

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

October 14, 2015

**** Board Room ****

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

MINUTES

Board Members Present: Judy Scrivener, Chair
Jim Doyle, Member
Helen Ireland, Member

Board Members Not Present: Bryan Foulk, Vice-Chair
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
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 6:00 p.m. Jim Doyle, Helen Ireland, and Judy Scrivener were present. Bryan Foulk and Dan Offret were not present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – September 14, 2015 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Accounts Removed from Active Accounts Receivable.**

D. Ratification of Water Service Agreement – Mesa Verde Elementary School.

Ms. Ireland made a motion to approve the consent agenda. Mr. Doyle seconded the motion. Motion passed unanimously.

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said fiscal year to date consumption shows significant difference between the service areas. Metro Southwest consumption has increased by approximately 1% over last year. Metro Main is somewhat normalizing, with a less than 3% decline compared to last year. Metro Hub shows a decline of 7%. Some reasons for the differences in the service areas can be attributed to growth in Metro Southwest and an overall gallons per capita per day (GPCD) reduction occurring at Metro Hub.

Utility staff installed a new electrical rack and made site modifications at E&T No. 22 to facilitate backup power. The new booster was completed at Las Palmas and the remaining work to finish the external storage tank coating appears later on the meeting's agenda.

The recovery well application was submitted to the Arizona Department of Water Resources (ADWR) to permit Tucson Water recovery wells to recover CAP water that the District has stored at city recharge facilities to enable wheeling agreements at the Lazy B and Diablo Village service areas.

The 2016 order for CAP water was submitted with 11,912 acre-feet (ac-ft) of the District's CAP allocation and the District also intends to store 1,500 ac-ft of City of Phoenix's Municipal and Industrial (M&I) CAP water to continue with inter-AMA firming agreements, as well as 1,500 ac-ft of Water Bank's excess CAP water.

The remaining tenant on the Oracle Jaynes property has until October 25, 2015 to vacate and the property owner has until February 2016 to prepare the site for final closing.

The adjustments to the La Cañada project commenced on October 5, 2015.

B. Financial Report.

Ms. Bracken said revenue and expenditures through August are both favorable with revenue of \$711,430 over budget and expenditures of \$87,929 under budget using a straight line projection, resulting in a favorable revenue in excess of expenditures of \$799,259. Increases in revenue are largely attributed to metered water sales; however, historically in August, the District would have collected 10% of the budgeted water revenue and this August, 7.31% was collected of the

total budgeted metered water sales, for a year to date percentage of 17.47% of the budget. All expenditures were under budget on a straight line projection with the exception of power purchased, supplies, and regulatory fees, which included the Central Arizona Groundwater Replenishment District (CAGR) membership. A prior year comparison of revenue through August is \$117,076 higher than August 2014 largely attributed to one-time settlements and the sale of Bell Well in the prior fiscal year. Total operating expenses this fiscal year when compared to the prior fiscal year are higher by \$76,778. When comparing revenue in excess of operating expenditures for the prior fiscal year, the current year is unfavorable by \$40,299. The Arizona State Treasurer's pooled collateral program statement for August is included, showing \$1,586,767.04 of collateral coverage in addition to the FDIC insurance of \$250,000. Banking fees continue to be covered with earning credits from checking and merchant accounts. A total of 24 meter applications were received in September compared to four in September of the prior fiscal year. There have been a total of 52 meter applications received so far, compared to 21 at this time in the prior fiscal year. The budget included 31 meter applications for Metro Southwest, 11 for Metro Hub, and 22 for Metro Main.

C. Approval of Audit for Fiscal Year 2015.

Mr. Olsen said the District's Auditor, Hinton Burdick, finalized the Fiscal Year 2015 Audit and prepared the comprehensive annual financial report. The fiscal year end net position was \$54,581,427, which is an increase of \$1.5 million when compared to the prior fiscal year. The auditors stated that the District financial statements were presented fairly in all material respects and had zero identified findings. This highlights the diligence of Ms. Bracken and her team with clear tracking and accounting of the District's resources throughout the entire year.

Ms. Bracken said this was the first year working with the new auditor and they were very professional, did a great job, and it was a pleasure working with them. Ms. Scrivener thanked staff for doing a great job.

Ms. Ireland made a motion to approve the audited Comprehensive Annual Financial Report including the financial statements of the District for Fiscal Year 2015 as presented. Mr. Doyle seconded the motion. Motion passed unanimously.

