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

February 9, 2015

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

MINUTES

Board Members Present:	Judy Scrivener, Chair Bryan Foulk, Vice-Chair Jim Doyle, Member Helen Ireland, Member Dan M. Offret, 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 Jeffrey Sklar, Legal Counsel

Executive 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 5:07 p.m. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present.

Consideration of Action to go into Executive Session for the following purpose: Pursuant to A.R.S. § 38-431.03.A.1 discuss matters pertaining to the performance of the General Manager and possible adjustment to the Employment Agreement for the General Manager.

Mr. Offret made a motion to adjourn into Executive Session. Mr. Foulk seconded the motion.

Mr. Sklar read a standard admonition regarding the importance of keeping executive sessions confidential.

The Executive Session concluded at approximately 5:40 p.m.

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 6:00 p.m. Jim Doyle, Bryan Foulk, Helen Ireland, Dan Offret, and Judy Scrivener were present.

II. Consideration of Action Regarding Items Discussed in Executive Session

Mr. Offret made a motion to proceed on the terms of General Manager's contract as discussed in executive session. Mr. Foulk seconded the motion. Motion passed unanimously.

III. General Comments from the Public

There were no comments by the public.

IV. Consent Agenda

A. **Approval of Minutes – January 12, 2015 Board Meeting.**
B. **Ratification of Billing Adjustments.**
C. **Ratification of Accounts Removed from Active Accounts Receivable.**
D. **Approval of Water Service Agreement – Mesa Verde Elementary School.**

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

Mr. Foulk noticed the report no longer lists the reasons for each billing adjustment. Mr. Olsen said when the billing adjustment policy was changed about six months ago to reflect the same tier - same month - last year construct that the reason for the adjustment was no longer included on the report but could certainly be included at future Board meetings. If the Board wishes to read the reasons, staff can include them in the report. Mr. Foulk said he would like to see reasons listed for the five highest adjustments. Mr. Offret agreed. Ms. Bracken said the justification or reason is part of the leak adjustment form. Mr. Olsen said the information will be incorporated in future reports.

Mr. Foulk asked if the District has a policy on the amount the District will chase under active accounts receivable. One account on the report owed the District only 94 cents. Ms. Bracken said staff tries to collect everything but sometimes the customer cannot be located or there is no social security number on file. Staff does make efforts to locate people under different addresses or through known family members but sometimes the District must write off accounts and report them to the credit bureau, which is done at no charge to the District. The accounts must be removed from the books regardless of the balance.

Motion passed unanimously.

V. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said fiscal year to date consumption in Metro Main is 5.7% less than the previous year and Metro Hub is down 7.3% over the same period. As mentioned in previous meetings, this declining consumption trend is also being mirrored by other water providers throughout the region. Various studies point to passive conservation as a significant primary factor due to water efficient fixtures and other enhancements. The topic of declining demand trends will be brought to the Finance Oversight Committee in the March meeting along with potential fixed/variable revenue options for review and consideration.

On the maintenance side, the new Linda Vista well and the Hub 3 well were both pulled for maintenance and maintenance activities are ongoing.

Water recharge activities for 2015 began last month at the Avra Valley Recharge Project (AVRP). Beyond the planned portion of the District's CAP water, this year's recharge activities at AVRP will include 1,800 acre feet of Arizona Water Banking Authority water, as well as 150 acre-feet of City of Phoenix CAP water for the pilot Phase 1 initiative of Inter-Active Management area (AMA) Firming.

Mr. Olsen gave an update on the Cortaro-Marana Irrigation District's groundwater savings facility. The Bureau of Reclamation has finalized the review and completed the draft of the agreement, which will be brought to the Board for consideration once Pima County completes its review.

The District recently received notification from the Arizona Department of Water Resources (ADWR) that the Designation of Assured Water Supply modification application for Metro Southwest - Diablo Village will now proceed to public notice following additional information that staff complied and provided.

Initial analysis and investigation of the property adjacent to the Oracle Jaynes well site, which the Board authorized to purchase at the January Board meeting, found no significant issues. The only remaining investigation is environmental, after which the purchase will proceed.

