

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

August 10, 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
Billie Sue Morelli, Human Resource Manager
Tullie Noltin, Recorder
Steve Shepard, Utility Superintendent
Warren Tenney, Assistant General Manager
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. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – July 13, 2015 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Bill of Sale – Avilla Sabino East, 1-130.**

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 fiscal year to date consumption for Metro Main is down 3% and Metro Hub is down 5% from the previous year. While this sounds like an improvement over last month's 7% and 9% declines, the District is now in a new fiscal year so this represents 3% and 5% reductions in demand over what had been the previous lowest consumption year on record for Metro Main and Metro Hub.

The Utility Team finalized the Las Palmas pressure tank replacement and performed substantial electrical modifications to enhance the maintainability of the site. The Alcott well starter was replaced and returned to service.

Arizona Power Authority (APA) published a draft Hoover Power reallocation, which provided the District with 422 kilowatts (kW) of financially efficient Hoover Power. Final allocation numbers were published shortly after and reduced the District's APA power allocation from 422 kW to zero due to a last-minute change by the APA Board not to reallocate any power to entities receiving an allocation from Western Area Power Administration (WAPA). WAPA had previously authorized 179 kW of Hoover power to the District. Staff is moving forward to finalize the contract and delivery arrangements with Tucson Electric Power.

The District has taken steps to enhance efficiency through inventory controls. An inventory bar code system was purchased and enables staff to remove and track inventory to the appropriate work activity. In Fiscal Year 2014, before the bar code system was in place, the District had \$31,000 of incorrectly allocated inventory. In Fiscal Year 2015, since the system's implementation, that number dropped to \$9,000. The bar code scanner purchased for less than \$2,000 has already proven its worth. Furthermore, the annual accounting procedure for inventory has been expedited because electronic data has replaced manual counting. Mr. Olsen thanked District staff who were instrumental in the system's implementation, including Randy Collyer, Lucy Evans, Diane Bracken, and the Utility Team.

Work orders for cultural surveys for the three separate Casas Adobes main replacement projects have been issued. Advertisements for the La Cañada Drive adjustments and the District's office roadway sign will close later this month.

B. Financial Report.

Ms. Bracken said unaudited revenue and expenditures through June were both favorable with revenue of \$433,841 over budget and expenditures of \$884,212 under budget. Revenue in excess of expenditures for Fiscal Year (FY) 2015 total \$1,318,053. Metered water sales of \$550,015 are

lower than budgeted, with the largest portion of the decline attributed to the Metro Main service area. Overall, increases in revenue are largely attributed to development revenue of \$257,917, Water Resource Utilization Fees of \$455,596, and other income of \$187,926. Unaudited operating expenditures for FY 2015 are \$884,212 under budget. All expenditures are under budget for the fiscal year with the largest reduction in contracted and consultant services, operating expenditures, and purchased power. When comparing revenue to the prior fiscal year, FY 2015 is favorable by \$141,322. The total operating expenditures this fiscal year when compared to the prior fiscal year are higher by \$150,398 so the total revenue in excess of operating expenditures is \$9,075 lower than the prior fiscal year.

The Arizona State Treasurer pulled collateral program statement for June included \$2,940,161.15 of collateral coverage in addition to \$250,000 FDIC insurance coverage. This insurance comes at a cost of about \$250.00 per month; however, the checking accounts now have earnings credits that are offsetting all of the banking fees, so the District is currently sitting with a net positive position of earning credits at the end of June of \$450.65.

A total of five meter applications were received in July compared to 11 meter applications in July of the prior fiscal year; four applications were from Metro Southwest, and one was from Metro Main. This fiscal year, the District budgeted for 64 new meter applications with 31 in Metro Southwest, 22 in Metro Main, and 11 in Metro Hub.

