

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

**August 14, 2017**

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

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

**MINUTES**

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

**Board Members Not Present:** Jim Doyle, Member  
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  
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 6:03 p.m. Bryan Foulk, Dan M. Offret, and Judy Scrivener were present. Jim Doyle and Helen Ireland were not present.

**II. General Comments from the Public**

There were no comments by the public.

**III. Consent Agenda**

- A. Approval of Minutes – July 10, 2017 Board Meeting**
- B. Ratification of Billing Adjustments**

Mr. Olsen stated that billing adjustments are not traditionally as high as they were this month. The adjustments reflect the period when daily temperatures were over 110 degrees Fahrenheit.

In reviewing the higher adjustments this month, there is a trend that even though customers received a significantly higher than normal water bill due to leaks or other causes, the customers expressed appreciation of the amazing customer service from District staff. One customer stated “Outstanding customer service, Metro Water was here first thing, on a Sunday morning.” Another customer highlighted that staff noticed a very visible leak in the irrigation system and turned off the meter, preventing an even higher water bill for the customer who was out of the state at the time. These examples demonstrate that even being the largest domestic water improvement district in the state and second largest provider in the Tucson Region, the District is still able to focus on the customers as individuals and not just a number in the billing system.

Dan stated that in the Monthly Status of the District, the high consumption contacts were really high. Mr. Olsen stated that contact is made to customers to proactively address any issues.

Mr. Foulk made a motion to approve the consent agenda. Mr. Offret 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 numbers for Metro Main and Metro Southwest are higher than last fiscal year-to-date by 13% and 30% respectively. This difference is not necessarily due to significantly higher demand but likely due to the slight variation in meter read cycles that occur each month. As seen over the past few years, the fiscal year-to-date numbers will trend closer together further into the fiscal year with more data than just the July consumption numbers to compare.

The utilities team repaired a “poly” service line on Iberia Avenue in Metro Southwest Diablo Village only to have the service line fail again shortly after the repair which required replacement of the service line. While there are almost daily service line and main line breaks, this service line is important to highlight as there are numerous poly service lines in the Diablo Village service area along Iberia Avenue that should be proactively replaced otherwise these types of failures will continue to occur. Now that the system development fees for new meters in Metro Southwest are no longer going to the previous water system owner, as that portion of the purchase agreement is complete, these financial resources can go toward future capital initiatives such as these service line replacements.

The Fiscal Year 2018 budget funded a summer laborer to assist with various items throughout the District. Jesus Sierra was hired and jumped right in and single handedly removed over five trailers

worth of growth in the solar yard and reinvigorated the hydrant painting program by painting almost 30 hydrants in the District colors.

The planned Central Arizona Project (CAP) water orders have been completed for the Lower Santa Cruz Recharge project and the majority of the groundwater savings facilities. The remaining amount to be delivered to the District's Avra Valley Recharge Project (AVRP) facility is on track to be completed this calendar year.

While multiple easements have been acquired along the alignment of the NWRRDS pipeline, the initial applications to Arizona State Land Department for acquisition and easements on State Land were rejected. In discussion with the State Land Department staff, it appears that there may be an alternative pathway forward. District staff is scheduled to meet with key decision makers in the State Land Department on August 22, 2017 to determine the next steps and hopefully submit a modified application.

Mr. Offret requested updated maps outlining the current easements. Mr. Olsen stated that the Board will be provide the updated version in the next month's Board packet as there have been additional easements acquired since the last update.

Pre-condemnation letters were sent to two property owners who had not responded to multiple inquiries from both Tierra Right of Way Services and staff. The purpose of these letters are to formally notify the property owners of the District's desire to work through any easement request issues but if no response is received from the owners, staff would be forced to discuss condemnation with the Board.

## **B. Financial Report**

Ms. Bracken stated that the unaudited revenue and expenditures for Fiscal Year 2017 are both favorable with revenue exceeding the budget by \$2,160,153 and expenditures are \$985,332 lower than budgeted. All revenue categories exceeded the adopted budget except for Marana Water Storage, which is \$253,931 lower than budgeted. Metered Water Sales ended favorable by \$863,784 or 5.27% above budget. Water Resource Utilization Fees exceeded the budget by \$67,064. Development revenue was stronger than planned with \$385,180 of revenue, which exceeds the budget by \$143,202. The City of Phoenix water storage exceeded the budgeted amount by \$172,955. Other income surpassed the \$125,000 adopted budget by \$1,044,004 including the \$924,000 from the Central Arizona Project Reliability Fund, which has been deposited into the Water Resource Utilization Fee account and will be directed for use on the Northwest Recharge, Recovery, and Delivery System (NWRRDS) project. Other revenue also includes \$48,000 from the sale of assets, \$2,993 from gains on leased vehicles, \$33,466 from inspection fees, \$11,634 from plan reviews, and bad debt collections totaling \$5,635. All expenditures were less than the Adopted budget. Revenue in excess of operating expenditures ended at \$12,037,897, which is favorable by \$3,145,485 when compared to the adopted budget.

