilization as well as the higher temperatures and lower precipitation that the southwestern states has experienced over the last five months has served to verify this consumption increase. Other water providers in the Tucson region have also experienced similar consumption increases.

The warehouse at Metro Hub #2 well site dated back to before the District acquired the Hub service area and had become difficult to maintain as a storage area due to the age and condition of the facility. The warehouse has been safely demolished and removed by contracted professionals.

The valves at the Westward Look meter were replaced last month. These valves are important for annual accuracy tests performed on all meters 3-inch and larger and without which the service to the customer would be impacted during the test. Staff coordinated with Westward Look staff to schedule the valve replacements in an effort to minimize customer impacts.

The current 20 year storage permit at Avra Valley Recharge Project (AVRP) is about to expire. The majority of the required items are complete and the District's water resources consultant, along with water resources staff, are assembling and reviewing the final permit submittal materials with the goal to submit to Arizona Department of Water Resources (ADWR) by the end of February 2018.

Mr. Offret asked if the AVRP facility can and will be expanded in the near future. Wallace Wilson, Water Resources Manager, stated that the existing facilities will be expanded eventually as well as adding some upgrades to the facility. Mr. Olsen stated that Mr. Wilson and his team have done a great job analyzing the various AVRP upgrade opportunities and future items will be brought to the board for consideration and discussion.

B. Financial Report

Ms. Bracken stated that revenue and expenditures at mid-year are both favorable with revenue exceeding the budget by \$1,785,733 dollars and expenditures under budget by \$420,137 dollars

when compared to a straight-line projection. Revenue in excess of expenditures are favorable by \$2,205,870. The largest increase in revenue is from Metered Water Sales, which have exceeded a straight-line projection by \$1,315,209. Water Resource Utilization Fees are \$112,644 ahead of a straight-line projection and development revenue is \$104,281 ahead of the budget when compared to a straight-line projection. Other income has exceeded the adopted budget amount by \$67,584. Expenditures for power continued to be slightly high in December. Regulatory fees are higher than a straight-line comparison with the water credit transfer completed for the fiscal year from Metro Main to Metro Southwest and the inclusion of the Central Arizona Groundwater Replenishment District (CAGR) annual membership fees. Revenue through December is higher than the prior year by \$943,095 or 8.71%. Metered Water Sales are higher by \$639,316 and development revenue exceeded the prior year by \$165,140. The total operating expenditures are \$418,784 higher than they were at the end of December 2016. When comparing revenue in excess of operating expenditures to the prior fiscal year, the current year is favorable by \$524,311.

The October Arizona State Treasurer Pooled Collateral Program provided collateral coverage of \$8,516,679.65 in addition to the \$500,000 FDIC coverage.

A total of 29 meter applications were received in January compared to 9 meter applications received in January of the prior fiscal year. As of the end of January, 108 new meter applications have been received compared to 61 new meter applications received through January 31, 2017.

C. Mid-Year Financial Review for Fiscal Year 2018

Mr. Olsen stated that on January 22, 2018, the Finance Oversight Committee (FOC) reviewed the mid-year budget of the District's financial status. The key items from the FOC's discussion included the District's mid-year fiscal year-to-date consumption, which is up 8.5% over last fiscal year-to-date, and the water revenue is up 8.8%. Due to delays on the property acquisition for the La Cholla Regional Transportation Authority (RTA) project, the entire project will not be completed in the current fiscal year as anticipated and at least half of the \$1.2 million project will be carried over into the next fiscal year. The delay in this project frees up current fiscal year budget capacity and the additional water revenue can be used to accomplish other proactive investments in District infrastructure.

The Old Nogales mainline in the E&T service area has experienced over 15 breaks and outages in the last year. The solution is to replace the length of line prone to failure and to expend \$50,000 to begin survey and design efforts this year so the line replacement can occur in a future fiscal year, pending prioritization of other capital infrastructure needs. The replacement of this line is similar to the Casas Adobes lines replaced in Metro Main a couple years ago that were also prone to regular failure. The Metro Hub reservoir upgrade has also been discussed with the Board over the last couple of years. The storage needs in the Metro Hub service area are undersized and the plan is to replace the smaller of the two reservoirs on the Metro Hub storage site with a much larger

storage tank. Given the already limited storage needs in Metro Hub, the demolition and construction of the larger tank will need to occur during the lower demand period in late fall through winter, therefore, it is recommended to accomplish the approximately \$150,000 design efforts in this fiscal year.

The total recommended changes to the mid-year budget are \$200,000. While there is adequate budgetary capacity and fund balance to accomplish additional capital infrastructure and capital equipment items this fiscal year, an abundance of caution in the District's financial planning and any additional revenue at the end of the fiscal year is placed in fund balance to address future District needs.

Ms. Bracken stated that another change from the adopted budget is the Avilla Pima Canyon Project with an additional charge of \$225,000. Even with these changes, capital projects are still under the adopted budget for the current fiscal year.

