

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

April 13, 2015

**** 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
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Steve Shepard, Utility Superintendent
Warren Tenney, Assistant General Manager
John Hinderaker, Legal Counsel
Richard Rollman, Legal Counsel

Executive 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 5:30 p.m. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present.

Consideration of Action to go into Executive Session for the following purpose: Pursuant to A.R.S. § 38-431.03.A.3 (consult with attorneys for the District) regarding the First Amendment of Agreement for Delivery of Reclaimed Water with Omni Tucson National Golf Resort.

Mr. Offret made a motion to adjourn into Executive Session. Mr. Foulk seconded the motion. Motion passed unanimously.

The Executive Session concluded at approximately 5:58 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 6:00 p.m. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present.

II. Consideration to Approve First Amendment of Agreement for Delivery of Reclaimed Water with Omni Tucson National Golf Resort

Mr. Foulk made a motion to ratify the First Amendment of Agreement for Delivery of Reclaimed Water with Metropolitan Domestic Water Improvement District and Omni Tucson National Golf Resort. Mr. Offret seconded the motion. Motion passed unanimously.

III. General Comments from the Public

There were no comments from the public.

IV. Consent Agenda

- A. Approval of Minutes – March 9, 2015 Board Meeting.**
- B. Approval of Minutes – March 30, 2015 Study Session.**
- C. Ratification of Billing Adjustments.**

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

V. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said fiscal year to date consumption in Metro Main and Metro Hub continues to trend downward and is presently 7% below last fiscal year. Last fiscal year was the previous lowest demand on record for Metro Main, so the fact the District is now 7% below the lowest year highlights the critical importance of the coming discussions on adjusting fixed/variable revenue for revenue stability.

The Utility Team has been busy with a series of planned and unplanned maintenance activities on Hub wells No. 2 and No. 3 and was able to ensure continued production capacity for Hub residents. Staff also finished a project at Magee and La Cholla to raise control valves and appurtenances above ground, which will streamline future operations and maintenance activities. The Diablo Village generator was set last week and the District is waiting for Southwest Gas to install their new service line. The District has received the approved Designation of Assured Water Supply from the Arizona Department of Water Resources for the Metro Southwest - Diablo service area.

Mr. Offret asked if the main breaks noted in the Monthly Status resulted in any customers being out of water. Mr. Shepard said a handful of customers were out of water for a brief time.

Mr. Olsen continued with an update on the Cortaro Marana Irrigation District (CMID) Effluent Delivery Project. During the final coordination review, after legal counsel review, an unexpected issue arose. Review of a reuse permit from Arizona Department of Environmental Quality (ADEQ) revealed concerns with the class of effluent that would be delivered to CMID farmlands. The effluent is permitted as Class B+ which is not usable in some agricultural applications. The District will work with ADEQ to identify the next steps in delivering this effluent. Until this concern is resolved, the intergovernmental agreement will not be brought for consideration. The pipeline integrity test under I-10 will still move forward to determine its capability to deliver water in the future.

The Arizona Power Authority's deadline for Hoover Power is April 27, 2015. Staff plans to submit an application prior to the deadline to compete for this financially efficient pool of power.

B. Financial Report.

Ms. Bracken said revenue and expenditures through February are both favorable with revenue of \$552,932 over budget using a straight line projection. Increases are largely attributed to development revenue of \$391,796 over budget, Water Resource Utilization Fees of \$243,251 over budget, and other income of \$145,598 over budget. Water sales are under budget on a straight line projection by \$299,496. A ten year monthly consumption average would predict year to date revenue at the end of February at 67% of the budgeted water revenue. Actual water sales revenue is at 65% at the end of February. February and March historically have the lowest water consumptions of about 6% with an average of 8% in April. Increases are not expected until May and June, when historical averages equal 9% and 10% respectively of the annual budgeted revenue. Operating expenditures are under budget by \$907,682 using a straight line comparison. At the end of eight months into the fiscal year, revenue in excess of operating expenditures is favorable when compared to the budget by \$1,460,614. A prior year comparison of revenue through February is \$341,469 higher than February 2014. Total operating expenses this fiscal year compared to the prior fiscal year are lower by \$311,588. When comparing revenue in excess of operating expenditures to the prior year, the current year is favorable by \$653,057. There are no expenditures this month to report on the capital improvement program funded with the 2007 WIFA loan.

