

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

November 10, 2014

**** 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
Jim Doyle, Member

Board Members Not Present: Bryan Foulk, Member
Richard Byrd, Member

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

Judy Scrivener, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 6:02 p.m. Jim Doyle, Dan Offret, and Judy Scrivener were present. Richard Byrd and Bryan Foulk were not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

A. Approval of Minutes – October 15, 2014 Board Meeting.

B. Ratification of Billing Adjustments.

C. Ratification of Accounts Removed from Active Accounts Receivable.

D. Approval of Water Service Agreement – Avilla Sabino West, Lots 1-53.

Mr. Doyle made a motion to approve the Consent Agenda. Mr. Offret seconded the motion. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said the fiscal year to date (FYTD) water consumption for Metro Main is roughly 4 percent less than the previous FYTD and Metro Hub is 2 percent lower over the same period. This is a significant improvement compared to numbers reported to the Board in October, which showed Metro Hub down by 13 percent over the previous FYTD. While the numbers have somewhat stabilized, the numbers continue to show a declining demand trend and mirrors nationwide averages in consumption trends. The United States Geological Service published a report that showed national water use is at the lowest levels since the 1970s and between 2005 and 2010 total U.S. demand dropped by 13 percent. The District's declining consumption levels mirror other area providers and nationwide trends.

The human machine interface (HMI) supervisory control and data acquisition (SCADA) upgrades have been completed.

Almost all of the water planned for recharge at Avra Valley Recharge Project (AVRP) has been delivered and recharged. The District is on track to recharge the remaining 3 percent, or 200 acre-feet, by the end of the year.

The twenty-fifth carbon media change out for the South Shannon treatment center occurred on October 30, 2014. Over 1.6 million gallons of water has been treated at the facility since July 2006.

B. Financial Report.

Ms. Bracken said revenue and expenditures for September are both favorable with revenue \$710,388 over on a straight line projection. Increases are largely attributed to water sales being \$508,119 ahead of budgeted amount on a straight line projection. Other income is higher with the sale of Bell Well, legal settlements, and the transfer of water credits from Metro Southwest to Metro Main. Operating expenses are under budget by \$320,885 using a straight line comparison. Revenue in excess of operating expenditures is \$2,997,411, which is favorable compared to the

budgeted amount by \$1,304,273 for the first three months of the fiscal year. Prior year comparison of revenue for September 2014 is \$291,163 ahead of September 2013. The increases are mostly attributed to other income for a total of \$265,459 higher with the inclusion of the legal settlement, the sale of Bell Well, and the water credits. Water Resources Utilization Fees are \$73,174 higher. Metered water sales are \$42,257 lower than the prior fiscal year. Operating expenses in all categories are lower this fiscal year when compared to last, with the exception of regulatory fees and CAP water purchases, which are \$21,953 and \$8,012 higher this fiscal year. Expenditures to date on capital improvement projects funded with the 2007 WIFA loans are 99.76 percent completed with \$28,748 remaining to be spent to complete the Hub vessel and variable frequency drive at Magee La Cholla. A total of 8 meter applications were received in October compared to 32 in October of the prior fiscal year. Meter applications so far this fiscal year total 29 compared to 64 in the prior fiscal year. The first week of November has not generated any surge in meter applications. The office solar complex continues to generate a savings. Electric costs for the first four months total \$11,773 compared to \$15,205 last fiscal year and \$16,494 for fiscal year 2011, which is a savings of \$3,432 when compared to fiscal year 2011 and \$4,721 when compared to the prior fiscal year.

Additionally, the District has requested proposals for professional auditing services. There is an advertisement in the Arizona Daily Star and the deadline for receiving proposals is 2:00 p.m. on December 18, 2014.

C. Appointments to the District Municipal Property Corporation and Direction to Dissolve the District Municipal Property Corporation.