The four inch line for the Ranch House Estates waterline project has been completed and private service lines are being tied over.

This week, staff and Tierra Right of Way Services will begin meeting with various property owners along potential alignments for the CAP Recharge, Recovery and Delivery System to proceed with Phase 1 of the land acquisitions for that key capital project.

B. Financial Report.

Ms. Bracken said revenue and expenditures through December are both favorable with revenue $505,579 over budget using a straight line projection. Increases are largely attributed to the Water Resources Utilization Fee and other income. Water sales are ahead of budget on a straight line projection after analyzing the monthly consumption averages for the past 5-10 years. In December, the District should have collected approximately 54% of the budgeted revenue but is currently at 51%. Historically, February and March will be the two lowest water consumption months with 6% of the annual consumption occurring in each of these months. Staff is not expecting any increase until May and June, when consumption previously increased to 9% and 10% consecutively. Operating expenditures are under budget by $561,367 using a straight line comparison. Revenue in excess of operating expenditures is favorable when compared to the budget by $1,722,325 for the first six months of the fiscal year. A prior year comparison of revenue through December is $50,570 lower than December 2013. The total operating expenses this fiscal year compared to the prior fiscal year are higher by $9,851. When comparing revenue in excess of operating expenditures to the prior year, the current year is higher by $60,357. After comparing each line item of expenses for the fiscal year in December 2013 to December 2014, it appears the increase in the spending rate this year is largely attributed to completing maintenance on wells, auxiliary power occurring earlier in the fiscal year, along with additional water testing being completed as budgeted. Staff has been moving forward with the meter replacement program as budgeted. With management striving to change the organizational culture, comparing a prior timeframe to this period is not necessarily always going to be equal to or less than a prior year comparison of activity; however, the results for the current year are positive, with expenses projected to be under budget. Expenditures to date on capital improvement program funding for the 2007 WIFA loan total $12,204,085 pending final completion of the vessels at Metro Hub wells 1A and 3. A total of 9 meter applications were received in January compared to 16 meter applications in January the prior fiscal year. Meter applications so far this year total 53 compared to 213 applications at the same time last fiscal year. The office solar system continues to generate savings. Electric costs for the first 7 months total $18,637 compared to $22,256 last fiscal year and $23,522 in the same period for fiscal year 2011 for a year to date cost reduction of $4,885 when compared to fiscal year 2011 and a reduction of $3,619 when compared to fiscal year 2013.

C. Appointment to the Finance Oversight Committee.

Mr. Olsen said the District received a request from a District resident, Danny Sargent, to serve on the Finance Oversight Committee (FOC). The FOC presently has eight members and this would bring the membership to nine. Mr. Sargent has over ten years experience in water utilities, holds multiple grade four operator certifications with Arizona Department of Environmental Quality (ADEQ) and is the reclaimed water plant supervisor for Tucson Water. Mr. Olsen wholeheartedly recommended Mr. Sargent’s appointment to the FOC.

Mr. Offret made a motion to appoint Danny Sargent to the Finance Oversight Committee. Ms. Ireland seconded the motion. Motion passed unanimously.

D. Mid-Year Review of Fiscal Year 2015 Budget.

Mr. Olsen said staff is projecting a decrease in metered water sales when comparing the five and ten year monthly averages. Even with declining demand trends, when the rest of the revenue categories are taken into account the overall revenue projection is favorable by over $300,000 with a conservative approach. On the expenditure side, the positive news is that the priority driven budget process and associated methodology of looking carefully at expenses has resulted in the District being significantly under projected operating expenses by roughly $1,000,000 using conservative expenditure estimates. Given these conditions, the one change the FOC recommended with a vote of 7-0 for the Board to consider was the allocation of an additional $45,800 towards meter replacements. Replacing meters that are aged beyond their effective service life ultimately generates revenue and rapidly pays back the meter costs by recording water that would otherwise not be properly billed to the customer.

