

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

August 11, 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
Richard Byrd, Member
Jim Doyle, Member
Bryan Foulk, 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
Abbe Goncharsky, 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 6:00 p.m. Richard Byrd, Jim Doyle, Bryan Foulk, Dan Offret, and Judy Scrivener were present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

A. Approval of Minutes – July 14, 2014 Board Meeting.

B. Ratification of Billing Adjustments.

C. Ratification of Settlement for Utility Delay Claim for Cortaro Farms/Magee Road – Thornydale Road to Mona Lisa Road.

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

Ms. Scrivener asked for confirmation that the motion's intent covers all three items on the Consent Agenda. Mr. Offret confirmed.

Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said as discussed at the July Board meeting, the monthly consumption comparisons involving the previous month and same year are not a good indication of increases or decreases in demands because there is sometimes a shift between when the meters are read and when the consumption data is measured. Moving forward, staff will now report only the fiscal year to date consumption on the monthly status. In this first month of the fiscal year, the Board will still see a large divergence but as the fiscal year progresses, the numbers will converge and be a better indicator of the pattern of increases and decreases in each service area.

Significant progress has been made on Inter-AMA firming with all parties. A draft intergovernmental agreement (IGA) is in the final stages of review and will be ready for the Board's consideration at the September Board meeting.

Last week, District staff had a very positive meeting with Cortaro-Marana Irrigation District (CMID) and the Bureau of Reclamation about the draft agreement to store a portion of the District's effluent at the CMID groundwater savings facility (GSF). Consensus was reached on the wording of the draft agreement and it will be sent to Pima County for review. The County is currently reviewing the proposed pipeline alignment and has provided tentative temporary easement costs. The costs are significantly higher than what was expected but staff is working with Pima County Real Property to mitigate those high costs.

The District has received a Reclaimed Water Agent Permit from Arizona Department of Environmental Quality (ADEQ), which will allow the District to deliver reclaimed water to Omni Tucson National Golf Course. Deliveries to the Omni have been delayed until September 2016.

Testing and startup of Hub Well 1A is anticipated in August. Initial coordination and plan review has begun on the Ranch House Estates waterline extension project.

B. Financial Report.

Ms. Bracken said revenue and expenditures for Fiscal Year 2014 (FY14) ended in favorable positions, with revenue at \$18,515,414, which is \$1,608,089 over budget, and expenditures totaling \$9,323,738, which is \$187,837 under budget. Water sales and Water Resource Utilization Fees (WRUF) were both over the budgeted amount for a total of \$1,120,131 resulting from the rate increases approved after adoption of the budget. Development revenue collected exceeded the budget by \$461,088. Revenue in excess of operating expenditures is \$1,795,926 favorable when compared to the budget through the end of the fiscal year. Prior year comparison of revenue through June 2014 is \$1,564,338 ahead of the prior fiscal year, mostly due to water sales, which are \$730,210 higher in the current fiscal year, along with WRUF and Development Fees, which are \$376,773 and \$390,703 higher in FY14. Operating expenditures in all categories are higher this fiscal year compared to last fiscal year, with the exception of salaries and benefits, power purchased, and regulatory fees. Expenditures for capital improvement projects funded with 2007 WIFA funding total \$11,931,825 with \$244,386 remaining for the completion of the Hub well, Hub vessels 1A and 3, and the variable frequency drive at Magee and La Cholla. The vendor payment card has provided the District with a cumulative savings of \$2,806.62 so far. There have been 11 meter applications in July compared to 8 in the prior fiscal year. The office solar system continues to generate a savings. The electric cost in July was \$2,212 which is favorable to the same period in FY11 by \$2,181 and it is also favorable when compared to the prior fiscal year by \$1,798.

Mr. Offret asked for a description of the “market adjustments” on the bond replacement account investment report. Ms. Bracken said there was an interest adjustment of \$537 for a loss on one of the investments so that had to be reduced out. On the prior month, that was a correction of a prior reporting error on WRUF. Mr. Offret thanked Ms. Bracken.

Mr. Foulk asked if recent TEP rate increases are reflected in solar savings, specifically, whether the District calculates what the electric bill could have been at current TEP rates. Ms. Bracken said it is just a comparison of the prior year and does not take into account TEP rate increases. The current amount is the lease payment for the solar system and a base fee for a commercial electric account. Mr. Foulk wondered if the District would see more savings if TEP rate increases were figured in. Ms. Bracken said that would only be the case if usage costs were projected. Currently, the District pays only the lease amount and not usage.

