

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

September 14, 2015

**** Board Room ****

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

MINUTES

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

Bryan Foulk, 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. Jim Doyle, Bryan Foulk, Helen Ireland, and Dan Offret were present. Judy Scrivener was not present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – August 10, 2015 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Water Service Agreement – Orange Grove Self Storage.**

Mr. Offret recused himself from voting on Item B of the Consent Agenda, Ratification of Billing Adjustments.

Mr. Offret made a motion to approve Part A, Approval of Minutes, and Part C, Approval of Water Service Agreement Orange Grove Self Storage. Ms. Ireland seconded the motion. Motion passed unanimously.

Ms. Ireland made a motion to approve the Billing Adjustments. Mr. Doyle seconded the motion. Motion passed 3-0; Mr. Offret abstained.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said fiscal year to date consumption for all service areas combined is around 4% less than last fiscal year to date. This trend is following similar trends with other water providers across the region.

This month, the Utility Team replaced booster No. 1 at New Linda Vista due to a failed motor and demolished an old structure at Metro Southwest - E&T No. 22 which will reconfigure the site to add the installation of backup power capability for resiliency and redundancy so the boosters can stay in operation during a power outage.

Avra Valley Recharge Project (AVRP) is on track, with over 85% of this year's planned recharge activity accomplished. Plans are moving forward for analysis and cost estimates to improve delivery capacity at basins 1 and 2.

Cortaro-Marana Irrigation District (CMID) effluent delivery pipeline is proceeding with the Bureau of Reclamation moving forward with the design of electrical modifications required to provide power to the booster, which will be located at the Tres Rios flume. The intergovernmental agreement between all parties is anticipated to be brought before the Board in October. Mr. Offret asked if Pima County had submitted information to Arizona Department of Environmental Quality (ADEQ). Mr. Olsen said yes, information was submitted for dual permitting to be able to have the correct class of water in the effluent delivery pipeline and then apply it onto farmland. It is currently in the review process, which can take up to six months but discussions have revealed it could be done sooner.

Tucson Water has approved plans for its portion of the Metro Southwest - Lazy B interconnect to allow that wheeling agreement to move forward. Plans were submitted to ADEQ for authorization to proceed.

There were no bids on the advertisement for the District's office sign. Staff has now reached out to various sign companies to solicit bids to construct the sign, which is in the current budget.

Mr. Foulk asked about the 11 new meter applications in Metro Hub. Mr. Olsen said there have been a series of new developments in the Metro Hub service area.

B. Financial Report.

Ms. Bracken said revenue and expenditures for July are both favorable with revenue of \$276,858 over budget and expenditures \$36,701 under budget using a straight line projection, resulting favorable in revenue in excess of expenditures totaling \$313,559. Increases in revenue are largely attributed to metered water sales. Historically in July, the District would equalate 11% of the budgeted revenue but this July, it is 10.17% and below the historical average. All expenditures were under budget on a straight line projection with the exception of purchased power, which is projected to be slightly over budget with only one month of data to report. A prior year comparison of revenue for July is \$38,896 lower than July 2014. This was largely attributed to a one-time revenue source received in July 2014. The total operating expenditures this fiscal year are higher than the prior fiscal year by \$25,933. When comparing revenue in excess of operating expenditures to the prior year, the current year is unfavorable by \$64,829. The Arizona State Treasurer pulled collateral program statement for July includes \$1,776,751.17 of collateral coverage in addition to \$250,000 in FDIC insurance coverage. Banking fees continue to be covered by the earnings credits received on the checking and merchant accounts, saving the District's monthly banking fees on these accounts. A total of 23 meter applications were received in August, compared to 8 meter applications in August 2014. So far this fiscal year, a total of 28 meter applications have been received compared to 17 meter applications in fiscal year 2014.

C. Fixed Asset Policy.

Mr. Olsen explained that the District has had a Fixed Asset Policy since 1998 to provide physical accounting controls to protect against loss, misuse, theft, and other damage, and provide proper valuation and classification of the asset. Examples include land, buildings, vehicles, or tools and equipment over a certain dollar threshold. Revisions staff has proposed include an increase in the threshold for equipment and tools to be considered a fixed asset from \$1,000 to \$3,000 and moving physical inventory from being conducted once every three years to at least every other year to enhance accounting of fixed assets. The other changes are minor in nature.

Mr. Foulk asked about the difference in cost for doing inventory every two or three years. Mr. Olsen said a lot of the costs are related to staff time. The reason inventory is being increased to every other year, is a lot can happen in three years. Ms. Bracken added it is also considered a best practice procedure.

