

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

November 14, 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
Helen Ireland, Member
Dan M. Offret, Member

Board Members Not Present: Jim Doyle, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, District Engineer / Deputy General Manager
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility Superintendent
Theo Fedele, Recorder
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 6:00 p.m. Bryan Foulk, Helen Ireland, Dan M. Offret and Judy Scrivener were present. Jim Doyle was not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – October 12, 2016 Board Meeting.**
- B. Ratification of Billing Adjustments.**

Ms. Ireland 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 said total fiscal year to date consumption is trending within 1% of last fiscal year to date.

Last month the Board was updated on the reinitiation of the District's valve exercising program. As a result of this program, two failed valves were already identified and utilities is taking appropriate actions to repair this critical infrastructure component which will ensure the resilient operation of the distribution system.

All of the planned storage for the Avra Valley Recharge Project (AVRP) and the groundwater savings facility (GSF) partners has been completed for calendar year 2016 for the District as well as for the City of Phoenix (Inter-AMA Firming water). Only a small amount of water is left to be recharged for the Arizona Water Banking Authority.

The Cortaro-Marana Irrigation District (CMID) Effluent Groundwater Savings Facility Project Intergovernmental Agreement (IGA) was considered by the Pima County Board of Supervisors in October; however, action was deferred due to some concerns raised by various groups. Staff is meeting with the Community Water Coalition later this week to discuss the Santa Cruz River and District effluent. The Board of Supervisors will consider the IGA again in December.

There have been productive discussions with the potential partners over the past month as work continues on Central Arizona Project Recharge, Recovery, and Delivery System (CAP RRDS) IGA and various real property actions.

B. Financial Report.

Ms. Bracken stated revenues and expenditures as of September are both favorable with revenue at \$824,783 over budget and expenditures at \$230,468 under budget utilizing a straight-line projection, resulting in a favorable revenue in excess of expenditures totaling \$1,055,251. The largest increase in revenue is from Metered Water Sales which have exceeded the straight-line projection by \$729,915. Water Resource Utilization fees are \$69,471 ahead of budget when compared to a straight-line projection. Expenses for purchased power supplies and regulatory fees continue to be over budget and all other expenses are under budget when compared to a straight-line projection. Revenue through September 2016 is \$273,845 higher than it was in September 2015 with an increase of \$331,104 in Metered Water Sales, an increase of \$74,242 in Water Resource Utilization fees, and a decrease of \$159,782 in development revenue. The total operating expenditures in September 2016 are \$68,100 higher than in September 2015. When comparing revenue in excess of operating expenditures to September 2015, the current year is favorable by \$205,745.

The Arizona State Treasurers Office pooled collateral program statement for September includes collateralization coverage of \$2,662,351.57 in addition to the \$500,000 of FDIC insurance coverage.

The American Express Corporate Accounts Payable Solution card was used for normal business purchases totaling \$1,865,631 since March of 2014 and has generated a District savings of \$18,656.13. This savings has been used to purchase 14 iPad tablets that are used by staff to automate some of the business processes.

A total of eight meter applications were received in October 2016 compared to 12 received in October 2015. As of the end of October, a total of 32 meter applications have been received compared to 64 meter applications received this time in the prior fiscal year.

C. Employee Medical and Dental Insurance Coverage for 2017.

Mr. Olsen stated that various entities have faced medical and dental premium increases over the past couple months, particularly in Arizona. Fortunately, the recent adjustments over the past couple of years to the District's insurance coverage have stabilized and the District was able to secure the same medical and dental insurance coverage for employees with a renewal rate increase of less than 1% over the previous year. Considering the total coverage for medical and dental the District pays for all employees, the increase is only \$1,480 for medical and \$146 for dental. Since the amounts are relatively small, the recommendation for approval by the Board is to have the employee deductions and premiums remain the same for 2017 as they were for 2016 and the slight renewal rate increase be absorbed by the District.

Mr. Offret made a motion to approve Crest Insurance to administer a contract for employee medical insurance with United Health Care on the District's behalf for January 1, 2017 through December 31, 2017, to approve a contract for employee dental insurance with Employer's Dental Service and MetLife for calendar year 2017, and to direct the General Manager to implement the employee deductions and HSA contributions as identified in the table included in the Board's agenda materials. Mr. Foulk seconded the motion. Motion passed unanimously.