C. Discussion of 2014 Water Rates & Revenue Analysis.

Mr. Olsen said in July, the FOC discussed three proposed initiatives aimed at ensuring that the District stays on a strong financial foundation. These initiatives address water resource stability, revenue stability, and financial plan stability.

For water resource stability, initiatives intended to be funded with the WRUF, include a demand study for Metro Main to facilitate a 10 year renewal of the Assured Water Supply Designation, the purchase of 299 acre-feet (ac-ft) of Non-Indian Agricultural Priority CAP water, and the construction of a pipeline which will convey a portion of the District's effluent to the CMID GSF, as discussed in the monthly status.

The largest initiative intended to be funded with the WRUF is the CAP Recharge, Recovery, and Delivery System. This project will allow a portion of the District's CAP water to be recovered via new wells at the District's Avra Valley Recharge Project (AVRP), conveyed by a new transmission line to the Herb Johnson Reservoir, where it would be blended before delivery to customers. This project would offset a two foot per year decline to the aquifer which has been occurring for the past decade. The Board approved a schedule to accomplish the CAP Recharge, Recovery, and Delivery System at the April Board meeting, which broke the initiative into three major efforts; land acquisition this year and next, design for four years, and construction beginning approximately Fiscal Year 2021.

Under current cost estimates, land acquisition and design activities could be funded using the WRUF, with one minor adjustment. Previous trajectories for the WRUF had intended a 10 cent increase per 1,000 gallons for the next five years. If instead, the WRUF was increased by 20 cents per 1,000 gallons this rate cycle with potentially no increase the following year, basically rolling next year's 10 cent increase forward one year, there would be adequate revenue under the WRUF to fund all the previously mentioned initiatives as well as the land acquisition and design of the CAP Recharge, Recovery, and Delivery System, foregoing any costly financing until the construction phase in Fiscal Year 2021.

The FOC reviewed this proposal and voted unanimously to move the WRUF recommendation forward for the Board's consideration.

Aside from the WRUF, staff is recommending no changes to the fixed or variable rates during this cycle. The fixed is commonly referred to as the monthly service charge, or Water Availability Rate, and the variable revenue comes from the volumetric consumption. This good news is the result of the priority driven budget process, District-wide belt tightening, and careful managing of staffs' budgets.

The current discussion by the FOC involves increasing the WRUF by 20 cents per 1,000 gallons. The two other initiatives the FOC discussed are about potential changes for the next rate cycle.

The first initiative for next rate cycle focuses on revenue stability. Currently, around 70% of the fixed costs are covered by fixed revenue. Under this proposal, there would be an increase to the monthly service charge along with a decrease in the volumetric consumption. The result would be a negligible change to the average customer's bottom line bill of about a dollar, but it would allow 85% of the District's fixed costs to be met with fixed revenue. That would mean during any periods of decreased demand, the District would be in a much more stable position of being able to cover more of the fixed costs with fixed revenue.

Another initiative is designed to achieve financial plan stability. Historically, the District approves a financial plan that goes into effect at the beginning of the fiscal year and then a few months later, looks at additional revenues that are needed, as we are discussing now. A financial best practice is to secure rate adjustment requirements first, and then add that into the financial plan. Under this proposed initiative, the discussion about rate adjustments and revenue stability would occur following the midyear budget review and the financial plan would be based off that, with both taking effect with the new fiscal year.

These two initiatives will be discussed further with the Board. The FOC has discussed these two concepts and voted unanimously to move them forward.

Mr. Olsen said one thing the FOC brought up about the WRUF was that while there was concurrence with the proposed 20 cents per 1,000 gallon increase to the WRUF for the Board's consideration, they did not favor automatically planning for no increase next year. Instead, the FOC suggested looking at WRUF revenues each year to ensure enough is being brought in to meet all the initiatives. Ms. Bracken said because consumption can vary, it is a good idea to reassess the situation each year.

