

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

MONDAY, DECEMBER 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
Bryan Foulk, Vice Chair
Jim Doyle, Member
Dan M. Offret, Member

Board Members Not Present: Helen Ireland, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, Deputy General Manager / District Engineer
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility 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, Bryan Foulk, and Judy Scrivener were present. Helen Ireland was not present

- I. Consideration of Action to go into Executive Session for the following purpose:
Pursuant to §38-431.01.A.1 discussion of the annual performance and the
employment contract of the General Manager.**

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

The Executive Session concluded at 6:00 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 6:01 p.m. Jim Doyle, Bryan Foulk, Dan M. Offret and Judy Scrivener were present.

II. Evaluation of Annual Performance and Consideration of Action Regarding the General Manager's Employment Contract

Mr. Offret moved to increase the General Manager's salary by 1.5%, which is the same percentage merit increase available to all District staff and to apply the increase to deferred compensation. 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 – November 14, 2018 Board Meeting
- B. Ratification of Billing Adjustments
- C. Approval of Regular Board Meetings in 2019
- D. Ratification of Bill of Sale – Sonoran Desert Reserve, Lots 1-25, Phases 1 & 2 (M-18-008)

Mr. Offret moved to approve the consent agenda. Mr. Foulk 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 fiscal year-to-date combined consumption for all service areas is approximately 8% lower when compared to the same period last year. When compared to Fiscal Year 2017, the current fiscal year-to-date consumption is less than 1% lower. As discussed at previous Board meetings, to ensure conservative budget planning, the current fiscal year budget was based on Fiscal Year 2017 consumption and not the higher Fiscal Year 2018 demand.

The maintenance activities continue on the South Shannon, Wildwood, and Deconcini wells. The normal well maintenance activity for the District includes pulling the well pump, brushing and removing built up material on the downhole well casing, and then performing a down-hole video log to visually determine any structural distresses on the well casing. A maintenance assessment tool that has not been utilized by the District before was used on these three well to determine the thickness of the well casing material. This additional step was conducted after the excess built up

material was removed and before the well was videoed. That way the video could focus on areas that showed a lower casing thickness to determine any additional proactive maintenance activities. Mr. Doyle asked if this was a non-destructive test. Mr. Olsen agreed the method utilized was non-destructive. Mr. Shepard stated that one of the challenges with well maintenance is to be able to determine the real integrity of the casing itself. This testing utilized an electromagnetic device that performed an inspection at South Shannon, Wildwood, and Deconcini wells to get an idea of the integrity of the thickness measurement of the casing. At the South Shannon, most of the casing is ¼ inch thickness but at around 100 foot there is a 30 foot section that has a 20% loss. Deconcini showed a little bit of integrity concerns with measurements close to a 1/8 inch or less. The video was also completed which gives another tool to help determine the future life of the well.

Mr. Foulk asked if other water providers in the area were doing the same type of testing and if coordinating service with other providers could lower the mobilization cost. Mr. Shepard stated we can reach out to Marana and Oro Valley to see if this is something they are looking at or have done. Since the three wells were scheduled together the District did receive a cost savings due to the economies of scale.

Both the District's Central Arizona Project (CAP) allocation and the planned City of Phoenix Inter-AMA firming water for calendar year 2018 has been delivered. Due to the way water deliveries were reported and tracked, the District received 640 acre-feet (AF) of water beyond the planned deliveries. Staff is working with Tucson Water and the Town of Marana to possibly purchase this over delivery directly from CAP to avoid this additional cost going to District ratepayers.

Mr. Offret asked if the reason has been identified on how this mistake happened. Mr. Olsen stated that CAP provides reports on each of the facilities and how much water has been delivered. The District's was tracking the deliveries closely in the report but did not notice in the report that there was a separate category for the City of Phoenix's subleased water that was deployed to AVR. The disconnect has been remedied for future deliveries and the District is working to ensure that the 640 AF can go to some of the other providers who do need that water and are willing to pay the applicable costs.

