

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

April 14, 2014

**** Board Room ****

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

MINUTES

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

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Warren Tenney, Clerk of the Board
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. Richard Byrd, Jim Doyle, Bryan Foulk, Dan 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 – March 10, 2014 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Reapproval of Assured Water Supply Agreement for Pomegranate Farms – Metro Southwest – Diablo Village Service Area.**

Mr. Offret made a motion 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 said that March consumption in Metro Main was approximately 5% higher than compared to March last year. Metro Hub and Metro Southwest showed a consumption increase of 13% and 9%, respectively.

There continues to be an increase in meter activity compared to last year with 24 new applications, split between Metro Main and Metro Southwest.

Staff has completed and submitted to Arizona Department of Water Resources (ADWR) the annual groundwater withdraw and use reports for the District's five service areas.

Staff has completed the review of the power component of wheeling costs from Tucson Water with the cost of service cost component expected to be ready for review in May. Once the numbers are solidified, then a potential wheeling agreement for Metro Southwest will be brought to the Board for consideration.

On the Oracle Road Regional Transportation Authority (RTA) Bus Pullouts waterline relocations, the District has recently received the Arizona Department of Transportation (ADOT) permit and work has commenced.

Mr. Foulk asked about the new meters installed in Metro Hub. Mr. Maish said the contracted installation of new meters in Hub was completed several months ago. Mr. Foulk asked if that could account for part of the increased usage in Hub. Mr. Olsen said yes, since new meters improve accuracy and better record consumption data which could account for some of the increased usage.

B. Financial Report.

Ms. Bracken said revenue and expenditures through February are both favorable. Revenue is \$1,088,510 over on a straight line projection. Water sales are \$558,926 ahead of the budgeted amount in the first eight months of the fiscal year. Operating expenses are under budget by \$31,577 on a straight line basis. Revenue in excess in operating expenditures are \$1,120,087 favorable compared to the budget in the first eight months of the fiscal year. Total revenue as of February 2014 is \$1,586,027 ahead of February 2013, mostly due to water sales which are \$648,333 higher than the prior year with the exception of salaries and benefits and purchased power. Operating expenses in all categories are higher this fiscal year, including large increases

this year in Central Arizona Project (CAP) water purchases and legal fees. The capital improvement program (CIP) expenditures on the 2007 WIFA loan are 92.12% completed. Closeout of the 2009 WIFA loan is pending. A total of 24 meter applications were received in March. Meter applications total 257 for the fiscal year, compared to a total of 42 at the February the prior fiscal year. The office solar system continues to generate some savings. The nine-month total is \$26,680 compared to \$27,484 for the same period in fiscal year 2010-11.

C. Appointments to the Finance Oversight Committee.

Mr. Olsen said the Finance Oversight Committee (FOC) has undergone multiple membership changes over the past year due to resignations for multiple reasons. Fortunately, the District has received two requests to join the FOC, from Barbara Gelband, a former FOC member, and Doug Hofmann, who is present in the audience. These additional members will bring the total FOC membership to eight, as Jennifer Dussor will be resigning after the April meeting, as she is moving out of the District. Both are highly recommended.

Mr. Offret welcomed back Ms. Gelband, who has extensive experience with the District. Mr. Offret welcomed Mr. Hofmann, who will be a great addition to the FOC.

Mr. Offret made a motion to appoint Barbara Gelband and Doug Hofmann to the Finance Oversight Committee. Mr. Foulk seconded the motion. Motion passed unanimously.

D. Legislative Issues 2014.

Mr. Tenney said the main thing to report on is the legislation regarding financing of special districts. That bill is currently being retained. The District is not certain if it will move forward but there have been assurances from the sponsor of the bill and the Goldwater Institute, who is pushing the bill, that if it moves forward an amendment will be added to exclude domestic water improvement districts (DWID).

Mr. Offret asked if that will satisfy the opposition. Mr. Tenney explained some irrigation districts, CAP, and special districts in the Phoenix area wanted to be excluded from this legislation. The Goldwater Institute pushed the legislation targeting museum and art districts to achieve more financial transparency. They thought by lumping all special districts together, the problem would be solved and that is why there are a number of entities seeking exclusion, including DWIDs.

