

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

September 8, 2014

**** Board Room ****

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

MINUTES

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

Board Members Not Present: Judy Scrivener, Chair

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

Regular Session

I. Call to Order and Roll Call

Dan M. Offret, Vice-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 Dan Offret were present. Judy Scrivener was not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

A. Approval of Minutes – August 11, 2014 Board Meeting.

B. Ratification of Billing Adjustments.

C. Ratification of Settlement for Magee Road Water Line Leak Repair Claim.

Mr. Foulk made a motion to approve the Consent Agenda. Mr. Byrd seconded the motion.

Mr. Offret said the ratification of settlement with the County opens a new vista for District relationships with the City and County and other officials. He is very happy to see this collaborative effort.

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 and Metro Hub is roughly 4% less than the previous fiscal year to date. He noted this represents only July and August and as we move further into the fiscal year, the accuracy of comparing the previous and current fiscal year to date data improves.

Avra Valley Recharge Project (AVRP) has recharged close to 80% of its scheduled water and is on track to recharge the remaining portion this year, even with the planned CAP maintenance outage on the canal from October 19, 2014 to November 16, 2014. AVRP will still be receiving some flows but at a decreased rate, primarily from the amount of water that is in the channel storage during the outage.

Regarding Cortaro-Marana Irrigation District (CMID) effluent deliveries to the groundwater savings facility, staff was able to successfully negotiate the temporary easement costs with Pima County by clarifying the planned use and actual land area required. This resulted in reducing the easement cost by approximately \$95,000, allowing this effort to continue. Staff is also coordinating a flow test in CMID's pipeline north of Ina, particularly in the area under I-10 to ensure usability and pipeline integrity.

Staff submitted the application for D-1 Hoover power with Western Area Power (WAPA) with the goal of obtaining a savings on power. Of the 3 mega watts the District requested, WAPA allocated only about 0.1 mega watt, or 3% of the request, due to the large number of applicants who submitted for the D-1 pool. The allocations will be finalized at the end of the year. The D-2 pool application process from the Arizona Power Authority (APA) will begin in early 2015, though it will likely have similar results because the APA has a smaller pool than WAPA. The District will go through the process and see what we are able to obtain.

The Metro Southwest - Diablo Village recovery well permit public period closed as of August 30, 2014. After the Board reports went out, Arizona Department of Water Resources (ADWR) informed the District that no comments were received and the permit will be issued. This allows Metro Southwest to recover long term storage credits purchased from Metro Main in order to meet the Assured Water Supply rules. Mr. Offret asked if the permitting applies to both wells in Metro Southwest, and Mr. Olsen confirmed. This will give the District flexibility for recovery.

B. Financial Report.

Ms. Bracken said revenue and expenditures for July are both favorable with revenue \$344,411 over on a straight line projection. Increases are largely attributed to water sales being \$242,281 ahead of the budgeted amount and other income, which is ahead on a straight line projection by \$76,895. Operating expenditures are under budget by \$71,075 using a straight line comparison. Revenue in excess of operating expenditures is \$1,070,865, which is favorable when compared to the budget by \$415,486 for July. Prior year comparison of revenue for July 2014 is \$211,544 ahead of July 31, 2013. The increase is mostly due to other income, which is \$111,895 higher with the inclusion of a one-time receipt of \$90,000. Water Resources Utilization Fees are \$27,037 higher and development revenue is \$21,379 higher than the prior fiscal year. Operating expenses in all categories are higher this fiscal year compared to last fiscal year, with the exception of consultant and contracted services and issuance costs. With the required implementation of Governmental Accounting Standards Board (GASB) 65, issuance costs were previously expensed each month but they have been written off and adjusted to the net position as of the June 30, 2013 ending balance. Expenditures for the capital improvement program funded with 2007 WIFA funding are 98.4% completed with \$159,089 remaining to be spent. A total of 6 meter applications were received in July, for total of 17 so far this year, compared to 19 the prior year August. The solar system continues to generate a savings. The electric costs for the first two months are \$5,382 compared to \$8,419 for the first two months of last fiscal year and \$8,680 the same period in fiscal year 2011.

C. Approval of Overhead Percentages.

Mr. Olsen said when the District bills for work performed in repairing main breaks caused by a contractor, it is important the District is fully reimbursed. Beyond the direct costs of labor and materials tied with the project, there are indirect costs consisting of fringe benefits and overhead costs that must also be captured. The last time that the overhead percentages were calculated was back in 1995. Detailed financial analysis shows that an adjustment is necessary to ensure that District customers are not subsidizing the overhead costs for any of these fully reimbursable activities.