The waterline relocations associated with the La Cholla Regional Transportation Authority (RTA) project is now approximately 65% complete and the project is expected to be completed by January 28, 2019.

The Old Nogales mainline replacement is currently out for bid with a bid opening scheduled on December 20, 2018. This line has been the source of almost monthly emergency repair activities. The funding for this project is spread out over three fiscal years for each phase of the project and the quantity of the replacement in the current fiscal year will be determined based on the bid results.

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

- APN 216-31-037D: an agreement has been reached with the property owner and working toward finalizing the settlement.
- APN 216-31-0380: an agreement has been reached to resolve some concerns the property owner had regarding disruption of vegetation on the property.
- APN 216-32-025A and 216-32-028A: there was an alternate alignment of the easements to resolve the property owner's concerns. There may be some continued negotiation on amount of the just compensation which will not be an issue.

B. Financial Report

Ms. Bracken stated that revenue and expenditures through October are both favorable when compared to a straight-line projection with revenue \$885,545 over budget and expenditures \$429,452 under budget resulting in a favorable revenue in excess of expenditures total of \$1,314,997. When comparing revenue to the prior fiscal year, revenue through October is \$153,204 lower than it was in October 2017. The water revenue is \$202,118 lower than the prior fiscal year. When comparing the budgeted revenue to a historic average collection rate, water revenue is 2.02% lower at this point in the fiscal year. The total operating costs through October are \$135,478 higher than they were in October 2017. When comparing revenue in excess of operating expenditures the current year is \$288,682 lower.

The Arizona State Treasurer Pooled Collateral Program Statement for October provided collateral coverage of \$8,145,641.72 in addition to the \$250,000 FDIC coverage.

The American Express Corporate Accounts Payable Solution card was used to purchase \$29,230.65 in November with a 1% savings of \$292.31 bringing the inception-to-date District savings up to \$29,353.61.

The Capital One MasterCard were used to purchase \$1,294.99 on the November statement with up to 1.25% cash back earnings. The cash back amount received from the prior month transaction was \$591.17 including the balance owed from prior months bringing the cash back up to 1.05% of the total purchases.

Thirteen new meter applications were received in November compared to 13 new meter application received in the same month of the prior year. Seven new meter applications were for the Metro Main and Hub service areas and six new meter applications in the Metro Southwest service areas. As of November 30, 2018, 116 new meter applications were received compared to 59 new meter application at this point in the prior fiscal year.

The Debt Management policy requires the District to have unrestricted cash equal to 25% of the total operating budget, which is \$4.75 million this fiscal year. With this policy in place, \$5 million has been moved from the Pima County Local Government Investment Pool account to purchase Certificates of Deposit (CD). The CD's were purchased in \$250,000 increments from different banks to ensure FDIC coverage on each CD. The average rate on the 20 CD's purchased for time periods ranging from one to three years is 3.10%. The interest income total is \$154,751 which is an increase of \$79,751 in just the first year. Water Resources Utilization Fee (WRUF) revenue of \$4.5 million has been invested into CD's with \$2 million in one year CD's and \$2.5 million in two year CD's. With an average interest rate of 2.84%, these CD's will earn \$127,625 in the first year. The total interest earned on the CD's in the first year will be \$282,376. This will increase District interest income by \$193,876 in just the first year with similar increases in each of the following years.

Mr. Olsen commended Ms. Bracken for the active cash management on the CD's as well as ensuring the protection of resources under the FDIC coverage. These activities demonstrate the goal to use what we have wisely and to generate non-ratepayer revenue streams, which then reduces the amount of potential rate increases to District residents.

