

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

MONDAY, FEBRUARY 11, 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

Executive Session

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 5:30 p.m. Jim Doyle, Bryan Foulk, Dan M. Offret, Richard Sarti, and Judy Scrivener were present.

- I. Consideration of Action to go into Executive Session for the following purpose:
Pursuant to §38-431.03.A.4, to discuss the details of a potential water resources agreement with Central Arizona Project (CAP) that could support the drought contingency plan.**

Mr. Foulk made a motion to adjourn into Executive Session. Mr. Offret seconded the motion. Motion passed unanimously. The Board adjourned into Executive Session at 5:31 p.m. The Executive Session concluded at 5:53 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 6:01 p.m. Judy Scrivener Jim Doyle, Bryan Foulk, Dan M. Offret, Richard Sarti, and were present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – January 14, 2019 Board Meeting**
- B. Ratification of Billing Adjustments**

Mr. Offret moved 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 fiscal year-to-date combined consumption for all service areas is approximately 10% lower when compared to the same period last year. When compared to Fiscal Year 2017, the current fiscal year-to-date consumption is 2.5% 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.

Last month, the deliveries to the Avra Valley Recharge Project (AVRP) began for the planned City of Phoenix Inter-AMA storage water. On February 5, 2019, the renewed underground storage facility and water storage permits for AVRP were received. This renewal effort ensures permit capacity of 11,000 acre-feet (AF) at the District's storage facility. The District's operational recharge capacity at the facility is limited to approximately 8,000 AF. Design work is planned in Fiscal Year 2019 for the facility improvements with a goal of construction in Fiscal Year 2020 to operationally reach the 11,000 AF permit capacity.

Mr. Shepard stated that staff is continuing to look into solutions regarding the Oracle Road waterline leak and the Arizona Department of Transportation (ADOT) is planning a surface treatment maintenance of Oracle Road. At the Deconcini wellsite, the 10-inch liner was placed in the well and staff is working on the gravel pack and the sanitary seals. The well is anticipated to be back online in a few weeks away. In January, there was a main break at Giaconda and staff was tasked with repairing the same water main three times in one day. The challenge may or may not have been related to another utility crossing underneath. Staff did a great job sticking with it all day and the customers in the area, who were out of water most of the day, were very understanding. The third modification of the three 10,000 gallon tanks at E&T 22 is receiving some modifications including safety rails on top, conduit, outlet flanges as well as installing a manway. After the modifications are complete the painting contractor will be doing the painting. Next week staff will complete the maintenance on the generators and the testing of the large meters. The reservoir dive inspection on the District's two 5 million gallon reservoirs has been completed and the final reports and videos are being generated. Everything looks good so far.

Ms. Bowen stated that the Regional Transportation (RTA) La Cholla waterline relocation project is expected to reach substantial completion in the next few weeks and final completion around February 18, 2019 plus or minus a few rain days. About half of the system has been tied in of the 7,700 linear feet of 6-inch, 8-inch, and 12-inch pipeline that was relocated as part of the project. For the Northwest Recharge, Recovery, and Delivery System (NWRDRS), there are four easements still outstanding with regards to condemnation. The acquisition of two additional well sites from the Town of Marana is anticipated for the Marana's March 5, 2019 Council meeting. The NWRDRS project is divided into six packages based on delivery and complexities. Three of the packages are associated with the recovery well and the other three are associated with the pipelines and the forebay. Several technical tasks including the bridge to the Santa Cruz crossing project have been completed. The geotechnical and corrosion are being reviewed to ensure the protection of the facility. The exploratory well package is expected to move forward in March. The property from the airport has been acquired so the wellsites can be accessed. Staff has met with Marana on water construction, access, and issues with the airport. The right-of-way consultants are preparing the record of surveys so all the state land easements and private property easements will have the documents to move forward. The partner meeting is scheduled for February 14, 2019 and a technical meeting is on February 19, 2019. At the Hub reservoir, the 150,000 tank was demolished and the 800,000 tank is being built. The painting crew is preparing to paint the new tank. The developer funded project of the Diablo Village tank addition is moving forward. The tank will be 182,000 gallons of storage to support 334 lots in a new development. Once completed, that site will have just under 400,000 gallons of storage. The contractor anticipates completion by the end of March.