D. Approval of Construction Agreement for the District Office Monument Sign.

Mr. Olsen said one of the Fiscal Year 2016 capital items is construction of a new office sign, since the La Cañada modifications has moved the entrance to the District's parking lot a significant distance from where the current office monument sign is located, and a new stem wall has obscured the existing sign. This project is to construct a new sign closer to existing entrance to provide a good demarcation of where to turn into the District. In July, the call for bids was

unsuccessful with no vendors responding, so staff contacted nine identified qualified firms and four firms responded. Staff recommends award to the lowest bidder, Fluoresco Services, LLC.

Ms. Ireland made a motion to approve the construction agreement for the District office monument sign to Fluoresco Services, LLC in the amount of \$22,419.92, and to authorize the General Manager to approve the following changes to the construction agreement: 1) allocate additional funding a cumulative amount not to exceed \$2,000 and 2) increase the original construction agreement term a cumulative amount not to exceed thirty (30) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Doyle seconded the motion. Motion passed unanimously.

E. Approval and Award for Storage Tank Coatings.

Mr. Olsen explained the District operates 21 steel storage tanks and two large concrete reservoirs to meet the daily and peak water demands of the District. The tanks are coated with an epoxy barrier on the inside and are painted on the exterior but the coating breaks down over time requiring reapplication to ensure continued operation. The Alcott storage tank still has the original internal coating, dating back 25 years to when the tank was installed in 1990. The Las Palmas tank was last internally coated 17 years ago in 1998, and also requires external painting as well. Staff recommends using the City of Tucson cooperative purchasing program to award the work to AO Painting, which has done similar work for the District in the past. The storage tank rehab line item in the budget will be used to accomplish this work.

Ms. Ireland made a motion to approve the Storage Tank Coatings and award the work to AO Painting in the amount of \$72,793.17 and authorize the General Manager to approve up to an additional \$10,000 for necessary repairs that may be required. Mr. Doyle seconded the motion. Motion passed unanimously.

F. Approval of Amendment to Storage Agreement with the Arizona Water Banking Authority at the Avra Valley Recharge Project.

Mr. Olsen said this item is to amend the storage agreement with the Arizona Water Bank Authority, enabling the Water Bank to leverage excess storage capacity in the District's Avra Valley Recharge Project, to store water that will ultimately be used to firm CAP supplies in the event of a shortage on the Colorado River. The Water Bank also pays a storage fee for each ac-ft of water recharged in the District's facility to recover operational and maintenance expenses. The agreement has been in place for five years and has been functioning successfully. This agreement would extend out for a period of 20 years from now.

Ms. Ireland made a motion to approve the first amendment to the storage agreement with Arizona Water Banking Authority with an expiration date of December 31, 2035. Mr. Doyle seconded the motion. Motion passed unanimously.

G. Approval of Cortaro Marana Irrigation District Reclaimed Water Interconnect Pipeline Project Intergovernmental Agreement.

Mr. Olsen said over the past couple years, the Board has been regularly updated on the progress of conveying the District's effluent to the Cortaro-Marana Irrigation District (CMID) farmlands in order to generate 100% effluent credits, as opposed to the less than 50% effluent credits presently being generated. After significant negotiation with the Bureau of Reclamation, Pima County, and CMID, an intergovernmental agreement (IGA) has been drafted that outlines cost sharing, capacity allocations, and terms for a temporary interconnect intended to demonstrate the delivery system's viability prior to the start of the Arizona Department of Transportation's project at Ina Road and I-10. The IGA would expire in March 2019 and is another example of local and federal water entities coming together to efficiently utilize water resources that benefits both the District and the region. Earlier today, the CMID Board approved the IGA.

Ms. Ireland made a motion to authorize the Chair of the Board to sign the Intergovernmental Agreement Regarding Funding, Planning, Construction and Operation of a Reclaimed Water Interconnect Pipeline Project among the Metropolitan Domestic Water Improvement District, Bureau of Reclamation, Cortaro-Marana Irrigation District and Pima County following Legal Counsel's review and with an expiration date of March 25, 2019. Mr. Doyle seconded the motion. Motion passed unanimously.

H. Overview of Administration Team.

Mr. Olsen said in an effort to keep the Board informed of the behind the scenes work that staff does on a daily basis to serve District customers, Team Managers will be giving overview presentations on their accomplishments, challenges, qualities, and how their team integrates into the whole of the District. The Administration Team will make the first presentation with other teams presenting at subsequent meetings.

Ms. Bracken gave a PowerPoint presentation. The Administrative Team is made up of two sections: financial services and customer services. Ms. Bracken mentioned all of her staff by name and thanked those who were in attendance. Administration staff have all been cross-trained and job descriptions have been revised.

