

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

October 12, 2016

**** 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
Jim Doyle, Member
Helen Ireland, Member
Dan M. Offret, Member

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Theo Fedele, Recorder
Charlie Maish, District Engineer
Tullie Noltin, Clerk of the Board
Steve Shepard, Utility Superintendent
John Hinderaker, 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 and Judy Scrivener were present. Helen Ireland arrived at 5:50 p.m.

**I. Consideration of Action to go into Executive Session for the following purpose:
Pursuant to §38-431.03.A.4 and §38-431.03.A.7 regarding the CAP Recharge,
Recovery & Delivery System.**

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 approximately 6:06 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 6:09 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 – September 12, 2016 Board Meeting.**
- B. Approval of Water Service Agreement for Valhalla Estates M-15-010.**
- C. Ratification of Billing Adjustments.**
- D. Ratification of Accounts Removed From Active Accounts Receivable.**

Ms. Ireland made a motion to approve the consent agenda. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Offret asked about the individuals who cannot be located and the credit bureau reporting. Ms. Bracken stated if the individuals can be located and identified with a social security number, they are reported to the credit bureau but without identification they cannot be reported. The District will hold a list of their accounts so if they request service again they will need to pay their prior debt before the District can provide service to them. Mr. Olsen stated that there was a change in policy last year where the District no longer collects customer social security numbers and deleted all previously collected social security numbers from the customer database. Maintaining this information is a great risk since a number of entities have experienced cyber intrusions to access this sensitive information. The only benefit to having social security numbers is to send to the credit bureau for lack of payment so as a proactive measure, all social security numbers were eliminated. The majority of people have been identified, located, and sent to the credit bureau even without the social security number. It was only about \$1,000 for the individuals who could not be located which is relatively small compared to the loss in public faith and financial risk in the case of a data breach. Ms. Bracken stated the revenue collected in the first quarter is about \$3.9 million so the \$1,000 is a relatively small amount. Mr. Foulk stated that from his experience, even with all customer information the chances of recovering the money is slim so putting the District at risk is not worth it.

IV. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen stated that the consumption for this fiscal year to date for all service areas is down about 0.3%.

This month, maintenance staff continued programing and testing the Horizon Hills blending system to enable the delivery of water that is below the United States Environmental Protection Agency's (USEPA) health advisory.

Maintenance has reinitiated the valve exercising program which helps to rapidly and expeditiously isolate any main breaks, restore service to those directly impacted, minimize the number of outages, and validate functionality of a key piece of infrastructure. Any nonfunctional valve that is identified results in the creation of a repair work order. Last month, 50 valves were exercised. Mr. Offret asked if this was done in house and Mr. Olsen stated it was.

Mr. Olsen said the intergovernmental agreement (IGA) for the Cortaro-Marana Irrigation District (CMID) Effluent Groundwater Savings Facility Project is scheduled for Pima County approval on October 18, 2016. The next step after is for the Bureau of Reclamation to approve the IGA. Construction is anticipated to start in January 2017. Mr. Offret asked if the water has been upgraded by Arizona Department of Environmental Quality (ADEQ). Mr. Olsen stated that ADEQ is now characterizing the water that will be used on farmlands as A+. Mike Block, Water Resources Manager, confirmed that Pima County Regional Wastewater Management Department was able to get their reclaimed water upgraded to A+ so the permit was modified.

Mr. Olsen stated that the work continues on the IGA for the Central Arizona Project Recharge, Recovery, and Delivery System (CAP RRDS) as well as numerous real property actions. The remaining items will be discussed separately on the agenda.

B. Financial Report.

Ms. Bracken said revenue and expenditures as of August are both favorable with revenue of \$590,417 dollars over budget and expenditures of \$143,452 dollars under budget using a straight-line projection resulting in a favorable revenue in excess of expenditures total of \$733,869. The largest increase in revenue is from Metered Water Sales, which have exceeded a straight-line projection by \$517,816. Water Resource Utilization Fees are \$49,164 ahead using a straight-line projection. Expenses for Purchased Power, Supplies, and Regulatory Fees all continue to be over budget when compared to a straight-line projection. Regulatory Fees include the annual transfer of water credits from Metro Main to Metro Southwest. All other expenditures were under budget when compared to a straight-line projection. Revenue through August 2016 is \$122,581 higher than it was in August 2015 with an increase of \$117,079 from Metered Water Sales. The total

operating expenditures for August 2016 are \$89,269 higher than they were in August 2015. When comparing revenue in excess of operating expenditures from August 2016 to August 2015, the current year is favorable by \$33,312.

The Arizona State Treasurer's Pooled Collateral Program Statement for August provided collateralization coverage of \$2,400,509.61 in addition to the \$500,000 FDIC insurance coverage.

A total of ten meter applications were received in September compared to 24 meter applications received in the September of the prior fiscal year. As of the end of September, a total of 24 meter applications have been received this fiscal year compared to 52 meter applications in the prior fiscal year.