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

- APN 216-31-037D – the property owner has picked up the money and the next step is awaiting the court to enter the final order of condemnation which is the document that gets recorded and gives the District possession of the easement.
- APN 216-31-0380 – is waiting on the property owners to pick up the money and then the request can be submitted for the court to enter the final order of condemnation.
- APN 216-32-025A and 216-32-028A – is currently in litigation and the property owner has answered the condemnation. The issue in the dispute will be the amount of the compensation for the easement.

Mr. Foulk asked what happens if the property owner in case APN 216-31-0380 does not pick up the money. Mr. Sklar stated that the court order requires the money to be turned over after a set amount of days. While this is not a common occurrence, the lawyers of the property owner's lawyers can be contacted to urge the collection of the money. If the money is still not picked up, the court can be asked to issue an order that will move things along.

B. Financial Report

Ms. Bracken stated that revenue and expenditures through December are both favorable when compared to a straight-line projection with revenue \$779,385 over budget and expenditures \$772,541 under budget resulting in a favorable revenue in excess of expenditures total of \$1,551,926. When comparing revenue to the prior fiscal year, revenue through December is \$234,442 lower than it was in December 2017. The December water revenue is \$399,599 or 4.18% lower than the prior fiscal year. When comparing the budgeted revenue to a historic average collection rate, water revenue is 1.38% lower at this point in the fiscal year. The total operating costs through December are \$137,194 higher than they were in December 2017. The revenue in excess of expenditures is \$97,248 lower this fiscal year. The balance of the January combined cash accounts is \$6,552,579.54 lower than the prior fiscal year balance at the end of January with \$9.5 million moved to investments. The investment balance as of the end of January is \$10,025,862.75 higher than the balance in the prior fiscal year.

Wells Fargo provided \$5,330,086.30 of collateralization coverage in addition to the FDIC coverage of \$250,000.

The Capital One MasterCards were used to purchase \$43,283.56 on the January statement with up to 1.25% cash back earnings. The cash back amount received from transactions processed in the prior month was \$942.95 or 1.03% with a year-to-date cash back total of \$2,109.09.

Seventeen new meter applications were received in January compared to 29 new meter application received in January of the prior year. In January, eleven new meter applications were for the Metro

Main and Hub service areas and six new meter applications were for the Metro Southwest service areas. As of January 31, 2019, 189 new meter applications have been received compared to 108 new meter application at this point in the prior fiscal year.

C. Mid-Year Financial Review for Fiscal Year 2019

Ms. Bracken stated that on January 22, 2019, the Finance Oversight Committee (FOC) reviewed the status of the District's revenue, expenses, and capital improvement program with half of the fiscal year completed. Metered water revenue was calculated during Fiscal Year 2018 based upon the water consumption of customers during Fiscal Year 2017. As of the end of December, metered water revenue was \$296,018 higher than water revenue collected as of December 31, 2017 with part of this increase attributed to the rate changes effective July 1, 2018. The Pima County sewer billing services will exceed the budgeted revenue by about \$23,000. These service fees increased from \$1.34 to \$1.42 per month per account for sewer invoicing. Interest income is projected to increase \$120,000 this fiscal year with the purchase of certificates of deposit (CD), as discussed in previous meetings. Based upon data so far this fiscal year, revenue is projected to be about \$141,761 over budget.

Expenses are planned to be near the budgeted amount by the end of the fiscal year with various increases and decreases in spending. Some of the larger variations include:

- Additional staff time working on capital projects.
- Increased Workers' Compensation costs.
- Cost estimates for Herb Johnson and the investigation of a potential land purchase at Herb Johnson resulting in a delay in spending the \$20,000 planned for a geographic information system (GIS).
- Payroll Services cost less with the new payroll system.
- Electronic formats for the consumer confidence reports and newsletters have reducing public relation expenses.
- Budgeted Election funding will not be spent.
- Survey Services are planned to be over budget with the Diablo Village Estates Survey.
- Waiver for the Synthetic Organic Chemicals (SOC) was received reducing the need for additional Water Quality testing services.
- Supplies for mainline repairs are anticipated to be over budget with asphalt repairs on Mona Lisa, Oak Shadows, and Oracle Road.