Ms. Bracken said the financial team is responsible for budgeting. She and Mr. Olsen implemented a priority budget process, which is zero-based budgeting where every line item must be described and prioritized. Items that are being requested above and beyond prior year

requests are prioritized based on the needs of the District and what purpose they will serve. This is done for both operating and maintenance (O&M) and the capital improvement program (CIP). It has become a well-defined collaborative process going into its third year, with more people involved, resulting in a better budget. A midyear budget review to look at actuals is done in January. Part of the budget process is calculating the revenue. Ms. Bracken talked about building rate models, analyzing adjustments, and the recent updating of fees according to American Water Works Association principles. The District previously paid outside consultants \$50,000 to do what staff has accomplished in house with the rate analyses. Staff classifies revenue and fixed and variable to calculate the percentages covering fixed and variable costs. The Administration Team compiles data and information for proposed rate adjustments that is presented to the Finance Oversight Committee and then to the Board of Directors.

The Administration Team is responsible for collections, bad debt, and reporting to credit bureaus. The District recently removed social security numbers from customer accounts but staff is still able to get that information when it is needed for credit reporting. Staff also removes bad debt from accounts receivable and prepares quarterly reports to the Board for ratification. In the past year, the Board approved voluntary compliance reporting of unclaimed property for the prior ten years to avoid over \$19,000 in penalties that could have been imposed. Staff must make due diligence to locate the owners of unclaimed checks and utilizes software to turn them over to the state if they cannot be found. Staff processes workers compensation reporting and payments. Staff applies sewer winter averages to all sewer accounts along with processing 263 appeals to sewer rates, requests for vacation and vacant rates for sewer, and updated 314 accounts for both setup and turn-off.

The Administration Team is responsible for banking. The District changed banks this year to a servicing bank, which is for governmental units. Servicing banks provide collateralization on all assets and accounts, preventing the need for many different accounts under the \$250,000 Federal Deposit Insurance Corporation (FDIC) insurance threshold. Staff manages the cash balances and fund transfers between accounts and banks and reviews and reconciles 17 different bank accounts each month. Staff manages the investments and recently moved things around according to Arizona Revised Statutes so that the money is in government securities and is FDIC insured. In doing so, the District was able to get an additional \$101,000 in interest on these accounts in the past year. Staff processes all the deposits to the Pima County Treasurer, which is now done with a desktop scanner that deposits the money directly. By changing banks, the District also added three point positive pay to better verify the 250-300 checks issued monthly before they clear the bank. The District also receives automatic clearing house fraud filters and blocks to prevent fraud. Staff processes transfers to customer payments between Xpress Billpay and Caselle, which is the financial and utility software.

Staff is responsible for the fixed assets, which policy was revised at the September Board meeting, and involves tracking and controlling all assets. Staff processes accounts payable, checking invoices against purchase orders and against the budget, verifying general ledger accounts, and collaborating with vendors whenever there are discrepancies. Staff enters invoices, prints checks, verifies authorization, obtains signatures, mails the checks, creates electronic positive pay files, tracks costs, and prepares the annual 1099s. Staff manages the American Express vendor pay card, which generates a 1% savings and so far, has saved the District \$10,970. With this savings, the District has purchased eight iPad tablets for Utility staff that would not have otherwise been funded. Staff tested and implemented the inventory barcode scanner and system, and troubleshoots the scanner as needed. Staff processes weekly updates of the inventory transactions into the Caselle inventory module, they add new parts into the inventory system, coordinate reports and check and analyze the physical inventory count sheet data. Staff prints the barcode labels for the inventory system, changed the way inventory is processed from weighted averages to a last-in-first-out (LIFO) system, making inventory more accurate with current costs and closer estimated values. Staff processes petty cash transactions, orders office supplies, coordinates annual carpet cleaning, manages vehicle repair and maintenance, and many other functions that keep the office running smoothly.

The Administration Team is responsible for the annual audit and recently went out to bid for a new auditor, saving \$38,700 over a three year period. Staff works closely with the auditors through the whole process up to presenting it to the Board. Staff prepares the monthly financial statements and annual report, which must follow the Governmental Accounting Standards Board (GASB) as well as Generally Accepted Accounting Principles (GAAP). Staff is responsible for all accounting activities related to balances payments, customer deposits, activity water sales, the RTA Fee and Water Resources Utilization Fee, and all necessary accounting reports. Staff reconciles 663 general ledger accounts and prepares financial reports for the Board for each meeting. Staff prepares customer shutoff lists, and this year began putting the list on Google Drive, so that Utility and Administration staff can see updates to the list more quickly, saving time and money.