Mr. Olsen said this was discussed with the auditors and they concurred with the proposed changes. Mr. Offret expressed appreciation for consulting with the auditors first rather than doing something and later finding out they would suggest something different.

Mr. Offret made a motion to approve the revised Fixed Asset Policy effective as of September 14, 2015. Ms. Ireland seconded the motion. Motion passed unanimously.

D. Approval of Liability Insurance.

Mr. Olsen said this item is for the award of the District's liability insurance and equipment coverage, with a slight overall increase from the previous year of \$1,900, which represents about a 1.4% increase. The good news is that the District's liability insurer, Glatfelter Public Practice, has at the District's request extended the overall umbrella of liability coverage to include the District's cyber assets and claims within the cyber domain; thereby, increasing the coverage by \$10 million at no additional cost beyond the overall 1.4% increase. Mr. Offret noted there is no deductible for cyber claims and Mr. Olsen confirmed. Even though the District has done proactive measures such as removing social security numbers from customer accounts and lessening the risk of cyber intrusion, there is always a concern, so it is great to be able to enhance the District coverage at no additional cost. Mr. Foulk asked if "directors, officers, and management" in the coverage includes the Board of Directors and Mr. Olsen confirmed.

Ms. Ireland made a motion to approve the Liability Insurance Policy with Glatfelter Public Practice for \$130,259 and The Hartford Steam Boiler Inspection and Insurance Company for \$12,298 with a total annual premium cost of \$142,557 from October 1, 2015 through September 30, 2016. Mr. Offret seconded the motion. Motion passed unanimously.

E. Award of Construction Contract for the La Cañada Drive Water System Adjustments from Ina Road to River Road.

Mr. Olsen said the La Cañada Drive water system improvements were completed in November 2012 and had a requirement that the above-ground facilities such as hydrants and air release valves be left in a partial state of completion until road improvements were completed. The road improvements are now completed and a contract is needed to adjust these above-ground facilities to their final grade in order to finish the project off. Four bids were received, two below the engineer's estimate and two above. Upon review, staff recommends awarding the contract to the lowest bidder, Marcon Excavating and Construction, Inc.

Mr. Offret made a motion to award the construction contract for the La Cañada Drive Water System Adjustments: Ina Road to River Road to Marcon Excavating & Construction, Inc. in the amount of \$42,300.00, 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 \$2,500.00 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. Ms. Ireland seconded the motion.

Mr. Doyle brought up the wide discrepancy in bids. Mr. Olsen said in the approved capital budget, \$50,000 is allocated and the engineer's cost estimate was raised to approximately \$70,000 based on the updated line item costs received on a similar project near Magee and La

Cholla. A couple of bidders used lower unit costs resulting in an overall bid below the original cost estimate, while there were other bidders who were much higher than the engineer's cost estimate.

Motion passed unanimously.

F. Approval and Award for Asset Management Software and Hardware.

Mr. Olsen said in April 2014, the Board selected Asset Performance Group to provide staff training on reliability centered maintenance methodology and perform a software needs analysis. The training was very positive and staff has since practiced applying these new skillsets. The software needs assessment recommended a Computerized Maintenance Management System (CMMS) to electronically track work orders and maintenance activities, along with Reliability Centered Maintenance (RCM) software, to enhance documentation, workflow, and scheduling efficiencies for the District. Other water providers in the region and across the country have seen significant efficiency gains and enhanced data recordation from having a CMMS. After significant deliberation, cost analysis, and review of various software packages by the cross-functional staff who attended the RCM training and make up the RCM steering committee, the recommendation was made that Maintenance Connection be utilized to provide the CMMS capability and ReliaSoft serve the District's RCM software needs. This item is to award both software packages, purchase the necessary servers to host the software, and there is adequate funding in the current year capital budget to accomplish this.

Mr. Foulk asked if this incorporates new automatic meters that can detect leaks. Mr. Olsen said no, the automated infrastructure tracks high usage and customer service staff makes courtesy calls to inform customers of high usage. That technology does collect complementary data points about usage that will help with work order tracking, which can help with proactive maintenance practices down the road.

Ms. Ireland asked why both CMMS and RCM are needed. Mr. Olsen said the CMMS is a robust database of all work orders and dispatched resources. The District does not currently have an electronic work order database and CMMS will allow staff to begin seeing patterns in work orders that cannot be seen with paper based systems. The RCM is more of a proactive maintenance software that allows staff to determine what is needed on various systems, such as wells, to ensure long operation life and avoid early recapitalization resulting from early well failure. The two software packages are complementary and CMMS feeds data into RCM. Staff had looked at software packages that do both but the costs were prohibitive. RCM identifies more efficient ways to maintain the infrastructure and make it last longer. RCM is a tool with the ability to create checklists and track maintenance. Without having the CMMS software to feed data into the RCM software, it would be difficult to have a solid end product.

