

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

WEDNESDAY, OCTOBER 10, 2018

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

MINUTES

Board Members Present: Judy Scrivener, Chair
Jim Doyle, Member
Helen Ireland, Member
Dan M. Offret, Member

Board Members Not Present: Bryan Foulk, Vice Chair

District Staff: Joseph Olsen, General Manager
Sheila Bowen, Deputy General Manager / District Engineer
Diane Bracken, Chief Financial Officer
Cameron Meyer, Assistant Superintendent
Theo Fedele, Clerk of the Board
Jeffrey L. Sklar, Legal Counsel

Executive Session

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 5:30 p.m. Jim Doyle, Dan M. Offret, Helen Ireland and Judy Scrivener were present. Bryan Foulk was not present.

I. Executive Session Regarding the Request from the City of Tucson to Join Litigation Against 3M

Pursuant to §38-431.03.A.3 and §38-431.03.A.4, this agenda item allows the Board of Directors to discuss or consult with the District's legal counsel for advice and provide direction regarding the District's position on the request from the City of Tucson to join litigation against 3M.

Ms. Ireland made a motion to adjourn into Executive Session. Mr. Offret seconded the motion. Motion passed unanimously. The Board adjourned into Executive Session at 5:31 p.m.

The Executive Session concluded at 5:52 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, Helen Ireland, Dan M. Offret and Judy Scrivener were present. Bryan Foulk was not present.

II. Discussion and Possible Action Regarding the Request From the City of Tucson to Join Litigation Against 3M

Mr. Offret moved for the District to not participate in the lawsuit filed by the City of Tucson and the Town of Marana against 3M at this time. Ms. Ireland 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 – September 10, 2018 Board Meeting**
- B. Approval of Minutes – March 26, 2018 Study Session Meeting**
- C. Ratification of Billing Adjustments**
- D. Ratification of Accounts Removed from Active Accounts Receivable**
- E. Ratification of Bill of Sale – Sonoran Ranch Estates II, Lots 80 – 128, Phase 2 (M-18-007)**
- F. Ratification of Bill of Sale – Magee 17, Lots 1-35, Off-Site (M-17-009)**

Ms. Ireland moved to approve the consent agenda. Mr. Offret seconded the motion. Motion passed unanimously.

V. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District

Mr. Olsen stated that the fiscal year-to-date combined consumption for all service areas is 4.5% lower when compared to the same period last year. It should be noted Fiscal Year 2018 was significantly higher than previous years whereas the fiscal year-to-date consumption is actually 1% higher when compared to Fiscal Year 2017.

The key activities for the Utility Team included the ongoing emergency repairs of poly service lines in Diablo Village followed by proactive service line replacements, repairing the Pressure reducing valve on Del Plata, repairing multiple mainlines, and replacing the chlorinator pump at Hub 3.

As of October 9, 2018, of the District's 13,460 acre-feet (AF) of the Central Arizona Project (CAP) allocation, 10,300 AF has been stored at groundwater saving facilities (GSF) partners, 60 AF at the City of Tucson's Southern Avra Valley Storage and Recovery Project (SAVSARP), and 2,272 AF stored at the District's Avra Valley Recharge Project (AVRP). The remaining 826 AF of the District's CAP allocation at AVRP is on track to be stored by the end of the calendar year even with the four week planned infrastructure maintenance closure of the CAP delivery system.

The waterline relocations associated with the La Cholla Regional Transportation Authority (RTA) project is now approximately 25% complete and is expected to be completed by January 28, 2019.

The appraisal for the properties associated with the Northwest Recharge, Recovery, and Delivery System (NWRRDS) has been completed and that Arizona State Land Department (ASLD) staff is preparing the language regarding the proposed fees that will be review by the District prior to finalization of the right-of-way (ROW) amendment.

Mr. Sklar provided an update on the following condemnation activities:

- APN 216-31-037D: a settlement has been reached with the property owner.
- APN 216-31-0380: the property owner has been served.
- APN 216-32-025A and 216-32-028A: the property owner has been served and there is a hearing set for October 29, 2018 where the District will ask the judge to award possession of the parcels, if unable to work something out with the property owner.

