

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

March 10, 2014

**** Board Room ****

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

MINUTES

Board Members Present: Dan M. Offret, Vice-Chair
Richard Byrd, Member
Jim Doyle, Member
Bryan Foulk, Member

Board Members Not Present: Judy Scrivener, Chair

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
John Hinderaker, Legal Counsel

Regular Session

I. Call to Order and Roll Call

Dan Offret, Vice 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. Richard Byrd, Jim Doyle, Bryan Foulk, and Dan Offret were present. Judy Scrivener was not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – February 10, 2014 Board Meeting.**
- B. Approval of Amended Minutes – January 13, 2014 Board Meeting.**
- C. Ratification of Billing Adjustments.**

Mr. Foulk made a motion to approve the Consent Agenda. Mr. Byrd seconded the motion. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said February consumption in Metro Main was approximately 1% higher than compared to February last year while Metro Hub and Metro Southwest showed declines in consumption. Though when compared to total demand across all the systems, consumption was approximately the same as February of last year. There continues to be increased new meter activity over the same period in the previous year with 20 new meter applications received, the majority of which are located in Metro Southwest.

Mr. Olsen reported that Central Arizona Project (CAP) requested an interruption in deliveries to the Avra Valley Recharge Project (AVRP) to facilitate maintenance activities, as discussed at last month's Board meeting. The total interrupted volume was 270 acre-feet, which is now rescheduled for storage in the Cortaro-Marana Irrigation District's (CMID) Ground Water Savings Facility (GSF). This route saves the District approximately \$7,000 compared to moving the water to facilities at which the District has to pay the O&M rate to recharge. Mr. Olsen thanked Dave Bateman from CMID as well as Mike Block, Water Resources Manager, for identifying this cost savings opportunity. Mr. Offret asked if this loosens up the allocation in the District's budget. Mr. Olsen said when the water was moved to the GSF as opposed to AVRP, \$12 per acre-foot was paid to the District versus the District having to pay approximately \$15 per acre-foot, which was financially beneficial to the District.

The 2013 Annual Groundwater Withdrawal and Use Report has been completed and shows that system losses between the five service areas range from 3.7% to 5.9%; all below the 10% regulatory limit set by Arizona Department of Water Resources (ADWR). Staff will provide a brief presentation elaborating on this topic on a later agenda item.

Staff has been working on the Hoover Power application to the Western Area Power Administration, which the Board approved moving forward with at the last Board meeting. Staff will attend a pre-application meeting next week to ensure everything is moving forward for the application to be completed this month.

Coordination continues with District staff, CMID, Pima County, and the Bureau of Reclamation (BOR) regarding effluent deliveries to the CMID GSF. The next steps are to review potential operating costs calculated by the BOR, meet with Pima County to ensure concurrence on

potential interim and long-term delivery options, and bring recommendations back to the respective governing bodies. Mr. Offret asked if there is a final date for the next steps. Mr. Olsen said staff has just received some higher fidelity on capital and operating costs on gravity versus pressurized systems. Staff is currently reviewing those numbers and will have a better articulation of time frames by the next Board meeting.

B. Financial Report.

Ms. Bracken said revenue and expenditures through January are both favorable with revenue of \$1,117,569 over in a straight line projection. Water sales are \$678,624 ahead of the budgeted amount for the first seven months of the fiscal year.

Operating expenditures are under budget by \$162,262 using a straight line comparison. Revenue in excess of operating expenditures is \$1,279,830 favorable compared to the budget through the first seven months of the fiscal year.

A prior year comparison of revenues through January 2014 is \$1,443,748 ahead of January 31, 2013; this is mostly due to water sales, which are \$700,324 higher in the current fiscal year.

Operating expenses in all categories are higher this fiscal year compared to last fiscal year with the exception of salaries and benefits and purchased power. A large portion of the expenditure increases this year are attributed to CAP water purchased, and legal fees.

Expenditures for the Capital Improvement Program funded with the 2007 WIFA funding are 91.69% completed. Close out of the 2009 WIFA loan is pending the approval of construction and submittal of as-built drawings.

A total of 20 meter applications were received in February. Metered applications so far this fiscal year total 233, compared to a total of 27 as of February in the prior fiscal year.

The office solar system continues to generate a savings. The electric costs for the first eight months total \$24,468 compared to \$25,479 for the same period in fiscal year 2010-11.

C. Legislative Issues 2014.

Mr. Olsen said last month, the Board approved support of HB2326, HB2523, and sought an amendment to HB2386.

Since then, HB2326 regarding the authorization of Arizona Water Banking Authority (AWBA) purchasing long-term storage credits has been held in committee due to an agreement not being reached between CAP and AWBA. Last week, both those entities held meetings to hammer out differences and general concurrence was reached. It is expected that this bill could now move

out of committee. Mr. Offret asked for an explanation on how this works. Mr. Olsen said this allows leveraging of the 4 cent tax to purchase long term storage credits that have already been accrued. The point of contention was a difference of opinion on how that 4 cent tax would actually be used. The parties reached an understanding on that last week. Mr. Offret said his confusion is over who the recharge credits are bought from. Mr. Block said the credits would be purchased from any willing provider having excess recharge water.

