

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

May 13, 2013

**** 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: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
Abbe Goncharsky, Legal Counsel
Warren Tenney, Clerk of the Board

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. Judy Scrivener, Bryan Foulk, Richard Byrd, Jim Doyle, and Dan M. Offret were present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – April 8, 2013 Board Meeting.**
- B. Approval of Minutes – April 29, 2013 Study Session.**
- C. Ratification of Billing Adjustments.**
- D. Ratification of Bill of Sale – Hotel at Riverside Crossing West Side.**
- E. Approval of Auditing Services Agreement for Fiscal year 2012-13.**

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. Stratton said consumption is for the month of April was less than last year in all service areas. The continued decline is positive from one standpoint but has staff's attention from a financial standpoint. In May, we might start seeing an increase due to temperatures. Mr. Stratton has a feeling we will continue to see this downward trend for the foreseeable future, which will have impact on the budget for next year. Mr. Land will explain his revisions on revenue projections. Mr. Foulk asked if the consumption trend is staying the same. Mr. Land said it was a 1.9% decline and now it is 2.1%.

Mr. Stratton said the Avra Valley Recharge Project (AVRP) is going fairly well this year. As of April 30, 2013, 2,700 acre-feet (ac-ft) have been recharged and the goal is 7,000 ac-ft per year. Mr. Offret asked how Basin 4 is performing in relation to the other basins, after the District spent money on improvements. Mike Block, Water Resources Manager, said Basin 4 is recharging 1.0 to 1.5 ac-ft per day, whereas the other basins are doing about 2.5 ac-ft per day. Staff is working on how to get them recharging at comparable rates. About \$10,000 was spent improving Basin 4.

Mr. Stratton said the South Shannon treatment system has been down for maintenance and has not been used for a few months so that will extend its life a little bit.

Next month we will have agreements and adequacy reports from property owners in the Metro Southwest – Diablo Village area so we can begin the Arizona Department of Environmental Quality (ADEQ) application process for the Designation of Assured Water Supply.

On effluent recharge, staff is still working with Cortaro-Marana Irrigation District (CMID) and the Bureau of Reclamation to facilitate an evaluation of the gravity line from Ina Road to their canal system. Some areas are so clogged, they cannot get cameras through but they want to flush the line and get it cleaned up enough to get an idea of what repairs are necessary. Mr. Offret asked what the timetable is because he is concerned about losing effluent credits. Mr. Stratton said it is a slow process. Right now, CMID is working with Pima County on the possibility of taking effluent water out of the flume with direct pumping, which is the lowest cost option. Mr. Block said there has been some correspondence with ADEQ and the permits to flush the line were in place but they were worried about the integrity of the pipeline because when dealing

with effluent, there are environmental considerations. This might have to wait until Pima County has finished their construction and the ADEQ permit is cleared.

The only capital project currently under way is the Riverside Well improvement. Closeouts are in progress on Ina/Oracle and Orange Grove.

B. Financial Report.

Mr. Land said the District received a recovery payment of \$81,000 from the National Century Financial Enterprise bankruptcy and \$2,500 from another smaller bankruptcy. March revenues are \$27,000 under budget. Water sales are \$98,900 under budget at this point and expenditures are nearly \$586,000 under budget. Compared to last year's first 9 months, metered sales are \$131,000 higher. Operating expenses are less than the same month last year. The final bill from National Meter for the Metro Southwest system will be incorporated. Meter applications are almost double what they were last year, at 47. The solar array is still showing positive.

C. Retiree Health Insurance Subsidy.

Mr. Stratton said this agenda item makes language previously adopted clear. There is a slight ambiguity associated with it and the District is approaching several retirements soon. Staff reviewed the original discussion and motion from 2003. Mr. Offret said the intent of the original motion was to offer the subsidy to people who retired and took insurance through the Arizona State Retirement System (ASRS). Mr. Stratton said the motion potentially could be interpreted in such a way that was not intended.

Mr. Foulk said this was before his time. He asked if the District treats all retiring employees equally, whether they worked here 10, 15, or 20 years. Mr. Stratton said yes, as long as they retire under ASRS. Mr. Foulk asked why it is set up that way. It does not seem equitable to him to say a 10 year employee gets the same amount of subsidy from the District as someone who has been here 20 years. Mr. Land said the original intent was to assist retirees who enter into COBRA by adding a District subsidy to the State subsidy.

