

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

WEDNESDAY, NOVEMBER 14, 2018

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

Board Members Not Present: Jim Doyle, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, Deputy General Manager / District Engineer
Diane Bracken, Chief Financial Officer
Cameron Meyer, Assistant 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. 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 10, 2018 Board Meeting**
- B. Ratification of Billing Adjustments**

Ms. Ireland 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 the fiscal year-to-date combined consumption for all service areas is 7.4% lower when compared to Fiscal Year 2018. When compared to Fiscal Year 2017, the current fiscal year-to-date consumption is 2% lower. To ensure conservative budget planning, the current fiscal year budget was based on Fiscal Year 2017 consumption with the then proposed rate increase for Fiscal Year 2019 and not the higher Fiscal Year 2018 demand.

Last month the South Shannon, Wildwood, and Deconcini wells were brought down for maintenance which includes pulling the well pump, brushing and bailing the well, and videoing the inside of the well to look for deterioration. Normally only one well would be brought down for maintenance at a time but Wildwood and Deconcini are blended with South Shannon water to ensure 1,4-Dioxane levels are below the health advisory levels so all three wells were brought down at the same time. Additionally, this provides an opportunity to perform an inspection and any required maintenance on the Deconcini storage tank where the blending occurs.

Last month we were informed by Central Arizona Project (CAP) that total deliveries to the District has exceeded the District's order. Upon notification, deliveries to the District's Avra Valley Recharge Project (AVRP) were halted. The total amount of over delivery is approximated at 640 acre-feet of water. A similar over delivery situation occurred a few years back and the established practice is to partner with other water providers in the region to determine their desire to purchase this over-delivered water directly from CAP.

The waterline relocations associated with the La Cholla Regional Transportation Authority (RTA) project is now approximately 40% complete and is expected to be completed by January 28, 2019.

The appraisal from Arizona State Land Department (ASLD) was received for the properties associated with Northwest Recharge, Recovery, and Delivery System (NWRDRS). Staff and our real property consultant, Tierra Right of Way Services, are reviewing the appraisal. The additional conditions associated with the right-of-way amendment have been drafted and will be forwarded to the District once ASLD's legal review is complete.

HDR recently provided staff with a Delineation Report for NWRDRS. This report recommends how the design and construction activities will be divided up in the most efficient and economical manner, along with providing initial cost estimates. Staff has since met with HDR regarding the Delineation Report to provide further inputs and clarifications.

The emergency interconnect with Tucson Water near the Hub reservoir site was substantially completed last month and the Hub reservoir expansion work has commenced. The old tank has already been demolished and the site is now being prepared for the construction of the larger storage tank.

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

- APN 216-31-037D: an agreement has been reached with the property owner and working toward finalizing the settlement.
- APN 216-31-0380: an agreement has been reached with the property owner to change the alignment of the easement to relieve the concerns the property owner regarding disruption of vegetation on the property.
- APN 216-32-025A and 216-32-028A: we are negotiating with the property owner an alternate alignment of the easements.

B. Financial Report

Ms. Bracken stated that revenue and expenditures through September are both favorable when compared to a straight-line projection with revenue \$944,779 over budget and expenditures \$202,877 under budget resulting in a favorable revenue in excess of expenditures total of \$820,029. When compared to the prior fiscal year, revenue through September is \$18,637 higher than it was in September 2017. The September water revenue is \$46,943 lower than the prior fiscal year. When comparing the budgeted revenue to a historic average collection rate, water revenue is 1.03% lower this fiscal year. The total operating expenditures through September are \$73,828 higher than they were in September 2017. When comparing revenue in excess of operating expenditures the current year is \$55,191 lower.

The Arizona State Treasurer Pooled Collateral Program Statement for September provided collateralization coverage of \$7,839,734.96 in addition to the \$250,000 FDIC coverage.

The American Express Corporate Accounts Payable Solution card was used to purchase \$24,629.42 in October with a 1% savings of \$246.29 bringing the inception-to-date District savings up to \$29,061.30.

The Capital One MasterCards were used to purchase \$23,369.29 in the October with up to 1.25% cash back earnings. The cash back amount received from the prior month transaction was \$391.17 with an additional balance owed upon an account reconciliation.