Mr. Olsen said Municipal Property Corporations (MPC) were leveraged during the 1990s by public entities as a mechanism to fund large capital initiatives without the need to seek voter approval. The District's MPC was formed in 1996 as a way to secure financing for facilities with tax-exempt bonds for capital projects with a lease-back arrangement to the District in order to pay the debt service on those bonds. The last time the MPC was active as a financing mechanism was in 1999 when the District office and warehouse were constructed. The MPC also files an annual report with the Arizona Corporation Commission (ACC). The most recent appointments to the MPC were in 2011. The five-member MPC Board currently consists of Jim Doyle, Dan Offret, Reb Guillot, and the last two seats are vacant. It is anticipated that future large capital projects would be done through Water Infrastructure Finance Authority (WIFA) loans, voter approved revenue bonds, or capital bonds. Staff recommends the MPC be dissolved but the MPC would need to meet and adopt a resolution to dissolve. The MPC bylaws state that the majority of the MPC Board must not be members of the District's Board of Directors. To rectify this, two

members of the Finance Oversight Committee have volunteered to be appointed to the MPC: Sheila Bowen and Doug Hofmann.

Mr. Doyle made a motion that the District elect Sheila Bowen and Doug Hofmann to the District Municipal Property Corporation and that the District Municipal Property Corporation meet to consider dissolution. Mr. Offret seconded the motion.

Mr. Offret asked if the MPC would be able to meet before the end of the year. Mr. Olsen said if the District Board takes action, the MPC can meet immediately prior to the December Board of Directors meeting. Ms. Bracken noted the annual reports are filed according to the fiscal year ending June 30th. Mr. Olsen said the MPC could be dissolved as of the meeting date but would still have until June 30, 2015 to file the final ACC report.

Motion passed unanimously.

D. Employee Medical and Dental Insurance Coverage.

Mr. Olsen said over past year, the Board has been apprised of expected increases in medical and dental insurance due to Affordable Care Act (ACA) provisions. In the interest of prudent planning, the Board approved a financial plan in May which factored in a 50% increase for healthcare costs while allocating a 3.6% cost of living adjustment to staff to help balance the expected increases. Crest Insurance Group, the District's broker, presented two options for Board consideration. The first option, provided by United Healthcare, provides a transitional relief, which is a short-term solution and delays the full costs and implementation of ACA provisions. Should the transitional option be selected, it is projected to increase employee medical costs by 10.1 percent. The other option, provided by Blue Cross Blue Shield, places the District in full compliance with ACA at a 32.1 percent increase. The latter is recommended by staff because the transitional relief option is a short term solution and would still require substantial increases next year. Currently, the estimated 2016 increase for employers who have not entered into ACA compliant coverage is projected to be a 50 percent increase beyond the transitional rate increase, so the Blue Cross Blue Shield option provides more financial stability for future rates.

Dental benefits are offered to staff with two choices. Employers Dental Services (EDS) issued a flat renewal while total MetLife dental increases are estimated to be about \$2,000 based on employees who currently have MetLife coverage.

Staff is recommending approval of Blue Cross Blue Shield as the District's medical insurance provider which places the District in full compliance with ACA requirements while providing greater stability for future premium increases, while also approving EDS and MetLife for calendar year 2015.

Mr. Offret recalled the District was at one time with Blue Cross Blue Shield. He asked if the employees liked that coverage and if they would have any problem going back. Mr. Olsen said he talked with employees when Crest Insurance first provided some of the information about ACA compliance and the feedback from staff was positive about going back to Blue Cross Blue Shield based on previous experiences.

Mr. Doyle made a motion to approve Crest insurance to administer a contract for employee medical insurance with Blue Cross Blue Shield on the District's behalf for December 1, 2014 through December 31, 2015 and also moved to approve a contract for employee dental insurance with Employers Dental Service and MetLife for calendar year 2015. The General Manager was also directed to implement the employee deductions and HSA contributions as identified in the attached table. Mr. Offret seconded the motion. Motion passed unanimously.

