

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

MONDAY, JANUARY 14, 2019

****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
Dan M. Offret, Member
Richard Sarti, 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, Dan M. Offret, Richard Sarti, and Judy Scrivener were present.

II. Election of Chair and Vice-Chair for the Board of Directors

Mr. Foulk moved for Judy Scrivener to continue as Chair through 2019. Mr. Doyle seconded the motion. Motion passed unanimously.

Mr. Offret moved for Bryan Foulk to continue as Vice Chair through 2019. Mr. Doyle seconded the motion. Motion passed unanimously.

III. General Comments from the Public

There were no comments by the public.

IV. Consent Agenda

- A. Approval of Minutes – December 10, 2018 Board Meeting**
- B. Ratification of Billing Adjustments**
- C. Ratification of Accounts Removed from Active Accounts Receivable**
- D. Approval of Water Service Agreement for Paseo at Linda Vista, Lots 65-94 (Phase 1) (M-18-015)**
- E. Approval of Water Service Agreement for Thornydale Preserve, Lots 1-52 (M-18-018)**

Mr. Offret moved to approve the consent agenda. Mr. Foulk seconded the motion. Motion passed unanimously.

V. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District

Mr. Olsen stated that fiscal year-to-date combined consumption for all service areas is approximately 9% lower when compared to the same period last year. When compared to Fiscal Year 2017, the current fiscal year-to-date consumption is 1.4% lower. As discussed at previous Board meetings, to ensure conservative budget planning, the current fiscal year budget was based on Fiscal Year 2017 consumption and not the higher Fiscal Year 2018 demand.

All of the Central Arizona Project (CAP) water scheduled to be delivered for calendar year 2018 was stored and the 640 acre-feet (AF) of CAP water that was over delivered was purchased by Tucson Water.

The waterline relocations associated with the La Cholla Regional Transportation Authority (RTA) project are approximately 75% complete and the project is anticipated to be completed in early February.

The Hub reservoir expansion project is ongoing with the old tank demolished and the foundation for the new and larger tank completed. The reservoir tank is now being fabricated with the tank expected to be in service early April prior to the higher summer demand period.

The Old Nogales mainline replacement bids were received and are being reviewed by staff to determine the most applicable execution strategy given that funding for the three phases associated with this project is spread throughout three fiscal years.

The completed and fully executed amendment documents from the Arizona State Land Department were received, which will enable the District to drill the up to three planned recovery wells and recovery pipelines associated with the Northwest Recharge, Recovery, and Delivery System (NWRDSD).

Mr. Sklar provided an update on the following condemnation activities:

- APN 216-31-037D and APN 216-31-0380 – Judgment was entered for both, which means all the legal issues have been resolved and the property owners will then get their money. The court then enters a final order of condemnation, which should be completed by the next meeting and those will be completely done.
- APN 216-32-025A and 216-32-028A – the District has acquired possession of the parcels and recorded the documents that provides possession. The next step is to determine the amount of compensation, which may be litigated over the coming months

Starting at this Board meeting we will begin having Steve Shepard, the District's Utility Superintendent, share a perspective on the current activities, accomplishments, and/or challenges that our highly skilled Utility team performs to ensure continued operation of the District's complex water infrastructure.

Mr. Shepard stated that last month the Board was briefed on the process of evaluating the casing thickness at three wells to get a handle on how thick the casing material is throughout the depth of the well. After evaluating that report as well as the videos, staff is pursuing putting a liner in the Deconcini well since the well plays a critical role in the blending operation for South Shannon and 1,4-Dioxane blending. The liner should provide many additional years to the well's operation. After the permits are received from Arizona Department of Water Resources (ADWR), Smyth, the District's well maintenance contractor, will be starting the installation of the well liner. Staff has also been working on the logistics to repair the waterline leak under Oracle Road. The line is currently shut down so no road damage will occur. Staff is looking at the option of using a liner to slip through the existing waterline instead of an opening cut, which would reduce traffic impacts and enhance the structural integrity of the existing waterline.