Twenty new meter applications were received in October with 16 new meter application received in October 2017. Nine new meter applications were for the Metro Main and Hub service areas and 11 new meter applications in the Metro Southwest service areas. As of October 31, 2018, 103 new meter applications were received compared to 46 new meter application at this point in the prior fiscal year.

C. Presentation on the Lifecycle of a Bond

Mr. Olsen stated that previously the Board had asked for a presentation on how the District obtains debt to finance capital improvements projects. This is a highly relevant topic as the District has not had any debt financing activities since 2013 and will begin preparations over the next 18 months to secure financing to support NWRRDS and other capital initiatives.

Ms. Bracken presented an overview video of the life cycle of bonds. The video was made available by the Municipal Securities Rulemaking Board as part of their effort to educate potential bond issuers.

Ms. Bracken stated that the District has retained Mark Reader, Managing Director of Stifel, Nicolaus & Company Inc., to serve as the Financial Professional for the planned funding needs for the NWRRDS project. Michael Imhoff, Managing Director of the Denver office of Stifel Nicolaus & Company Inc., will provide the District with the service of underwriting the planned bonds. Due to the long-term relationship and mutual trust with Stifel, the District is not planning to hire a municipal advisor at this time.

The video included information regarding the continued disclosure requirements. On an annual basis, the District currently discloses:

- The audited financial statements
- The total new connections and total connections throughout the year. In Fiscal Year 2018, there were 261 new connections with 21,750 total connections. Included in the total connections are 266 vacant connections and 300 Private Fire Risers
- The Water Rates for each meter size
- The Senior debt coverage and the Subordinate debt coverage. as of June 30, 2018, the district has a 2.17 Senior debt coverage ratio and a 3.9 Junior or Subordinate debt coverage

D. Approval of the District's Debt Management Policy

Ms. Bracken stated that having a debt management policy in place would enable the District to check two boxes on the IRS form 8083-G. These checked boxes indicate there are continued disclosure reporting and signals to rating agencies and the capital market that an organization is well managed and more likely to meet all debt obligations in a timely manner, which can also reduce the cost of new bonds.

This policy provides a written guideline to include the allowances and restrictions that will guide the debt issuance practices of the District including the issuance process, management of the debt portfolio, and adherence to various laws and regulations. The policy will improve the quality of decisions, articulate goals, demonstrate a commitment to a long-term capital and financial planning

as well as provide credibility, transparency, and ensure there are standards that are understood by current and future staff. Any changes to this policy will need to be presented to the Finance Oversight Committee (FOC) and the Board of Directors for approval, which will help to ensure the future of the District remains in a similar financially stable position.

Mr. Olsen stated that the FOC unanimously voted to recommend that this policy be presented to the Board of Directors.

Mr. Offret moved to approve the Debt Management Policy as presented with an effective date of November 14, 2018. Mr. Foulk seconded the motion. Motion passed unanimously.

E. Approval of the District's Updated Procurement Policy

Mr. Olsen stated that the District's procurement policy provides guidance to staff on standardizing procurement related activities and the current policy was last amended in February 2015. Over the past 3½ years, a number of items were identified that required clarification to ensure transparency and clarity in implementation of the policy.

Most of the recommended edits are minor in nature and the two key thresholds on the policy remain the same: procurement activities \$15,000 and greater are to be brought to the Board for consideration and any check that is \$2,000 or greater requires the signature of two Board members.

Most of the items are clarifying in nature as the policy is intended to be straightforward and easy to follow to ensure compliance by all staff. The proposed changes to the policy include:

- Clarifying approval amounts on check signatures and purchase order approvals to the penny as under the old policy no one technically could approve \$500.
- Authorizing Team Managers to sign invoices for recurring items exceeding \$500 such as utility bills, postage, and fleet fuel. Normally Team Managers have authorization up to \$500 but these recurring invoices often exceed that but have already been approved via a purchase order or are an on-going expense in the respective Team Manager's budget.
- The current policy states that Purchase Orders between \$500 and \$2,000 shall have three written or verbal quotes and purchase orders exceeding \$2,000 and under \$15,000 shall have three written quotes. It is recommended to combine these two ranges together and that purchase orders over \$500 and under \$15,000 will require three written quotes.
- Adding the Deputy General Manager to the list of authorized District representatives to be present during public bid openings. Previously this was the General Manager or Chief Financial Officer, and adding the Deputy General Manager ensures greater flexibility. The caveat is that the District representative cannot also be the Team Manager that requested the procurement activity.
- Added a section for the selection of non-professional services. Professional services are defined by ARS 41-2578 and include engineering services, surveying, and landscape

architecture while non-professional services include auditing services, billing software services, and software support. Having a separate category clarifies the requirements and legal statutes that staff must comply with given the type of service.