E. Resolution 2014-5 – Authorization to Modify Designation of Assured Water Supply for Metro Main.

Mr. Olsen said a Designation of Assured Water Supply (DAWS) is required prior to any new development occurring within a service area unless the developer enters into an agreement with Central Arizona Groundwater Replenishment District (CAGR). A water provider with a DAWS must replenish all mined groundwater within the service area. To accomplish this, Metro Main has predominantly leveraged recharged CAP water. Metro Main was issued a DAWS in April 1996 and received a modification in July 2006. The DAWS is only good for ten years and a modification must be submitted prior to then or the DAWS will expire. The current DAWS shows that Metro Main meets physical availability for 100 years of continuous groundwater supply to serve a build-out demand of 13,302 acre-feet per year but the declining per capita water consumption the District is experiencing now predicts a build-out demand of closer to 8,500 acre-feet and will be reflected in the DAWS modification submittal. The District's portfolio of water resources includes an allocation of 13,460 acre-feet of CAP water, over 1,000 acre-feet of remediated water from the South Shannon treatment system, as well as effluent entitlements, which are based on the total potable usage of the District, all of which enable the District to meet its assured water supply replenishment obligations.

Mr. Doyle made a motion to approve Resolution 2014-5 authorizing the General Manager to submit a Modification of Designation of Assured Water Supply application for Metro Main to the Arizona Department of Water Resources. Mr. Offret seconded the motion. Motion passed unanimously.

F. Resolution 2014-6 – Authorization to Modify Designation of Assured Water Supply for Metro West.

Mr. Olsen stated Metro West received its DAWS on September 2006 and a modification must be submitted prior to January 1, 2015 to avoid expiration. While there is presently no demand in Metro West, build-out demand is based on the Arboles Viejos subdivision and is estimated at just over 1,000 acre-feet. Metro West also meets the physical availability test for 100 years of continuous groundwater supply.

Mr. Offret recalled there were 1,875 homes planned and asked if there is any anticipated construction in that area. Mr. Olsen said there have been ongoing discussions with the developer of the Arboles Viejos subdivision. They have expressed interest in making sure the contracts and agreements do not expire. The District has not received any indication of imminent development.

Mr. Offret asked if the two District wells there are in good condition and ready to provide service. Mike Block, Water Resources Manager, said no, the agreement with the developer is for one new well and staff is also trying to negotiate a new well to replace the existing well. Both existing wells are now about 60 years old. Mr. Olsen said in this agreement, as in all developer financed projects, any infrastructure required to provide water service, the cost is entirely borne by the developer.

Mr. Doyle made a motion to approve Resolution 2014-6 authorizing the General Manager to submit a Modification of a Designation of Assured Water Supply application for Metro West to the Arizona Department of Water Resources. Mr. Offret seconded the motion. Motion passed unanimously.

G. Award of Construction Contract for the Ranch House Estates Waterline Extension and Private Water Service Line Relocation.

Mr. Olsen said the bid opening for the Ranch House Estates waterline project was on October 30, 2014 and six contractors submitted bids. The low bid of \$67,638.89 is below the \$75,000 included in the fiscal year 2015 capital budget for this project.

Mr. Offret asked for the total budgeted amount for this item. Mr. Olsen said \$75,000 is approved for this project and the bid is below that. If the Board awards the contract, it would be \$67,638.89, plus the motion allows up to \$5,000 for the General Manager to authorize any associated change orders as needed.

Mr. Doyle made a motion to award the construction contract for Ranch House Estates Waterline Extension and Private Water Service Line Relocations to Rasch Construction, Inc. in the amount of \$67,638.89 (PVC Alternative B), 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 \$5,000.00 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. Mr. Offret seconded the motion.

Mr. Offret asked Mr. Maish about the differences between ductile iron and PVC pipe. He asked if it might be better to use ductile iron with only a \$6,000 difference in cost. Mr. Maish said both materials are on the approved materials list. Typically, ductile iron is used when there will be a lot of other construction in the area that could jeopardize the integrity of the pipe. Ductile iron is more durable; however, most residential areas in the District use PVC pipe. This subdivision currently has PVC that was put in shortly after the District was formed in 1993. At that time, a portion was left out of the initial design and one street did not get a waterline, so that is the one street getting an additional waterline. Mr. Offret asked if the District will take out what has already been established for 20 years, and Mr. Maish said no. This project will eliminate only what is located in the easements behind lots. The 1993 installation used current standard PVC pipe.

Motion passed unanimously.