Ms. Bracken said the mid-year budget review document was written with more detail this year. With declining water consumption being lower than planned, the District is still expecting the revenue to be over the budgeted amount, largely due to the Water Resources Utilization Fee that was not budgeted as well as investment interest due to management of investments, an increase in the sewer monthly fee that the District collects for processing the sewer billing, and other income that has come in from this year puts the District in a favorable position. Salaries and benefits and services are projected to be under budget. General operating expenses are slightly under budget, mainly due to a delay in receiving leased vehicles, savings on postage, negotiated savings on liability insurance, and lower than planned election costs. Supplies are expected to be slightly higher than budget with the purchase of additional chlorine. Other expenditures are projected to be under budget with the final cost of the 10 year lease on the AVRP land coming in lower than expected along with elimination of the bond issuance cost with the implementation of the GASB65 rules. Debt service interest is lower due to the additional principal payments that were made on the loan to reduce them. Capital equipment expenses will be lower than planned, with the Supervisory Control and Data Acquisition (SCADA) upgrade costing less than expected. All capital equipment funded in the adopted budget has been received, ordered, or is in the quote process. Capital projects are projected to be very close to the budgeted amount by the end of the fiscal year but the increased costs for the purchase of Oracle Jaynes being offset by the reduction in the quoted price for the Ranch House Estate waterline extension and private service relocation. The dollars budgeted and set aside for 299 acre-feet of Non-Indian Agricultural CAP water allocation will not be spent in the current fiscal year. The District is in a strong position with a straight line projection of revenue in excess of expenditures of $3.4 million with a much more conservative projection placing the District still in a favorable position of $1.5 million of excess revenue over expenditures.

Staff is requesting approval to spend an additional $45,800 towards replace 148 water meters and encoder receiver transmitters. The current cost to replace 117 two inch meters is $63,966 with an estimated 5% annual revenue loss on these meters that equals $64,879 each year. The current cost of replacing 31 one and a half inch meters is $12,005 with an annual revenue loss of $9,293 using the same 5% estimate. In addition, ERTs will be placed on these meters which will save the District time and money when it comes to reading the meters because it will be more efficient. With 145 two inch meters, 44 inch and a half meters, and 106 one inch meters, and 4,831 five-eighths inch meters currently above the projected replacement flow levels, approval of this request will provide the District with an opportunity to replace most of the larger meters to stop additional revenue losses by the end of the fiscal year. Additional funding will be requested in the 2016 Fiscal Year budget to continue the meter replacement programs and capture all the revenue for the water that is being used.

Mr. Olsen said in order to prioritize the allocation of the $45,800, the District plans to start with meters of two inches in diameter and work downward. Flows going through a two inch meter give a greater opportunity to capture revenue that would otherwise pass through the meter unbilled. With that, additional revenue will be generated and put the District in an even more favorable financial position to continue to replace meters. As part of the priority driven budget process, a list was created of all the adjustments to either line items of significant change within the financial plan or new initiatives to be addressed with this fiscal year budget. Approximately $406,000 was set aside for those specific line item requests and was presented to the Board in a transparent manner during the adoption of the 2015 Financial Plan. The requested items have been tracked to determine if things have changed. Everything has either been accomplished or is in the process because those items were critically needed this fiscal year.

Mr. Foulk made a motion that based on the mid-year review of the Fiscal Year 2015 budget that no modification be made to the budget except the addition of $45,800 to the meter replacement program. Ms. Ireland seconded the motion. Motion passed unanimously.

Ms. Scrivener thanked Ms. Bracken for an excellent written report.

E. Approval of Updated Procurement Policy.

Mr. Olsen said the District has had a procurement policy since 1999, which sets guidelines to purchase materials and services. The last time the policy was updated was 2011. During their first year at the District, Mr. Olsen and Ms. Bracken saw opportunities to streamline and add clarification. During the same period, other District staff expressed interest in including provisions to better articulate current procurement practices. Notable changes in the proposed policy include the incorporation of government purchasing accounts, which the Board approved as a procurement vehicle in 2012. This allows the District to utilize government purchasing agreements such as City of Tucson’s cooperative purchasing program and the Arizona State bid list when these programs are beneficial to the District. Also added was check signing authorization levels in order to clarify delegated responsibilities. Smaller purchases and multiyear contracts have been clarified to be consistent and codified with District practices. The General Manager authority on procurement actions has been held steady at $15,000; beyond that amount continues to require Board approval. The draft policy was taken to the FOC and a couple changes were made to further enhance the procurement policy, to include explicitly stating the dollar amounts when authority transfers from the General Manager to the Board of Directors and expands upon the emergency procurement section to ensure flexibility in dealing with situations, particularly when restoring water service. The FOC voted 7-0 to move the policy forward with those changes.

