

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

MONDAY, JANUARY 10, 2022

****BOARD ROOM**
METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
6265 N. LA CAÑADA DRIVE
TUCSON, ARIZONA 85704**

MINUTES

Board Members Present: Richard Sarti, Chair
Lee Jacobs, Vice Chair
Jim Doyle, Member (Participated Electronically)
Bryan Foulk, Member
Scott Schladweiler, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, District Engineer (Participated Electronically)
Diane Bracken, Chief Financial Officer (Participated Electronically)
Steve Shepard, Utility Superintendent (Participated Electronically)
Theo Fedele, Clerk of the Board
Mark Patton, Legal Counsel (Participated Electronically)

Regular Session

I. Call to Order and Roll Call

Richard Sarti, 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, Lee Jacobs, Richard Sarti, and Scott Schladweiler were present.

II. Election of Chair and Vice Chair for the Board of Directors

Mr. Foulk nominated Richard Sarti to serve as the Board's Chair through 2022. Mr. Jacobs seconded the motion. Motion passed by a roll call vote of 5-0.

Mr. Schladweiler nominated Lee Jacobs to serve as the Board's Vice Chair through 2022. Mr. Sarti seconded the motion. Motion passed by a roll call vote of 5-0.

III. General Comments from the Public

There were no comments from the public.

IV. Consent Agenda

- A. Approval of Minutes – December 6, 2021 Board Meeting**
- B. Ratification of Billing Adjustments**
- C. Ratification of Bill of Sale Jaynes Station Ranch, Lots 1-12 (M-21-003)**
- D. Ratification of Accounts Removed from Active Accounts Receivable**

Mr. Foulk moved to approve the consent agenda. Mr. Jacobs seconded the motion. Motion passed by a roll call vote of 5-0.

V. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District

Mr. Olsen stated that the Fiscal Year 2022 consumption compared to last fiscal year-to-date continues to trend lower in all service areas with an 11.9% decrease in Metro Main, a 17.8% decrease in Metro Hub, and an 8.6% decrease in Metro Southwest. When preparing the Fiscal Year 2022 budget, the Fiscal Year 2020 historical consumption was used in the model as Fiscal Year 2021 was not completed when the model was compiled. When comparing the fiscal year-to-date to Fiscal Year 2020, current demand is still lower but not as pronounced with Metro Main 2.9% lower, Metro Hub 9.1% lower, and Metro Southwest 2.1% higher.

As of December 13, 2021, the District's order of 9,960 acre-feet (AF) of Central Arizona Project (CAP) water has been stored at groundwater savings facilities and 3,500 AF of the City of Phoenix's inter-AMA firming water has been stored at the District's Avra Valley Recharge Project (AVRP).

Mr. Shepard provided an update on noteworthy maintenance projects.

Ms. Bowen provided an update on the Northwest Recharge, Recovery, and Delivery System (NWRDRS) Project including the Metro-only portion, and the Pantano Transmission Main project.

B. Financial Report

Ms. Bracken stated that revenue and expenditures for November are both favorable when compared to a straight-line projection with revenue \$694,085 over budget and expenditures \$562,005 under budget. The revenue in excess of expenditures is favorable by \$1,256,090. When comparing the total revenue to the prior fiscal year, revenue through November was 14.09% or \$1,692,659 lower than the total revenue through November of the prior year. The Metered Water Revenue is 8.02% or \$735,797 higher than the prior fiscal year. The historic average of budgeted water revenue billed by the end of November is 47% and the District has billed 45.39% of the budgeted water revenue through the end of November. The operating expenditures in November were \$204,597 higher than they were at the end of November in the prior fiscal year. The December cash deposit balance was \$27,260,569.47, which is \$1,779,377.14 higher than the November balance with \$1,528,497.51 of the Water Infrastructure Finance Authority of Arizona (WIFA) debt payments that were transferred in preparation of the payment due at the beginning of January. The investment balance as of the end of December was \$10,876,034.14, which is \$2,335,439.91 lower than the November balance with a total of \$2,544,429.18 transferred for bond and WIFA debt payments.

The Arizona State Treasurer Pooled Collateral Program Statement for November included \$13,101,813.65 of cash on deposit with collateralization coverage of \$12,853,849.92 in addition to the \$500,000 FDIC coverage.

The Capital One Bank MasterCard were used to purchase \$29,217.59 on the December statement with up to 1.25% cash back earnings. The cash back received from transactions processed in November totaled \$275.68 or 0.92% with an inception-to-date cash back total of \$16,851.05.