Mr. Foulk moved to accept the recommendation of the Finance Oversight Committee to have staff proceed with the modifications to the Fiscal Year 2018 Adopted Budget as presented in the Mid-Year Financial Review. Mr. Offret seconded the motion. Motion passed unanimously.

D. Old Nogales Highway Mainline Replacement

Mr. Olsen stated that the existing line is prone to failure at the E&T service area along Old Nogales Highway. The replacement of the 2,700 linear feet will allow the line to be more resilient against breaks. The recommendation is to use the District's on-call consultant since they are familiar with the scope and size of this work. The actual design cost anticipated to be \$30,900 with an additional \$14,000, as needed, for potholing or other survey needs.

Mr. Offret moved to approve utilizing WestLand Resources, Inc., to perform professional engineering services related to the design of the Old Nogales Highway Mainline Replacement in the amount of \$30,900 for base design services plus \$14,000 for as-needed additional services via the Professional Services Agreement for Miscellaneous Design Services. Mr. Foulk seconded the motion. Motion passed unanimously.

E. Consultant Selection for Engineering Design Services for the Hub Reservoir Expansion

Mr. Olsen stated that due to the size of the design effort, the search for a consultant was advertised as opposed to utilizing the on-call professional services. Staff reviewed multiple statements of qualifications and recommended the design effort be awarded to Westland Resources Inc. based on the scoring matrix. The current emergency interconnect with Tucson Water in the Metro Hub service area flows directly into distribution and is of limited benefit in most cases. A new interconnect with Tucson Water would tie into the Metro Hub storage site and enable high water

storage reliability in the case of a production failure or electrical outage. The details of this additional interconnect are being coordinated with Tucson Water.

Mr. Foulk moved to authorize the General Manager to negotiate and enter into an acceptable design contract agreement with WestLand Resources, Inc., for design of the Hub Reservoir Expansion for an estimated amount of \$150,000 and if a satisfactory agreement cannot be negotiated the General Manager shall repeat the process with the next most qualified firm until an agreement is reached. Ms. Ireland seconded the motion. Motion passed unanimously.

Mr. Offret asked if 1.25 million gallons of storage is the amount needed for the area. Mr. Olsen stated that was correct based on a 2014 and 2015 assessment performed by the engineering staff that included many factors, anticipated growth, and ultimate storage needs.

F. Valencia Road Waterline Relocations: Reed Bunting Drive to Iberia Avenue (M-17-005)

Mr. Olsen stated that the District's water infrastructure relocation associated with the Valencia RTA project has been completed. The challenge with this project was that the infrastructure, per the as-built plans that dated back to before the District's acquisition of the Diablo Village Service area, did not match the actual underground infrastructure that was discovered. In one instance, a portion of 8-inch ductile to be installed was determined to actually be 12-inches in diameter. This change resulted in a cost increase of over \$15,000. Additionally, there were instances where the line was located upwards of 15-feet from the plans, which resulted in additional costs. While the goal is to pothole and expose all underground infrastructure prior to work, potholing costs average around \$800 each and there are traffic control considerations based on where the infrastructure is located.

These changes, along with various deductions to the contract based on negotiations with the County, equal roughly the \$10,000 the Board authorized the General Manager for unanticipated site conditions. While the goal is to complete the project under this threshold, staff recommends the Board authorize an additional \$10,000 for unanticipated items associated with this project to ensure expeditious completion in advance of the RTA roadwork.

Ms. Ireland moved to authorize the General Manager to approve allocating funding for an additional amount not to exceed \$10,000. Mr. Offret seconded the motion. Motion passed unanimously.

G. Northwest Recharge, Recovery, and Delivery System – Request for Approval to Proceed with Condemnation on Waterline Easement on Parcels 216-32-021F and 216-32-021G

Mr. Olsen stated that staff and the District's real property consultant have been working to acquire all the necessary easements associated with the Northwest Recharge, Recovery, and Delivery System (NWRDSD) project. In some instances, multiple efforts to contact the property owners have failed. When this occurs, communication is sent via certified mail with a requested response date to avoid condemnation proceedings. While this has been successful in making contact with some property owners, there are times when the only course of action for the District to take is to proceed with condemnation. The Board previously authorized condemnation proceedings on various parcels and this item is another condemnation request.

Multiple attempts to contact the property owner of parcels 216-32-021F and 216-32-021G were made, including certified mail that was received with a request to contact District staff by December 18, 2017. Since contact has not been received, staff will proceed with the condemnation request but is hopeful that a mutually agreeable resolution can still be achieved.

The Board has previously authorized condemnation actions on various properties. As a follow-up, on September 11, 2017, the Board authorized condemnation to commence on 216-32-025A and 216-23-028A. The next step is to send property owner a Notice of Eminent Domain Proceedings and then prepare a condemnation file and order litigation guarantee, which takes about 30 days. During this time, the property owner may attempt to negotiate a settlement with the District.

