

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

MONDAY, AUGUST 13, 2018

****BOARD CONFERENCE ROOM**
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
6265 N. LA CAÑADA DRIVE
TUCSON, ARIZONA 85704**

MINUTES

Board Members Present: Judy Scrivener, Chair
Jim Doyle, Member
Dan M. Offret, Member

Board Members Not Present: Bryan Foulk, Vice Chair
Helen Ireland, 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
Jeffrey L. 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 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 – July 9, 2018 Board Meeting**
- B. Ratification of Billing Adjustments**

Mr. Offret moved to approve the consent agenda. Mr. Doyle 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 the fiscal year-to-date consumption for Metro Main is approximately 17% lower than last fiscal year-to-date and Metro Hub is up 2% and Metro Southwest is down by 6% over the same period. While the 17% reduction in Metro Main is substantial, it is important to point out that there is often irregularities when comparing the first month of the fiscal year due to the limited data points and potential differences in meter read cycles. Significant demand variations between fiscal years have been seen when solely comparing July consumption numbers and the numbers will typically begin to align when August data is included. Also, the Fiscal Year 2019 budget was more closely aligned to the Fiscal Year 2017 consumption due to the fact that Fiscal Year 2018 demand was abnormally high and was not indicative of a demand trend.

Last month, the Utility Team coordinated the repair of two damaged variable frequency drives at the Herb Johnson reservoir that were still under extended warranty, performed repairs to telemetry components in the Hub service area caused by lightning strikes, and performed various emergency infrastructure repairs to the District's distribution system.

The Board was informed that the underground storage permit renewal application for the District's Avra Valley Recharge Project was deemed complete and correct by Arizona Department of Water Resources (ADWR). The public comment period closed on August 10, 2018 and no comments were received as of this afternoon. As such, a draft permit from ADWR can be expected shortly with a final permit potentially as early as September.

The preconstruction meeting for the La Cholla Regional Transportation Authority (RTA) project is scheduled for August 16, 2018 and the construction is expected to be complete by the end of January 2019.

On July 31, 2018, staff met with the Arizona State Land Department (ASLD) Commissioner and her staff regarding ASLD's proposed fee for the District to recover the District's stored Central Arizona Project (CAP) water from ASLD. ASLD had proposed a very high fee for each acre-foot of CAP water recovered. The hope is that this meeting, and subsequent discussions, will result in a fee that is appropriately cost of service based.

On August 7, 2018, the kickoff meeting for the Northwest Recharge, Recovery, and Delivery System (NWRDSD) Program Support Services was held with staff from Marana, Oro Valley, and the District, along with HDR Engineering, the project support consultant. The meeting clarified various provision in the intergovernmental agreement and aligned how the flow of communication will occur among the entities throughout the project.

Mr. Sklar stated that there are two condemnation actions currently pending. One condemnation action was filed a few weeks ago so the initial hearing date from the court has not been set yet. The other condemnation action is a little further along in negotiations with the property owner and a hearing scheduled in September on whether the District can take immediate possession of the property.

B. Financial Report

Ms. Bracken stated that the total revenue for Fiscal Year 2018 exceeded the adopted budget by \$2,644,608. Metered water revenue was \$1,542,564 higher than the adopted budget and \$778,780 higher than metered water revenue in the prior fiscal year. Operating expenditures were under budget by \$894,849 when compared to the budget. The fiscal year total revenue in excess of expenditures is favorable by \$3,539,457. Development revenue exceeded the adopted budget by \$382,854, water storage revenue was \$217,664 higher than budgeted, Water Resource Utilization Fees were over budget by \$129,178, interest income and gains were higher than budgeted by \$124,471, and other income exceeded the budget by \$190,547. All budgeted expenses were under budget except for power costs, which are \$6,628 higher than the adopted budget and this is directly related to the increased water delivered to District customers. Fiscal Year 2018 revenue was \$444,841 higher than the total revenue realized in Fiscal Year 2017. In addition to Meter Water Sales being 4.5% higher, development revenue is \$398,956 higher. Other revenue is \$918,457 lower in Fiscal Year 2018 when compared to Fiscal Year 2017. The District received \$924,000 from the Central Arizona Project Reliability Funds in 2017 which accounts for the difference when comparing year-to-year other revenue. The total operating expenditures are \$515,214 higher than they were at the end of the prior fiscal year. When comparing the revenue in excess of operating expenditures to the prior fiscal year, Fiscal Year 2018 is \$70,373 lower.