Mr. Offret asked if there were any additional parcels that may be subject to this procedure. Mr. Sklar stated that these are the only ones.

B. Financial Report

Ms. Bracken stated that revenue and expenditures through August are both favorable when compared to a straight-line projection with revenue \$704,056 dollars over budget and expenditures \$115,973 dollars under budget. Revenue in excess of expenditures is favorable by \$820,029. When comparing revenue to the prior fiscal year, revenue through August is \$121,740 higher than it was in August 2017. Metered Water Revenue for August is \$15,100 higher than the prior fiscal year. The total operating expenditures through August are \$192,884 higher than they were in August 2017. When comparing revenue in excess of operating expenditures the current year is \$71,144 lower.

The Arizona State Treasurer Pooled Collateral Program Statement for August provided collateralization coverage of \$7,653,629.72 in addition to the \$250,000 FDIC coverage. The FDIC coverage is lower this month. Wells Fargo discontinued governmental money market accounts and converted the accounts to checking accounts paying the same interest rate. Money Market

accounts were considered a savings type account, which provided the additional \$250,000 of FDIC Coverage. Since the District has collateralization coverage of 102% on all money, exceeding the \$250,000, there is no additional risk as a result of this change.

The American Express Corporate Accounts Payable Solution card was used to purchase \$6,229.85 in September with a 1% savings of \$62.30 bringing the inception-to-date District savings up to \$28,815.01.

The Capital One Master Cards were used to purchase \$53,854.26 on the September statement with up to 1.25% cash back anticipated. The cash back amount received from the prior month transaction was \$206.27 with an additional balance owed once all of the set-up issues are resolved.

Twenty-two new meter applications were received in September, with 13 new meter application received in September 2017. Eighteen new meter applications were for the Metro Main and Hub service areas and four new meter applications in the Metro Southwest service areas.

In a press release on September 25, 2018, Fitch Ratings affirmed the AA- bond rating on the 2009 and 2011 outstanding revenue bonds stating that the District has seen improvement over the last five years in key financial metrics with positive trends registered in all-in debt service coverage and debt to funds available for debt service. The review acknowledged the District's robust cash balance with over 500 days of cash on hand, revenue stability, and the substantial decrease in debt obligation.

As of June 30, 2013, the District had outstanding bonds and notes totaling \$56,928,587. In the past five years, the District has paid down this debt by \$23,826,023 or 42% of this debt while cash funding all capital projects and not taking out any new debt. Plans are to pay off an additional \$6,151,300 in the current fiscal year with an early defeasance on another bond in January for a total debt reduction of \$29,977,323 or 52.7% of the outstanding debt from Fiscal Year 2013.

C. Approval of Audit for Fiscal Year 2018

Ms. Bracken stated that the District's independent financial auditors, HintonBurdick, reviewed the District's accounting books and records for Fiscal Year 2018 as required by the District's Bond resolutions. The Auditors provided a completely objective opinion that the District's financial statements fairly present, in all material respects, the financial position of the District in conformity with accounting principles generally accepted in the U.S. and the Governmental Accounting Standards Board (GASB).

During the exit interview, the independent auditors reported that they did not find any discrepancies so no correcting journal entries were needed, and they complemented District staff on the internal controls and procedures. The independent auditors stated that they did not have any

recommendations for improvements. The District Audit Partner, Steve Palmer, stated that in his entire career, he has only had 3 to 4 flawless audits.

The Fiscal Year 2018 ending net position increased by \$11.34 million dollars compared to an \$8.6 million increase in the prior fiscal year for an ending net position total of \$82,165,684. Metered water revenue increased by \$789,865 when compared to the prior fiscal year and no changes to rate or fee occurring during Fiscal Year 2018. The note related to the defeasance of the 2002 Subordinate Revenue Bonds has been legally removed from the financial statements but will remain in the notes disclosures until the fiscal year after the maturity date.

Mr. Offret moved to approve the Independent Auditor's Reports including the audited financial statements of the District for Fiscal Year 2018 as presented. Ms. Ireland seconded the motion. Motion passed unanimously.

