

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

October 15, 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
Jim Doyle, Member

Board Members Not Present: Richard Byrd, 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
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, Dan Offret, and Judy Scrivener were present. Richard Byrd and Bryan Foulk were not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

A. Approval of Minutes – September 8, 2014 Board Meeting.

B. Approval of Minutes – September 29, 2014 Board Meeting.

C. Ratification of Billing Adjustments.

Mr. Offret 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 the fiscal year to date consumption for Metro Main is roughly 5% less than the previous fiscal year to date and Metro Hub is approximately 13.5% lower than the same period. While some of the reductions in demands can certainly be attributed to the significant precipitation in September which resulted in lower outdoor watering use, the magnitude of these decreases show that the trend of declining consumption continues across the District.

The human machine interface (HMI) SCADA system upgrades are nearing completion with the communications and security protocols being finalized. Targeted completion is in November.

Over 90% of the water that was planned to be recharged and delivered at Avra Valley Recharge Project (AVRP) has occurred, and we are on track for the remaining amount to be recharged by the end of the year.

There is good news on the Hoover Power front. Western Area Power Administration (WAPA) has notified the District of a calculation error in the District's favor. The original allocation of 0.1 MW, or roughly 3% of what the District requested, has been revised to 0.17 MW, or about 5% of what was requested. While this is not a substantial increase, it is almost double the amount of power originally allocated to the District and is a positive step. Mr. Offret asked what the difference is between the D-1 and D-2 power pools. Mr. Olsen said the D-1 pool is managed by WAPA, whereas the D-2 pool is managed by the Arizona Power Authority. The D-2 pool will be allocated next calendar year.

Mr. Olsen said regarding the Cortaro-Marana Irrigation District (CMID) Groundwater Savings Facility Project plan to deliver a portion of the District's effluent, that Pima County is reviewing a draft intergovernmental agreement (IGA), which will be brought to the Board once the appropriate edits are complete. There is a flow test on the north pipeline planned for January 2015 to confirm the pipeline's integrity.

Bid advertisement has commenced for the Ranch House Estates waterline project and the contract award is scheduled for Board consideration at the November meeting.

B. Financial Report.

Ms. Bracken said revenue and expenditures for August are favorable with revenue of \$650,084 over on a straight line projection. Increases are largely attributed to water sales being \$509,737 ahead of the budgeted amount, and other income, which is also ahead on a straight line projection by \$104,706. Operating expenses are under budget by \$181,488 on a straight line comparison. Revenue in excess of operating expenditures is \$2,142,330, which is favorable when compared to the budget by \$831,572 for the first two months of the fiscal year. Prior year comparison of revenue for August 2014 is \$302,299 ahead of August 2013. The increase is mostly due to other income, which is \$162,058 higher with the inclusion of a onetime legal settlement of \$90,000 and the sale of Bell Well. Water Resources Utilization Fees (WRUF) are \$53,677 higher. Metered water sales are \$24,091 higher than the prior fiscal year. Operating expenses in all categories are lower this fiscal year compared to last fiscal year, with the exception of consultants and contracted services, and supplies, which are \$25,225 and \$19,160 higher this fiscal year. Expenditures for capital improvement programs funded with the 2007 WIFA loan are 99.02% complete with \$119,573 remaining. There were a total of four meter applications in September. Meter applications so far this fiscal year total 21, compared to 32 as of September 2013. Mr. Offret asked if the new meter applications are in Diablo Village or Metro Main. Ms. Bracken said they are in Metro Main. Development in Metro Southwest has not picked up this fiscal year. Ms. Bracken said the office solar system continues to generate a savings. Electric costs for the first three months total \$8,912 compared to \$12,488 last fiscal year and \$13,099 for the same period in fiscal year 2011. This generates a savings of \$4,187 when compared to fiscal year 2011 and \$3,576 when compared to fiscal year 2013.

C. Approval of Audit for Fiscal Year 2014.

Mr. Olsen said CliftonLarsenAllen is finalizing the District's 2014 Audit. For Fiscal Year 2014, the District had an increase in operating income of close to \$6.3 million and an increase in net financial position of \$5.9 million, both of which are very positive for the District.

Ms. Bracken said the draft versions of the audit and the management letter were both included in the Board package. The letter includes two recommendations. The first was about recording accrued interest to the July 1st WIFA loan payment made at the end of June and recording the principal portion against the current portion as opposed to long term debt. The second recommendation was to record the market value on the debt service reserve funding in place of the cost of investment. Management is in complete agreement with both recommendations and will revise the year-end procedures and review the entries to make sure the District is in compliance. There were no material weaknesses found. One additional recommendation, which

was also made in prior years, warns about the amount of cash that is at risk by not being insured by the FDIC with investments in a bank. The District has \$2.9 million in a bank that is exposed to custodial credit risk, as it is uninsured and uncollateralized. The recommendation is to consider alternatives to obtain full insurance coverage. The District changed one thing this fiscal year by moving the RTA Fees out of that bank account to reduce the balance by approximately \$800,000 compared to last year. The amount considered at risk is \$1.97 million at Canyon Community Bank and \$928,063 of cash investments at Bank of New York, which are required investments for the bond reserve fund, so there is not much we can do about moving those funds. According to the Auditors, the Pima County Treasurer is not considered at risk; however, it is not insured so there is some risk. There are not a lot of options considering the FDIC insures only \$250,000 per account at any banking institution. The single audit is not yet completed but a draft is expected next week.

Mr. Offret made a motion to approve the audited Financial Statements of the District for Fiscal Year 2014 as presented, with the understanding that minor changes may be made before the statements are issued. Mr. Doyle seconded the motion. Motion passed unanimously.