E. Approval of the Demolition of the Bell Storage Tank and Related Components.

Mr. Olsen said, as discussed at the March meeting, a new award is necessary for the demolition of Bell storage tank to include the additional costs for weekend differential work, lead paint precautions, and concrete slab removal.

Mr. Foulk made a motion to approve the demolition of the Bell storage tank to Breinholt Contacting Co. Inc. in the amount of \$15,375 and that the General Manager be authorized to allocate additional funding a cumulative amount not to exceed \$1,000 to allow work to proceed promptly should any unforeseen conditions be encountered during the demolition work. Any changes in excess of the above limit will be submitted to the Board of Directors for approval. Mr. Byrd seconded the motion. Motion passed unanimously.

F. Approval of the Reliability Centered Maintenance Training, Consulting, and Software Evaluation.

Mr. Olsen said during the mid-year budget review, the Board approved moving forward with the Reliability Centered Maintenance (RCM) training, consulting, and software evaluation program. Based on proposals and costs received, it is recommended that staff pursue the RCM training and software evaluation components to facilitate the incorporation of RCM practices and to identify the best RCM software for District utilization.

Mr. Offret made a motion to approve the selection of Asset Performance Group to provide the RCM training, RCM Variant training, and Software Evaluation for an amount not to exceed \$41,000. Mr. Byrd seconded the motion.

Mr. Foulk asked about the proprietary software of the second ranked group. Mr. Olsen said the proposal from the second ranked submitter included no costs allocated to the software evaluation task because they were promoting their own software. The District is looking at who can evaluate and decide on the best software for the District among available software.

Motion passed unanimously.

G. Purchase of Office Trailer for Metro Hub.

Mr. Olsen said this item is for the purchase of a used modular trailer, which will be refurbished and located at the Hub 1A site. The purchase price of \$15,580 is less than the \$20,000 budgeted in the current fiscal year.

Mr. Offret asked if the price includes sewer hookup. Mr. Olsen said yes, the price includes the refurbishment, mobilizing, and installation on site. The options for a new trailer were about the same but not worth the increased costs.

Mr. Offret made a motion to approve the purchase of the 2000 10' x 28' mobile office from Design Modulares, Inc. in the amount of \$15,580. Mr. Foulk seconded the motion. Motion passed unanimously.

H. Termination of Lower Cañada Del Oro Basin Aquifer Storage Change Monitoring Contract.

Mr. Olsen said the District currently has a three year contract with United States Geological Survey (USGS) to monitor aquifer storage change in the Lower Cañada Del Oro Basin and to measure land subsidence. The data provided by USGS was worthwhile up until a few years back when the District contracted with Arizona Department of Water Resources (ADWR) to use satellite imagery to measure land subsidence within the service areas and when the District expanded the groundwater monitoring network. The data from USGS is redundant to the data made publicly available by ADWR. It is recommended to terminate the USGS aquifer monitoring contract at the end of Fiscal Year 2014. This will save this District \$7,500 annually on what is essentially paying for the collection of redundant information.

Mr. Offret asked if there are any differences in the two forms of information. Mr. Olsen said the only difference is in the presentment. Other entities besides Tucson Water have terminated their USGS contracts as well because the ADWR data satisfies the needs.

Mr. Foulk asked if there is a penalty for termination. Mr. Olsen said there is not because the District is terminating the contract at the end of the fiscal year with appropriate notification. If the Board decides to terminate, the District has planned to make the final quarterly payment in accordance with the contract.

Mr. Foulk made a motion to approve the termination of the USGS contract for Aquifer Storage Change Monitoring Project by June 30, 2014. Mr. Byrd seconded the motion. Motion passed unanimously.

I. Water Resources Update.

Mr. Olsen said this year, we created a new reporting mechanism to provide an easy to consume snapshot of the District's water resources. This new method breaks down complex water resource concepts into a financial portfolio context, which clearly shows annual increases or decreases in the District's long-term water resources portfolio.

Mike Block, Water Resources Manager, provided a presentation on the current water portfolio snapshot, including its banked renewable supplies, (CAP water, effluent, and remediated water) and groundwater allowance, the 2013 ADWR performance measures for gallons per capita and water loss, and the water resources trajectory for 2014. For Metro Main, water resources

increased in 2013 for CAP, recycled water, and groundwater. The portfolio now includes credits totaling 120,261 acre-feet (AF) of groundwater, 21,361 AF of CAP water, and 1,545 AF of recycled water.

