

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

July 14, 2014

**** Board Room ****

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

MINUTES

Board Members Present: Judy Scrivener, Chair
Richard Byrd, Member
Jim Doyle, Member
Bryan Foulk, Member

Board Members Not Present: Dan M. Offret, Vice-Chair

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Tullie Noltin, Recorder
Chris Pfeffer, Civil Engineer
Steve Shepard, Utility Superintendent
Warren Tenney, Assistant General Manager
Abbe Goncharsky, 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, and Judy Scrivener were present. Dan Offret was not present.

II. General Comments from the Public

Ingrid Saber, residing at 6322 N. Barcelona Lane #517, asked why Booster No. 2 at Horizon Hills recently failed and why booster systems fail in general. Mr. Olsen explained that with any mechanical infrastructure, there are many failure modes, including lightning strikes and normal wear and tear. Mr. Shepard said this particular booster failure was related to the impeller and

motor but he did not recall the specific reason. Staff evaluated the booster and decided replacement was more effective than repair. Ms. Saber asked if this booster was the same age as other boosters and are they also due for failures. Mr. Shepard said Horizon Hills No. 2 was similar in age to others, but failures are not necessarily related to age and can be the result of a number of factors.

III. Consent Agenda

- A. Approval of Minutes – June 9, 2014 Board Meeting.**
- B. Approval of Auditing Services Agreement for Fiscal Year 2014.**

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. Billing Adjustments.

Mr. Olsen said normally billing adjustments would be part of the Consent Agenda, but there are two items he wanted to call to the Board's attention.

Beyond the standard adjustments, there is a credit of over \$34,111 for the Northwest Corporate Center. There is a large diameter meter and a small diameter meter that manifold together to meet the site's demands. Automatic meter reading technology sums up the two reads and transmits the total usage. There was an error in the way this unit was programmed and it was significantly over-reporting consumption. Once the error was identified, the \$34,000 adjustment reflected the actual water that passed through the two meters.

A proposed change to the District's billing adjustment policy will be taken to the Finance Oversight Committee (FOC) for review and potentially forwarded for the Board's consideration in the coming months. The proposed adjustment policy is based on a "same tier, same month, last year" concept. Regardless of a leak or unexplained water usage, the proposed policy ensures that customers pay for all water that went through their meter but at the same rate as the account's historical tier from the same month the previous year. This policy has been successfully utilized by other providers in the region and ensures the customers are not penalized unduly but are covering the costs associated with producing the water. More information will be provided to the Board based on upcoming FOC discussions.

Mr. Foulk made a motion to ratify the billing adjustments as presented on page one of the report and to approve the billing adjustment credit of \$34,111.20 to the Northwest Corporate Center. Mr. Byrd seconded the motion. Motion passed unanimously.

B. Monthly Status of the District.

Mr. Olsen said June consumption in Metro Main was approximately 7% lower compared to June last year and the fiscal year to date (FYTD) consumption is 1% lower than the same period last year. Metro Hub showed a consumption decrease of 10% and Metro Southwest showed an increase of 5%. June's numbers require a bit more investigation as this June was hotter and had lower precipitation than last June, so the decrease in customer demand in Metro Main and Hub does not appear to line up. There sometimes is a difference in the timing of monthly production data and meter reading routes, which prevents an apples-to-apples comparison. Staff is determining if another methodology would more appropriately report these numbers; perhaps only reporting the FYTD numbers would provide a better comparison. Next month, staff will modify the report, as appropriate.

A letter of intent from the Bureau of Reclamation (BOR), CMID, and the District on the Cortaro-Marana Irrigation District (CMID) groundwater savings facility (GSF) was submitted to Pima County last month. The proposed pipeline alignment was also submitted to Pima County last month for their review, to determine if there are any issues associated with it. An intergovernmental agreement (IGA) has been drafted between all the parties and is also under review. The next step is to survey the pipeline alignment once Pima County's concurrence is obtained and then move forward with necessary easements.

Numerous remaining items on Hub 1A, such as the installation of piping for the arsenic vessel, painting, and telemetry, are presently being accomplished. The current trajectory is for work to finish in August.