D. Approval and Award for Storage Tank Coatings at Magee La Cholla North and Jensen Sites.

Mr. Olsen stated that the District operates 21 active steel storage tanks that are internally coated to prevent corrosion. The internal coating can last up to 20 years but operating conditions can reduce the duration of the coatings. The last time the storage coatings took place at Magee La Cholla was 16 years ago and at Jensen was 18 years ago. As part of the District's ongoing proactive and preventative maintenance, staff recommends that Magee La Cholla and the Jensen Sites have the internal coating sand blasted off and reapplied as a proactive measure that can extend the life of the storage tanks.

Mr. Foulk made a motion to approve the Storage Tank Coatings and to award the work to AO Painting in the amount of \$70,067 and to authorize the General Manager to approve up to an additional \$10,000 for necessary repairs that may be required. Ms. Ireland seconded the motion. Motion passed unanimously.

E. Approval and Award for the Purchase and Installation of Replacement Variable Frequency Drives at Tucson National West and Tucson National East.

Mr. Olsen said in 2000 the Variable Frequency Drives (VFD) were installed at both Tucson National West and Tucson National East wells to enable them to feed directly into the transmission system where previously they would feed into a storage tank. Unfortunately, one of the VFDs has a faulty key pad interface which limits the ability to utilize the full range of that VFD and the models have become obsolete making it difficult to find replacement parts. Both have already operated between 16 and 17 years.

The purchase of one VFD was funded in the Fiscal Year 2017 budgetary process. With the cancellation of the Election for the two seats on the Board of Directors, the District was able to save approximately \$24,000. The recommendation is to apply that budgetary savings for a second VFD and replace Tucson National West and Tucson National East at the same time. Depending on the direction the Board wishes to proceed, the motion would be either for one VFD approved in the budget or to also include the second one with election savings. There are also two motions to consider for the installation, for either one or two VFDs, which will be accomplished through the electrical services job contract.

Mr. Offret asked if there are any other VFDs in the District that are the same brand and might need to be replaced soon. Mr. Shepard stated that there is one other VFD on the Lattimore north well that is the same brand and model.

Mr. Offret asked about the sound proofing of both Tucson National West and East and if there have been any complaints from anybody about the sound. Mr. Shepard stated that there have been no complaints and it can only be heard when walking up to it. The well itself has a sound enclosure plus there is an 8 foot block wall on two sides.

Mr. Offret made a motion to approve the purchase of two variable frequency drives as recommended by staff from 3P Motor Controls in the amount of \$20,299.46. Mr. Foulk seconded the motion.

Ms. Ireland asked about the need for the extended warranty. Mr. Olsen stated that during the bid process, the bidders were asked to include any type of additional warranty or options available. The selected vendor provided the manufacturer's warranty as well as additional coverage. Other bidders offered only the manufacturer's warranty that lasts for 12-18 months. Mr. Shepard stated that warranties are always a challenge but recommends getting the warranty. The VFDs have a lot

of electronic parts within the electronic circuit boards and are not located in a clean environment. The warranty covers items such as power surges and lightning strikes. The manufacturer, the distributors, and the representatives are specifically trained to troubleshoot issues as they arise. The cost of the warranty is about a third of the cost of the drive itself but in a worst case scenario with total drive failure, the same model and same manufacturer would be an \$8,000 purchase plus installation costs.

Mr. Foulk asked how often these same drives have failed in the past. Mr. Shepard stated that the drive at Tucson National West has the extended warranty and is similar to the one being purchased. The VFD has been repaired a couple times over the years. The manufacturer was brought in to fix and replace the components. There are also five or six other drives that have not had any issues. Mr. Olsen stated that sometimes a slight spike or surge can cause damage to the components and there have been a number of recent surges and infrastructure outages that have required troubleshooting and external expertise. The recommendation is to include the extended warranty but if the Board does not feel it is an appropriate use of resources, the amount would be \$14,756.30 without the six year extended warranty.

Ms. Ireland stated that since some have lasted 17 years the District is safe without the extended warranty. She also shared a suggestion to purchase the two VFDs and install only one keeping the other one for replacement parts. The part could be switched out with no down time. Mr. Olsen stated the concern is this high value asset should be put to its beneficial use and would be difficult to prevent from getting corroded or damaged while in storage. The recommendation is if two VFDs are purchased then two VFDs are installed to get the full use out of them. Mr. Shepard stated that some of the components between the two existing drives are interchangeable but some are not. The two existing drives have two different horsepower (hp) ratings. Tucson National East was originally constructed as a 250 hp but many years ago was removed and replaced with a 150 hp motor.