Mr. Offret asked if the value of water assets is expected to go up. Mr. Block confirmed the price of CAP water goes up each year.

Mr. Offret said the portfolio is worth its weight in gold and he appreciates how it puts it all in one package. The District is doing a great job in the different service areas with stopping water loss.

Mr. Olsen said when we clearly articulate what the water resource balance is it helps counteract the often-heard mischaracterizations that we are running out water. This shows how much water the District has, so people are able to see that the resource is growing over a period of years, and that shows the precious water resources are well-managed.

V. General Manager's Report.

Mr. Olsen gave a brief update on CMID Effluent reuse. Staff, CMID, and the Bureau of Reclamation have continued to meet to coordinate both the short-term and long-term infrastructure solution to deliver the District's effluent to the CMID groundwater savings facility (GSF), which will generate approximately three times the effluent storage credits than what the current managed recharge provides. The Bureau has expressed interest in being a 50/50 financial partner for the short-term solution, which will provide a framework for a long-term solution. The next step is to have all entities meet with Pima County to coordinate access easements and schedules. Once the schedule has been solidified, staff will bring it back to the Board and the parties will hopefully be able to draft an agreement for governing body considerations.

Mr. Olsen said the City of Phoenix, Tucson Water, and the District met with CAP to discuss the inter-Active Management Area (AMA) firming concept. While CAP staff is very supportive of the "private firming" concept, they expressed some concerns regarding how an entity could direct a portion of their water to be recovered by a different entity in another AMA. To achieve a solution on this concern, staff, CAP, and the potential inter-AMA partners will be meeting with the Arizona Water Bank Authority to see if credit exchange agreements other vehicles to address that concern. However, it is unlikely that the recharge portion of this concept will be proven this year given the lead time to work these details and obtain governing body concurrence.

Staff has completed the preparation of the draft budget materials which included integrated priority lists of new requirements along with a recommended funding line based on revenue projections. These items will be presented to the Finance Oversight Committee on April 21st and the results of that meeting will be presented to the Board on the April 28th Study Session.

Mr. Olsen has been invited, at no cost to the District, to attend the 2014 Arizona Municipal Utilities Leadership Institute (AMULI) conference in Payson, Arizona on 24-25 April, which will focus on how water resources might be impacted by climate change and how to increase water supply resiliency. Also, the District will have multiple staff at the 2014 AZ Water Annual Conference 7-9 May in Glendale, Arizona. Gary Burchard, Hydrologist, will be giving a presentation on Avra Valley Recharge Project Basin Enhancements; and Warren Tenney, Assistant General Manager, will serve as moderator for a water resources track.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items

A Board Study Session is scheduled on Monday, April 28, 2014 at 6:00 p.m. The next regular Board meeting will be held on Monday, May 12, 2014.

VIII. Discussion and Possible Action regarding the Plan for Accomplishing Next Steps for CAP Recharge, Recovery, and Delivery System

Mr. Olsen said the CAP Recharge, Recovery, and Delivery System (Project) has been discussed at previous Board meetings from both a financial planning perspective and a long-term capital infrastructure initiative. Since those discussions, additional analysis and effort has been expended to refine the tactical details of the project. The District is now at a critical crossroad for this project.

The Project would convey a portion of the District's CAP allocation from AVRVP to Metro Main in order to reduce the aquifer drawdown within that service area. At the last Board meeting, it was discussed that the average annual decline for the aquifer in Metro Main is approximately two feet. The pipeline route evaluation study, performed by HDR, recommended a two phase approach to accomplish this effort. First, recovered CAP water would be blended with groundwater at the Herb Johnson Reservoir to within an acceptable level of total dissolved solids. The second phase is for a treatment plant to treat the recovered CAP water before it is conveyed to Metro Main, to remove Total Dissolved Solids (TDS) as opposed to blending. This discussion focuses on the next steps for Phase 1 and not on the Phase 2 treatment plant option.

At the previous Board discussions, a potential funding scenario and associated schedule was presented. Upon careful consideration of the necessary coordination involved in a complex capital project that spans close to ten years, and the fact that the District has other capital needs beyond this Project, a proposed revised schedule has been prepared.