Ms. Bracken said the indirect costs are costs the District incurs for common or joint objectives. Typically, indirect costs include the costs of operating, maintaining facilities, equipment, ground, depreciation, administrative salaries, and supplies. The District may be applying for a grant, so the calculation was arrived at by following the Office of Management and Budget (OMB) circular A-122 guidelines, Cost Principles for Non-Profit Organization. These guidelines specify allowable and unallowable indirect costs. To complete the calculation, a portion of the salaries were moved to the benefit section for compensated absences. This includes holidays, sick pay, vacation, and comp time. Wages are separated into indirect and direct costs and the total direct fringe is divided into the total direct salary to arrive at a direct fringe benefit rate to charge for covering the actual cost of each hour worked. An indirect rate is calculated by separating all expenses into three groups: indirect, direct, and unallowable expenses. The total indirect costs are then divided into the total direct salaries and benefits to arrive at a total percentage to apply for each hour of direct labor costs for work being done outside the District or are charging for reimbursement. The current fringe benefit rate is 56% for indirect overhead rate and 162.38% for a total of 218.38% overhead rate per hour. For example, an employee is paid \$20.00 per hour and the District is billing for work completed, \$20.00 plus another \$43.67 would be charged for a total of \$63.67 for each hour worked. The prior rate was last updated in 1995 and it was a fringe benefit rate of 40.27% with an indirect cost rate of 64.58% for a total of 104.85%. Adjusting the overhead rate to tie to the current costs of operation will ensure the District is reimbursed equitably for all costs incurred.

Mr. Foulk made a motion to approve the attached direct fringe benefit rate of 56% and the attached indirect rate of 162.38% for a total overhead rate of 218.38% per hour of direct labor. It is also directed that the calculation of new rate percentages follow the same methodology and be completed each fiscal year as part of the fiscal plan process. Mr. Byrd seconded the motion.

Mr. Offret said the rate 19 years ago of 104.85% was quite different. He asked if the District calculation is in the same neighborhood as other entities of the same size. Ms. Bracken said she has not compared the rate with other entities but the prior calculation was also calculated a little differently, as it only included some of the expenditures for operation. Ms. Bracken followed the circular requirements because she knew the District would be applying for a grant and needed to be brought into compliance to charge labor for a project with grant funding. There was a slightly different calculation in the past and the District has grown so expenses increased over time.

Mr. Offret asked if having a rate this high would cause the District to have problems with grants, and Ms. Bracken said no. She said the auditors recently questioned why the District's overhead percentages were so low.

Motion passed unanimously.

D. Approval of Agreement with Department of Revenue for Unclaimed Property.

Mr. Olsen said similar to the agenda regarding overhead percentages, this item is a result of Ms. Bracken's systematic review of each of the District's financial policies to ensure compliance. Along with the creation of a stale dated or uncashed check policy, Ms. Bracken was able to identify the mechanism for a voluntary compliance agreement with the Arizona Department of Revenue (DOR).

Ms. Bracken said in accordance with Arizona Revised Statutes (A.R.S.) title 44-307, the District is required to exert reasonable effort and due diligence to locate the owners of all stale dated checks. If the owner cannot be located or is not responding, unclaimed checks should be reported to the State of Arizona by November 1st each year after a specified period of time, usually between one and three years. The District is requested to enter an unclaimed property voluntary compliance agreement, which is available to holders who have not previously complied with the Arizona Unclaimed Property Law. If approved, the signed agreement will be sent to the DOR's Unclaimed Property Unit, for them to verify the District's eligibility and return an executed copy of the agreement. The agreement will have the District in full compliance within 130 days of execution. The reason for the delay is to provide time needed to be in compliance with A.R.S. title 44-307, section E, which requires the District to attest to the fact that 120 days prior to reporting the abandoned property to the State, written notice shall be sent to the appropriate owner stating that the District is in possession of the property subject to the above A.R.S. By entering into the agreement, the District is agreeing to report all unclaimed property for the past ten years, and agreeing to follow all reporting requirements each year moving forward. In return for the voluntary compliance with the law, the DOR will release the District from all claims, demands, interest, penalties, and actions of cause.

Mr. Foulk asked if the 1-3 years is the District's protocol or the State's. Ms. Bracken said since the District is going to report the past 10 years, she elected to move forward with annual reporting. Mr. Foulk agreed that was a reasonable way to move forward.

Mr. Foulk made a motion to approve the voluntary compliance agreement with the Arizona Department of Revenue regarding unclaimed property. Mr. Byrd seconded the motion. Motion passed unanimously.