The investment report includes a transfer of \$186,883 from the Canyon Community Bank repair and replace account into the Stern Agee repair and replacement account, consolidating these two restricted funds into one account. The account was closed at Canyon Community Bank in an effort to implement the auditors' recommendation to obtain FDIC coverage on more dollars held in accounts. Funds have been or will be invested in blocks of \$240,000 increments or less so that the District can obtain full coverage. The District is required to maintain a balance of \$800,000 in the repair and replacement accounts or replace the balance up to that amount in accordance with the bond resolution tied to the current outstanding debt.

A total of 9 meter applications were received in March compared to 24 meter applications in March of the prior fiscal year. Meter applications so far this fiscal year total 85 compared to 257 in March 2014.

The office solar system continues to generate a savings on electricity. Electric costs for the first eight months of the fiscal year total \$23,057 compared to \$26,680 last fiscal year and \$27,484 for the same period in fiscal year 2011. Year to date, the electric reduction is \$4,427 when compared to 2011, and a reduction \$3,623 when compared to fiscal year 2013.

C. Legislative Issues for 2015.

Mr. Tenney said the Arizona Legislature ended its session earlier this month. The four cent tax extension was passed for CAP. Mr. Foulk asked if costs go down when the four cent tax drops to three cents. Mr. Offret said the Legislature was wanting to lower taxes. Mr. Tenney said the tax will most likely be renegotiated in the future.

D. Approval and Award for Water Treatment Media Regeneration Annual Quotes for District's Arsenic Treatment Media.

Mr. Olsen said to ensure the District is able to deliver water below 10 ppb concentration levels for arsenic, the District has arsenic treatment systems on Metro Hub wells No. 1A and No. 3, Metro Southwest – Diablo Village well No. 1, and the Metro Southwest – Lazy B well. Arsenic treatment systems utilize iron oxide absorption media to remove arsenic from the water. After a period of use, the media must be regenerated to remove the arsenic ions from the media so it can be reused.

The first solicitation for arsenic media bids resulted in no on-time submittals, primarily because of weather-based mail delays. Following the procurement policy, the bid was re-solicited and one qualified vendor submitted. Purolite has regeneration facilities which meet NSF standards and Purolite is the staff recommendation for arsenic media regeneration.

Mr. Foulk asked if the District requested bids from any other groups. Mr. Olsen said Layne RT had been utilized in the past but they are no longer in the business. District staff asked around and Purolite was mentioned. Mr. Shepard said the District advertises in the Daily Territorial, and the advertisements are picked up by several nationwide services.

Mr. Foulk asked if the Purolite price was close to last year's. Mr. Olsen said the price has increased.

Mr. Offret made a motion to approve the annual quote for Water Treatment Media Regeneration and award Purolite the regeneration of the District's Arsenic Treatment Media. Mr. Foulk seconded the motion. Motion passed unanimously.