The Arizona State Treasurer Pooled Collateral Program provided collateralization coverage of \$6,923,295.33 in addition to the \$500,000 FDIC coverage.

Forty-three new meter applications were received in July compared to seven meter applications received in July 2017. The adopted budget for Fiscal Year 2019 includes an estimation of 196 new meter applications with 76 in Metro Southwest and 120 in Metro Main and Metro Hub.

On July 2, 2018, the District recovered an additional \$1,970.62 from the Local Government Investment Pooled losses from Lehman Brothers Holdings Inc. who filed Chapter 11 in 2008. The District has now recovered a total of \$30,022.20 from the original loss of \$75,351.62.

On August 14, 2018, Fitch Ratings will be reviewing the District's senior bond ratings related to the 2009 and 2011 outstanding bonds. The District currently has a rating of AA- on these

outstanding bonds. Previously, Fitch rated the 2002 subordinate bonds; however, with the June 28, 2018 defeasance of these bonds, this rating will not be included this year.

C. Discussion and Possible Cancellation of the November Election for Board Members

Mr. Olsen stated that on May 14, 2018, the Board approved Resolution 2018-2 to call an election for three Board Member positions that would reach the end of their term in December 2018. The petitions were due to Pima County Elections on August 8, 2018. Three petition packets were filed with the Pima County Elections Department by Judy Scrivener, Jim Doyle, and Richard Sarti for the three available Board positions. It is recommended that the Board request the Pima County Board of Supervisors cancel the election and appoint the three individuals who filed to serve on the Board. This will also save the District approximately \$25,000 that was budgeted for various elections costs.

Mr. Offret moved move to approve requesting that the Pima County Board of Supervisors cancel the November 2018 election for three District Board Members and appoint the three candidates who filed to serve on the District's Board, pursuant to A.R.S. § 48-1012(E), and to authorize the District General Manager to send a letter to the Pima County Board of Supervisors conveying the Board's request. Mr. Doyle seconded the motion. Motion passed unanimously.

D. Approval of the Groundwater Savings Storage Agreements with BKW Farms, Herb Kai, and Cortaro Water Users Association

Mr. Olsen stated that the utilization of groundwater saving facilities (GSF) are a critical water resource management strategy for the District where a portion of the District's CAP allocation is delivered to farmlands near the CAP canal in-lieu of the farms pumping ground water. The District also receives equal water credits in return along with a GSF rebate of \$12 per acre-foot (AF). Each year, these mutually beneficial relationships provide additional financial resources enabling the District to purchase approximately 600 AF of additional CAP water. In 2019, the District is planning on storing 7,000 AF at Cortaro-Marana Irrigation District (CMID), up to 2,700 AF at BKW Farms, and up to 2,000 AF at Kai Farms. This will generate up to \$140,000 in revenue for the District in GSF storage rebates and save an additional \$175,000 than if this water was otherwise stored in constructed recharge projects.

Mr. Offret moved to approve the Agreement between the District and BKW Farms, Inc. for "In-Lieu Water Deliveries and Storage" for 2019 through 2023 storage. Mr. Doyle seconded the motion. Motion passed unanimously.

Mr. Offret moved to approve the Agreement between the District and Cortaro Water Users' Association for "In-Lieu Water Deliveries and Storage" subject to approval by Cortaro's Board for 2019 through 2023 storage. Mr. Doyle seconded the motion. Motion passed unanimously.

Mr. Offret moved to approve the Agreement between the District and the Herb Kai for "In-Lieu Water Deliveries and Storage" for 2019 through 2023 storage. Mr. Doyle seconded the motion. Motion passed unanimously.