Mr. Foulk asked where the water line repair was located along Oracle Road. Mr. Shepard stated it is Oracle Road and Casas Adobes. Mr. Offret asked if staff decides to go with a liner, how many feet of pipe is needed to ensure everything is covered. Mr. Shepard recommended doing it across all six lanes on Oracle Road this way if there is a crack in the future, no additional cuts are needed. The logistic and costs of both options will be evaluated. Ms. Scrivener asked what the size of the line is. Mr. Shepard stated it is 6" line.

B. Financial Report

Ms. Bracken stated that revenue and expenditures through November are both favorable when compared to a straight-line projection with revenue \$810,851 over budget and expenditures \$627,906 under budget resulting in a favorable revenue in excess of expenditures total of \$1,438,757. When comparing revenue to the prior fiscal years, revenue through November is \$228,802 lower than it was in November 2017 and \$300,053 higher than it was in November 2016, which was the foundation for the current year budget. The November water revenue is \$292,694 or 3.62% lower than the prior fiscal year. When comparing the budgeted revenue to a historic average collection rate, water revenue is 1.95% lower at this point in the fiscal year. The total operating costs through November are \$47,236 higher than they were in November 2017. When comparing revenue in excess of operating expenditures the current year is \$276,038 lower. When comparing the combined cash accounts the balance is lower than the prior year balance with \$9.5 million dollars moved to investments when certificate of deposits were purchased.

Wells Fargo provided collateralization coverage of \$3,344,642.71 in addition to the \$250,000 FDIC coverage.

The American Express Corporate Accounts Payable Solution card was used to purchase \$724.78 in December with a credit posted for \$1,087.56 bringing the inception-to-date District savings to \$29,349.98.

The Capital One MasterCards were used to purchase \$91,748.62 on the December statement with up to 1.25% cash back earnings. The cash back amount received from the prior month transaction was \$14.48 or 1.12%.

Fifty-six new meter applications were received in December with 20 new meter applications received in December of the prior year. Thirty-nine new meter applications were for the Metro Main and Hub service areas and 17 new meter applications were in the Metro Southwest service areas. As of December 31, 2018, 172 new meter applications have been received compared to 79 new meter application at this point in the prior fiscal year.

On January 3, 2019, the bond defeasance of the 2011 Senior Water Revenue Bonds was completed, satisfying all legal ties to this bond debt. Since the bonds are non-callable, the funds for the remainder of the bond life cycle will be held in an escrow account with U.S. Bank acting as the Escrow Trustee. Funds have been invested in State and Local Government Securities with earning rates up to 2.66%. This bond defeasance will help to improve the District's debt service coverage ratio by eliminating debt from District books. The cost of principal, interest, and fees associated with defeasing these bonds totaled \$1,561,174. If all normal payment had been made, the total

principal, interest, and fees would have been \$1,619,180 over the next two years resulting in a \$58,006 interest and fee savings. In addition, satisfying this debt removed restrictions on debt reserve accounts tied to this bond totaling \$1,384,287.

The additional debt in the current fiscal year will increase by a net amount of \$118,881 while eliminating two additional years of principal, interest, and fee payments.

C. Appointment to the Finance Oversight Committee

Mr. Olsen stated that the Finance Oversight Committee (FOC) has historically consisted of seven District residents who advise staff and make recommendations to the Board on financially related matters. The current FOC is comprised of six members. Christopher (Kip) Volpe, a District resident, has volunteered to serve on the committee. Mr. Volpe currently oversees the operations of Vail Water Company, possesses a Bachelor's degree in accounting, is a Certified Public Accountant, and has served on numerous boards and commissions in a financial oversight capacity. Additionally, I have the pleasure of serving with Mr. Volpe on Arizona's Lower Basin Drought Contingency Plan Steering Committee. Mr. Volpe's combination of highly relevant education, certifications, water leadership, and operational experience, along with his financial and water policy expertise make him an excellent addition to the FOC and recommend the Board appoint him to fill the current vacancy.