Ms. Bracken stated over the past month, the District has been working with the Fitch Ratings staff on a Bond Rating Review and yesterday a press release was issued affirming the AA- rating on the Senior Bond lien, and the A+ bond ratings on the subordinate lien bonds. Comments made by the Fitch Rating Agency included an increase in the number of day's cash on hand from 348 to 462 days. The District's debt leverage, which was previously noted as high, has moderated and debt ratios continue to decline after peaking in 2011. Debt has rapidly amortized providing capacity for future debt relating to the CAP RRDS project. Fitch Ratings continued to state that recent rate adjustments have resulted in the District's fixed base rate now providing a significant 61% of the average monthly residential bill, up from 50% in the prior review. Fitch Rating views the high percentage of fixed rates favorably as it provides stability to the District's revenue stream. Mr. Olsen stated that for two years, Fitch Ratings has reviewed and affirmed the District's ratings. The press release stated multiple times that Fitch favorably views the revenue stability efforts. It was previously noted that it was not a concern but to closely watch the debt service ratios and the finance debt. The rapid amortization and debt ratios trending downward is also positive. This positive narrative is a direct result of Ms. Bracken and her team's focus on not just having transparent financials but also transformational adjustments related to revenue stability.

C. Approval of Audit for Fiscal Year 2016.

Mr. Olsen said the District's auditors, HintonBurdick, PLLC, recently finalized the District's Fiscal Year 2016 Audit and Comprehensive Annual Financial Report (CAFR). The auditors found no significant findings, and that the internal controls resulted in no expenditures without proper authorization. Furthermore, no material misstatements were detected.

The auditors did provide recommendations that were not official findings included in the report but were observations to look into to enhance processes including items relating to the District's Information Technology (IT) system. The District has since utilized an IT firm to audit the IT system. Many of the recommendations made by the financial auditors were also made by the IT Firm. The District is moving forward in addressing those recommendations.

Ms. Bracken stated that District Management is responsible for preparation and fair presentation of the financial statement in accordance with Generally Accepted Accounting Principles (GAAP) including design, implementation, and maintenance of internal controls used to ensure all statements are free of material misstatements. In addition, District Management is responsible for discussion and analysis of the financial statements. The Management Discussion and Analysis section can be found in the CAFR on pages 4 through 13.

HintonBurdick as the District's independent Auditor is responsible for expressing an opinion on these financial statements based upon their audit, which was conducted in accordance with Government Auditing Standards. Auditing standards require the audit to be planned and performed so they can obtain reasonable assurance about whether the financial statements are free from material misstatements. This includes assessing risks by reviewing internal controls, evaluating accounting policies and procedures, reviewing the reasonableness of significant accounting assumptions and estimates made by District Management, and evaluating the overall presentation of financial statements. HintonBurdick's opinion stated that the financial statements are presented fairly, in all material respects, the respective financial position of the business-type activities of Metropolitan Domestic Water Improvement District as of June 30, 2016.

The District has improved the total net position by \$6.9 million dollars in Fiscal Year 2016, with assets increasing by \$1.3 million dollars and liabilities decreasing by \$5.6 million dollars.

Unrestricted cash increased by \$3 million dollars and the value of the water recharge credits increased by \$893,581 for a book value of \$5,475,048. The revenue sources remained consistent between Fiscal Year 2015 and Fiscal Year 2016. Expense distributions were also consistent with only a 1% increase in other operating expenses and a 1% decrease in Salaries and Benefits.

Revenue from operations increased by \$1 million dollars and the total Operating Expenses in Fiscal Year 2016 were \$46,364 lower than they were in Fiscal Year 2015. The District also had a \$50,396 gain on the disposal of assets, which was predominantly the sale of vehicles.

Mr. Offret was impressed with the overestimation of the net pension liability and the debt service since it is better to make adjustments downward as needed and thanked staff for keeping a conservative view in mind for the District. Ms. Bracken stated that Fitch Ratings also commented on Management's conservative estimates.

Mr. Offret asked since the District is at 90% for revenue stability this fiscal year and salaries and benefits had increased almost a quarter of a million dollars, will there be an adjustment to the charges for fixed expense or will it be covered by an increase in hook ups and water usage. Mr. Olsen stated that the increase is to total compensation including health insurance and dental insurance. Revenue stability or fixed cost recovery is based on the financials of that year. Any

particular year there will be variations to fixed and variable costs therefore revenue stability might be at 90% one year, 88% the next year, and 92% the year after but it's the District's goal to stay near 90%. Based on the discussions and commitments to customers, there are no plans at this point for any rate adjustments in Fiscal Year 2018. Every year, regardless of a rate adjustment, Ms. Bracken's staff completes a detailed financial model to look at all costs and identifies any issues to either validate the budgetary trajectory or justify adjustments that need to be made. Ms. Bracken stated that when the fixed / variable costs were calculated it was based on the full amount of the budget. If less is spent, than fixed cost recovery might be a little bit higher. Mr. Foulk stated that it was nice to see everything going great. Mr. Olsen stated that the results of the audit showed a solid attention to detail by the administration team and with all of the transactions that occur on a monthly basis there have been no failures in internal control or material mistakes found. Mr. Offret liked the readability of the financial statement in the audit report and appreciated the work being done.