One new meter application was received in December for the Metro Main service area. There were 45 new meter applications received in December of the prior fiscal year. Year-to-date, 61 meter applications have been received compared to 275 at the same time in the prior fiscal year.

C. Review of the Fiscal Year 2022 Adopted Budget as of November 30, 2021

Ms. Bracken stated that with 41.67% of the year completed, billed revenue is at 44.67% of the budget. A couple of increases, in addition to the metered water sales, are contributing to this 3% increase in revenue including the sale of the North and South Lattimore well sites to Pima County and 551.73 AF of water storage credits held by the Central Arizona Groundwater Replenishment District (CAGR) since 2004 were not returnable for the Metro Main Service area and they were liquidated at \$178.50 per AF when the District withdrew from this agreement.

Operating expenditures as of November 30, 2021, were at 37.49% of the budget. All operating expenditures are under budget except for the electricity costs, which are at 47.27% or \$67,744 higher than a straight-line projection, and regulatory fees appear to be higher with the annual transfer between Metro Main and Metro Southwest completed. With revenue and expenditures close to the budgeted amount, no operational budget changes are being requested.

Mr. Olsen stated that the Fiscal Year 2022 Adopted Budget included 12 investments to support the District mission. Staff has done a fantastic job in executing these items in the first half of the fiscal year with 9 of the 12 items already completed. The remaining items are the Fixed Network upgrade, which is anticipated to be finished by the end of the month, and the quotes are being finalized for the Record Management Software. The funds allocated for the archiving of various engineering files will not be spent as it was determined through a detailed records review that the items were already scanned. The fact that the majority of the investments to support the District mission have already been successfully executed highlights that there was indeed a pressing need for these items and initiatives.

Ms. Bowen provided an update on the Capital Improvement Program (CIP) including NWRDSDS, and the two well replacement projects, E&T22 and Ironwood blend well, and the AVRVP facility.

Mr. Olsen stated that as Ms. Bracken mentioned there is no recommended changes to the operating budget but there is a recommended change to the CIP. The Board previously approved the extension of the construction period for the AVRVP facility improvements, however, a budgetary change is needed. A discussion was held with the Finance Oversight Committee (FOC), who unanimously concurred for the Board to approve moving \$330,000 that was not spent last year from fund balance and underspending on the Creeger Mainline Replacement to the CIP to be able to have the budgetary capacity to be able to accomplish the AVRVP this current fiscal year.

Ms. Bracken stated the actual AVRVP project will increase \$380,000 but the overall CIP will only increase \$330,000.

Discussion ensued and questions were answered.

Mr. Foulk moved to approve that staff proceed with the Adopted Operating Budget for Fiscal Year 2022 without changes, as presented in the Fiscal Year 2022 Revenue and Expenditures Compared to Budget review as of November 30, 2021. Mr. Jacobs seconded the motion. Motion passed by a roll call vote of 5-0.

Mr. Foulk moved to approve increasing the adopted budget for the AVRVP Recharge Improvements project to \$530,000 with a budget reduction of \$50,251 to the Creeger Mainline Replacement

project and \$330,000 from the District's fund balance. This will increase the AVRPP Recharge Improvements project budget and funding from \$149,749 to \$530,000 in Fiscal Year 2022 and increase the CIP Adopted budget by \$330,000. Mr. Jacobs seconded the motion. Motion passed by a roll call vote of 5-0.

D. Authorizing the District to Incur Debt through the Execution of a Loan Application and Agreement with the Water Infrastructure Finance Authority of Arizona (WIFA), by Issuing Bonds or by Utilizing Other Funding Options

Ms. Bracken stated that with the Infrastructure Investment and Jobs Act Bill, funding is planned to be passed through the State Revolving Fund. Exploring the available funding opportunities would be fiscally proactive including submitting a WIFA loan application that will serve as a placeholder to obtain a project priority ranking position with WIFA.

When speaking with the Director of WIFA, he suggested that the sooner the District submits the project the better to obtain a place in the funding prioritization list. Projects will be accepted through June 30, 2022, with funding determined a couple of months after that, and we were told that there is still current year funding available. The WIFA website indicates that Green projects could currently receive up to 20% principal forgiveness, however, during the conversation with the Director of WIFA, it was mentioned that a limited amount of funding was available for principal forgiveness and needed to be distributed to many organizations.