Mr. Foulk recognized some situations would result in different ASRS payouts but he wanted to know if number of years affected their ASRS insurance benefit specifically. Billie Sue Morelli, Human Resources Specialist, said the costs are the same but they do have different choices for insurance plans based on other factors, like whether they have dependents. The ASRS insurance stipend is the same for 10 and 20 years. She added that there are rules allowing retirees to keep their ASRS benefits and work part time at another entity that offers ASRS. Mr. Doyle thought people with more than 30 years of service could get more insurance benefit. Mr. Land confirmed medical insurance is the same for everyone retiring with over 10 years of service.

Mr. Offret made a motion to reaffirm the policy of a maximum \$125 monthly subsidy to assist in paying for health insurance for District employees who have been employed ten years or more and have retired into the Arizona State Retirement System (ASRS) and are using only the options that ASRS authorizes for health insurance coverage, which includes COBRA. The subsidy would be paid only up to five years after retiring from the District or until the retiree becomes eligible for Medicare, whichever comes first. Mr. Foulk seconded the motion.

Mr. Foulk asked how the District can check on retirees three or four years later to make sure they did not get another job or obtain health insurance somewhere else. Ms. Morelli said it is the retiree's prerogative whether to participate in ASRS or COBRA but she can only track them through COBRA. The District will, however, receive notification if the person stops receiving ASRS insurance. Mr. Foulk gave a scenario whereby an employee retires well below age 65, the District gives them a supplement and ASRS insurance covers them for a couple years, before the person gets hired on as consultant and takes other insurance, while still taking ASRS and still getting the District's supplement. Mr. Foulk wants to make sure retirees are not double dipping.

Motion passed unanimously.

D. Central Arizona Project Water Rates.

Mr. Stratton gave an update on recent action by the Central Arizona Project (CAP) board regarding setting their rates. Mr. Block has been tracking this and said CAP sets rates each spring for the following year. Rates coming before their board in June will be a 15.2% increase. The District usually only increases its budget 5% each year for CAP water. Table 1 shows that in 2014, CAP water will cost \$166 per acre foot, up from \$144. Next year the District will have less water for storage. Fiscal year 2013-14 is looking at storing 12,575 ac-ft, so the District will no longer reach its full allocation of 13,460 ac-ft. Table 4 shows it would take close to \$137,000 to raise the budget to reach full use but if we do it once, we have to do it again the following fiscal year. The way we have storage prioritized, the District stores half at AVRVP and the other half with groundwater savings partners. In addition, 1,636 ac-ft is subject to a contract with Marana. Mr. Offret asked how much less will be stored. Mr. Block said for the 2014 calendar year, the District will store 11,698 ac-ft, down almost 2,000 ac-ft. Staff is trying to work with other potential parties to fill in that gap with contracts like the one we have with Marana. Discussions with the Arizona Water Banking Authority (AWBA) will be held to see if that is a possibility, next week we will be meeting with Central Arizona Groundwater Replenishment District (CAGR), and there is one other big entity we could pursue down the line but do not know if we want to go that direction.

Mr. Foulk sees the big CAP rate increase in 2014 but noticed the tables show much lower increases in future years. Mr. Block said CAP only announced the 2014 rates this time but in the

past they have put out advisories for future years. Things are in such flux with regards to the Navajo Generating Station, they do not want to project that far out.

Mr. Block said another potential issue the District could face, depending on how close these revenue projections are for CAP, is an adopted policy resolution for 2014 that says if CAP revenues are not sufficient, they will be coming back to the contractors for the difference. Alternatively, if their revenue projections are overly optimistic, they will give back a credit. Mr. Block said CAP has in the past made up for shortfalls with SI2 credits, which are marketable, but those are limited to a supply of \$7.5 million dollars. Their preferred option would be coming back to the contractors for the difference.

Mr. Offret concluded CAP could charge the District anything. Mr. Stratton confirmed they are not regulated so they could charge us anything. Mr. Block said CAP had to do some sort of projection and its rates have to match the cost of operating the canal. This is their best guess.