Mr. Offret moved to appoint Christopher (Kip) Volpe to the Finance Oversight Committee. Mr. Sarti seconded the motion. Motion passed unanimously.

D. Amendment of District Legal Boundary to include Paseo at Linda Vista (Phase 2), Parcels 225-02-001B and 225-02-002E

Mr. Olsen stated that the District has six service areas with three of them, Metro Main, Metro Hub, and Metro West formally annexed into the District. The Diablo Village, E&T, and Lazy B service areas that are part of Metro Southwest were not annexed into the District when Metro Southwest was purchased in 2010. A request was received from the developer of Paseo at Linda Vista located at the southwest corner of Shannon Road and Linda Vista Boulevard. The proposed development is located adjacent to Metro Main on three sides. The property owner has requested that the District's legal boundary be amended to include these parcels to facilitate water service. The City of Tucson has issued a will not service letter as this property is outside of their obligated service area. While this property is directly adjacent to Metro Main, this amendment to the District's legal boundary, and subsequent development, further benefits the District by supporting long-term goals for interconnection of the District's water system on the northwest side of Metro Main.

Mr. Foulk moved to adopt Resolution 2019-1 to amend the District's legal boundary to include the Paseo at Linda Vista (Phase 2) development. Mr. Sarti seconded the motion. Motion passed unanimously.

E. Approval of Water Service Agreement for Paseo at Linda Vista, Lots 1-64, Phase 2 (M-18-016)

Mr. Olsen stated that water service agreements are normally placed on consent agenda. This item was pulled from the consent agenda given the water service agreement was contingent on the Board approving the amendment of the District's legal boundary to include the property/development. Approval of the associated water service agreement is recommended.

Mr. Foulk moved to approve the water service agreement for Paseo at Linda Vista, Lots 1-64 (Phase 2). Mr. Offret seconded the motion. Motion passed unanimously.

F. Amendment of the District's Legal Boundary to include Saguaro Station, Lots 1-28, Parcel 120-20-004F

Mr. Olsen stated that the developer for Saguaro Station, located west of Oracle Road on Lavery Lane, has requested water service from the District. This proposed 28 lot development is directly adjacent to Metro Main on two sides and the City of Tucson issued a will not serve letter as this property is located outside their obligated service area. To facilitate water service, the developer has requested the District's legal boundary be amended to include this parcel. Beyond the development's adjacency to the District's service area, the including this property in the District's legal boundary will also enhance interconnection of the District's water system.

Mr. Offret asked if the property is commercially zoned. Mr. Shepard stated that it is commercially zoned.

Mr. Foulk moved to adopt Resolution 2019-2 to amend the District's legal boundary to include the Saguaro Station, Lots 1-28 development. Mr. Sarti seconded the motion. Motion passed unanimously.

G. Approval of Water Service Agreement for Saguaro Station, Lots 1-28 (M-18-022)

Mr. Offret moved to approve the water service agreement for Saguaro Station, Lots 1-28. Mr. Foulk seconded the motion. Motion passed unanimously.

H. Approval of the Arizona Water and Wastewater Agency Response Network Mutual Aid Agreement

Mr. Olsen stated that the Board is asked to consider approval of a mutual aid agreement under the Arizona Water and Wastewater Agency Response Network (AZWARN). Mr. Shepard is the Chair of the AZWARN committee and will show a video that explains WARNs, as well as provide some additional perspective and address any questions the Board may have.

Mr. Shepard stated that the WARN program began in response to numerous events and has been used numerous times across the country in response to large scale emergencies such as hurricanes and earthquakes as well as for the minor emergencies. During any emergencies that occur, the agreement provides ability to utilize the resources, knowledge, and abilities of other utilities. The agreement is a mutual aid agreement versus the intergovernmental agreement used previously and includes all the same requirements, reimbursements, and is effective through 2030.