E. Approval of the Professional Hydrogeological Services for Metro Main Well Siting Study

Mr. Olsen stated that production wells in the western United States have a typical life span of 45 years. The age of the average well in the Metro Main service area is 40 years old. Additionally, only 5 of the 26 wells in Metro Main have been drilled since the formation of the District over 25 years ago. As these production wells are a critical infrastructure component to ensure the ability to meet the water demands of District residents, it is recommended to strategically plan the necessary well replacement activities. One of the first steps to accomplish this planning is to determine areas that are hydrologically suitable to drill replacement production wells. It is recommended that the Board approve a well siting study with the District's water resource consultant, Clear Creek Associates, to perform this initial planning activity. Funds to accomplish this well siting study were approved in the Fiscal Year 2019 approved budget.

Mr. Offret moved to approve using Clear Creek Associates, under the Professional Services Agreement for Miscellaneous Water Resources Consulting Services, to perform the Metro Main Well Siting Study for the not-to-exceed amount of \$65,000. Mr. Doyle seconded the motion. Motion passed unanimously.

F. Presentation on the District's Water Treatment Systems (continued from the meeting of July 9, 2018)

Mr. Olsen stated that each year the Board is asked to approve various water treatment media quotes for the District's South Shannon Treatment system and the multiple Arsenic treatment systems throughout the District. Mr. Shepard provided a presentation that explained the District's water treatment systems and how the District operates them to ensure delivery of safe, reliable water to our customers.

Ms. Scrivener asked how often water quality tests are completed at the various water treatment facilities. Mr. Shepard stated that tests are conducted weekly.

Mr. Offret asked, during the regeneration process, how long the vessel may be offline. Mr. Shepard stated that during a recent regeneration process that the vessel was offline for about three weeks though the sites are configured with more than one treatment vessel to prevent impacts to customer deliveries.

Mr. Doyle asked where the water goes during the backwash process. Mr. Shepard stated that there are two options. The District has a permit with Pima County so the backwash water can be sent to the sewer or to utilize the Arizona De Minimis permit to drain to the wash.

Mr. Offret asked if the granulated activated carbon media that is sent back is hazardous. Mr. Shepard stated that the material itself is not hazardous. It is returned to the vendor who will run the media through a furnace process which will burn off the constituents so the carbon can be reused somewhere else.

V. General Manager's Report

Mr. Olsen stated that last month the Board was informed that Mr. Olsen was appointed to serve on the Stakeholder's Committee for the Drought Contingency Plan (DCP) with Wally Wilson serving as the District's alternate. The purpose of this stakeholder committee is to vet four essential elements for the implementation of the Lower Basin DCP. The DCP would not avoid a Tier 1 shortage declaration, but is intended to avoid catastrophic Lake Mead levels that would place Arizona in uncharted territory with regards to Arizona's junior priority Colorado River rights. Two Committee meetings have been held with seven scheduled through the end of November. The first element that is being discussed is how to mitigate the substantial cuts to the CAP agricultural pool as under the DCP, this pool is eliminated in a first tier shortage. The other three elements include Tribal Intentionally Created Surplus, Arizona's Conservation Plan, and an Excess Water Policy. The goal is to have solutions for these four items, along with proposed legislation, by the end of the year for consideration by the State Legislature at the start of next year's session.

The Southern Arizona Water User's Association (SAWUA) represents 15 water users throughout the Tucson region that include municipal water and wastewater utilities, private water companies, and agricultural water users and Mr. Olsen presently serves as the President of this collaborative water association. Each year SAWUA hosts a legislative forum to discuss key water issues relevant to Southern Arizona. This year's forum will be held on October 5, 2018, at the Hotel Tucson City Center and will include presentations from the Tom Buschatzke, Director of ADWR, and Ted Cooke, General Manager of the Central Arizona Water Conservation District (CAWCD), on the current progress of the DCP, along with a legislative perspective of water issues from State Senator Griffin and State Representative Bowers. Hopefully, the Board Members are able to attend and gain additional insight into water issues facing the Tucson region and the State.

VI. Legal Counsel's Report

Mr. Sklar said he had nothing to report.

VII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on September 10, 2018. The Finance Oversight Committee will meet on October 15, 2018. The Board is welcome but not required to attend this meeting.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 6:49 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board