E. Application for Allocation of Non-Indian Agricultural Water.

Mr. Stratton said Non-Indian Agricultural (NIA) Water is related to CAP. ADWR is allocating roughly 35,000 ac-ft of NIA water but ADWR is doing it differently than previous reallocations, in that they are looking at areas that currently have no allocation. Metro Southwest – Diablo Village, where the District is currently working on securing a Designation of Assured Water Supply, is calculated to potentially qualify for 298 ac-ft. Mr. Block noted the figure was recalculated from 286 to 298 ac-ft. The application does not bind the District at this point in time but helps bring final determination on whether go through the process to acquire NIA.

Mr. Offret asked if this NIA water is really \$1,280 dollars per ac-ft. Mr. Block said yes and explained that when reallocated water is purchased, all back capital charges had to be paid. That is how CAP is handling this proposed allocation, but it is more expensive if the buyer is outside the CAP taxing area, because they will add on another \$1,000 per ac-ft to recoup the costs of construction of canal. Mr. Block added \$1,284 per ac-ft is a onetime charge, not an annual charge. Another reason to support allocation this round rather than next is because this pool is over 34,000 ac-ft, whereas the second pool is half the volume so competition will be more rigorous. Mr. Offret said he supports throwing our hat in the ring.

Mr. Offret made a motion to approve the submission to ADWR of an NIA Priority CAP water application of 298 acre-feet for Metro Southwest – Diablo Village. Mr. Foulk seconded the motion. Motion passed unanimously.

F. Renewal of Meter Supplies Contract for Fiscal Year 2013-14.

Mr. Foulk made a motion to approve the unit price increase to the Meter and Meter Supplies contract with Badger Meter and authorize the renewal of the contract for its final year in Fiscal Year 2013-2014. Mr. Byrd seconded the motion.

Mr. Offret asked if the District is extending this contract so we can purchase existing inventory at a 2% increase. Mr. Stratton said no, as of July 1st, they will discontinue lead brass and will only offer no-lead brass. All brass costs will be going up. Mr. Hill noted the law becomes effective in January.

Motion passed unanimously.

G. Award of Construction Contract for the Hub 1A Site Improvements.

Mr. Foulk made a motion to award the construction contract for the Hub 1A Well Site Improvements to Innova Engineering, LLC in the amount of \$345,405.00 and to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$30,000 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Byrd seconded the motion.

Mr. Offret asked if construction will start while school is out of session for summer. Mr. Maish explained these are just improvements; the well is already drilled.

Motion passed unanimously.

H. Draft Fiscal Year 2013-14 Budget.

Mr. Stratton said the Board had already had a study session on the operating side of the budget and tonight they would be going over the capital items and capital projects staff has prioritized. Any approved capital items or projects take away from the carryover balance noted on the operating budget. Revenues have been reduced since the study session because consumption is declining a little more than we thought. Those numbers are being adjusted as the data comes in.

Mr. Tenney said staff narrowed the list of capital items for the coming fiscal year with a focus on needs. The capital project list starts out with improvements to the Hub 1A Well site in addition to the construction contract just approved a few minutes ago. Staff is hoping the \$90,000 targeted for improvements at Hub 1A Well can be funded through the remainder of the WIFA loan but we still wanted to list this as one of the capital projects for the new fiscal year.

Mr. Tenney began going over the list of general capital projects, starting with the HDR study for CAP Utilization. Mr. Offret said he thought this would be funded with the Water Resources

Utilization Fee. Mr. Stratton said the HDR study was funded this fiscal year but not all of it is being spent this fiscal year. There are other areas more appropriate for these funds to be spent on, which was brought up last month in talking about being ready for the land acquisition when a suitable parcel is identified. Mr. Tenney said staff would like to spread that Water Resources Utilization Fee money a little further. Mr. Tenney continued down the list of general capital projects, including a metering station for the reclaimed water line. Mr. Stratton said the cost for the metering station will be incorporated into the fee we are charging Omni Tucson National, to be paid back over 20 years. Mr. Tenney finished the list of general capital projects with the VFD replacement at Magee Road and La Cholla, the decommission of Bell Well, installation of an 8 inch distribution main located near Camino del Sur, and testing of recovery wells near AVRVP.