Ms. Ireland moved to authorize the General Manager to proceed with condemnation of a waterline easement on Parcels 216-32-021F and 216-32-021G as deemed necessary. Mr. Offret seconded the motion. Motion passed unanimously.

H. Legislative Issues 2018

Ms. Fedele stated that during the State Legislative Session, staff reviews and closely tracks proposed Senate and House Bills that might impact the District. House Bill 2190 adds drinking water treatment facilities in the definition of waterworks, allows a county improvement district to construct or improve waterworks, with monies borrowed from or financial assistance provided by the Water Infrastructure Finance Authority (WIFA), and permits the Board of Directors of the county improvement district to order maintenance of waterworks. This bill passed in the House 57-0 so it moves on to the Senate. House Bill 2207 was introduced to state that all public bodies shall provide for a complete audiovisual recording of all meetings except executive sessions. However, this is a striker bill. The Federalism, Property Rights, and Public Policy Committee voted to strike everything and the bill has since been amended to include only the Licensing Authorities meetings. Senate Concurrent Resolution 1031 states that the members of the Legislature support ongoing efforts to identify and develop policies to secure additional sources of water for the State of Arizona. This bill is currently in the Natural Resources, Energy, and Water Committee.

Mr. Olsen stated that Senate Bill 1507 and the companion House Bill 2512 are what has been referred to as the Water Amendment Omnibus bill. This bill combines many efforts discussed during the Governor's Working Groups that were formed to address statewide water policy. Unfortunately, in many cases, these bills go the opposite direction of what the panel of water policy experts recommended to the Governor after numerous meetings and over six months of dialogue. The Governor concurred with the recommendations of the working group of water policy experts and spent two months working with the State Legislature to address various statewide water policy concerns. The resulting bill surprised the water community across the state as a step in the wrong direction for the State.

Mr. Offret moved to authorize the General Manager to oppose SB1507 and HB2512 on behalf of the District as currently written and if these Bills are amended in a way that would create sound water policy for the District, Region, and State, then the General Manager shall withdraw the District's opposition and support SB1507 and HB2512. Mr. Foulk seconded the motion. Motion passed unanimously.

Mr. Offret asked if the Governor made any indications that he will veto these bills if they pass. Mr. Olsen stated that the Governor previously vetoed two items in 2016 that are included in these bills, however, the only feedback heard from the Governor's office has been negative toward the bills.

I. Appointment to the Finance Oversight Committee

Mr. Olsen stated that Finance Oversight Committee (FOC) recently had a resignation due to a Committee member moving out of the District. In an effort to ensure customer stakeholder dialogue and oversight, it is recommended that the Committee fill this vacancy. Scott Schladweiler, a District Resident, has volunteered to serve on the Committee. Mr. Schladweiler is the Deputy Water Director with the Town of Marana Water Department and has over 20 years of design, construction, and operational experience of water and wastewater systems. Prior to joining Marana, Mr. Schladweiler served in numerous capacities at Tucson Water as well as engineering consulting firms and possesses a Bachelor's and Master's in Civil Engineering. Mr. Schladweiler will be a valuable asset and staff recommends his appointment to the FOC.

Mr. Foulk move to appoint Scott Schladweiler to the Finance Oversight Committee. Ms. Ireland seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Olsen stated that there are a couple of upcoming professional development opportunities that the Board may wish to attend to enhance water related knowledge. The Water Resources Research Center (WRRC) will be hosting their annual conference titled the Business of Water on March 28, 2018 at the University of Arizona Student Union. The annual AZ Water Conference will be held

May 2-4, 2018 at the Phoenix Convention Center and is an excellent venue to earn up to 16.5 professional development hours throughout the many technical tracks offered.

The Governor's Water Augmentation Council (GWAC) recently met to discuss the recommended changes to recycled water and managed recharge projects. These include the ability to generate long-term storage credits from recycled water past the current statute end date of 2025 and to increase the amount of credits generated in managed recharge facilities from the present 50% to 100% if used in the same year of 95% if rolled into long-term storage credits. This is the same percent that Central Arizona Project (CAP) water is stored and credited in managed recharge facilities. The various water policy experts on the GWAC concurred last month and the Director of ADWR stated that these items will be taken to the Governor's office for consideration and hopeful inclusion in a future legislative package.

VI. Legal Counsel's Report

Mr. Hinderaker said he had no District information to report but stated he had been appointed by Governor Ducey to the Superior Court. Jeff Sklar will be taking over as the District's legal counsel.

VII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on March 12, 2018.

The FOC is scheduled to meet on Wednesday, March 14, 2018 at 4:00 p.m. to review rate adjustments and the requested 2019 budget. The Board is welcome but not required to attend.

On Monday, March 26, 2018 at 5:30 p.m., the Board of Directors will meet for a Study Session meeting to review the outcome of the FOC meeting.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 6:54 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board