E. Status of Public Hearing for Proposed Adjustment to the Water Resources Utilization Fee.

Mr. Olsen said the Information Meeting on September 22, 2014 at 6:00 p.m. will address customer questions and obtain initial feedback on the proposed Water Resources Utilization Fee increase. The format will be a brief presentation outlining the initiatives intended to be funded under the Water Resources Utilization Fee, as well as the Finance Oversight Committee's recommendation to increase the fee from 20¢ to 40¢ per 1,000 gallons while at the same time recommending no increase to the monthly service charge or volumetric consumption rate. Questions and feedback from the Information Meeting will be brought to the Board of Directors at the Public Rate Hearing on September 29, 2014 at 6:00 p.m. The Board is welcome to attend the Information Meeting to hear customer input directly.

F. Approval to File Quiet Claim for Ranch House Well Site Lot.

Mr. Olsen said at February Board meeting, the Board was informed that an ownership issue was discovered with Ranch House well site lot and that Tierra Right-of-Way Services was directed to clear up the property issues. After tracing the property ownership from 1965 to present, it was determined the City of Tucson only transferred deed to the west part of the well site lot. The City has acknowledged it did not have title to the remaining portion of the well site lot and it appears that Thermal Co-op is the property owner of the remaining portion but their business charter was revoked by the Arizona Corporation Commission in 1983. Tierra Right-of-Way was unable to locate anyone presently associated with Thermal Co-op and Tierra's legal counsel recommended filing a quiet title claim to clear the title, which is a legal process used to establish property ownership when there is a question about a clear title. The City has stated they will not contest the title claim and the issue would be resolved, allowing the District to proceed with the sale of the entire lot.

Mr. Offret asked for confirmation that there are no representatives of Thermal Co-op. Mr. Olsen said attempts were made back in 1989 by Metro Water Company's legal counsel and they were unable to identify anyone. Tierra Right-of-Way Services was also unable to locate anyone.

Mr. Byrd made a motion to approve the filing of the Quiet Claim to clear title to the Ranch House Estates well site lot (Parcel No. 10216095B) and authorize the Chair of the Board to sign a letter authorizing the Law Offices of Diane M. Miller to represent the District in this matter. Mr. Foulk seconded the motion. Motion passed unanimously.

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

Mr. Olsen said at the August Board meeting, the Board approved Amendment No. 27 with Arizona Department of Environmental Quality (ADEQ) regarding the South Shannon treatment

system. Amendment No. 27 was for a time extension of the contract, while Amendment No. 28 is for reimbursement of operation and maintenance expenses.

Mr. Offret said projected costs are a little more than the \$91,500 reimbursement and he asked if ADEQ expects to extend their budget. Mr. Olsen said ADEQ has stated that if the actual costs exceed \$91,500, another amendment will follow to capture the true costs for reimbursement.

Mr. Foulk made a motion to approve Amendment No. 28 for \$91,500 in reimbursable expenses under the Interim Remedial Action Contract at the South Shannon Facility with the Arizona Department of Environmental Quality. Mr. Byrd seconded the motion. Motion passed unanimously.

H. Intergovernmental Agreement for Pilot Inter-AMA Firming of Central Arizona Project Water with the City of Phoenix.

Mr. Olsen said over the past year, there have been numerous discussions and updates with the Board regarding the Inter-Active Management Area (Inter-AMA) Municipal and Industrial (M&I) Firming concept. Staff has performed extensive coordination efforts with other stakeholders such as the City of Phoenix, Arizona Department of Water Resources (ADWR), Central Arizona Project (CAP), and Arizona Water Banking Authority (AWBA) in order to translate this concept into the intergovernmental agreement (IGA) now before the Board. The concept's complexities and details associated of the implementation beyond the pilot phase will be further explained by Mike Block, Water Resources Manager.

Mr. Block gave a presentation about Inter-AMA M&I CAP Firming. The presentation provided an overview of the background, goals, mechanisms, pilot, and the next steps if the pilot is successful. As early as 2025, there could be shortages to the M&I CAP supplies to the Tucson and Phoenix areas. In anticipation of those possible shortages, it has been the effort of the Arizona Water Bank and Central Arizona Water Conservation District (CAWCD) to firm up municipal supplies ahead of the shortages. The Phoenix area will meet its water bank goal but Tucson's goal is not projected to be met. In the Tucson area, the major water resource tool is recharge and recovery and the District's Board has approved that direction. Phoenix relies on surface water treatment plants, so they are more susceptible to shortages in the CAP system. Mr. Block talked about the strengths and needs of the two AMA regions and how to come to a win-win agreement. The District, City of Tucson, and City of Phoenix have been working on a new water resource tool in coordination with Arizona Municipal Water Users Association (AMWUA), Southern Arizona Water Users Association (SAWUA), ADWR, CAWCD, and AWBA. It is envisioned that the Phoenix area would store their water at Tucson recharge facilities but only if they fund the construction of those facilities. The Phoenix providers are looking for reliability in their systems and they would earn storage credits for water stored in

Tucson AMA. In a shortage, the water would be recovered by Tucson water providers and our allocation would be deferred in an equal exchange.