Mr. Foulk asked how staff arrived at only a 5% increase in salaries and benefits, considering the projected 50% increase in medical insurance. Arizona State Retirement is also projected to increase by 5%. Mr. Olsen said the 50% healthcare increase for this year was met by a balanced approach, as the Board will recall from previous discussions. Staff received a 3.6% COLA and will split healthcare increases with the District. Ms. Bracken said current salaries and benefits are down from the previous year due to a reclassification of one Utility position and the retirement of the General Manager and Chief Financial Officer, which brought down those salaries considerably. The new General Manager and Chief Financial Officer also waived health insurance benefits. The increase is the net effect of all the changes. It is hoped the 50% health

insurance increase will not occur every year but that is an unknown since healthcare is so volatile right now. Mr. Foulk asked if salaries and benefits is a one year look rather than long term. Mr. Olsen confirmed. Mr. Offret asked if vacation and sick leave retirement payouts are included in the estimates for the 5% increase. Mr. Olsen and Ms. Bracken explained that is a separate line item where funds are set aside until actually paid out.

D. Proposed Rate Adjustment for the Water Resources Utilization Fee and Scheduling of Public Hearing.

Mr. Olsen said this agenda item is for the Board to consider formal action based on the previous discussion to schedule a public hearing regarding adjusting the WRUF.

Mr. Offret said he feels the Board and FOC are well informed.

Mr. Offret made a motion to schedule a public hearing for September 29, 2014 at 6:00 p.m. for the purpose of discussing and possibly adopting an adjustment to the Water Resources Utilization Fee as described in the report and discussed at this meeting. Mr. Foulk seconded the motion.

Mr. Byrd said he will be unable to attend the September 29th Public Hearing.

Motion passed unanimously.

Mr. Olsen said the Board has been provided a draft insert about the proposed rate increase that will go out to all customers. The week before the public hearing, on September 22nd, an informational meeting has been scheduled for the public to have their questions answered prior to the rate hearing.

E. Billing Adjustment Policy.

Mr. Olsen said under the current policy, if a customer has a leak or unexplained high usage, they can request a once in a lifetime credit of up to \$100 for residential customers, or \$500 for commercial. Under the proposed policy, if a customer has high water usage, they would pay for all the water that went through the meter but at the same historic tier they were at the previous year. This concept is referred to as “same tier, same month, last year”. This policy balances the need to pay for the cost of the water used, prevents other customers from having to subsidize others’ water, and does not unfairly penalize customers for a leak. Adjustments over the last 12 months under the current policy were compared with the proposed new policy resulting in a net increase of \$3,000. Additionally, the proposed policy would allow customers to seek relief every three years, as opposed to once in a lifetime. This policy was discussed with the FOC. There was a good discussion and the FOC voted 7-0 to move this policy forward to the Board for

consideration. If approved, it would take effect August 14th to coincide with the new billing cycle.

Mr. Offret said he likes the idea of having a more objective policy and that these adjustments can be applied for every three years. He thinks the new policy is fairer. Mr. Offret asked if a customer applies and does not qualify, would that failed attempt count towards the three year limit. Mr. Olsen said no, only issued adjustments would count.

Mr. Offret made a motion to approve the Billing Adjustment Policy as presented and that it be effective August 14, 2014. Mr. Byrd seconded the motion.

Mr. Foulk said he likes the new policy because he had a leak once and did not apply for an adjustment because he knew it was only available once in a lifetime. Mr. Offret and Ms. Scrivener said they had leaks before, too.

Motion passed unanimously.

F. Groundwater Savings Storage Agreements.

Mr. Olsen said this agreement would allow the District to store a portion of its CAP allocation in three groundwater savings facilities through calendar year 2015. While the District's AVRPP will be used to store over 5,000 ac-ft in the current fiscal year, partnerships with groundwater savings facilities to store the remaining portion of the District's CAP allocation has an additional benefit by generating substantial revenue of about \$64,000 a year, which in turn is used to purchase additional CAP water, which means about another 400 ac-ft of water resources for the District via partnerships with groundwater savings facilities.

Mr. Offret made a motion to approve the agreement between the District and BKW Farms for In-Lieu Water Deliveries and Storage, effective until December 31, 2015. Mr. Foulk seconded the motion. Motion passed unanimously.

Mr. Offret made a motion to approve Amendment No. 2 of the agreement between the District and Cortaro Water Users' Association, for In-Lieu Water Deliveries and Storage subject to approval by Cortaro's Board, and effective until December 31, 2015. Mr. Byrd seconded the motion. Motion passed unanimously.