Capital projects are planned to be very close to the budgeted amount by the end of the fiscal year. Two deferrals into the next fiscal year budget include the Regional Transportation Authority (RTA) La Cholla Boulevard Overton to Lambert waterline relocation project costs for \$165,000

plus an additional \$30,000 to complete the project, and the La Canada CDO Bridge Pipe Joint Replacement project for \$25,000 plus additional funding to complete the project.

Pima County's removals and adjustments for the Valencia Road RTA project completed in Fiscal Year 2018 were not budgeted this fiscal year and this work may not be completed until Fiscal Year 2020 at a cost of \$60,000. Additional State Land easements were purchased at a cost of \$74,400 and there were \$5,310 of unreimbursed costs related to Hacienda Sisters improvements. The RTA La Cholla Boulevard project is planned to be about \$400,000 under budget and the Hub Storage Site Expansion is planned to be about \$335,000 over budget. Based upon the increases and decreases, the FOC unanimously recommended staff proceed with the budget as presented with no additional changes recommended.

Mr. Olsen stated that sometimes a project like La Cholla Boulevard is significantly under budget and sometimes a project like the Hub Storage Site Expansion are over budget. With the Hub Storage Site Expansion at \$335,000 over budget, a large portion of which was utilized to ensure an emergency interconnect with Tucson Water for continuity of service when that tank is down has offset the budgetary savings from the La Cholla Project. As such, no mid-year budget changes are recommended for the Board to consider.

Mr. Foulk moved to accept the recommendation of the Finance Oversight Committee to have staff proceed with the Fiscal Year 2019 Adopted Budget as presented in the Mid-Year Financial Review. Mr. Offret seconded the motion. Motion passed unanimously.

D. Legislative Update 2019

Ms. Fedele stated that with the Arizona State Legislature in session, staff will monitor and update the Board on proposed legislation related to water, special districts, and other topics that could have an impact on the District. The following bills were presented for the Board's situational awareness and no action was recommended at this time. For the purpose of the groundwater code, House Bill 2225 would modify the definition of "exempt wells" to a well having a pump with a maximum capacity of not more than 20 gallons per minute, which is currently 35 gallons per minute. House Bill 2396 states that a person who withdraws groundwater from any nonexempt well, instead of only those in active management areas, is required to use a water measuring device approved by the Department of Water Resources. House Bill 2397 states that County boards of supervisors shall, which currently states may, adopt regulations requiring all subdivisions to either have a determination of an adequate water supply from the Department of Water Resources or obtain a written commitment of water service for the subdivision from a municipal or private water company designated as having an adequate water supply by the Department of Water Resources. This bill is currently assigned to the Natural Resources, Energy & Water; Government; and Rules

Committees. House Bill 2449 would add a section for a county that is not in an Active Management Area where the county's boards of supervisors is required to review the provision for adequate water supply for a subdivision and after review may by unanimous vote at a public meeting vote not to readopt the provision. This bill is currently assigned to the Natural Resources, Energy & Water and Rules Committees.

The Board will be apprised should any additional bills be brought forward this session that could impact the District.

E. Award of the Cooperative Purchasing Agreement Contract for Corrosion Monitoring of Transmission Mains for 2019

Mr. Olsen stated that part of the District's water infrastructure includes large diameter transmission mains, many of which have cathodic protection systems to prevent corrosion and premature failure of the water main. These cathodic protection systems require regular testing and as needed repairs to ensure proper function. The current fiscal year budget includes \$16,000 for testing and repairs of these systems. While there are always more requirements than available financial resources, the \$16,000 will be prioritized to address the most critical corrosion monitoring needs. The Board is recommended to authorize use of the City of Tucson Cooperative purchasing agreement to award the corrosion monitoring contract to Peak Corrosion Control Inc.