Mr. Offret moved to approve the proposed changes to the District's Procurement Policy. Mr. Foulk seconded the motion. Motion passed unanimously.

F. Employee Medical and Dental Insurance Coverage for 2019

Mr. Olsen stated that each year, the District's insurance broker, Crest Insurance, works with our Human Resources Manager, Billie Sue Morelli, to secure medical and dental insurance for the District. Upon reviewing all of the options, it is recommended to continue utilizing United Health Care (UHC) to meet the District's health insurance needs which provide employees an opportunity to choose between a Preferred Provider Plan and a Health Savings Account option. The total increase between both plans is anticipated to be 4.3%, or approximately \$20,000, based on current enrollment selection by employees. This increase will be split between the District and the employees with the District covering 65% of the increase. Staff supports the renewal with UHC and continues to be appreciative of the District's efforts at securing high quality and affordable health care.

The District also offers two options for dental coverage: MetLife and Employer's Dental Service. MetLife is proposing a 0% increase and Employer's Dental Service is proposing a 3% increase. As the Employer's Dental Service increase is a total of \$136, when taking all enrolled employees into account, the recommendation is to not increase staff premium contributions for dental insurance and for the District to cover the \$136 total increase.

Mr. Foulk moved to approve Crest Insurance to administer a contract for employee medical insurance with United Health Care on the District's behalf for January 1, 2019 through December 31, 2019, to approve a contract for employee dental insurance with Employers Dental Service and MetLife for calendar year 2019 and to direct the General Manager to implement the employee deductions and HSA contributions. Mr. Offret seconded the motion. Motion passed unanimously.

G. Approval and Award for In-Service Reservoir Cleaning and Dive Inspections

Mr. Olsen stated that the District's two 5 million gallon (MG) reservoirs, the James Tripp Reservoir and Herb Johnson Reservoir, require periodic maintenance and inspection. As these reservoirs are critical to ensuring continued water service to District residents, the reservoirs need to be inspected and cleaned while in service. As such, the District utilizes a specialized divers to inspect the interior of the tanks for deterioration and necessary maintenance activities as well as vacuuming the floor to remove sediment that builds up in the reservoirs over time. The inspection

cycle for these tanks is five years and this work was last performed in 2013. Staff recommends the Board award the dive inspections to the second low bidder as the lowest bidder does not possess an Arizona contractor's license, which is necessary if there are any repairs needed on the interior of the two tanks. The difference between the lowest and the recommended bidder is \$470, which is much less than what would be required to secure a different vendor to perform any required interior tank repairs.

Mr. Foulk moved to approve the Reservoir Cleaning and Dive Inspections as presented by staff, award the work to Applied Diving Services, Inc. in the amount of \$12,680, and authorize the General Manager to approve up to an additional \$3,000 as needed. Ms. Ireland seconded the motion. Motion passed unanimously.

H. Conceptual Cost Opinion for Herb Johnson Reservoir Expansion

Mr. Olsen stated that the Herb Johnson Reservoir was constructed in 1996 to provide service to the majority of District residents in the Metro Main Service area. As the reservoir was constructed as a single cell, the reservoir cannot be taken offline for scheduled maintenance. The NWRD project will deliver recovered CAP water from Avra Valley to the Herb Johnson reservoir where the water will be blended prior to delivery to District residents. This further increases the criticality of the Herb Johnson Reservoir's operation. As such, staff has been exploring the possibility of constructing a 2.5 MG reservoir adjacent to the existing 5 MG storage tank to enable proactive maintenance and to enhance system resiliency. To refine capital improvement program planning, it is recommended that the Arizona Department of Administration professional service list be utilized for Carollo Engineers to accomplish a conceptual cost opinion for the Herb Johnson Reservoir expansion.