HB 2523, which moves \$30 million from General Fund to the water supply development revolving fund, has passed through the House and is now in the Senate.

HB2386, regarding financing of special districts, has not moved in committee and indications are that it will not move this session. While it is likely that this bill will be revived in a future session, the bill's sponsor agreed to exclude domestic water improvement districts. Should this bill appear in the next session, the same exclusion will be sought.

SB1166, which was discussed at last month's Board meeting relating to Pinal County Active Management Area extinguishment credits, has not moved forward and is stalled for this session.

D. Annual Water Level Monitoring Program.

Mr. Olsen said staff has completed the annual water level round-up of 57 wells. Gary Burchard, Hydrologist II, gave a brief presentation showing where water levels have risen or declined across the service areas.

Mr. Olsen explained that while the District is within ADWR's regulatory compliance, the groundwater level averages for Metro Main continue to decline and that stresses the importance of continuing to analyze such programs as the CAP Recovery System, which require investment and years of planning but will reduce the amount of groundwater pumping in the future.

Mr. Offret asked about grouping well fields and Mr. Burchard said ADWR allows that because of work performed by Mr. Block years ago. Mr. Block referred to the five-year table in the Board report, which shows a few wells exceeding 4 feet of decline. He said at the beginning of the drought, he petitioned ADWR and they allowed the grouping of well fields rather than each individual well.

Mr. Offret complimented staff on great graphics.

E. Assured Water Supply Update for Metro Southwest – Diablo Village.

Mr. Olsen said this item is a series of three items for the Board's consideration. On February 21, 2014, ADWR issued a Designation of Assured Water Supply (DAWS) for Metro Southwest –

Diablo Village for approximately 2,700 acre-feet per year. During the ADWR process of reviewing of the DAWS submittal, staff was also working with Pomerol Land II, LLC, owners of the Pomegranate Farms development to determine the best course of action for obtaining water service. To accomplish such, first a modification of the DAWS for Metro Southwest – Diablo Village is required to include the Pomegranate Farms development which would increase the total by about 1,400 acre-feet to 4,135 acre-feet per year. Second, an assured water supply agreement between Pomerol Land II, LLC and the District is required by ADWR as part of the District’s DAWS modification submittal. Finally, the District would need to submit an application to the CAGR D to modify the member service area agreement for Metro Southwest – Diablo Village to provide assurance that if the District cannot access renewable supplies, then the CAGR D could meet the District’s replenishment needs. It should be noted that Pomerol Land II, LLC, not the District, would be paying the fees for the application, modification and submittal.

Mr. Byrd made a motion to approve the Pomegranate Farms Assured Water Supply Agreement between Pomerol Land II, LLC and the District; and to approve Resolution 2014-1 authorizing the General Manager to submit to the Arizona Department of Water Resources a Modification of a Designation of Assured Water Supply application for Metro Southwest – Diablo Village; and to approve the Chair of the Board to sign the application to approve modifying the District’s membership in the Central Arizona Groundwater Replenishment District for the Metro Southwest – Diablo Village service area. Mr. Foulk seconded the motions. Motions passed unanimously.

F. Amendment of Interim Remedial Action Contract with the Arizona Department of Environmental Quality for the South Shannon Treatment System.

Mr. Olsen said as discussed at last month’s Board meeting, an amendment with Arizona Department of Environmental Quality (ADEQ) regarding the operating and maintenance expense reimbursement for the South Shannon Treatment System was going to be needed for the current fiscal year due to additional granular activated carbon change outs. The amendment is to increase the contract amount that ADEQ will reimburse the District by approximately \$26,500 for a total of \$140,710.46 for the current fiscal year. Mr. Offret recalled similar amendments in the past.

Mr. Foulk made a motion to approve Amendment No. 26 to increase by \$26,460.46 to \$140,710.46 the Interim Remedial Action Contract at the South Shannon Facility between the Arizona Department of Environmental Quality and the District. Mr. Byrd seconded the motion. Motion passed unanimously.

G. Award of the Construction Contract for the Freer Road and Camino Del Sur Interconnection, Shannon Road to Camino Del Plata.

Mr. Olsen explained the Freer Road and Camino Del Sur interconnection project addresses a serious bottleneck in the system between the Herb Johnson boosted C-Zone and B-Zone service areas. The project has been on the unfunded list since 2000 and is included in the current fiscal year budget.

Mr. Offret asked if staff always put in alternatives for ductile iron or PVC and whether there are any problems connecting ductile iron with PVC. Mr. Maish said an 8 inch pipeline is connecting to a 12 inch and confirmed there are no problems connecting PVC to ductile iron. The 12 inch line was installed by in house staff a few years ago. The line is in a rural area with a dirt road and major construction is not anticipated in that area. The District is saving about \$30,000 by using that material.