The Project is broken down into three major tasks. First, in FY15 and FY16 the District would be hiring a consultant to coordinate the extensive land purchases for the booster site, recovery wells, future treatment site, and etcetera. The next task from FY17 to FY20 would be hiring one or more engineering consultants to design the pipeline, booster station, fore bay, wells, while coordinating the long lead time crossings of I-10 and the Union Pacific railroad. The final task would be to accomplish a third procurement process to hire the construction firms that would accomplish the construction of the entire aforementioned infrastructure from FY21 to FY24.

Key benefits of this schedule are that it provides adequate coordination time for the key tasks, ensures that other infrastructure needs could be met parallel to this project, and is set up in a way that would prevent the need to finance the land purchase or design efforts except for one minor change in the Water Resources Utilization Fee. Given the current cost estimates for land and design, if the Water Resources Utilization Fee is increased by 20 cents per 1,000 gallons later this year and held steady with no increase the following year, rather than the planned 10 cents per year annual increase, then adequate financial resources would be available to fund the land/design efforts. This would allow the District to not have to pursue financing until many years in the future prior to the construction activities. Staff has run this schedule by Mark Reader of Stone & Youngberg, and he thinks it is a great idea given the existing debt burden.

Beyond the schedule, a tactical decision point which will set the trajectory of the whole project is identifying what the allowable average annual range of TDS will be for the blend of groundwater and CAP water. Finding the right balance between having a TDS range that is high enough to ensure economies of scale for the Project, while still being within customer acceptance levels, is crucially important. As there are a lot of different perspectives and preconceived notions of TDS, Mr. Olsen asked Tim Thomure from HDR Inc. to provide a brief presentation on TDS, the levels other water providers are currently experiencing within the region, and potential balancing range for this project.

Tim Thomure of HDR, Inc. gave a presentation about Total Dissolved Solids (TDS) and how an acceptable average range was determined. He noted that the TDS varies throughout the region. Over time, as Tucson Water has blended groundwater with CAP water in Avra valley, general acceptance for increased TDS levels has occurred. TDS levels also vary within the District's service area. The range between 400 & 500 mg/L is advantageous because it is economically viable and generally acceptable to customers.

Mr. Olsen said the District should look at a range rather than a certain TDS number because this is a far reaching program with a lot of design activities. Fidelity needs to be increased when we get into actual design. Identifying a range allows many options to stay on the table until we can engage in further dialogue regarding design. An average annual range is helpful because in operational realities, a well might go down for a week and if a particular number is established, it

reduces that operational flexibility. Establishing a recommended range of 400-500 mg/L TDS gives the District more opportunities to economically accomplish this program. There are two key areas for the Board to discuss: Is the revised schedule appropriate, and is the proposed range acceptable moving forward with land acquisition and design phase?

Mr. Doyle asked if the range for TDS is prior to disinfection or at the customer's tap. Mr. Olsen said the range would be after blending at Herb Johnson Reservoir.

Mr. Foulk asked about the effects on water softeners. Mr. Thomure explained the increasing TDS would increase the demand on water softener units or they may have to change out their media a little faster but it would not be anything the units could not handle. There have been some alternative water softeners in development to address TDS in water without adding salt.

Mr. Foulk made a motion that the District proceed with its CAP Water Recharge, Recovery & Delivery System by adopting the timeline as outlined in this report to be an acceptable approach for completing Phase I of this Project and by adopting an average annual range between 400 and 500 mg/L for Total Dissolved Solids for the blended water to be delivered from the Herb Johnson Reservoir. Mr. Byrd seconded the motion. Motion passed unanimously.

IX. General Comments from the Public

Ingrid Saber, residing 6322 N. Barcelona Lane had an idea about using magnets to clean water.

Mr. Olsen said the primary treatment in use is soil aquifer treatment. CAP water comes to AVRP where the first few inches of soil remove the constituents through biological processes at no cost. He stated that the District does not currently utilize any magnetic treatment processes.

Mr. Byrd said he has seen some magnet use in groundwater remediation systems. These are proprietary bolt-in units that have magnetic components for small flow rates. The units address some of the hard water tendencies but their effectiveness has never been outstanding. There has been some experimentation with it but nothing on a large scale.

X. Adjournment

The meeting adjourned at 6:58 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board