H. Selection of Consultant – Land Acquisition Services for CAP Recharge, Recovery and Delivery System.

Mr. Olsen said one of the three key initiatives to be accomplished with the Water Resources Utilization Fee is the CAP Recharge, Recovery, and Delivery System (CAP RRDS), which would cover a portion of the District's CAP allocation stored currently at AVRP and convey it approximately 13 miles to the Herb Johnson Reservoir, where it would be blended before delivery to customers. As presented to the Board in September, the first phase of the CAP RRDS is to accomplish the necessary land acquisitions to include well sites, forebay and pump site, a site for future treatment facility, and critical easements along the route. Three firms submitted proposals, which were evaluated by two District staff and a representative from Oro Valley water. The resulting scores show that all three firms are highly qualified, confident, and capable of accomplishing the work, with Tierra Right of Way Services ranking the highest followed by HDR Engineering.

Mr. Doyle made a motion to approve the selection of Tierra Right of Way Services to perform the land acquisition services for the CAP Recharge and Recovery System project. If contract negotiations are unsuccessful, then District staff should proceed with the contract negotiations with HDR Engineering, Inc. The final contract and fee schedule will be presented to the Board of Directors for approval. Mr. Offret seconded the motion. Motion passed unanimously.

V. General Manager's Report.

Mr. Olsen said Fitch Ratings has affirmed the AA- rating on the \$14.3 million remaining of the 2009 outstanding revenue bonds and also affirmed the A+ rating on \$4.1 million of the 2011 bonds, with a stable rating outlook for both bonds. Positive factors in the affirmed ratings were the District's over 300 days cash on hand, extensive water resource portfolio, and stable financial performance.

Election results for the District Board of Directors show that Jim Doyle and Judy Scrivener will be returning to the Board next year and will be joined by Helen Ireland, who is replacing Richard Byrd. The first Board meeting of the new Board will be January 12, 2015 and officers will be selected for 2015 at that meeting.

VI. Legal Counsel's Report.

Mr. Hinderaker said he had nothing to report.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the next regular meeting will be held on December 8, 2014.

Mr. Olsen said members of the MPC will receive notification of their meeting, which will take place immediately preceding the next Board of Directors meeting.

VIII. General Comments from the Public.

Ingrid Saber, a resident of the District, asked Mr. Olsen to repeat the four services covered in item H regarding the CAP RRDS. Mr. Olsen said the consultant will acquire land for well sites, forebay and pump site, critical easements, and a future treatment site.

Ms. Saber also had questions about health insurance. She asked if any employees have ever requested to be covered by insurance other than what is offered through the District. For instance, she wondered if employees do not want to be covered by the District insurance company and want to remain with the insurance company they have later develop a disease, would employees who leave Metro not be able to get a policy someplace else due to a preexisting condition. Mr. Olsen said the District has a number of employees who do not have District medical and dental insurance because they have other coverage outside the District, such as through their spouse, but every employee has the option afforded to them.

Ms. Saber asked if those employees who decline District coverage wind up with more in their paychecks. Mr. Olsen explained that employees who do not have insurance through the District will have no deduction for medical premiums on their checks. Open enrollment allows employees to make medical decisions with their families about what is best for them.

Ms. Saber asked if open enrollment is the only time employees can sign up. Mr. Olsen said unless there is a life changing qualifying event, such as a birth or death, the only opportunity to change insurance occurs during open enrollment once a year. New employees are offered enrollment at the time of hire, as that is considered a qualifying event.

Ms. Saber asked what would happen to an employee who is not new who suddenly discovers they have a horrible disease and wants insurance. Mr. Olsen said if employees choose not to be covered through the District, they are typically covered by some other insurance coverage, such as a spouse's insurance. Ms. Saber was concerned about people who have no insurance. Mr. Olsen said all District employees have insurance coverage, whether it is from the District or another source. There are employees who cover their spouse and family and their spouse declines coverage from their own employer, as well.

Ms. Saber asked how the District protects private employee health information. Mr. Olsen said the District complies with all provisions for medical privacy as required by Health Insurance Portability and Accountability Act (HIPAA). HIPAA includes protections for health information and medical choices which are between the individual and their healthcare providers. Situations involving the Family Medical Leave Act (FMLA) are the only time the District would have health information. Privacy laws control the flow of information. No medical information is held in standard personnel records. Any medical issues are between the doctor and the employee; however, the District might receive communications from a doctor as it relates to FMLA.

IX. Adjournment.

The meeting adjourned at 6:35 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board