Mr. Foulk made a motion to approve the award the construction contract for the Freer Road and Camino Del Sur Interconnection, Shannon Road to Camino Del Plata to Innova Engineering, Inc. in the amount of \$ 114,830.00 for Alternate A. It is also recommended that the General Manager be authorized to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$ 5,000.00 (approximately 4% of bid) and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Approval of this authorization will allow work to proceed promptly should any unforeseen conditions be encountered during construction. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Byrd seconded the motion. Motion passed unanimously.

H. Award for the Magee/La Cholla Booster Pump VFDs.

Mr. Olsen said the current configuration of the electrical system at the Magee/La Cholla booster station precludes staff from safely working on the electrical panels and VFDs due to the arc flash potential. The scope of this work includes the installation of three new drives, along with the appropriate breaker protection for each drive, enabling staff to safely maintain the facility. Mr. Offret thanked him for explaining the situation from an engineer's perspective.

Mr. Foulk made a motion to award the Magee/La Cholla Booster Pump VFD work to Kelly Energy Inc. in the amount of \$146,737.67 and authorize the General Manager to approve additional funding of a cumulative amount not to exceed \$7,500 should any unforeseen conditions be encountered during construction. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Byrd seconded the motion. Motion passed unanimously.

I. Offer to Purchase Bell Well Site Property.

Mr. Olsen said the Bell Well site has been inactive since 2007. At the December 9, 2013 Board meeting, staff was directed to proceed with the advertisement and accept bids for the property. The appraised value of the Bell Well property and remaining site improvements is \$40,600 and the only offer to purchase was received from Anna Burchard and Lisa Orwick for \$36,600. It should be noted that the District will retain the monitoring well and necessary easements should the Board decide to move forward with the purchase agreement. There have been delays associated with the demolition activities that will necessitate an extension of the closing date of escrow beyond the 30 days stated in the purchase agreement to allow the demolition to be completed prior to inspection by the purchaser should the Board concur with the sale of the property. The offer to purchase agreement simply says that the close of escrow can be extended with mutual consent of both parties. The potential buyer is in the audience tonight and has concurred with the extension given the demolition delays.

Mr. Offret asked Mr. Olsen to explain why accepting the under market offer has been recommended. Mr. Olsen said all appropriate items that the District still has a beneficial use for, such as the monitoring well and easements, are being retained. Mr. Offret asked if those items are included in the estimate and Mr. Olsen said no, they are excluded from market value. The \$40,600 value covers only what is in the purchase agreement. The remaining property is of no beneficial use to the District and any property in inventory has an annual maintenance cost associated with it. The bid is relatively close to appraised value, so it is the recommendation of staff to move forward.

Mr. Byrd made a motion to accept the Offer of Purchase of the Bell Well Site property from Anna Burchard and Lisa Orwick in the amount of \$36,600 and direct staff to proceed with the preparation of the documents to finalize the sale of the property. Mr. Foulk seconded the motion. Motion passed unanimously.

V. General Manager's Report.

Mr. Olsen said there have been some significant developments on the Bell Well demolition since the Board materials were distributed, which has further delayed the work. A two foot thick reinforced concrete slab, which was intended to be part of the demolition work, was not clearly called out in the bid materials as a separate line item requirement but was articulated at the pre-bid site meeting. The contractor who was awarded the work did not include that item in their bid and requested a substantial change order. As the bids were for a lump sum, the missing concrete demo was not identified by the contractor until right before demolition work was to begin. Additionally, performing some of the major demolition activities during the weekend was determined to be the best way to minimize the impact to adjacent businesses and property owners but would require a change order for additional costs associated with weekend work.

After reviewing the bids and change order costs, the second bidder who did include concrete demo in their lump sum bid, is now the new low bidder, and this item will be on the April Board meeting for consideration. Mr. Offret asked if the recommendation will be the second bidder including the slab, weekend work, and lead paint removal and Mr. Olsen confirmed.

Clarifications have been provided to WIFA regarding the grant application. WIFA staff is reviewing the application and has not yet arrived at a recommendation for the WIFA Board which will meet to decide on the application on April 30, 2014.

Staff has continued coordination efforts on inter-AMA firming with the potential partners and recently determined that a smaller demonstration would be more appropriate for the pilot to determine initial viability of the concept. The next steps are to meet with CAP at the end of the month to ensure proper coordination and have inter-AMA firming discussions this summer at the respective governing bodies and potentially have intergovernmental agreements in place by the end of the year to modify current year CAP orders to demonstrate the recharge portion of the concept.

Mr. Olsen will be attending the Water Resources Research Center Conference on April 8, 2014 at the University of Arizona campus. This one-day event will focus on closing the gap between water supply and demand. Board members are welcome to attend.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items.

The next Board meeting will be held on Monday, April 14, 2014.

VIII. General Comments from the Public.

There were no comments by the public.

IX. Adjournment.

The meeting adjourned at 6:36 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board