Mr. Offret moved to utilize Carollo Engineers to develop a conceptual cost opinion for the Herb Johnson Reservoir Expansion in the amount of \$17,980.00 using the Arizona Department of Administration State Procurement Office annual professional services list. Mr. Foulk seconded the motion. Motion passed unanimously.

I. Authorizing the General Manager to Execute an Agreement Utilizing the Miscellaneous Real Estate Consulting Services Contract

Mr. Olsen stated that the previous agenda item highlighted the importance of planning for the Herb Johnson Reservoir expansion. This item is to authorize the District's Real Property Consultant, Tierra Right of Way Services, to negotiate and prepare documentation necessary to secure the property adjacent to the existing Herb Johnson Reservoir for the potential reservoir expansion.

Ms. Ireland moved to authorize the General Manager to execute an agreement in the amount of \$16,340.00 with Tierra Right of Way Services, Ltd., to provide services to secure a reservoir site

utilizing the Professional Services Agreement for Miscellaneous Real Estate Consulting. Mr. Foulk seconded the motion. Motion passed unanimously.

J. Construction Period Services for the Hub Reservoir Site Expansion, New Steel Tank Phase II (M-18-012)

Mr. Olsen stated that the smaller of the Hub reservoir tanks was recently demolished to make room for a larger 800,000 gallon tank to enhance the storage in the Hub service area. A portion of the construction of the new storage tank involves structural, electrical, and corrosion protection elements, a skill-set that is outside the District's water infrastructure inspection expertise. To ensure conformance with design standards, Staff recommends utilizing the District's Miscellaneous Design services consultant, Westland Resources, to accomplish construction inspection of these specialized inspection elements.

Mr. Offret moved to authorize WestLand Resources to perform construction period services under the Professional Services Agreement for Miscellaneous Design Services in support of the construction of the Hub Reservoir Site Expansion, New Steel Tank Phase II, for a not-to-exceed fee of \$27,545.00, and to authorize the General Manager to allocate additional funding in a cumulative amount not to exceed \$2,500.00. Ms. Ireland seconded the motion. Motion passed unanimously.

K. Presentation on the District's Process for Developer Financed Projects

Mr. Olsen stated that the Board is regularly asked to consider approving water service agreements with developers who wish to expand the District's water distribution infrastructure, often to support water service for a new subdivision. The water service agreement is just one element of a multi-faceted review and coordination process to ensure that growth pays for itself and that District staff is able to meet domestic and fire flow demand for current and the proposed future customers long into the future.

Tim Dinkel, a Civil Engineer with the District who has over 20 years of experience in reviewing and coordinating developer financed projects presented the many step in the development process.

V. General Manager's Report

Mr. Olsen stated that HDR facilitated a 6-hour Risk Workshop with project partners from Oro Valley, Marana, and the District, to identify and work mitigation strategies for risks associated with the NWRDSDS. Over 45 risks were identified and risk management solutions were created to minimize both the financial and time impact of each of the risks. From a high level perspective, risks were identified that could impact the total project cost on the order of \$18 million and the risk mitigation strategies, while still being modeled and validated, would drop that risk to

approximately \$2 million. Again, these numbers are valuations of risk and are meant to highlight the importance of a proactive risk mitigation approach.

The Water Resources Research Center will be holding their annual conference on February 2, 2019. The event theme is Arizona Runs on Water: Scarcity, Challenges and Community Based Solutions. The day-long conference will be held in Phoenix. If any of the Board members wish to attend to gain additional water policy perspective, please let Ms. Fedele or me know.

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 December 10, 2018 at 5:30 p.m. and will include an Executive Session for the review of the General Manager.

VIII. General Comments from the Public

John McAlister, a District Resident, asked how much new debt will be obtained and what it will be used for. Mr. Olsen stated that there is still planning and analysis activities ongoing with regards to the bond process. The District is also working with the Bond Counsel and the NWRRDS project consultants, HDR, to determine what makes financial sense and what is needed. Any debt will be for the construction portion of the NWRRDS project as well as other capital infrastructure needs. Ms. Bracken stated that the District has been working to eliminate approximately half of the District's debt from 2013 to ensure a stable foundation before taking on any new debt.

IX. Adjournment

The meeting adjourned at 7:13 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board