On June 30, 2015 the auditors from HintonBurdick completed a one day visit for inventory testing, internal controls, and risk assessment. The audit team is at the District again this week to complete the audit for FY 2015. Ms. Bracken introduced the HintonBurdick Audit Partner, Steven Palmer, Certified Public Accountant (CPA). Mr. Palmer said he and his team would be at the District the majority of the week doing the fiscal year audit. He invited the Board to express to him any questions, concerns, or specific items to be addressed. Mr. Palmer introduced Audit Manager McKay Hall, CPA, who has extensive experience in auditing public utilities. Mr. Palmer thanked the Board for the opportunity to provide this service to the District.

C. Approval of Emergency Computer Backup System.

Mr. Olsen said last month the Board approved an Emergency Information Technology (IT) Support Contract for situations where additional cyber capability and expertise is required to troubleshoot and resolve issues on an as needed basis. Parallel to these efforts, in the current fiscal year budget, the Board approved funding for an emergency backup server that will enable the District's billing software to continue in the event of a major failure. The authorized budget for this effort was \$15,000, though the lowest of the three quotes received was \$2,000 higher. Staff recommends proceeding with the lowest quote with the \$2,000 balanced with the adjustments to IT and capital expenses.

Mr. Foulk made a motion to purchase the Dell PowerEdge Server in the amount of \$16,999.86. Ms. Ireland seconded the motion.

Ms. Ireland asked why this server will be located in the warehouse. Mr. Olsen said it will be located in the warehouse for locational redundancy. This is not just a backup for hardware failure. If anything catastrophic happens in the main office building, staff will be able to rapidly restore the billing server. This will be located in a climate controlled area in the warehouse to add an extra layer of redundancy. A portion of the warehouse office is already climate controlled.

Ms. Ireland asked if the server will have Caselle software. Mr. Olsen explained the server will have all the appropriate license and information needed to get up and running. It will not be an instantaneous crossover if there is a main server failure but staff will be able to get it operational in a matter of hours versus days or weeks. The main server does have numerous backups occurring on a rolling basis so this allows the District to ensure the key and critical software is functioning. Ms. Ireland asked if there are any other applications. Mr. Olsen said the customer database is its main purpose. Having a full backup of all the shared drives, etcetera, would be a much higher dollar amount. Staff determined that having a backup server for the billing software is the most critical need at this time.

Mr. Foulk asked the make of the current server. Mr. Olsen said he did not have that information readily available but the three quotes are for comparable models by different manufacturers. Mr. Foulk asked if District staff plans to run through a few tests to make sure the new server works. Mr. Olsen confirmed staff will make sure the server works properly as the District will be relying on this key component.

Motion passed unanimously.

D. Update on Personnel Policies.

Mr. Olsen said at October 2014 Board meeting, the Board directed Mr. Olsen to replace the personnel manual with individual personnel policies.

Mr. Olsen introduced Ms. Billie Sue Morelli, Human Resources Manager/Risk Management Specialist, who gave a brief overview of personnel policies that have been recently modified, updated, or created. There are many benefits to having individual policies and procedures instead of an employee manual. Employees have easier access to the information and when policies change, they can be immediately updated instead of revising the whole manual.

Ms. Morelli gave an overview of policies that must be brought to the Board for approval. The Issue Resolution and Appeal Procedure and the Sick Leave policy were brought to the Board for consideration in December 2014 because the Board is directly involved in the administration and/or the policy has a financial impact on the District.

Several other policies have been modified or created. The Progressive Discipline Policy was established in 2014 to provide mentoring processes and the policy prevents reoccurrence of undesirable performance issues. It serves as a template for all managers and supervisors to address personnel issues.

The Bereavement Leave policy was modified and separated from the Sick Leave policy to give relief to employees dealing with a death in the family. The District offers three days bereavement if the employee stays in town and up to five days if they must travel out of state. The Bereavement Policy is an example of a policy that was modified and now mirrors other public entities in Southern Arizona.

The Take Home Vehicle policy was recently added to establish clear guidelines on the assignment and use of District vehicles so there is no misunderstanding on the reasons why certain individuals have an assigned vehicle, necessary for emergency response.