Mr. Foulk made a motion to approve Amendment No. 2 of the agreement between the District and Herb Kai for In-Lieu Water Deliveries and Storage, effective until December 31, 2015. Mr. Offret seconded the motion. Motion passed unanimously.

G. HMI Upgrade Project for the SCADA System.

Mr. Doyle left the meeting at 6:25 p.m.

Mr. Olsen said this item is to approve various upgrades to the District's SCADA system, which monitors and controls boosters, wells, and tanks, as well as an interface which allows staff to remotely control and operate facilities across the District's water distribution system. The current control system has become outdated and requires software and hardware upgrades, along with necessary system integration. \$70,000 is in the budget for this initiative and the cost estimate is \$77,000. Staff believes that is a high estimate but if the work exceeds \$70,000, budgetary priorities will be shifted to ensure this critical activity is accomplished.

Mr. Offret asked what will happen if the total cost is higher. Mr. Olsen said if the cost goes over the estimated \$77,788.09 it will return to the Board.

Mr. Foulk made a motion to approve the HMI Upgrade project that includes the purchase of the software and the PLC hardware from Border States Electric in the amount of \$32,899.15; the computer hardware purchases from Dell in the amount of \$10,633.61; and Integration Services from Ripple Industries in the amount of \$34,255, for the total amount of \$77,788.09. Mr. Byrd seconded the motion.

Mr. Offret asked when this project would be final. Mr. Shepard said upon Board approval, the schedule and scope would be confirmed with the integrator. The projected timeline is two months. Hardware compatibility must be verified and computer upgrades are needed, so the current estimate is the end of September or first part of October.

Motion passed unanimously.

H. Amendment of Interim Remedial Action Contract with the Arizona Department of Environmental Quality for the South Shannon Treatment System.

Mr. Olsen said at the July meeting, the Board approved Amendment 27 for the ADEQ for time and materials associated with the operation of the South Shannon treatment site. ADEQ missed its internal procurement deadlines and has resubmitted Amendment 27 for the time portion only. Amendment 28 will be submitted soon for the materials portion.

Mr. Offret made a motion to approve Amendment No. 27 to extend the Interim Remedial Action Contract at the South Shannon Facility between the Arizona Department of Environmental Quality and the Metropolitan Domestic Water Improvement District with an expiration date of June 30, 2015. Mr. Foulk seconded the motion. Motion passed unanimously.

V. General Manager's Report.

Mr. Olsen said in July two water samples tested positive for total coliform in Metro Hub. Repeat tests within 24 hours were all negative, indicating that the positives were likely the result of sampling error. ADEQ required notification was made to all Metro Hub customers within 30 days approximately 2.5 weeks ago and there have been no customer calls or inquiries relating to those letters. Staff has undergone refresher training on water quality sampling procedures.

Blue Cross Blue Shield of Arizona has provided a refund of approximately \$4,700 due to lower than expected medical claims from January through November 2013. Employees will receive a rebate proportional to the amount of premiums they paid.

Mr. Foulk asked how the portion of premiums paid by the District are accounted for. Mr. Olsen said there are two options on how to divide the refund. The District could put the \$4,700 into a reserve account to pay down next year's medical costs as one option. Since the Board already approved a 3.6% cost of living allowance to mitigate the potential 50% increase in healthcare, the other option is more appropriate, whereby the refund is split among staff according to the amounts they paid for varying levels of coverage. The refunds will be distributed in the second paycheck in August.

A Water Harvesting/Graywater Workshop will be held on Saturday, August 23, 2014. There will be a demonstration home tour before the workshop. Depending on attendance, similar workshops may be scheduled in the future.

The District will have an election on November 4, 2014 for three positions on the Board of Directors. There are six individuals who have submitted petitions to be included on the ballot; Jim Doyle, Jennifer Dussor, Donovan Hemway, Helen Ireland, Danny Sargent, and Judy Scrivener.

VI. Legal Counsel's Report

Ms. Goncharsky said the Board is aware of the current status on existing litigation and nothing new to report.

VII. Future Meeting Dates; Future Agenda Items.

The next Board meeting will be held on Monday, September 8, 2014 at 6:00 p.m. Ms. Scrivener said she will be unable to attend that meeting.

VIII. General Comments from the Public.

There were no comments from the public.

IX. Adjournment.

The meeting adjourned at 6:36 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board