Mr. Offret said he was very impressed with the new policy; it is simplistic and well organized. Mr. Olsen said a lot of staff effort was put forth to cover all perspectives.

Ms. Ireland made a motion to approve the updated Procurement Policy for the District. Mr. Offret seconded the motion. Motion passed unanimously.

F. Legislative Issues for 2015.

Mr. Tenney said today was the last day that new bills could be introduced at the Legislature, so by tomorrow staff will better understand if there is anything new that potentially affects the District.

One of the bills being tracked is the continuation of the 4 cent tax that CAP can authorize. This is viewed as important for infrastructure and maintenance issues that CAP may encounter in future years. This tax also finances the Arizona Water Banking Authority to be able to do M&I firming, which still needs to be achieved in the Tucson area. The legislation proposed would continue the four cent tax for eight years starting in 2017 and then another five years at three cents, with an opportunity to revisit the tax in 2030.

Another bill staff is following is the proposal to add an alternative to CAGRD for certificates of Assured Water Supply. That bill will be heard in committee this week. Mr. Offret asked what kind of alternatives there could be. Mr. Tenney said the bill is being proposed by a private water investor called Greenstone. They are hoping they might be able to offer water at a lower cost than what CAGRD can. Mr. Foulk asked where Greenstone would get their water. Mr. Tenney said he is not certain where Greenstone would get their water supply but they have bought farmland in the Yuma area that has a water supply.

Mr. Tenney said there is a bill regarding backflow devices. The bill requires only licensed contractors can install and maintain backflow devices but we have confirmed this would not impact water utilities so the District would still be able to maintain and repair its own backflow devices. Mr. Foulk asked if this relates to only residential backflow devices because commercial users already must use a certified inspector. Mr. Foulk said he did not understand when reading the bill whether the high level certified inspector would be enough or if licensed plumbing contractors would also be required to obtain a backflow certification. Mr. Tenney said the proposed legislation requires a licensed contractor and those questions are being verified.

Mr. Tenney said Governor Doug Ducey appointed Tom Buschatzke as Director of ADWR. The District has had interactions with Mr. Buschatzke in the past so we view this as a positive step.

G. Approval and Award for the Purchase of Positive Displacement Meters.

Mr. Olsen said as discussed in the mid-year budget review, the District plans to accelerate the replacement of aged and potentially inaccurate meters throughout the distribution system. To ensure all the necessary procurement vehicles are in place, the District sought vendors for positive displacement meters and received bids from National Meter and Automation Corporation and FWC Waterworks, LLC. Both companies' meters have strengths but the review committee is recommending award to FWC Waterworks, LLC.

Mr. Offret asked if the District has used positive displacement meters in the past. Mr. Olsen confirmed the meters purchased in the past were also positive displacement with slightly different technology or construction. Mr. Shepard agreed they have all been positive displacement meters. He showed some meter examples and explained how they work.

Mr. Offret asked if the District can service the larger meters. Mr. Shepard said yes; some portions are under warranty and the District could decide which components to reuse.

Mr. Foulk asked if there was a reason only three of the companies we spoke with submitted bids. Mr. Shepard said one meter manufacturer elected not to submit because they are only making 5/8-inch through 1-inch meters at this time. Another company cited a FedEx problem and the bid still has not arrived. Another vendor asked his staff if they had submitted the bid and apparently they had not. Mr. Olsen said staff did reach out to the known meter vendors as part of the standard process.

Mr. Offret asked if this item is the allocation for the $45,800 discussed in the mid-year budget review. Mr. Olsen said no; this is an over-arching meter contract, a procurement vehicle for any of the $45,800 meters or any future positive displacement meter purchases, 5/8-inch through 2-inch.

