

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

July 9, 2012

**** Board Room ****

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

MINUTES

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

District Staff: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
Michael McNulty, Legal Counsel
Tullie Noltin, Recorder
Warren Tenney, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Bryan Foulk, 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. Bryan Foulk, Dan M. Offret, Richard Byrd, Jim Doyle 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 – June 11, 2012 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Approval of Water Service Agreement – Hotel at Riverside Crossing West Side.**

D. Approval of Auditing Services Agreement for 2011-2012 Fiscal Year.

Mr. Offret made a motion to approve the Consent Agenda. Ms. Scrivener seconded the motion.

Mr. Offret expressed concern that nowhere in the new audit agreement does it say the auditors are required to make suggestions for management changes. Mr. Land said the auditors do provide a management letter every year outlining suggestions and deficiencies in standard practices after a series of internal controls. Mr. Offret said he would like to avoid repeating the situation that occurred this year and past years with regards to contingencies for sick leave and vacation. He asked how suggestions in the management letters are implemented and what responsibility the District has upon receiving such information. Mr. Land explained that when an area is identified, staff takes steps to address the issues. In the case of sick leave, auditors saw it was being booked, the District had a large cash balance, and not all employees are expected to retire in the same year, so it was not viewed as a shortcoming. Mr. Foulk said he had also been disappointed in how sick leave payout was handled. The District logged it but the management letter did not specifically state that money was not being set aside. Mr. Land said he and the financial staff accept responsibility for the planning decisions. The auditors can be asked to look more closely at those types of things. Mr. Offret said he does not want to see additional charges and Mr. Land noted the final bill usually comes in under the contract amount.

Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Stratton said June was a really good month for water sales, with consumption substantially over the previous year. This will help the bottom line and provide a better start for the new fiscal year. AVRPP will require some maintenance to get recharge rates up a little more. Most projects underway are related to waterline relocations and will hopefully come to an end soon.

Mr. Foulk asked if the recent heavy rain affected waterline relocation projects at all. Mr. Maish explained the Shannon Road Transmission Main, part of Magee Phase 2, had been affected. Workers had created a pit in the wash with a sand berm around it. The flow of the river reached 4-5 feet in the area and filled the pit with sand, carrying some materials away from the area. Crews started digging it out today. Mr. Doyle asked why the work is being done under the river and Mr. Maish briefly explained the construction conditions justifying the decision.

Mr. Offret asked about the report of a possible partnership with the Bureau of Reclamation (BOR) on the effluent recharge project. Mr. Stratton said there would be a meeting with BOR next Monday. There are two portions to this project: the District's preliminary work of coordinating with Pima County Wastewater on a tie-in at their new facility, and the BOR's determination on requirements for the existing line used in the 1980's by Pima County and Cortaro-Marana Irrigation District (CMID).

B. Financial Report.

Mr. Land said revenues are about \$800,000 under budget and expenditures are \$635,000 under budget through May, bringing the District \$160,000 short of budget. With strong sales and limited spending in June, it is still possible to wind up on target for the fiscal year. Revenues are \$1,046,000 behind last year, mostly due to water sales. Expenditures are almost identical to last year at this point. Revenues in excess of operating expenditures are still a little over \$1,000,000 behind last year but last year was a record setting year. RTA bonds are moving along and all three are more than 2/3 spent. Meter applications are at an all time low, with only 32 for the entire year so far; 25 behind last year. Solar energy is positive and efficiency is expected to increase in June. The District is \$2,700 ahead, compared with costs last year without solar. Mr. Foulk asked if TEP costs will increase. Mr. Hill stated TEP has applied for an increase of 15% but that will be decided by the ACC. He noted TEP rates were not raised last year.

C. Contribution Requirements for the Arizona State Retirement System.

Mr. Stratton said the Board has been previously apprised of a court decision regarding the Arizona State Retirement System (ASRS). Contributions are returning to a 50-50 split. The decision came with a mandate that all employers in the system shall reimburse their employees for the additional 3%. The District did take action to provide information to ASRS regarding its actions to give employees pay increases and has received clarification that the pay increase does not exempt the District from the reimbursement requirement. The total reimbursement will be around \$17,000.

Mr. Doyle pointed out the contribution rate also changed last year but he did not see that mentioned in the report. Mr. Land said the change was indeed a combination of a rate increase and a change in the percentage split. Billie Sue Morelli, Human Resources Specialist, confirmed.

Mr. Stratton said this reimbursement was not budgeted but a cost of living allowance (COLA) was. Staff is recommending 0.7% of the COLA be given as a lump sum to satisfy the reimbursement to employees, leaving a net 2.4% COLA. As an alternative, staff could find the \$17,400 elsewhere in the budget, if the Board so chooses.

Mr. Offret said he had a problem with taking the 0.7% away from the employees after the Board committed to that. Staff thought they would receive a 3.1% increase and they have not had an increase in three years and he feels it was a fair thing to do. Mr. Offret suggested the District consider taking the amount out of the contingency fund, which would be only about 3.6% of the money budgeted for contingency. It appears to him this is the purpose of the contingency fund. Mr. Doyle and Ms. Scrivener agreed. Mr. Foulk asked how much is in the contingency fund and Mr. Land said \$500,000.

Mr. Offret made a motion that the money due to repay the refund for ASRS contributions in fiscal year 2010-2011 should be made out of the District's contingency fund. Ms. Scrivener seconded the motion.

Mr. Foulk said as the Board overseeing the budget, he wanted to make sure people are aware that the District's employees are the best treated out there. The District is giving COLAs and increases at a time when nobody else is. He wants to make sure staff sees the District has done more for its employees than other employers. He hopes the employees appreciate what the Board is doing because the District is about to go to ratepayers and it may be a tough pill to swallow.