Another policy clarified how the District pays its non-exempt employees. Ms. Morelli described a policy recently established regarding pay for on-call standby rotation for Utility Team staff responding to after-hours emergency situations after their scheduled shifts have ended. Staff is paid overtime for any hours worked over the normal 40 hours per week. Administrative leave pay for up to four hours is a safety precaution for staff whose response to after-hours emergencies prevents them from getting rest between shifts. Mr. Doyle asked about the minimum number of paid emergency callback hours. Ms. Morelli said employees are compensated for two hours minimum even if the emergency response takes only 15 minutes. Shift differential pay is assigned to second shift staff who are paid at an hourly rate of \$1.00 dollar more than their regular hourly pay. Shift differential pay for second shift staff begins at the end of the first shift.

Ms. Morelli talked about the Employment Guidance policy for employees who want to work outside the District. The policy sets clear guidelines to avoid potential conflict of interest that could compromise the integrity or credibility of the District. The policy does not prohibit outside employment but employees must submit a request for approval. Mr. Doyle asked about the maximum hours an employee can work at a second job. Ms. Morelli said as long as it does not conflict with their work at the District, there is no hourly limit.

Mr. Olsen said the presentation is a sampling of the new and refined policies. The common vein throughout has been clarification rather than additional restraints to prevent misinterpretation.

E. Status of CAP Recharge, Recovery, and Delivery System.

Mr. Olsen gave a presentation to update the Board on the CAP Recharge, Recovery, and Delivery System (CAP RRDS), a capital improvements program initiative. One of the District's key goals is water resource stability. The current CAP allocation is 13,460 acre-feet and the goal is to try to leverage a portion of that CAP allocation as well as other resources in the District's water portfolio to offset the more than two foot annual decline in the aquifer, which has been occurring for over 20 years. Providing linkage between the District's CAP allocation and addressing the two-foot decline is key. The Water Resource Utilization Fee provides the revenue stream to accomplish the program.

Mr. Olsen showed a visual depiction of the scope and scale of the project. He pointed out the alignment of the 13 miles of recovery pipeline, the three recovery wells around the BKW Farms

area, and the locations of the forebay, booster station, and Herb Johnson Reservoir where blending will occur. The diameter of the main is yet to be determined because any future partnerships will affect size requirements. Mr. Doyle asked what a forebay is. Mr. Olsen replied that a forebay is a storage tank that provides the necessary water for the booster to convey the water through the transmission system.

Mr. Offret asked where the water will be tested for total dissolved solids (TDS) levels. Mr. Olsen said the Board previously authorized TDS levels for the CAP RRDS of 400-500 mg/L at the Herb Johnson Reservoir. The levels should not change for the District between the booster station and reservoir because water is not being pulled off for any District services along the pipeline. Mr. Doyle asked about the capacity of Herb Johnson Reservoir and Mr. Olsen said around five million gallons.

Mr. Olsen talked about the license agreement with BKW Farms for the District to perform various aquifer productivity testing and hydrologic analysis. This data will allow the District to size the three wells appropriately to ensure adequate capacity for the project. All three wells have a proposed location identified and are currently undergoing environmental assessments. BKW Farms is a key partner and has been for more than 20 years, going back to the Avra Valley Recharge Project. The District has stored a portion of its CAP water on their farmlands for many years as a groundwater savings facility (GSF). Mr. Olsen recently attended a BKW Board meeting to address their questions and confirm the long standing partnership with the District.

The timeline is broken down into three components: land acquisition, design, and construction. The District is about halfway through the allocation of timing for land acquisition. Tierra Right of Way Services has been working on acquiring the land and moving forward on initial steps on the easements with the goal of having a lot of that wrapped up by the end of the year. Some easements will take longer such as the crossings of I-10, the CAP canal, and Southern Pacific Railroad. Four years is allocated for design so there is appropriate time for coordination and minimizing unforeseen site conditions. Construction begins in about five or six years and will last approximately three years. In the next two years, the hydrologic assessments, license agreement, easements, leases, and land acquisitions will be completed.