Mr. Offret made a motion to approve the bids submitted for the positive displacement meters and award the Agreement to FWC Waterworks LLC for a one-year term with the option to renew annually with Board approval for four additional years. Mr. Foulk seconded the motion. Motion passed unanimously.

H. Approval of Second Amendment to the Annexation Agreement with Cortessa, L.L.C. for Arboles Viejos.

Mr. Olsen said the Board entered into an annexation agreement with Cortessa, LLC on March 14, 2005 for the Arboles Viejos development in what is now referred to as the Metro West service area. Due to the economic downturn and housing market conditions since 2005, development has been delayed and the owner has expressed interest in extending the original agreement until the housing market fully recovers. The original agreement included provisions for reimbursement for major District infrastructure costs through connection fees but that agreement is set to expire at the end of March this year. An amendment is before the Board to extend and modify the agreement to ensure the developer fronts all required infrastructure costs for Metro West and be reimbursed for system development fees from new Metro West meter connections for 15 years or until the developer is fully reimbursed, whichever comes first. After 15 years, any future connection system development fees would go to the District.

Mr. Offret asked if the developer does not begin construction for another ten years, after five more years would the District get all the development fees. Mr. Olsen said the developer would need to construct before any reimbursements begin. The goal is to cover major infrastructure costs such as reservoirs, transmission mains, and wells but not distribution mains. Once constructed, and when meters start being taken, reimbursements would proceed. The end point is 15 years or full reimbursement cost.

Mr. Foulk asked if there is any infrastructure in the ground at Metro West. Mr. Olsen said nothing exists except two irrigation wells. Mike Block, District Water Resources Manager, said the two wells are 64 years old. The new agreement requires the developer to pay for all appropriate infrastructure including drilling new wells.

Mr. Foulk made a motion to approve the Second Amendment to the Annexation Agreement between the Metropolitan Domestic Water Improvement District and Cortessa L.L.C. for the Arboles Viejos, Lots 1-1857 development. Mr. Offret seconded the motion. Motion passed unanimously.

I. Long Range Water Resources Plan.

Mr. Olsen said staff has created a Long Range Water Resources Plan that provides a 50 year vision for projected demands and a portfolio of water resources to meet those demands for each of the six service areas. This plan is intended to be a living document with regular updates and planning factor recalibrations.

Mr. Block gave a PowerPoint presentation on the Long Range Water Resources Plan, which included specific information about the four water resources: CAP water, recycled water credits, remediated water, and groundwater. This plan was a collaborative effort by Mr. Olsen, Mr. Tenney, Mr. Block, and Gary Burchard, Hydrologist II.

Mr. Olsen said that as recently as 2008, other water providers' plans and updates have shown continuous incremental increases in demand going out 10, 15, 25, and 50 years. Just over the last couple years has there been an acknowledgement and acceptance that with passive conservation measures and other factors, demands are incrementally decreasing. For the purposes of this plan, a conservative approach was taken. Ten years ago, every 50 year plan would have been wrong because they were based on increasing demand. It is also difficult to predict economic conditions. The District's plan will be brought back at regular intervals as various factors change.

VI. General Manager's Report

Mr. Olsen said the District is receiving this calendar year 150 acre-feet of Phoenix's CAP water allocation to the District's AVRP facility to begin the pilot phase of Inter-AMA Firming. Parallel to this, staff from the City of Phoenix, City of Tucson, CAP, and the District will begin meeting to discuss provisions associated with incorporating Phase 2 of the agreement with the goal of bringing the agreement to government bodies for review sometime this summer. This would allow the Phase 2 agreement to be in place for next calendar year's CAP order.

SAWUA is holding a forum for elected officials on water issues and their impacts on Southern Arizona on March 6, 2015. Board Members are welcome to attend.

VII. Legal Counsel's Report

Mr. Sklar said he had nothing to report.

VIII. Future Meeting Dates; Future Agenda Items

Mr. Tenney said the next regular Board meeting is scheduled for Monday, March 9, 2015.

IX. General Comments from the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 6:55 p.m.

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Judy Scrivener, Chair of the Board

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Warren Tenney, Clerk of the Board