The prior fiscal year comparison of revenue shows Fiscal Year 2017 revenue ahead by \$2,505,025 with Metered Water Sales accounting for \$1,337,450, Water Resource Utilization Fees are \$269,102 higher, water storage is \$377,480 higher, and other income is \$475,141 higher. Operating expenditures in Fiscal Year 2017 were \$728,277 higher than operating expenditures in Fiscal Year 2016 with Salaries and Benefits accounting for \$237,402, and CAP Water purchases accounting for \$376,032 of this increase. The cash on hand at the end of July is \$198,130.66 higher than the total cash on hand at the end of June. The balance of \$11,636,382.75 is \$4.6 million dollars higher than the cash balance was at the end of July 2016. This includes the increase in operating revenue totaling \$2.2 million for Fiscal Year 2017 and a \$2 million dollar increase in the Water Resource Utilization Fees account. The balance of \$3,895,551.61 in the Water Resource Utilization Fees account will to be used to cash fund design and land costs associated with the NWRRDS project.

The Arizona State Pooled Collateral Program for June included collateralization coverage totaling \$5,914,137.66 on the account balance of \$6,298,174.18. This fiscal year, all banking fees, checks, and deposit slips were provided to the District at no cost since the operating and merchant accounts generated earnings credits that were utilized to offset these costs thereby reducing the District annual operating expenses again this fiscal year.

The American Express Corporate Accounts Payable Solution card was used to purchase \$36,837.80 in July with a 1% savings of \$368.38 bringing the inception-to-date District savings up to \$23,202.14. In Fiscal Year 2017, the accounts payable solution card earned a 1% savings of \$6,752.46, which is consistent with the savings of the past two fiscal years.

Seven new meter applications were received in July, which is the same number of new meter applications that were received in July 2016. Two new meter applications were for the Metro Main service area and five new meter applications were for the Metro Southwest service area. The Fiscal Year 2018 adopted budget includes a projection of 45 new meter applications in Metro Main and Hub and 39 new meter applications in Metro Southwest for a total of 84 new meter application compared to 78 meter application in the prior fiscal year.

On June 29, 2017, the District Auditors from HintonBurdick completed testing of inventory, internal controls, and risk assessments. Steven Palmer, the District's Audit Partner, McKay Hall, Auditing Senior Supervisor, and their team are here to complete the annual audit fieldwork for Fiscal Year 2017 and answer any questions. Mr. Palmer stated that it has been a pleasure to perform the annual audit for the District and that the Finance staff is very dedicated and has done a wonderful job.

On August 11, 2017, Moody's Investors Service issued their Annual Comment on the District's Senior Bond rate affirming the AA3 rating on the Senior Revenue Bonds. The key factors contributing to this rating are the moderate median family income level of the service area, ample liquidity, an insignificant debt profile, a favorable debt service coverage ratio, but a modest system

size. The system size is measured by the total water sales per year and the District's characteristics are in the \$10 to \$30 million group which carries an A bond rating within the structure. The Moody's rating methodology for utilities breaks the scoring into four levels including Rate Management, Regulatory Compliance and Capital Planning, Rate Covenant, and Debt Service Reserve Requirement.

The annual debt service coverage has increased from 1.25 to 1.74 over the past five years. The days of cash on hand has increased from 215 to 387 and the debt to operating revenue has improved with a decrease from 3.2 to 1.9.

**C. Approval of Amendments to Groundwater Savings Storage Agreements with BKW Farms, Herb Kai, and Cortaro Water Users Association**

Mr. Olsen stated that Groundwater Savings Facilities (GSFs) are key partners where a portion of the District's CAP allocation is delivered to farmlands near the CAP canal in-lieu of the farms pumping groundwater. 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. This year, the District is storing an extra 1,000 AF at Cortaro-Marana Irrigation District (CMID) and an extra 300 AF at Kai Farms which will generate an additional \$15,600 in revenue in GSF storage rebates and save \$20,000 if this water was otherwise stored in constructed recharge projects.

Mr. Offret moved to approve Amendment No. 2 between the District and BKW Farms, Inc. for "In-Lieu Water Deliveries and Storage" for 2018. Mr. Foulk seconded the motion. Motion passed unanimously.

Mr. Offret moved to approve the Amendment No. 2 between the District and Cortaro Water Users' Association for "In-Lieu Water Deliveries and Storage" for 2018. Mr. Foulk seconded the motion. Motion passed unanimously.

Mr. Offret moved to approve the Amendment No. 2 between the District and the Herb Kai for "In-Lieu Water Deliveries and Storage" for 2018. Mr. Foulk seconded the motion. Motion passed unanimously.

**D. Approval and Award for the Oracle Jaynes Station Well Discharge Piping**

Mr. Olsen stated that at last month's Board meeting, a presentation was provided by James Lewis, Engineering Manager, which outlined the efforts involved in replacing the Oracle Jaynes production well. In order to replace this well in the most financially efficient manner, various infrastructure components, such as the existing onsite storage tank, will continue to be used for the replacement well. To accomplish this, discharge piping needs to be connected from the new well

to the storage tank. Staff sought bids for this work and Tricon was the lowest responsive bidder. After the discharge piping is complete, other remaining items will proceed, such as the electrical work that the Board approved in July and the site fencing and grading that will be brought to the Board for consideration in September.