Mr. Offret moved to approve the AZWARN Mutual Aid Agreement. Mr. Foulk seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Olsen stated that at the CRWUA Conference, the Bureau of Reclamation (BOR) Commissioner Burman directed the Colorado Basin states to complete their respective drought contingency plan (DCP) discussions and associated legislation by January 31, 2019 with an uncertain water future for states not meeting that goal. On January 8, 2019, I attended the last scheduled meeting of the Arizona DCP Steering Committee which was focused on various compromises that were achieved, or still being worked, to bring a cohesive package for the State Legislature to consider in time for the January 31, 2019 deadline. The elements of Arizona's DCP proposal are: two water resource related agreements with the Gila River Indian Community (GRIC) and the Colorado River Indian Tribe (CRIT) to acquire water that would be used to mitigate agricultural users in Pinal County impacted by a shortage and to ensure water for the Central Arizona Groundwater Replenishment District (CAGR), the latter has been adamantly requested by homebuilders. These deals come with a price tag of \$98 million with funding of \$60 million already approved by the CAP Board and would ultimately be paid by those in the CAP service area, \$30 million from Governor Ducey's proposed budget, and the remaining \$8 million from non-governmental entities, such as the Walton Family Foundation. Additionally, the plan calls for reduction of CAP deliveries to Pinal County agriculture that would be offset by new groundwater recovery wells. The cost for these wells is presently estimated at \$50 million with proposed funding of \$5 million from the Governor's budget, \$5 million from CAP, a portion to be determined from groundwater recovery fees in Pinal County, the benefiting agriculture parties,

along with a potential federal funds match. Tucson Water also proposed a compromise agreement that would see them deliver up to 70,000 AF of their CAP allocation to Pinal Agriculture Groundwater Savings Facilities (GSF) in return for not paying the energy cost associated with delivery, equal transfer to Tucson Water of stored water bank credits in the Tucson Active Management Area (TAMA), and that three legislative changes associated with recycled water be accomplished. The legislative changes include: eliminating the 2025 sunset for the accrual of recycled water credits, treating effluent delivered to managed recharge projects (i.e. the Santa Cruz River) the same as CAP water, thereby eliminated the present 50% cut to the aquifer, and allowing recycled water to count toward a water provider's designation of assured water supply. This proposal was greeted very positively by the committee and the recycled water legislative changes are among Southern Arizona Water Users Association (SAWUA) top legislative priorities for 2019. Furthermore, the recycled water changes were one of the 2019 specific performance objectives that the Board directed me to support in any way possible. Speaker Bowers stated that the legislation should begin to be drafted while these two items are worked. Furthermore, he stated that January 31, 2019 deadline may not be reached, given that only 2.5 weeks remain.

Early registration is now open for the AZWater association annual conference. The conference will be held April 16th – 18th at the Phoenix Convention Center and will offer over 200 technical presentations and panel discussion with an opportunity for attendees to earn up to 19 professional development hours. Should any of the Board wish to attend to enhance their water related knowledge, please let Ms. Fedele or me know.

VI. Legal Counsel's Report

Mr. Sklar stated that he had nothing to report.

VII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on February 11, 2019 at 5:30 p.m. with an Executive Session to discuss the details of a potential water resource agreement that could support the drought contingency plan.

The FOC meeting is scheduled for January 22, 2019 at 4:00. The Board is always welcome but not required to attend.

Traditionally, a photograph is taken of all of the Board members when a new member is added. A photographer is scheduled for April 8, 2019 at 5:30 prior to the Board meeting to take that picture. If you find you will be unable to attend that meeting please let me know so we can reschedule.

The 2019 regular session of the Arizona State Legislature began today. They are also looking at holding a special session for DCP specifically. The Board will be provided with regular updates regarding all items that could impact the District.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 6:51 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board