The challenge with a WIFA loan is not knowing how much principal forgiveness will be offered to the District until later in the funding process.

Ms. Bracken provided the following examples:

If \$1 million of principal forgiveness is offered, that would reduce the debt to \$14 million. At an estimated 2%, the interest for 10 years would cost \$1,280,112. With the principal forgiveness covering \$1 million of these interest costs, this debt scenario would cost the District \$280,112 in interest costs, plus issuance costs, and any additional costs associated with Davis Bacon Wages and the Made in America/Build America Acts.

If \$2 million of principal forgiveness is offered, that would reduce the debt to \$13 million. At an estimated 2%, the interest for 10 years would cost \$1,188,675. With the principal forgiveness covering all of the interest costs, the District will have an additional \$811,325, that could be used to cover the issuance costs, and any additional costs associated with Davis Bacon Wages and the Made in America/Buy American Acts.

If \$15 million of Revenue Bonds at 1% for 10 years were obtained, the total interest cost would be \$680,506. When this is compared to the first example this would cost the District an additional \$400,394 in interest costs and when compared to the second example it would cost the District an additional \$1,491,831 in interest costs.

This is why staff are requesting the Board concurrence with Resolution 2022-1 authorizing staff to proceed with requesting debt in the amount not to exceed \$15 million from WIFA, Bonds, or other funding options that may become available for the NWRRDS Partner Components Project and the NWRRDS Metro Recovery System Booster Facility, Recovery Pipeline and Program Support projects.

Water Resource Utilization Fees (WRUF) were established at ten cents per 1,000 gallons of water in March 2013, with incremental increases until July 2018 when the fee reached sixty cents per 1,000 gallons and generates about \$1,551,000 of revenue each year. This would be the revenue source used to make the debt service payments if this Resolution is approved.

WRUF have been collected, invested, and used to cash fund the design and land acquisition for these two NWRRDS projects. As of the end of November 2021, the investments have earned \$509,730.06 in interest earnings, and the District had \$11,509,681 of WRUF in the bank.

If Bonds are obtained, the funding will be needed by October 2022. If a WIFA loan is utilized, funding will be needed by September 2022. WIFA requires the District pay the invoices and request reimbursement for the invoices. By moving the loan to September the District would have approximately \$4.5 million of WRUF that could be used to pay first and get reimbursed after the invoice is received. The WIFA website indicates that reimbursement requests take about three weeks once submitted.

This funding request will not exceed \$15 million. The current projection of outside funding needed is \$13,226,680, however, this could vary depending upon the amount of WRUF collected, the project spend rate in Fiscal Year 2022, and the bids may be higher with Davis Bacon wages and the Buy America/Build America Acts included with WIFA funding requirements.

If no principal forgiveness is offered, the District will evaluate the cost of Revenue Bonds and other funding options.

Currently the District has two outstanding WIFA loans, with a total principal balance of \$5,547,382.12. The District has one outstanding bond with a remaining principal balance of \$7,235,000 for a total of \$12,782,382.12 of principal debt. Adding \$15 million would increase the District's total outstanding principal balance to \$27,782,382 in Fiscal Year 2023.

The seven-year debt schedule included in the FOC meeting materials shows the estimated annual payments. When this information is tied to the District's 5-year financial plan, the Debt Service Coverage Ratio would go down to 1.84 in Fiscal Year 2025 with no additional debt. The District's Bond Resolution requires a 1.2 coverage ratio.

Mr. Olsen stated that this will be a data driven decision and we need flexibility to adjust to potential short notice changes based on what is most financially beneficial to the District. As mentioned, adding \$15 million would increase the District's total outstanding principal balance to about \$27 million. When both Mr. Olsen and Ms. Bracken joined the District about eight years ago, the District had approximately \$63 million of debt. Substantial amounts of debt has been paid off in those eight years.

Discussion ensued and questions were answered regarding principal forgiveness.

Mr. Jacobs moved to approve and adopt Resolution 2022-1 that will authorize the District to incur debt through the execution of a WIFA loan agreement with the Water Infrastructure Finance Authority of Arizona, by issuing Bonds, or by utilizing other funding options that may be in the best interest of the District with an amount not to exceed \$15,000,000. The debt instrument will be selected based upon data analysis to determine which debt instrument is most fiscally beneficial to the District and funding will be used for the NWRRDS projects. Mr. Schladweiler seconded the motion. Motion passed by a roll call vote of 5-0.