Mr. Foulk moved to approve the Oracle Jaynes Station well discharge piping work and award it to Tricon Contracting Inc. for the bid the amount of \$34,985 and to authorize the General Manager to approve additional funds up to \$4,000 for any unexpected issues related to the work. Mr. Offret seconded the motion. Motion passed unanimously.

**E. Approval of the Intergovernmental Agreement between the City of Tucson, Metropolitan Domestic Water Improvement District, and the Town of Marana for Water Quality Laboratory Services**

Mr. Olsen stated that last year the Board was briefed on the presence of 1,4-dioxane at the Horizon Hills production well as well as the mitigating strategies to blend water to below the United States Environmental Protection Agency's (US EPA) health advisory. Unfortunately there are a limited number of analytical water quality testing labs that are certified in the established US EPA method to test for 1,4-dioxane, resulting in delays to obtain testing results upwards of four weeks. As 1,4-dioxane has also been found in wells in Tucson Water's and Marana's service area, a 6-month interim memorandum was signed by the three water providers in February where Tucson Water's certified lab would expeditiously perform the 1,4-dioxane sampling with a turn-around time of approximately one week. This Intergovernmental Agreement (IGA) covers the costs of service for performing the analysis and these costs are within the range of the District's existing analytical service contracts.

Mr. Foulk moved to approve the Intergovernmental Agreement between the City of Tucson, Metropolitan Domestic Water Improvement District, and the Town of Marana for Water Quality Laboratory Services. Mr. Offret seconded the motion. Motion passed unanimously.

**F. Update on Water Quality and 1,4-Dioxane at Horizon Hills**

Mr. Olsen stated that the blending configuration at the Horizon Hills well site, which has been offline since last year, was not able to reliably meet health advisory thresholds and was therefore not placed back in service. This prevents the well from running long enough to ensure the 1,4-dioxane plume is properly captured and not migrating to other wells which could impact overall District production capacity. Staff will research existing cooperative water quality and professional services contracts with expertise in this area and bring a scope and pathway forward to the Board in September for consideration. This situation is of such concern that a portion of the budgeted contingency funds might need to be utilized because a failure to act could further impact water production capacity to meet customer demands.

The District has been in contact with Arizona Department of Environmental Quality (ADEQ) as it relates to the operation of the South Shannon treatment facility. This is a state funded operation and ADEQ provides reimbursements for the operation of that facility. ADEQ wants the District to change the operation procedures relating to various change outs of granular activated carbon (GAC) and other associated items to match remediation sites across the state. A letter from ADEQ is anticipated in the near future to formally guide the change of operating procedure and also to ensure that these changes will in no way negatively impact water quality.

Mr. Offret asked about the reimbursement amount. Ms. Bracken stated that the reimbursement is approximately \$54,000 annually not including the GAC change outs. Mr Olsen stated that there are about 3-4 GAC change outs per year which would be reduced under this new operating procedure but it is unknown by what extent until the change is implemented.

#### **G. Update on District's Vehicle Fleet**

Mr. Olsen stated that the Board is asked to consider many budgetary items each year associated with the District's vehicle fleet including leasing expenses along with the capital equipment budget that often includes a specialty vehicle for purchase.

Kevin Westbrooks, Assistant Utility Superintendent, provided a presentation on the District's vehicle fleet.

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

Mr. Olsen stated that the journey with the Towns of Marana and Oro Valley to craft the unique NWRDGS IGA was the definition of collaboration and was unanimously approved by the respective governing bodies. As such, the NWRDGS was submitted to the Metropolitan Pima Alliance (MPA) for the common ground award in the public works category and the three NWRDGS partners provided a presentation to the MPA common ground selection committee. Ms. Bowen worked hard to craft the presentation materials which was well received by the selection committee.

As part of enhancing the resiliency of the District's cyber infrastructure, server imaging and cloud based storage has been purchased. This item was one of the recommendations of the IT audit performed by Nextrio and noted two years in a row by the auditors. Therefore, it was budgeted in the current fiscal year capital equipment list. Network Administrator, Nate Arrington researched and found a way to not only achieve this capability at a savings of over \$2,000 but was also able to secure the redundant cloud based storage.

The Board has been invited to Southern Arizona Water Users Association (SAWUA) annual legislative breakfast on October 20, 2017 and will include presentations by leading water voices in Arizona. The proposed presentations for this year's event include the Arizona Corporation Commission (ACC) perspective, perspective from the Governor's office, international boundary

commission perspective, and the Kyl Center for water policy. If any Board member is planning to attend, please let Ms. Fedele know.

**VI. Legal Counsel's Report**

Mr. Hinderaker 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 11, 2017

**VIII. General Comments from the Public**

There were no comments from the public.

**IX. Adjournment**

The meeting adjourned at 6:54 p.m.

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Judy Scrivener, Chair of the Board

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Theo Fedele, Clerk of the Board