Mr. Tenney said for water resources utilization, staff has targeted design for the CMID effluent interconnect. The associated land acquisition will require us to keep funds available because those costs are unknown. Once the study is completed, we will have a better idea of what is needed. Mr. Offret asked if the testing of recovery wells could fall underneath this eventually, and Mr. Tenney said yes.

Capital equipment identified totals \$135,000. Staff would like to continue replacing pressure tanks and VFDs and has made a point to say these projects are quite critical. Included in the list is continuation of the Metro Hub meter replacement program and a mobile water tank for construction activities.

Mr. Tenney said staff is anticipating the monies collected from development revenues to be at least \$330,000 this year. That money will be used to fund capital projects and the remaining amount is being funded from the year-end balance from this year. Mr. Offret asked if that remaining amount will be approximately \$600,000 and Mr. Tenney confirmed.

Mr. Land said the future projections assume a decline of 2.1% in water sales, factored out over the next four years. Other assumptions include increases to salaries and benefits, health insurance, and state retirement. Other categories are increasing by 1-2% but the numbers do show shrinking revenues and limited capital projects. The projections were ran with consistent 2.5% rate increases.

Mr. Foulk raised the possibility of identifying projects to be completed in the first half of the fiscal year and then returning at the mid-year point to see how things are going. Mr. Stratton used Bell Well as an example of something that can wait until the mid-year mark and the VFD replacement is an example of something that cannot wait because it is causing issues with reliability. Pressure tanks can be spread out, with one in the first half and another one in the second. Mr. Stratton said most of the Board is quite familiar with the District's budget, as there

are not many changes year to year. Part of the discussions when budgets are adopted, is to identify what will be done in first half of the fiscal year and what can be held off to mid-year.

Mr. Stratton said the capital list would be presented to the FOC next week. After their input, the Board can decide whether to have another study session or wait and act in June. Mr. Foulk said if the FOC does not make changes, he is fine bringing it back in June otherwise, he would like another study session before then if they have changes. Ms. Scrivener asked for confirmation the Board would be getting a report on the analysis from the FOC meeting and Mr. Stratton confirmed. Mr. Tenney summarized that if the FOC makes substantive changes at their meeting, the Board would like to set up another study session, otherwise the full budget will be brought before the Board on the June agenda.

Mr. Foulk remarked at how wonderful it is that the District's small budget is reviewed in Board study sessions and we have a FOC committee going over everything.

V. General Manager's Report.

Mr. Stratton said a meeting between District and County Wastewater staff was recently held. The District includes wastewater charges on our bills. Jackson Jenkins, Director of Pima County Regional Wastewater Reclamation Department, would like to hold discussions with the District and other providers twice a year to stay apprised of activities that may impact each other and keep a positive, open dialogue.

Central Arizona Groundwater Replenishment District is updating its 10-Year Plan of Operations. Mr. Stratton is on the committee to help formulate the new plan, representing SAWUA. Southern Arizona is well represented. This will be a biweekly process, with a few exceptions in July. The intent is to have a draft plan of operation to their Board in the fall.

The Annual Water Quality Reports are being sent to all customers in all service areas.

Mr. Stratton will be out of the office from the end of May until June 15th. Part of the time is vacation and part is the AWWA conference. He will have access to email and cell phone.

VI. Legal Counsel's Report.

Ms. Goncharsky said legal counsel has been reviewing documents provided on the lawsuit with AECOM and litigation is proceeding. Regarding the allegations by Mr. Hemway, we believe we have reached a resolution with Arizona Division of Occupational Safety and Health (ADOSH). Resolution is in the tentative stages and documents have not yet been signed.

VII. Future Meeting Dates; Future Agenda Items.

The next session of the Board of Directors will be held on Monday, June 10, 2013.

Mr. Hill said Mr. Stratton received the prestigious Kenneth J. Miller award at the AZ Water conference for his outstanding service for Water for People. Mr. Hill was proud to nominate him, as Mr. Stratton was responsible for raising over a half million dollars for the organization. The Board congratulated him.

VIII. General Comments from the Public.

There were no comments by the public.

IX. Adjournment.

The meeting adjourned at 6:56 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board