E. Authorizing the Use of Miscellaneous Survey and Mapping Services for the Creeger Mainline Replacement

Mr. Olsen stated that the number 8 priority in the current fiscal year CIP is the Creeger Mainline Replacement that would replace aged and undersized water lines in the E&T service area that have experienced multiple failures. In anticipation of design activities, culture and aerial surveys need to be accomplished as well as confirming the existence of easements. It is recommended that the District's Miscellaneous Survey and Mapping Services Consultant, Rick Engineering, be utilized to accomplish these tasks. Note that Rick's proposal is \$31,200, which is \$4,951 more than what is remaining in this CIP line item. The proposal includes a 20% allowance that is not anticipated to be expended and some of the title searches will be accomplished by staff in an effort to remain within the budget.

Mr. Jacobs moved to authorize utilizing the Professional Services Agreement for Miscellaneous Survey and Mapping with Rick Engineering Company to complete survey and mapping services for the Creeger Mainline Replacement in a not to exceed amount of \$31,200. Mr. Schladweiler seconded the motion. Motion passed by a roll call vote of 5-0.

F. Authorizing Payment to the Pima County Treasurer for Riparian In-Lieu Fee for the Northwest Recharge, Recovery, and Delivery System

Mr. Olsen stated that the proposed NWRRDS Partner transmission main crosses flood plains and riparian areas within Pima County. Per Pima County Code, offsite mitigation is required for unavoidable impacts to regulated riparian habitat. This mitigation is accomplished through a riparian in-lieu fee, which was determined to be \$43,360. The NWRRDS Partners approved Memorandum of Agreement 21009-00 for \$43,360 with the District's portion of the fee \$16,676.92. It is recommended that the Board authorize payment for this riparian in-lieu fee.

Mr. Foulk moved to authorize payment of \$43,360.00 to the Pima County Treasurer as required for the riparian in-lieu fee assessed by the Pima County Regional Flood Control District. Mr. Schladweiler seconded the motion. Motion passed by a roll call vote of 5-0.

VI. General Manager's Report

Mr. Olsen stated that last month the Board was informed that the Arizona League of Cities and Towns was pursuing legislation that would allow cities and towns to absorb any portion of a water or wastewater district within the municipal boundaries. This would include the right to provide service, the infrastructure, staff, and any associated assets. As this was obviously a concern for us being the largest Domestic Water Improvement District (DWID) in Arizona, the District's Southern Arizona Water Users Association (SAWUA) lobbyist reached out to the League to see if the proposed legislation could be modified so as to not impact the District. After last month's Board meeting, I met with representatives from the League and the issue stems from a dispute over a DWID in the City of Maricopa. I provided insight on DWID operations and the unintended impact that this legislation could have and they agreed to modify the language based on our feedback. This weekend I received the updated language that adds a clause where a City or Town can only take control of a DWID if the District does not have the capacity to maintain peak domestic demand and fire flow requirements. This clause protects the District service areas most vulnerable to annexation and we were able to resolve this issue prior to legislation being introduced.

Last month, I also informed the Board that as part of the 500K-plus plan, Arizona, Nevada, and California have agreed to conserve an additional 500,000 acre-feet annually, for at least 2022 and 2023, to protect Lake Mead from dropping below 1,020 feet above sea level. Arizona's share is 223 AF and a portion of that will be accomplished via compensated system conservation (CSC) agreements. Currently, the only CSC agreement CAP has is with the District where we have conserved 3,500 AF annually since 2020 at a rate of \$50 plus the CAP capital charge, which is presently \$50 per AF. Under the 500K-plus CSC, the rate per AF is \$260, over twice our current

rate. At last month's Colorado River Water Users Association (CRWUA), we engaged in multiple conversations with CAP staff and were able to obtain verbal agreement that the District should be compensated at the new rate out of fairness and equitability. The new rate would generate approximately \$550,000 in additional revenue annually. The new agreements are initially for water year 2022 and 2023 but are intended to extend through 2025 based on available funding. Over the next couple months, CAP staff will be compiling the CSC agreements to bring to the Central Arizona Water Conservation District (CAWCD) Board for approval. I would envision that within the next few months we would bring this updated agreement to the Board for consideration.

Discussion ensued and questions were answered.

VII. Legal Counsel's Report

Mr. Patton stated he had nothing to report.

VIII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on February 14, 2022.

IX. General Comments from the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 6:49 p.m.

Richard Sarti, Chair of the Board

Theo Fedele, Clerk of the Board