Ms. Ireland asked why two servers are needed. Mr. Olsen said staff looked at hosting on one server but with the hardware and data requirements for both software packages, two separate servers is what is required.

Mr. Offret asked about the effective service life of the two servers and will they have room in five or ten years to handle the District's needs. Mr. Olsen said they are being sized for the full capability needs. Steve Shepard, Utility Superintendent, said one big challenge with computers is ever-changing technology and software. These servers probably have a ten year maximum life. The server is separate from the data storage, which can be maintained and moved.

Ms. Ireland observed that staff originally started with RCM and it was a stand-alone product, then added CMMS for \$68,000 to do work orders. Mr. Olsen said in the beginning, staff knew we needed some proactive maintenance solutions and Asset Performance Group did a software needs analysis with the District's aging wells and infrastructure. They came back rapidly and pointed out that RCM can be a standalone product but it is only as valuable as the data loaded into it. Other organizations in the Tucson region have started off with CMMS and used that data with RCM. The software needs analysis said the District needs both pieces to make RCM/CMMS functional. In the current calendar year budget, there are adequate resources allocated to act on staff's recommendation of going with the two separate but fully integrated platforms, as opposed to going with another vendor at costs significantly beyond what is authorized. The water providers Mr. Olsen has worked with have had maintenance tracking systems for numerous years and also utilize some form of proactive maintenance.

Ms. Ireland asked about the \$10,000 in unforeseen expenses. Mr. Olsen explained this motion is for two software packages, two servers, and all the moving parts that are needed to integrate the effort together. As opposed to any minor change requiring the Board's approval, it is recommended that the General Manager be authorized to approve unforeseen expenses up to \$10,000, keeping the program aligned with what is authorized in the current year budget. This practice is similar to how construction projects are handled. This time, it is a little higher because of the number of moving pieces required to integrate two software packages with two servers.

Mr. Offret made a motion to approve the purchase of the two Dell servers from GHA Technologies, Inc. in the amount of \$15,847.39. Ms. Ireland seconded the motion. Motion passed unanimously.

Ms. Ireland made a motion to approve the purchase of a Computerized Maintenance Management System (CMMS) from Maintenance Connection, Inc. in the amount of \$46,624.10. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Offret made a motion to approve the purchase as recommended by staff of the RCM++ software from the ReliaSoft Corporation in the amount of \$6,479.51. Mr. Doyle seconded the motion. Motion passed unanimously.

Ms. Ireland made a motion to authorize the General Manager to approve up to an additional \$10,000 for unforeseen issues related to the purchase and implementation of the server hardware, CMMS software, or RCM software. Mr. Offret seconded the motion. Motion passed unanimously.

G. Award for Maintenance and Testing of Irrigation Well BKW #8.

Mr. Olsen said one of the most crucial elements of the District's Central Arizona Project Recharge, Recovery, and Delivery System (CAP RRDS) will be the new wells near the District's AVRP and the groundwater savings facilities (GSF) that will recover the District's stored water and convey it into the Metro Main service area. Prior to designing the wells, aquifer productivity information is needed. The Board approved at the July 15, 2015 meeting, a license agreement with BKW Farms that provides access to perform the necessary tests on their BKW well #8. Three bids received and the low bid was Weber Water Resources.

Mr. Offret made a motion to award the bid for the Maintenance and Testing of Irrigation Well BKW #8 to Weber Water Resources, LLC in the amount of \$28,900.75 and also moved to approve the job order agreement with Weber Water Resources, LLC and grant the General Manager authority to approve the following changes to the agreement: 1) allocate additional funding a cumulative amount not to exceed \$5,000 and 2) increase the original construction contract term a cumulative amount not to exceed 60 calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Ms. Ireland seconded the motion.

Mr. Foulk said it seems prudent to investigate a bid and not just look at Google Maps. Mr. Offret said he loves to see this project making headway.

Motion passed unanimously.

H. CAP Water Credit Transfer Agreement with Town of Marana.

Mr. Olsen said this item is to approve a second five year agreement with the Town of Marana to purchase a portion of the District's CAP allocation that the District is not presently purchasing due to budgetary limitations. The District's allocation is 13,460 acre feet a year and approximately 12,000 acre feet are stored, which is far beyond the District's current recovery needs of 7,500 acre feet per year. The difference between what the District is storing and what the District is recovering each year rolls over into long-term storage credits and adds to the District's water resources portfolio. The previous agreement with the town was modified to provide flexibility to store at either AVRP or a GSF. The other change includes a true-up provision for future CAP reconciliation, avoiding budgetary impacts for both parties. This agreement is another example of regional collaborative partnerships that benefit the District's renewable water resources. Mr. Offret said he looks forward to future partnerships.