Infrastructure partners will also be identified. Other entities who have stored water at Lower Santa Cruz or area GSFs have physical water resources that could benefit from economies of scale by partnering with the District, bringing down unit costs for everyone. Mr. Olsen is currently having discussions with other entities but even if there are no infrastructure partners, the District has the financial capability to accomplish this initiative. Infrastructure partners have about a year to make that decision. Continued partnership on this positive project will be essential to solve this pressing need.

F. Approval of Groundwater Savings Storage Agreements with BKW Farms, Cortaro Water Users' Association, and Herb Kai.

Mr. Olsen said GSFs are key partners for the District. Each year, these mutually beneficial agreements generate an additional revenue stream because for each acre-foot of water put into the GSF, the District receives a rebate. This year alone, the rebate has equated to the ability to purchase an additional 400 acre-feet of CAP water. The District also saves about \$1.3 million by recharging water at Avra Valley Recharge Project or the GSFs and recovering through recovery wells, as opposed to having our needs met through the Central Arizona Groundwater Replenishment District. These partnerships are mutually beneficial and provide substantial cost savings for the District.

Mr. Foulk made a motion to approve the agreement between the District and BKW Farms for “In-Lieu Water Deliveries and Storage” and that the agreement is in effect until December 31, 2018. Mr. Offret seconded the motion. Motion passed unanimously.

Ms. Ireland made a motion to approve the agreement between the District and Cortaro Water Users’ Association for “In-Lieu Water Deliveries and Storage” subject to approval by Cortaro’s Board and that the agreement is in effect until December 31, 2018. Mr. Foulk seconded the motion. Motion passed unanimously.

Mr. Offret made a motion to approve the agreement between the District and Herb Kai for “In-Lieu Water Deliveries and Storage” and that the agreement is in effect until December 31, 2018. Ms. Ireland seconded the motion. Motion passed unanimously.

V. General Manager’s Report

Mr. Olsen said last month staff took the unprecedented step of deleting social security numbers from customer accounts. While many organizations are asking for more personal info, District staff paused to ask what information is necessary to meet the core needs of the District. Social security numbers do not provide an added value and there are other mechanisms to report delinquent debt. No organization is truly safe from cyber intrusions, and while the District has not experienced an intrusion, staff felt it most prudent to remove that piece of information. Mr. Offret asked if social security numbers are required for collection agency reporting. Ms. Bracken said there are a few extra steps to obtain the information required for reporting but the District will subscribe to credit agencies on an as needed basis, rather than collect the information for the entire customer base.

The Bureau of Reclamation has announced it will close its Tucson office, effective August 21, 2015. Tucson staff will stage out of the Phoenix area office in Glendale and the Bureau has assured stakeholders that current and future partnerships will continue.

VI. Legal Counsel’s Report

Mr. Hinderaker said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items

The next regular Board meeting is scheduled for Monday, September 14, 2015. Ms. Scrivener said she will be out of town.

VIII. General Comments from the Public

Ingrid Saber, a resident of the District, said it is so nice to see staff appear to take pleasure in doing a good job.

Ms. Sabre asked if the District is watching the mine spill at the Animas River and if the District will be affected. Mr. Olsen said staff is carefully monitoring the situation. Extra water quality analysis is being done up river to ensure CAP deliveries are not impacted.

Ms. Sabre asked if employees are notified immediately of policy changes. Mr. Olsen said yes, policies are vetted to make sure they compare with others in the region. Discussions with managers are held to make sure there are no unintended consequences. Staff know the door is always open to talk about concerns. Employees have access to policies on shared drives. Ms. Sabre said she finds it intrusive to demand employees ask for approval for outside employment. Mr. Olsen said the outside employment policy prevents conflicts of interest and situations where the employee cannot accomplish their duties at the District.

Ms. Sabre expressed concern that the District may resume asking for social security numbers if it is determined a benefit to the District. Mr. Olsen said this was a one directional decision to eliminate social security numbers and there is no going back on that decision.

Ms. Sabre congratulated the District on the wonderful way it organizes revenue and expenditures. It seems to be working well and that is not the way things are going at so many other government entities.

IX. Adjournment

The meeting adjourned at 6:54 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board