C. Northwest Recharge, Recovery, and Delivery System Approving the Payment to the Arizona State Land Department for the Amendment of Right of Way No. 14-109764

Mr. Olsen stated that one of the critical real property actions associated with the Northwest Recharge, Recovery, and Delivery System (NWRRDS) is the property for the proposed well sites, which is located on State Land. Additionally, the well collector pipelines and the overall recovery line crosses portions of State Land. For approximately the past two years, staff have been working closely with State Land to modify the District's right-of-way lease to include these additional properties to facilitate the implementation of the NWRRDS. After extensive negotiation, we are now near the final step of the process. The action for the Board to consider is payment for the additional leased land, which is \$74,400 based on the appraised value. Additionally, a temporary construction easement has been requested for \$11,271 to enable the use of additional State Land during the construction of the NWRRDS. State Land's Board of Appeals meeting is on December 13, 2018. Hopefully the right-of-way modification can be completed by January.

Mr. Foulk moved to authorize payment of \$74,400.00 for lease of the additional land included in the amended Right of Way No. 14-109764 and payment of \$11,271.00 to acquire Temporary Construction Easements from the Arizona State Land Department (ASLD). Mr. Offret seconded the motion. Motion passed unanimously.

D. Northwest Recharge, Recovery and Delivery System Request for Payment to Proceed with Condemnation of Waterline Easements on Parcels 216-32-025A and 216-32-028A

Mr. Olsen stated that the Board is regularly updated on the status of condemnation activities of easements associated with NWRRDS. This item is to authorize payment to one of these property owners that District staff and legal counsel have been coordinating with to cover the cost of the permanent easement as well as a temporary construction easement. After these two parcels are resolved, only two condemnation activities for NWRRDS associated properties will remain.

Mr. Foulk moved to authorize payment of \$15,000.00 to move forward with condemnation of waterline easements on Parcels 216-32-025A and 216-32-028A and to authorize the General Manager to process an additional payment of up to \$10,000.00 should the Judge determine additional compensation is necessary. Mr. Offret seconded the motion. Motion passed unanimously.

E. Annexation of Mountain Vista Ridge Property into the District's Legal Boundaries

Mr. Olsen stated that the District has six service areas with three of them, Main, Hub and West formally annexed into the District. The Diablo Village, E&T, and Lazy B service areas that are part of Metro Southwest were not annexed into the District when Metro Southwest was purchased in 2010. A request was received from the developer of Mountain Vista Ridge for water service but the property is adjacent to Metro Main and not within the existing service areas. The property owner has requested that this property be annexed into the District to facilitate water service. The City of Tucson has issued a will not service letter as this area is outside of their obligated service area. This property is directly adjacent to Metro Main and the annexation and subsequent development benefits the District by supporting long-term goals for interconnection of the District's water system on the northwest side of Metro Main.

Mr. Offret moved to adopt Resolution 2018-3 to annex the property associated with the future Mountain Vista Ridge development. Mr. Foulk seconded the motion. Motion passed unanimously.

F. Approval of Water Service Agreement for Mountain Vista Ridge, Lots 1-128, Phase 1 (M-18-014)

Mr. Olsen stated that Water Service Agreements are normally placed on the consent agenda. Given that this Water Service Agreement was contingent on the Board approving the annexation of the property/development into the District, this item was pulled from consent pending Board action on the annexation. As the Board has approved the annexation, staff recommends approval of the Water Service Agreement.

Mr. Offret moved to approve the Water Service Agreement for the Mountain Vista Ridge, Lots 1-128 (Phase 1). Mr. Foulk seconded the motion. Motion passed unanimously.

G. Approval and Award for the Purchase of a 15 Yard Dump Truck

Mr. Olsen stated that last year the District's Assistant Utility Superintendent, Kevin Westbrook, provided a presentation on the District's vehicle fleet. One of the observations was that the District's two dump trucks were over 20 years old and a replacement dump truck was needed to ensure continued attainment of the District's mission to deliver safe, reliable water to our customers. Funds for the replacement dump truck was included in the current fiscal year budget as the number two capital equipment priority. To ensure a replacement dump truck will support the District mission for a similar longevity, the staff who will operate this dump truck regularly reviewed and, when possible, demonstrated numerous models.