C. Financial Report.

Ms. Bracken said revenue in excess of expenditures through May continues to be strong with a \$1,404,816 favorable position. Water sales are \$634,246 ahead of the budget for the first 11 months of the year. Development revenue year to date is \$761,015, which is \$430,115 over the total budgeted for the year. Operating expenditures are projected to be under budget by \$138,084 using a straight line comparison. Prior year comparison of revenue through May is ahead \$1.6 million ahead of May 31, 2013. The increases are from metered water sales, which are \$951,612 higher, and development revenue, which is \$384,238 higher than the prior year. Operating

expenditures in all categories are higher than last year, with the exception of salaries and benefits, power purchased, and regulatory fees. Expenditures for the capital improvement program funded with the 2007 WIFA loan total \$11,807,392 with \$368,849 remaining to be spent to complete the Hub well, Hub vessel, and variable frequency drives at Magee La Cholla. A total of 11 meter applications were received in June compared to 15 received in June 2013. Meter applications for Fiscal Year 2014 total 297, compared to 82 in the prior fiscal year. Utilization of the office solar system cost the District a base rate of \$2,212 for electric service in June. The total for the fiscal year is \$33,316, which is favorable by \$2,728 when compared to the same period in Fiscal Year 2011 and unfavorable by \$250 compared to the prior fiscal year.

D. Agreement to Outsource Printing and Mailing of Billing Statements.

Mr. Olsen said since 2011, the District has utilized a vendor to print, fold, stuff, and mail the monthly billing statements. The District's current printing and mailing vendor contract has expired and the solicitation for a new vendor resulted in InfoSend Inc. as the lowest cost for the District. The current vendor, Datamatx, has agreed to continue to provide service during the transition to InfoSend Inc.

Mr. Foulk made a motion to approve the selection of InfoSend Inc. as the provider to print and mail the billing statements and handle other mailings. The General Manager is authorized to sign the agreement that will be for a period of twelve months ending July 15, 2015 with two additional automatic annual renewals, pending satisfactory service. Mr. Byrd seconded the motion. Motion passed unanimously.

E. Approval of Contract for Collection of Sewer User Fees.

Mr. Olsen said staff has been working with Pima County to arrive at a new billing rate based on increased costs of service, from such items as Pima County billing inserts included with the monthly mailers. After review, Pima County and District staff concur that the cost of service calculations, which were recently negotiated between Tucson Water and Pima County, appropriately captures the District's costs. This contract will change the monthly charge to Pima County per account from \$1.00 to \$1.14 and generates close to \$30,000 of additional annual revenue. If approved, the new fee would go into effect September 1, 2014.

Ms. Scrivener recused herself from the vote.

Mr. Foulk made a motion to approve the attached contract with Pima County Regional Wastewater Reclamation Department for the collection of sewer user fees at the rate of \$1.00 through August 31, 2014 and at a rate of \$1.14 per account per month starting on September 1,

2014 with an expiration of June 30, 2016 with the option to renew four additional one-year periods. Mr. Byrd seconded the motion.

Motion passed unanimously, 3-0. Ms. Scrivener abstained.

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

Mr. Olsen said this is the 27th amendment with the Arizona Department of Environmental Quality regarding reimbursements to the District for the operation of the South Shannon Treatment System. The reimbursement amount under the amendment is \$91,500, which would be further amended if the costs exceed that amount.

Mr. Byrd made a motion to approve Amendment No. 27 to the Interim Remedial Action contract between the Arizona Department of Environmental Quality and the District by setting the contract amount by \$91,500 for the South Shannon Facility and with an expiration date of June 30, 2015. Mr. Foulk seconded the motion. Motion passed unanimously.

G. Approval of Change Order for the Freer Road and Camino Del Sur Interconnection, Shannon Road to Camino Del Plata.

Mr. Olsen said this change order is for two items found in field during construction. The two issues involved relocating a customer connection to ensure continued service and replacing old infrastructure to facilitate a proper tie-in. These field orders totaled \$9,894.60, which exceeded the \$5,000 change order authorization the Board granted the General Manager. Therefore, Board approval is required in order to pay for the work under this contract vehicle.

Mr. Foulk asked how accurate the District's GPS system is in locating pipes. Mr. Shepard said the challenge is that there is no way to capture GPS coordinates of a pipe until it has been dug up. The pipe materials are not traceable without digging. Staff records GPS data on relevant features as they come across them, but a full GPS program will require development.