E. Approval to Participate in the Supplemental Fund Program of the Central Arizona Water Conservation District.

Mr. Olsen said each year Central Arizona Water Conservation District (CAWCD) must reconcile and settle its water delivery rates for long term contracts. The amount to be reconciled for 2014 is \$6.8 million. As a way to manage and stabilize rate increases expected in CAP delivery rates should a shortage condition occur, the CAWCD approved a voluntary supplemental fund program. The amount of the refund of long term storage contracts such as the District's would be held in a voluntary supplemental fund program and matched by CAWCD at 54 cents per dollar. This amount would be utilized to cushion increases in CAP delivery rates expected in a shortage condition. Should a shortage condition not occur or the program not be leveraged by the end of 2020, the District's reconciled portion would be refunded, minus the 54% matching funds from CAWCD. The 2014 amount for the District is approximately \$80,000 and CAWCD will match around \$43,000. The reconciled amount includes reconciliation of 1,635 acre-feet that the District stored and Marana purchased through a 2014 agreement. Should the Board concur with the recommendation to participate, the District will transfer water credits of equivalent value as a portion of the due reconciled amount which equates to 58.9 acre-feet of storage credits. The District will continue to receive CAP allocation deliveries and participation in this program will help mitigate CAP unit cost increases.

Mr. Offret asked if the District will need a formal agreement with Marana to refund the 58.9 acre-feet. Mr. Olsen said no further action would be required other than the simple form for water credit transfer. There have been discussions with Marana and according to CAWCD, everything is being reconciled back to the District as the party who placed the order, so the transfer of long term storage credits to Marana would make them whole.

Mr. Foulk made a motion to approve participation in the Supplemental Fund Program of the Central Arizona Water Conservation District. Ms. Ireland seconded the motion. Motion passed unanimously.

F. Annual Water Resources Report.

Mr. Olsen said last year, the District created a new mechanism for communicating the current portfolio of the District's water resources to include balances of groundwater, CAP credits, effluent credits, and remediated water allowance. This portfolio is updated annually so the Board can see how the District is investing its water resources. This is of particular interest given the probability of Colorado River shortages in the near future.

Mike Block, District Water Resources Manager, gave a presentation about the Annual Water Resources Report. The District has about 120,000 acre-feet of groundwater, 22,000 acre-feet of CAP credits, and 2,100 acre-feet of recycled water. The District was able to increase its portfolio this year by about 5,600 acre-feet, or 3.9%, and that is equivalent to about 60% of annual demand. The asset value of the increase in CAP and effluent is about \$1.2 million. He went over the 2014 production and use trends in each service area. Water losses in each area were below the 10% compliance trigger. The 2015 trajectory includes securing a reuse permit with ADEQ and an agreement with Pima County to construct pipeline for delivery of effluent to CMID to earn 100%

credit on stored effluent, continuing to leverage remediated water resources from South Shannon Treatment System, continuing GSF storage partnerships to enhance the amount of CAP water stored annually, and continuing the water conservation program.

VI. General Manager's Report

Mr. Olsen said on April 7, 2015 the Tucson Mayor and Council unanimously approved the wheeling agreement with the District. This allows the District to leverage a portion of its renewable water resources to meet demand in the Metro Southwest - Diablo Village and Metro Southwest - Lazy B service areas. This allows construction of infrastructure between Tucson Water and the Metro Southwest - Lazy B service area, which is included in the proposed 2016 capital improvement program. Mr. Offret asked how many linear feet of water main are needed. Mr. Olsen said it would be only a couple hundred feet at a cost of about \$55,000.

Mr. Olsen said the Central Arizona Project (CAP) General Manager, David Modeer, will retire on April 30, 2015. CAP Chief Financial Officer Ted Cooke will serve as Interim General Manager through the recruitment process.

VII. Legal Counsel's Report

Mr. Hinderaker said he had nothing to report.

VIII. Future Meeting Dates; Future Agenda Items

The next regular Board meeting is scheduled for Monday, May 11, 2015. An Information Meeting is scheduled for Wednesday, May 13, 2015 and the Rate Hearing is scheduled for Monday, May 18, 2015.

IX. General Comments from the Public

Ingrid Saber, a resident of the District, asked what happens to the waste after removal of the arsenic ions from the media. Mr. Olsen and Mr. Shepard explained the ion stripping process. The facility disposes of the waste per Environmental Protection Agency (EPA) standards and the media is sent back to the District to use in its new state. Mr. Foulk noted some facilities may even sell the arsenic byproduct.

X. Adjournment

The meeting adjourned at 6:30 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board