The recommendation to the Board is to purchase the Peterbilt dump truck for \$164,407.18, which is less than the \$175,000 budgeted for this purpose. It should be noted that the Peterbilt is actually the third lowest bid. The reason the lower two bids are not recommended are because the second lowest bidding vendor was not able to provide a demonstration model for staff to test to ensure it would meet the District's needs and the lowest bid model did not possess the additional safety features and operating controls as the Peterbilt. While a lower bid may save some financial resources in the short-run, having the model with the appropriate capabilities and features will help ensure longevity and utilization of this asset.

Mr. Foulk stated that he appreciated staff taking the time to test the equipment prior to the purchase as well as selecting the equipment that was best suited to do the job not just the lowest bid.

Mr. Foulk moved to approve and award the purchase of the large dump truck to Rush Truck Centers of Arizona for the Peterbilt dump truck in the amount not to exceed \$164,407.18. Mr. Offret seconded the motion. Motion passed unanimously.

VI. General Manager's Report

Mr. Olsen stated that staff meet with Arizona Department of Environmental Quality (ADEQ) regarding the proposed remedial action plan on the remediation activities of the PCE plumb treated by the South Shannon treatment facility. ADEQ's proposed plan would be to keep South Shannon as the sole active treatment and to monitor nearby wells to determine if the plume migrated. Concerns were shared with ADEQ regarding the 1,4-Dioxane that is not removed by South Shannon's Granular Activated Carbon (GAC) treatment and if levels continue to rise, specified volumes would not be able to be pumped while ensuring blending the water below the health advisory. ADEQ understood this constraint and concurred with writing potential ADEQ funded

1,4-Dioxane treatment at South Shannon into the proposed remedial action plan. We are coordinating on the specific language and trigger levels include in the plan but this is very positive news.

Over the past month, Arizona Municipal Water Users Association (AMWUA) and Southern Arizona Water Users Association (SAWUA) have been coordinating on proposed effluent legislation regarding the 2025 sunset to earn effluent credits and ensuring effluent in managed recharge facilities is treated the same as CAP water. As the representative for SAWUA, Mr. Olsen has had the privilege of meeting with various state elected officials regarding the proposed legislative changes and broad support has been received. The Drought Contingency Plan (DCP) is still the priority on the water policy front for the next session and the goal is to bring this legislation before the state legislature next year.

During the DCP meeting on November 29, 2018, a compromise proposal was presented. While the proposal has numerous elements including purchasing water resources from the Colorado River Indian Tribes (CRIT) and Gila River Indian Community (GRIC) for \$98 million and deploying that water to mitigate sectors that are impacted under the DCP such as agricultural. The Governor has pledged to include \$30 million in funding for this initiative in the Governor's annual budget request to the state legislature, the CAP Board has stated they plan to utilize \$60 million of tax revenue to support this initiative, and non-profits, such as the Walton Family Foundation, have pledged to support the remaining \$8 million. Additionally, the compromise proposal includes the need for groundwater recovery infrastructure to support Pinal County agricultural activities for a more long term. The proposal was well received by the tribal and municipal delegates on the DCP Committee. This proposal is a compromise that achieves the initial goals laid out in the first DCP meeting while ensuring protections to Lake Mead but there are still some details to work. The agricultural delegates expressed concern that there still needs to be funding identified for the groundwater recovery infrastructure and the developer's interests wanted more certainty regarding ongoing initiatives meant to ensure water for the Central Arizona Groundwater Replenishment District (CAGR). This week's Colorado River Water Users Association (CRWUA) Conference will be filled with DCP related discussions meant to bring this key piece of legislation to fruition among the seven Colorado River Basin States.

The District would like to thank Ms. Ireland, who was unable to make it to tonight's meeting, for her years of service to the District, asking the hard questions, and being tirelessly supportive of the District mission.

VII. Legal Counsel's Report

Mr. Sklar said he had nothing to report.

VIII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on January 14, 2019.

IX. General Comments from the Public

There were no comments from the public.

X. Adjournment

The meeting adjourned at 6:38 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board