D. Award of the Construction Contract for the Tucson Water – Metro Hub Interconnect (M-18-017)

Mr. Olsen stated that on May 14, 2018, the Board executed an intergovernmental agreement with the City of Tucson for emergency water service that would benefit the City on the northwest portion of their service area and benefit the District at the Hub service area. The Metro Hub interconnect would enable Tucson Water to provide emergency service directly into the Hub storage reservoir to ensure resilient deliveries during an infrastructure emergency. Additionally, this interconnect would provide an added level of reliability during the Hub reservoir expansion when one of the two storage tanks will be removed and replaced with a larger tank. Given the need to have the infrastructure in place to facilitate the emergency interconnect prior to the Hub reservoir project, the City of Tucson Job Order Contract list was utilized to obtain bids and it is recommended that the interconnect be awarded to the low bidder, Borderland Construction Company.

Mr. Offret moved to award the construction contract for the Tucson Water – Metro Hub Interconnect to Borderland Construction Company in the amount of \$84,609.48, to authorize the General Manager to allocate additional funding in a cumulative amount not to exceed \$5,000.00, and to increase the original construction contract term in a cumulative amount not to exceed twenty (20) calendar days. Ms. Ireland seconded the motion. Motion passed unanimously.

E. Award of the Construction Contract for the Hub Reservoir Site Expansion, New Steel Tank Phase II (M-18-012)

Mr. Olsen stated that the Hub reservoir project will replace the smaller of two storage tanks at the Hub reservoir site that is currently 186,000 gallon with an 800,000 gallon storage tank to ensure adequate storage capacity in the Hub service area. While the emergency interconnect will add

reliability during the construction, the goal is to have new tank constructed during the lower winter demand period. The District sought alternatives from the potential bidders regarding interior tank coating options that would reduce the construction schedule in order to ensure the tank is in place prior to the higher demand period. With the lightning damage sustained at District facilities during the recent summer storms, a bid alternative was requested for a lightning protection system. It is recommended that the Board award the Hub reservoir expansion to Granite Construction Company with the lightning protection system bid alternative.

Mr. Offret confirmed there would be over 1 million gallons in storage with the larger tank. Mr. Olsen stated that it would be over 1 million gallons in storage in total between the two tanks.

Ms. Ireland inquired what the savings in time is for Alternative B, which offers a paint specification that includes 100 percent solids paint system and provides a time savings. Ms. Bowen that the alternative could be about a month less.

Mr. Olsen stated that there was an error in the Board Report regarding the suggested motion, which states approving the construction contract for the Tucson Water – Metro Hub Interconnect but should state the Hub reservoir site expansion.

Ms. Ireland asked about the additional funding amount not to exceed \$75,000. Mr. Olsen stated that additional funding amount will be higher than with other projects since the additional not to exceed amount is based on the total award amount and the type of construction. The award amount for this work exceeds \$1.4 million hence the higher additional authorization. There could also be other items that are unanticipated on this facility type construction.

Mr. Offret moved to award the construction contract for the Hub reservoir site expansion, new steel tank phase 2, bid alternative B, with lightning arrest add alternative to granite Construction Company in the amount of \$1,472,570.00 and to authorize the General Manager to allocate additional funding in a cumulative amount not to exceed \$75,000.00 and increase the original construction contract term in a cumulative amount not to exceed thirty (30) calendar days. Ms. Ireland seconded the motion. Motion passed unanimously.

F. Approval of the Purchase of a Vacuum Excavator for the Utility Team

Mr. Olsen stated that vacuum excavators have been utilized by the District since 1999 to quickly and safely excavate a buried water line and to expose nearby gas and electric lines. The District's large vacuum excavator was purchased in early 2012 and, while effective, has needed extensive and costly repairs. These repairs have also resulted in downtime of this critical equipment item used in both emergencies and proactive maintenance activities. As the vacuum excavator is so critical to ensuring safe, reliable deliveries of water to customers, the replacement vacuum excavator is the number one capital equipment priority in the current fiscal year budget.