Motion passed by a vote of 3-1. Ms. Scrivener, Mr. Foulk, and Mr. Offret voted for. Ms. Ireland voted against.

Mr. Foulk made a motion to award the installation work for two variable frequency drives as recommended by staff to Sturgeon Electric Company in the amount of \$13,760.00. Ms. Ireland seconded the motion. Motion passed unanimously.

Ms. Ireland made a motion to authorize the General Manager to approve up to an additional \$2,500.00 for any unforeseen issues. Mr. Foulk seconded the motion. Motion passed unanimously.

F. Clarification on Water Resources Utilization Fee

Mr. Olsen said the Water Resources Utilization Fee (WRUF, the fee) was established in 2012 at ten cents per 1,000 gallons and has subsequently been adjusted three times to the present 50 cents

per 1,000 gallons in 2016. As previously discussed with the Board at various rate hearings, Board meetings, and information meetings, the primary intent of the fees is to fund activities for the most efficient use of the District's water resources such as the CAP RRDS, CMID Effluent Groundwater delivery pipeline, and wheeling agreements as well as minor initiatives such as leak detection studies but the WRUF has not been clearly defined. The rate insert that advertised the various rate hearings stated that the WRUF was a designated fee of ten cents per 1,000 gallons for increasing the utilization of renewable water and will be implemented in March 2013. The goal of the motion is not to change the trajectory or the discussions about the fee but to clarify for the public the description and the intended use of the fee.

Mr. Foulk stated he did not remember leak detection as a part of the original fee discussion and that leak detection is more of a saving device for the District. Mr. Olsen stated that the District has tried to create a resilient, multi-faceted water resource portfolio of effluent, CAP, and groundwater. Some of the service areas have a direct connection to CAP water and other service areas have a long term reliance on groundwater. The leak detection study was to ensure the least amount of groundwater was used to meet customer demands.

Mr. Offret made a motion to approve the clarification and definition of the appropriate use of funds collected through the established Water Resources Utilization Fee to include efforts to develop, design, and construct projects that will put to use the District's CAP water and effluent entitlement as well as strengthen the District's water resources portfolio in general. Examples of such efforts include but are not limited to small scale efforts such as leak detection studies, and larger scale projects such as the CAP Recharge, Recovery, and Delivery System, effluent utilization projects, and wheeling agreements. Ms. Ireland seconded the motion.

Motion passed by a vote of 3-1. Ms. Scrivener, Ms. Ireland, and Mr. Offret voted for. Mr. Foulk voted against.

V. General Manager's Report

Mr. Olsen stated that over the past two years the District has collaborated with the City of Phoenix and the City of Tucson to implement the inter-AMA firming concept. One of the hurdles for full scale inter-AMA firming implementation was the lack of a system use agreement that will enable CAP to deliver the inter-AMA firming water through the CAP canal. The good news is that after months of negotiations with the Arizona Department of Water Resources, Central Arizona Water Conservation District, Bureau of Reclamation, as well as other entities, a draft system use agreement has been published and the District is now working to help edit that document and hopefully bring it to its final form. Also, Tucson Water has secured its approval to store 36,500 AF of City of Phoenix water in their recharge facilities in calendar year 2017 and that, along with the 3,500 AF of capacity that the District is going to store for the City of Phoenix, brings the total Tucson Active Management Area storage to 40,000 AF of City of Phoenix water and is a mutual

win for all entities involved. Additionally, this will allow Tucson Water to leave 26,500 AF of water in Lake Mead potentially staving off future shortage.

At the Finance Oversight Committee (FOC) meeting the members were briefed on recent financial activities in the District including the recent affirmation by Fitch on the District's credit rating, the results of the 2016 audit, active funds management activity, as well as discussions on the CAP RRDS and the inter-AMA firming agreement. The goal of the meeting was to provide the FOC with background information on key initiatives so they can advise and provide input to the Board on financially related matters.

This is Charlie Maish's last Board meeting and the District thanks him for his over 20 years of service.

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, December 5, 2016 at 5:30 p.m. and will include an Executive Session for the review of the General Manager.

VIII. General Comments from the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 6:33 p.m.

Judy Scrivener, Chair of the Board

Tullie J. Noltin, Clerk of the Board