Mr. Foulk made a motion to approve Change Order No. 1 to the Freer Rd. and Camino Del Sur, Shannon Rd. to Camino Del Plata Interconnection contract with Innova Engineering, LLC which establishes a new contract amount of \$124,724.60. Mr. Byrd seconded the motion. Motion passed unanimously.

H. Overview of Future Revenue and Rate Analysis.

Mr. Olsen said the summer months have historically marked analysis and discussions relating to future revenue and potential rate adjustments. A couple key initiatives have already occurred that

streamline this process including the Board's approval of the Financial Plan as well as the Board's approval for the schedule related to the CAP Recharge, Recovery, and Delivery System. To provide clarity, a proposed schedule for reviewing revenue and potential rate adjustments is included in the report, and initiates with a discussion with the FOC on July 28, 2014, followed by a discussion at the August Board meeting, potentially setting a date for a public hearing, and an update at the September Board meeting. An additional informational meeting to discuss questions from the public is proposed one week before the public hearing.

While there will certainly be lengthy discussions with the FOC, the tentative numbers show a two phased approach to adjusting rates. First, the Water Resource Utilization Fee (WRUF) is recommended to increase by 20 cents per thousand gallons. This would be for the primary initiative of the CAP Recharge, Recovery, and Delivery System to accomplish some of the key initial items without the need for debt servicing. Beyond the WRUF, the tentative recommendation at this point for the FOC to review is no increases or adjustments to the fixed and variable costs, meaning the monthly service charge and volumetric consumption charge.

Looking forward onto next year's rate process, a recommendation for the FOC to review is to perform a balancing between the fixed revenue and variable revenue to bring them more in sync with fixed and variable costs. The initial numbers show this adjustment could be made to provide substantial additional revenue stability while having a very negligible change in the bottom line of the average District resident's monthly bill. There is more to come but this is the two-phased approach being recommended for this year and next.

V. General Manager's Report.

Mr. Olsen said reclaimed deliveries to the Omni Tucson National Golf Resort will be delayed up to two years, since the County Administrator granted a two-year extension for the Omni to complete their onsite infrastructure and begin taking reclaimed water. The metering station, which Tucson Water constructed to wheel a portion of the District's effluent to the Omni, has been completed. Once the capital costs are finalized, the monthly capital reimbursements required under the contract will be invoiced to Omni. The contract was set up so that even if the Omni is not taking reclaimed water, the monthly capital reimbursements can begin as soon as capital costs are final.

Mr. Foulk said he understands Omni uses their own wells to take care of their golf courses but he wondered if the resort itself is served by the District. Mr. Shepard said the resort is supplied by

the District. Mr. Olsen added that the agreement covers the equivalent water usage for nine holes, or 225 acre-feet.

Mr. Olsen said the two components that make up the rate for Tucson Water to wheel a portion of the District's CAP allocation to Metro Southwest are power and cost of service. The power calculations have been completed and last week, staff met with Tucson Water to further discuss the components associated with the cost of service. At last week's meeting, a few mutually agreeable minor adjustments were made in accordance with the cost of service related to wheeling. The goal is to finalize these costs and bring the draft wheeling agreement to the Board for consideration in the coming months.

Progress has been made on inter-AMA firming with the draft IGAs undergoing legal review and the water storage permit application being prepared for submittal to the Arizona Department of Water Resources. CAP and the Arizona Water Banking Authority have continued to be kept in the loop throughout the process. The current trajectory is to bring the draft IGAs to the governing bodies for consideration in September, which will allow all parties to meet the 2015 CAP order window. In 2015, the proof of concept pilot will have approximately 150 acre-feet of Phoenix's CAP allocation to be delivered to the District's Avra Valley Recharge Project (AVRP) facility for Phase I of that pilot.

VI. Legal Counsel's Report

Ms. Goncharsky said the \$90,000 check from AECOM has been cashed and deposited. The discovery process continues in the Industrial Commission litigation.

VII. Future Meeting Dates; Future Agenda Items.

The next Board meeting will be held on Monday, August 11, 2014 at 6:00 p.m.

VIII. General Comments from the Public.

There were no comments from the public.

IX. Adjournment.

The meeting adjourned at 6:24 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board