Mr. Offret made a motion to approve the audited Comprehensive Annual Financial Report including the financial statements of the District for Fiscal Year 2016 as presented. Ms. Ireland seconded the motion. Motion passed unanimously.

D. Approval of Amendment No. 2 to the Intergovernmental Agreement with the City of Phoenix for Inter-AMA Firming of Central Arizona Project Water.

Mr. Olsen said that in 2014 the District entered into an Inter-AMA (Active Management Area) Firming IGA with the City of Phoenix to store a portion of Phoenix's Central Arizona Project (CAP) allocation at the District's Avra Valley Recharge Project (AVRP) to firm against future shortages. In a shortage year, the District would have a portion of its CAP allocation, the same amount of water Phoenix stored at AVRP, delivered to the Phoenix treatment plants off the CAP canal. In 2015 under a pilot program, 150 acre-feet (AF) of City of Phoenix water was stored at AVRP. In 2016, 1,500 AF of City of Phoenix water is being stored at the AVRP. This amendment is for Phoenix to store up to 3,500 AF at AVRP facility in 2017. The City of Phoenix would pay \$31.92 per AF for the operations and maintenance costs for AVRP as well as a capital component to ensure that previous ratepayer investments in that facility is being reimbursed. Even though the 3,500 AF of capacity at AVRP is being utilized, the District would still store its full CAP allocation by utilizing the remaining capacity at AVRP, nearby groundwater savings facilities (GSF) including BKW Farms, CMID, and Kai Farms, as well as any other underground storage facility to get the 13,460 AF stored. This agreement is financially beneficial for the District but also provides Phoenix viability on a long term water resource with the uncertainty of the Colorado River moving forward. This Inter-AMA Firming concept between the District and the City of

Phoenix as well as between the City of Tucson and the City of Phoenix has received numerous accolades and awards, not just within the state but across the country, as the type of innovative water management solutions that are needed by multi-jurisdictional partners to be able to weather the ongoing drought. Mr. Olsen wholeheartedly recommended that the Board approve the IGA amendment to move forward on this project.

Mr. Foulk made a motion to approve Amendment No. 2 of the Intergovernmental Agreement between the City of Phoenix and the Metropolitan Domestic Water Improvement District for the Storage, Recovery and Exchange of Central Arizona Project Water with an expiration date of December 31, 2018. Ms. Ireland seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Olsen said the District has selected Sheila Bowen as the new District Engineer / Deputy General Manager and her first day will be October 31, 2016. Ms. Bowen has served on the Financial Oversight Committee (FOC) for a number of years and has previous experience working at the District. Ms. Bowen will replace Charlie Maish who has been in the District Engineer position for over two decades. Mr. Maish will be missed and leaves very large shoes to fill; his last day will be November 16, 2016.

Early registration is open for the Colorado River Water Users Association (CRWUA) annual conference which is scheduled for December 14 – 16, 2016. The conference will cover current and relevant topics such as the Colorado River system and multistate efforts to mitigate shortage issues. If any Board Members wish to attend, let Ms. Noltin know so registration can be finalized.

On September 20, 2016, Mr. Olsen had an opportunity to speak at the Alliance for Water Efficiency conference in Phoenix about revenue stability. This was an opportunity to share the District's steps to arrive at the present 90% fixed cost recovery. The attendees included approximately 100 water and financial professionals primarily in the Phoenix region. Some in attendance stated they would support their respective organizations in moving toward revenue stability to mitigate the future rate increases and the impact on their customer base. Mr. Olsen referenced, Alan Forrest, a member of the public in the audience, as having best summarized the importance of revenue stability by saying, "Without revenue stability you are going to continue to charge more for water you are never going to sell."

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 Monday, November 14, 2016.

Ms. Noltin stated that the Board has the opportunity to attend the Southern Arizona Water Users Association (SAWUA) forum Thursday, October 27, 2016 and that some members are already scheduled to attend. The Financial Oversight Committee (FOC) is scheduled for Wednesday, November 9, 2016 where the members will be apprised of the fiscal year audit, an overview of the CAP RRDS, the City of Phoenix IGA Inter-AMA firming, and a fund management presentation by Ms. Bracken. The Board is welcome but not required to attend the FOC meeting.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 6:38 p.m.

Judy Scrivener, Chair of the Board

Tullie J. Noltin, Clerk of the Board