Staff manages the debt service. The past couple of years, the District has paid extra on the principal for one loan, which has now been set to be complete in July 2016, rather than 2032, and saved \$102,000 in interest. Staff is responsible for continued disclosure to the entities that set bond ratings as well as responding to arbitrage reporting to the Internal Revenue Service. Ms. Bracken wrote an arbitrage procedure and added it to the processes. Staff handles the required annual bond indebtedness report, the principal debt payments, the interest payments, the interest paid year to date on outstanding debt, and also participates in rate agency reviews, including the Fitch rating, Moody, and Dun and Bradstreet.

Staff reviews payroll timesheets biweekly, makes journal entries biweekly recording all payroll activity. Staff reconciles the payroll deduction accounts, making sure they are accurate in compliance with the IRS. Staff is responsible for the disposal of assets, generating \$30,000 by disposing of vehicles through Enterprise, rather than selling them.

On the customer service side of the Administration Team during this year, 1,800 incoming calls are answered each week, 2,933 new customer accounts set up, customer accounts are finalized, 650 landlord agreements updated, service staff uses orders for customers generated through an automated process, meter turn on and offs ordered, sewer service questions answered and Pima County contact provided, and customer payments processed. Staff calculates customer bills weekly and prepared a bid request for a billing services vendor in the past year. The District was able to save \$4,320 with the new vendor. Staff loads the meter routes into handheld computers for the Utility Technicians and pulls the meter reads into the utility module after completed. Staff verifies reads and prepares a list of rechecks, contacts customers with unusual high consumption, and prints reports with each billing cycle to improve accuracy and build in more checks and balances. Staff coordinates the afterhours schedule with an answering service and provides customers with information about leak detection. Administration staff mailed 13,722 shutoff notices in the past year, which represents 5.6% of total customers, costing the District \$6,000 in postage alone. Staff manages bulk meters and coordinates with the Utility Team to prepare schedules for billing, shutoff, and meter reading. Staff opens mailed payments, prepares deposits, posts payments to customer accounts, greets customers in the lobby, answers construction calls, and handles leak adjustments.

Staff looks for ways to reduce costs. Recently working with Engineering staff, staff researched fire riser fees and added 48 private fire lines to the monthly billing, adding 8 inch risers to the billing schedule and generating about \$35,000 additional revenue. Staff initiated and processed a change in trash services, saving more than the originally estimated \$9,200. Staff assisted in the calculation of meter life cycle costs, previously completed by outside consultants. Staff purchased a postage meter instead of renting, saving \$600 per year. Staff purchased a folding machine, saving about four hours per week, or \$6,600 a year in wages and overhead rates.

Ms. Bracken said her staff puts deadlines on their goals. One of the current goals is changing the customer statement format to break out water availability rates and consumption charges, which relates to fixed and variable costs. It seems like an easy thing but requires programming in Caselle and coordination with our billing vendor. Staff will be testing the Caselle purchase order module and training on purchase orders. Staff will be going out to bid for an afterhours answering service, continue looking for ways to reduce operating costs, continue to refine the budgeting process, and will continue to improve our skills and developing a calm, understanding demeanor through patience, attentiveness, clear communication, knowledge of services, effective

time management and positive attitudes. Administration staff has focus and a willingness to continue learning and improving.

Mr. Olsen said there is no shortage of work for Administration staff. They accomplish all of these tasks to ensure transparent financial accountability and serve customer needs. Considering all the processes and the number of customers, the District is able to maintain its finances and give good customer service through Ms. Bracken's leadership and the energy and diligence of her staff. Ms. Bracken thanked her team and Ms. Scrivener thanked them as well.

V. General Manager's Report

Mr. Olsen said on September 21, 2015, leads from ADWR, Bureau of Reclamation, Central Arizona Water Conservation District, the Cities of Phoenix and Tucson, and Metro Water District, met to discuss the next steps on Inter-AMA (Active Management Area) Firming as well as the pathway to reach Phase Two implementation. The dialogue was productive and the legal intricacies are now being worked to create a mechanism that will allow Phase Two implementation, hopefully early next year. There are still a lot of nuanced discussions that need to take place but the principals of those organizations have uniform concurrence and a desire and willingness to resolve and move towards Phase Two.

On October 16, 2015, Metropolitan Pima Alliance will host a breakfast presentation on the CAGR D's role in Arizona water management. Board members are welcome to attend.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items

The next regular Board meeting is scheduled for Monday, November 9, 2015.

VIII. General Comments from the Public

There were no comments by the public.

IX. Adjournment

The meeting adjourned at 6:47 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board