Mr. Offret made a motion to approve the Agreement to Sell and Assign Central Arizona Project Long-Term Storage Credits in the Tucson Active Management Area with the Town of Marana with an expiration date of December 31, 2020. Ms. Ireland seconded the motion. Motion passed unanimously.

I. Purchase and Sale Agreement for Long Term Storage Credits.

Mr. Olsen said the effluent delivery pipeline to CMID will enable the District to accrue 100% effluent credits, as opposed to the less than 50% presently accrued for the Santa Cruz Managed Effluent Recharge Project. The goal is to take a portion of the additionally earned long term storage credits and enter into a purchase agreement with CAGR. The purchase price would be indexed on current CAP delivery rates minus the CAP capital charge, plus 2% associated with evaporation or leakage. The agreement will sell between 250 and 1,000 acre-feet per year but will still result in an enhancement of the District's water resources portfolio because not all additional credits under this agreement will be sold. A portion will roll into long-term storage credits each year to enhance the amount of water resources for future utilization. The same number of credits presently accruing in the Lower Santa Cruz Managed Recharge Project will annually be added to the water resources portfolio. The District is only monetizing a portion of the additionally earned credits. The plan is that the revenue from this agreement would be used to shore up the District to help stabilize any future CAP rate increases, should there be a shortage declaration.

Mr. Offret believes the rates will go up. Mr. Olsen said if that is the case, the credit purchase agreement will also go up, indexed based on CAP delivery rates.

Ms. Ireland made a motion to approve the Purchase and Sale Agreement for Long Term Storage Credits between the Central Arizona Water Conservation District and Metropolitan Domestic Water Improvement District. Mr. Offret seconded the motion. Motion passed unanimously.

J. Water Storage Agreement of Central Arizona Project Water with the City of Phoenix.

Mr. Olsen said the City of Phoenix and the District have partnered on an innovative water management tool known as Inter-Active Management Area (Inter-AMA) Firming. This calendar year, the City of Phoenix is storing 150 acre-feet of their CAP water at the District's AVR. In calendar year 2016, Phoenix has requested to store 1,500 acre-feet at AVR and will continue to pay their proportional share of the costs. This collaborative effort will not negatively impact the District's finances, nor displace any of the District's water planned for recharge at AVR or the GSF in the region. While an agreement is still being finalized, the deadline to place CAP orders by October 1, 2015 falls before the District's next Board meeting. An agreement is needed today authorizing the Chair of the Board to sign after Legal Counsel review.

Mr. Offret made a motion to authorize the Chair of the Board to sign the Water Storage Agreement of Central Arizona Project Water between the City of Phoenix and the District following Legal Counsel's review and with an expiration date of December 31, 2016. Ms. Ireland seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Olsen said during August meeting, a member of the public inquired on the status of the Animas River spill. The response was there is no water quality impact to the District but that the situation was being closely monitored. Subsequently, CAP and Southern Nevada Water Authority increased their water sampling and found no water quality issues. To educate District residents, the ADEQ press release was placed on the District's website.

A rainwater harvesting workshop will be held at the District tomorrow, September 15, 2015. There are 35 attendees registered and a wait list. The workshop is organized by Watershed Management Group.

Mr. Olsen said Saturday, September 12, 2015, was the 35th Annual Environmental Excellence Awards held by Arizona Forward. The District's partnership on Inter-AMA Firming was submitted along with other state-wide drought preparedness items. The Governor's Award for Arizona's Future was given to the District along with the other statewide partners, including Arizona Department of Water Resources (ADWR), CAP, City of Phoenix, Arizona Water Banking Authority, Bureau of Reclamation, City of Tucson, and Salt River Project. A storyboard was submitted and Mr. Olsen pointed out Inter-AMA Firming was a key element of the statewide drought response as an innovative water management tool. A larger version of the storyboard will be on display throughout the state showing the importance of this effort. This was the first year of this particular award and it is a great privilege for the District. Mr. Doyle said he attended the ceremony and it was an excellent presentation. There were over 600 people in attendance.

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 Wednesday, October 14, 2015 due to Columbus Day. Mr. Foulk said he will not be able to attend that meeting.

VIII. General Comments from the Public

There were no comments by the public.

IX. Adjournment

The meeting adjourned at 6:48 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board