To ensure the replacement vacuum excavator will meet the long-term needs of the District, staff tested various models to ensure applicable functionality. Based on this testing by the staff who will be utilizing this equipment on a daily basis, the recommendation is for the Board to approve the purchase of the Vac-tron vacuum excavator. Of the three quotes, Vac-tron was approximately 5% higher than the other two models but excavated faster, had a higher pressure pump, has a steel covered fuel tank as opposed to an exposed plastic tank, has a larger suction valve to prevent clogging during operation, and is better equipped for night work with more lights. Historically the low bid is requested but given the above differences in capabilities between the quoted models, and the desire to have a vacuum excavator that meets the District's needs, the recommendation is for the Board to approve the purchase of the Vac-tron model.

Ms. Ireland moved to approve the purchase of the Vac-Tron vacuum excavator from Empire Cat in the amount of \$58,350.63. Mr. Offret seconded the motion. Motion passed unanimously.

VI. General Manager's Report

Mr. Olsen stated that the sixth of nine scheduled Drought Contingency Plan (DCP) steering committee meetings was held today. As there is a conflict with the Board meeting schedule, Wally Wilson, Water Resources Manager, is representing the District at today's meeting. To date, discussions have focused on how to mitigate impacts to agricultural CAP priority water as during a first tier shortage under DCP, the agricultural pool is reduced to zero. On the positive side, thanks to all of the partnerships with the groundwater savings facilities, including the District's agreements with Cortaro-Marana Irrigation District (CMID), BKW Farms, and Kai Farms; Pima County agriculture is requesting zero mitigation volumes since the mutually beneficial partnerships with water providers firm their water deliveries. The primary focus for the agriculture pool mitigation has focused on Pinal County agriculture. Multiple options have been proposed and today's meeting is to focus on the agriculture mitigation working group recommendations.

The other element of DCP that has been discussed is Arizona's plan for the creation and deployment of Intentionally Created Surplus (ICS) volumes. ICS is when water is stored in Lake Mead for future use. To date, only CAP has created ICS volumes though the creation of ICS by others, including water from the Tribal entities and could be an important element of the overall DCP solution. The goal is to reach a consensus from the DCP Steering Committee by Thanksgiving so legislation can be drafted prior to the start of the next legislative session in January of 2019.

Over the past five years, there have been numerous discussions with the Board regarding the importance of obtaining 100% effluent credits in managed recharge facilities versus the current 50% cut to the aquifer for effluent delivered to managed recharge projects. Another concern regarding effluent is that after 2025, effluent long-term storage credits can no longer be earned.

Last year at the Governor's Water Augmentation Council (GWAC) Recycled Water Committee, the Director of Tucson Water and I gave multiple presentations on the importance of addressing these two issues and we each made a motion to address one of the two items, which was unanimously carried by GWAC. Arizona Department of Water Resources (ADWR) has acknowledged the importance of effluent in meeting Arizona's future water resource needs, particularly given the DCP discussions and potential shortage declarations in as early as calendar year 2020, but ADWR is primarily focused on bringing DCP to the finish line.

The Arizona Municipal Water Users Association (AMWUA), Northern Arizona Municipal Water Users Association (NAMWUA), and Southern Arizona Water Users Association (SAWUA) recently met with respective lobbyists to form a coalition of support among multiple stakeholders for these two items. An effluent package will be crafted, based on the input from the coalition, for consideration in the 2019 legislative session. As SAWUA president, I am representing SAWUA's support with Mr. Wilson serving as SAWUA's alternate. Initial discussions with stakeholders and various elected legislators have been positive and the goal is to continue this consensus building through the end of the year.

On October 5, 2018, SAWUA hosted an annual Legislative forum discussing current water issues impacting Southern Arizona and the State. There were excellent discussions with State Senator Griffin and Representative Rusty Bowers who discussed current water policy efforts and their perspectives as elected officials, as well as a joint presentation by ADWR and CAP regarding DCP efforts. Overall 83 attendees participated in a productive dialogue.

VII. Legal Counsel's Report

Mr. Sklar stated he had nothing to report.

VIII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be on November 14, 2018 at 6:00 p.m., which is a Wednesday due to the Columbus Day holiday on Monday.

The Finance Oversight Committee meeting is scheduled for October 15, 2018 at 4:00 p.m.

IX. General Comments from the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 6:33 p.m.

Metropolitan Domestic Water Improvement District
Board of Directors Meeting
October 10, 2018
Page 9

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board