Mr. Offret asked who would own the recharge facilities constructed under the agreement. Mr. Block said that will be one of the major negotiations.

Mr. Block said the Tucson AMA would see an expansion of recharge facilities funded from outside the Tucson area. Capacity would be a set term such as twenty years and after that period the capacity would be available for local use. Both areas would see energy savings during shortages. The District would stay financially even. The pilot is the proof of concept. The IGA between the District and the City of Phoenix is the subject of this agenda item. City of Phoenix and City of Tucson governing bodies will also need to approve their IGA for the pilot. Mr. Olsen said this IGA is only for the pilot proof of concept. Based on this pilot, the details of any following phase will be determined and be brought back to the governing boards of all parties for discussion and consideration.

Mr. Block's presentation covered the administrative steps and diagrams of how the pilot will work, and also how the larger scale process might work.

Mr. Offret asked about the life span of the storage facilities. Mr. Block said AVRFP was started in 1996 and is still going so these are easily 50 year facilities. Mr. Olsen agreed and said regular maintenance activities are needed to keep up recharge capacities but once the initial twenty year term has passed, it would be available for utilization in the Tucson AMA.

Pete Schlegel, a member of the audience, asked permission to ask a question from the floor and Mr. Offret agreed. Mr. Schlegel said when he served on the District Board of Directors years ago, there were no recovery wells at the recharge sites. He asked if the District has them now and if they are paid for. If the recovery wells are not paid for, he asked if the City of Phoenix would include building the facility to bring the water up, or would the District would be stuck with those costs. Mr. Block said the District is moving toward recharge and recovery and is working on pipeline alignment and recovery well sites so that would be part of normal operation. Mr. Olsen said that is part of a ten year vision, which is related to the Water Resources Utilization Fee but for the interim, recovery would be permitted as Phoenix recovery wells.

Mr. Schlegel noted the water would be recovered from a distant source and could reduce some private wells. Mr. Olsen said that is why the pilot will be done on a small scale. There is a lengthy coordination time and by the time a full scale program is developed, the CAP Recharge, Recovery and Delivery System will be underway to convey water into Metro Main to offset the annual decline in the aquifer.

Mr. Schlegel reminded the Board that in the past, Phoenix and Tucson have tried to keep their costs at a minimum. He warned that District Legal Counsel should be careful about costs incurred in the IGA. Mr. Olsen said as with any IGA, the District's legal counsel team ensures the District is protected.

Mr. Foulk made a motion to approve the Intergovernmental Agreement for Storage, Recovery and Exchange of Central Arizona Project Water between the City of Phoenix and the Metropolitan Domestic Water Improvement District. Mr. Byrd seconded the motion. Motion passed unanimously.

V. General Manager's Report.

Mr. Olsen said as reported previously, Omni Tucson National Resort received an extension to delay reclaim deliveries until September 2016. The District presently pays \$400 in monthly service charges to Tucson Water for the meters installed at the reclaimed wheeling metering station. The City of Tucson has agreed to pull the meters until Omni takes delivery of reclaimed water, saving the District approximately \$10,000 if the delay runs all the way to September 2016.

Multiple staff will be attending the Tri-State Seminar on September 23-25, 2014. Over 2,000 water professionals will attend from Arizona, Nevada, and California. This is a financially efficient way for staff to earn up to 21 professional development hours, which are necessary to maintain their operator certifications.

Regarding the Board of Directors election on November 4, 2014, Mr. Olsen has learned from the Department of Elections that one candidate has withdrawn. Jennifer Dussor's name will not be on the ballot. The five candidates for the three Board positions are Jim Doyle, Donovan Hemway, Helen Ireland, Danny Sargent, and Judy Scrivener.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing to report.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the Information Meeting is scheduled for Monday, September 22, 2014 at 6:00 p.m. and the Public Hearing is scheduled for Monday, September 29, 2014 at 6:00 p.m. The next regular Board meeting will be held on Wednesday, October 15, 2014 at 6:00 p.m. due to the Columbus Day holiday.

VIII. General Comments from the Public.

There were no comments from the public.

IX. Adjournment.

The meeting adjourned at 6:44 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board