Mr. Offret noted some other organizations have seen increases and some have not. In looking at the composition of this organization, and comparing it with the cities and counties, the District budget is different. Other budgets are mostly personnel costs and employer related expenses but the District's budget spends less on employee expenses. He took that into consideration, as well as the quality of work District staff provides. He believes the increase is justifiable.

Motion passed unanimously.

D. Annual Renewal Agreement for Potable Water Meters.

Mr. Offret made a motion to approve the fourth year of a five year contract agreement with Badger Meter, Inc., for the purchase of meters up to 2" in size for an amount not to exceed \$27,000 for this fiscal year. This agreement will be reviewed and renewed annually by the Board of Directors. Ms. Scrivener seconded the motion. Motion passed unanimously.

E. Award and Approval of the Well Maintenance Contract.

Ms. Scrivener made a motion to award and approve the Well Maintenance Contract for use in Fiscal Year 2012-2013 to Weber Water Resources, LLC in an amount not to exceed \$230,000 and authorize the Chairman to sign the contract pending review by Legal Counsel and any contract amendment to extend the contract time or contract amount be brought back to the Board for approval. Mr. Offret seconded the motion.

Mr. Offret noticed the bids were all over the board. He asked how to determine the number of times dry ice treatment, for example, would be used. He would go with staff's recommendation but he wondered if it might be beneficial to divide contracts in half according to varying needs. Mr. Stratton said each well's needs are unknown until it is pulled and evaluated.

Motion passed unanimously.

F. Update on Assured Water Supply Designation for Metro Southwest - Diablo.

Mike Block, District Hydrologist, gave a brief background on what a designation of Assured Water Supply (AWS) means. Staff had a pre-application meeting with Arizona Department of Water Resources (ADWR) and they were very supportive of the approach. Normally, if there is not a well in the service area, one must be drilled. Fortunately, City of Tucson has a well immediately adjacent to the Sendero Pass development and ADWR is amenable to using that well as proof. This is a different type of AWS application than the District has sought in the past. When providers do not want to have AWS designated, it is left up to the developer. In these cases, an AWS certificate is given rather than a designation. When the District was approached in May to convert the certificates to a designation, ADWR was supportive. After that meeting concluded, Mr. Stratton was approached by a developer purchasing Sendero Pass, so the process came to a halt. ADWR was consulted about adding on two subdivisions and they were supportive again. The developer has until the end of August to perform due diligence. By mid-August, a draft report will be completed by the District's consultant. If nothing is out of the ordinary and the developer proceeds with purchase as expected, District staff will draft a water service agreement and begin preparing for annexation in the future.

Mr. Foulk asked if both areas the developer is looking at are in the District's service area. Mr. Stratton said Pomegranate Farms is in our service area and Sendero Pass is adjacent to it. The District will be looking at annexation for all of Metro Southwest.

Mr. Offret said when the District initially purchased the system from Thim Water he was enthusiastic. He had the opportunity to visit the service area last week and is now even more enthusiastic. The system looks good on paper but even better in person. The facilities are great and there is potential for growth. He is very happy about development in Metro Southwest.

Mr. Block pointed out Table 1 of the report about water rights. He said staff had a productive meeting with Tucson Water regarding topics like storage agreements, CAP supply, and the Avra Valley Recharge Recovery Project.

Mr. Foulk recalled when the District purchased Thim Water, it was understood that ratepayers in other service areas would not be affected. He asked if Metro Southwest would continue to pay

for itself after these annexations, and Mr. Stratton confirmed the required development to the Metro Southwest infrastructure does not come out of the main budget. Mr. Byrd asked if that infrastructure included fire hydrants and Mr. Stratton said yes.

V. General Manager's Report

Mr. Stratton talked about the claim against Pima County related to the Magee Phase 1 project. He is waiting to hear back from the County. The claim will be formalized to follow statutes. The next reimbursement from Pima County will be \$550,000 for costs related to the Matter Well project. Invoices have been sent to the County for their \$500,000 share of the reclaimed line to Omni Tucson National.

He touched on effluent utilization, as stated in the monthly status report. The District has been working with CMID to obtain approvals from ADWR. Last week, the Utility Service Manager from the Town of Marana said they would like to join with the District, even though they do not have legal effluent until an IGA with the City of Tucson is complete.

The latest issue with Pima County involves abandoned infrastructure in the right-of-way. The District was required to remove certain abandoned lines but recently the County issued a written directive requiring all utilities to remove all abandoned infrastructure in the right-of-way. This turn of events has added significant costs to the last couple projects. The directive was dated June 22, 2012 and will have an unfortunate impact on the District but will be a revenue source for the County. Mr. Doyle asked how much Asbestos-cement (AC) pipe is in the ground. Mr. Stratton said there is quite a bit, and bringing it out requires special wrapping and hauling.

Lastly, staff provided data on water consumption back to fiscal year 2000-01, when about the same amount of water was pumped as was this past year. The exercise was an eye opener, revealing a reduction in water consumption despite a good amount of growth since then. Mr. Doyle said this trend can be seen on the wastewater side, too. Mr. Stratton said the reduction affects the bottom line.

VI. Legal Counsel's Report

Mr. McNulty said District staff is attuned to what might trigger legal review and he is convinced staff knows when to bring him in. Recently Mr. McNulty has become involved in making sure the claim against the County is legally sufficient, and also in making sure the letter with Sunbelt Holdings would protect all options for annexation, when the time comes.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the next regularly scheduled session of the Board of Directors will be held on August 13, 2012.

VIII. General Comments from the Public.

There were no comments from the public.

IX. Adjournment.

The meeting adjourned at 6:44 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board