Mr. Offret moved to award the cooperative purchasing agreement contract for corrosion monitoring 2019 to Peak Corrosion Control, Inc., in the amount of \$16,000.00. Mr. Sarti seconded the motion. Motion passed unanimously.

F. Amendment of District Legal Boundary to include Parcels 225-22-012A and 225-22-012B

Mr. Olsen stated that the owner of two parcels in the Mesaland Water Company, located southwest of La Canada and Hardy Road, has requested water service from the District. Mesaland Water Company is surrounded on all sides by the District and they have informed the property that they will discontinue water service should the District amend the legal boundaries to include these two parcels.

The two parcels are directly adjacent to the District and can be easily incorporated within Metro Main's service area without negatively impacting current District residents. Additionally, any infrastructure extensions and applicable fees will be the responsibility of the property owner. Recommend the Board amend legal boundaries of Metro Main to include these two additional parcels.

Mr. Foulk asked what the parcels are currently used for. Mr. Olsen stated these are two residential parcels. Mr. Sklar stated that there has been a long running dispute between the property owners and Mesaland Water Company so to settle the dispute Mesaland agreed to provide the will not serve letter and discontinue service once the District provides service. Ms. Scrivener asked if Mesaland has other customers besides these two parcels. Mr. Olsen stated that Mesaland does have other customers.

Mr. Sarti moved to adopt Resolution 2019-3 to amend the District's legal boundary to include Parcels 225-22-012A and 225-22-012B. Mr. Offret seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Olsen said on January 31, 2019, with just hours to spare before a deadline from the Bureau of Reclamations (BOR) Commissioner Burman, the Governor signed Arizona's DCP package that had passed the House and Senate earlier in the day. The House's approval was unanimous and there was broad bi-partisan support in the Senate. This near complete approval of Arizona's DCP plan was the result of countless hours of dedication by DCP committee members, individuals who attended and provided input at the various working groups and an engaged public.

Commissioner Burman, while commending Arizona's progress, pointed out that her deadline was not met because the inter-state agreements that comprise the DCP implementation plan have not been completed. Also, not all required water districts in California approved California's DCP package. As a reminder, only Arizona required legislative approval for DCP, the other states only required approval from Section five contract holders. As such, Commissioner Burman has now directed the governors of the seven basin states to provide "protective actions Interior should take amid ongoing severe and prolonged drought." States have until March 4, 2019 to respond and if all states complete the requirements of the DCP by March 4, 2019, then the notice to states would be rescinded.

What this means for Arizona is that the numerous agreements that comprised DCP now need to be implemented. These include water resource agreements that were already tentatively approved pending the passage of DCP. The next DCP Committee meeting is scheduled for February 18, 2019. The agenda includes not only next steps but also discussion of any necessary congressional approvals. As DCP has had many iterations and evolutions over the past year, an article will be drafted for the upcoming Splash! Newsletter to help explain DCP and what it means to District residents.

Two of the legislative priorities of the District were also included in the DCP legislation; namely the effort to reduce the 50% cut to the aquifer for recycled water delivered to managed recharge projects and the elimination of the sunset that would prevent recycled water credits to be earned after 2025. On behalf of Southern Arizona Water Users Association (SAWUA), I had the opportunity to join with Arizona Municipal Water Users Association (AMWUA) on educating ten legislators last month regarding DCP and these recycled water provisions. The legislators understood that recycled water is a critical renewable water resource that should not be eliminated in 2025 and that entities, such as the District, should not be penalized half of their recycled water when they deliver water to an active stream bed, in our case the Santa Cruz River, as opposed to a constructed storage facility.

With the passage of DCP and the associated recycled water legislation, the 2025 sunset has been eliminated and now recycled water delivered to a managed recharge project that has been in place since before the beginning of this year, will receive only a 5% cut to the aquifer for long-term storage credits. While the majority of the articles lately have focused on the passage of DCP, the recycled water statute changes is an important milestone in Arizona that acknowledges the criticality of this renewable water

VI. Legal Counsel's Report

Mr. Sklar said she had nothing to report.

VII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on March 11, 2019 at 6:00 p.m.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 6:41 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board