D. Ratification of Liability Insurance.

Mr. Olsen said this is the annual award of the District's liability insurance and equipment coverage. Due to the competitiveness of the bids, the District will be receiving improved coverage on underground property and significantly reduced premiums, resulting in a savings of \$12,470 compared to the previous policy.

Mr. Offret said it is wonderful news that insurance rates are going down and coverage is going up. He asked if general liability coverage has always had a \$500,000 deductible and what it covers. Mr. Olsen explained this is the standard deductible the District has had in the past. General liability covers certain damages not covered in other categories.

Mr. Offret made a motion to ratify the Liability Policy with Glatfelter Public Practice for \$128,338 and The Hartford Steam Boiler Inspection and Insurance Company for \$12,313 with a total annual premium cost of \$140,651 from October 1, 2014 through September 30, 2015. Mr. Doyle seconded the motion. Motion passed unanimously.

E. Approval of Personnel Policies to Replace Personnel Manual.

Mr. Olsen said the District maintains a personnel manual that contains numerous employee and human resource related policies. Even with regular updates to the manual, the policies within can quickly become outdated given changes in personnel laws. A recent trend among human resource departments of public entities has been to migrate away from a comprehensive

employee manual and toward individual policies that are centralized for easy reference. This provides more agility in keeping the individual policies current. Since the personnel manual has traditionally been approved by the Board of Directors, Mr. Olsen thought it was appropriate to bring this new approach to personnel policies to the Board.

Ms. Scrivener said this is a great idea.

Mr. Offret made a motion to direct the General Manager to replace the personnel manual with individual personnel policies that are to be regularly updated and revised as appropriate for District employees. Mr. Doyle seconded the motion.

Mr. Offret asked what the process will be for updating or issuing such policies. Mr. Olsen said when policies need to be updated, the appropriate policy would first be identified, and then a draft of the changes would be made and circulated to key management staff. Input from management staff will ensure policy adjustments are not made in a vacuum where unintended consequences could occur. Once drafted and finalized for signature by the General Manager, policies would be distributed by team managers at weekly staff meetings and discussed with all employees. Management has an open door policy to hear any concerns or questions staff may have.

Motion passed unanimously.

F. Resolution 2014-4 – Modification of Member Service Area Agreement for Metro Southwest-Diablo Village with the Central Arizona Groundwater Replenishment District.

Mr. Olsen said at the March 2014 meeting, the Board approved staff submitting a modification of the District's Member Service Area agreement with the Central Arizona Groundwater Replenishment District due to the inclusion of the properties associated with Pomegranate Farms. The modification was submitted in August 2014 and the \$7,000 in fees was paid by Pomerol Land, LLC, the developers of Pomegranate Farms. The Member Service Area Agreement has now been received for the Board's consideration.

Mr. Offret made a motion to approve Resolution 2014-4 regarding modification of its Member Service Area membership with the Central Arizona Groundwater Replenishment District for the Metro Southwest – Diablo Village service area. Mr. Offret further moved that the Board of Directors approve the Board Chair to sign the Member Service Area Agreement with the Central Arizona Groundwater Replenishment District upon the successful completion of the advertising of the resolution by the District. Mr. Doyle seconded the motion.

Ms. Scrivener asked how long the advertisement will run. Mr. Block said it will run once per week for two weeks, and is scheduled to begin Monday, October 20th in the Daily Territorial.

Motion passed unanimously.

G. Approval of Final Change Order for the Hub Well 1A Site Improvements.

Mr. Olsen said the Board previously approved two change orders for this project, which enabled the expediting of required waterline relocations and the integration of the arsenic treatment vessels. This final change order includes the installation of the mobile office trailer at the well site, as well as higher than expected labor and fabrication costs associated with Change Order No. 2. These costs exceeded the authority granted by the Board to the General Manager by about \$6,000.

Mr. Offret said costs have escalated and this project should have been done a year ago. He understands there have been challenges but he is not pleased to see a third change order.

Mr. Offret made a motion to approve the final change order to the Hub Well 1A Site Improvements contract with Innova Engineering, LLC which establishes a new contract amount of \$551,004.40 and a new contract completion date of October 15, 2014. Mr. Doyle seconded the motion. Motion passed unanimously.

Mr. Offret asked when this well will be put in production. Mr. Maish said the well has been pumping into the system for several weeks as testing and troubleshooting are conducted. Mr. Offret asked if the arsenic tanks are working and Mr. Maish confirmed sampling is done weekly. Mr. Offret asked about the arsenic range. Mr. Maish said it is around 8 parts per billion (ppb) but once blending occurs, it will be down to 3 or 4 ppb. Mr. Shepard briefly explained the processes of controlling flow and reaching stabilization on the new well.

H. Approval for the Purchase and Painting of One 1,500 Gallon Hydro-Pneumatic Pressure Tank.

Mr. Olsen said the Board allocated \$25,000 for pressure tank replacements in the current fiscal year budget and the quotes for this particular tank at Las Palmas are within the allocated amount.

Mr. Offret asked if the current tank is old or undersized. Mr. Olsen said this award it is for the replacement of an aged tank. Staff is systematically working through the hydro-pneumatic tanks because they operate under great pressures and the focus is to replace those that are aged beyond their effectiveness. The Las Palmas tank has been in operation since the 1960s.

Mr. Offret made a motion to approve the purchase of one 1,500 gallon pressure tank from Smyth Industries, Inc. in the amount of \$15,510 and the tank painting with A-O Painting in the amount of \$3,870 for a total cost of \$19,380. In addition, the General Manager is authorized to approve additional funds not to exceed \$2,000, if needed. Mr. Doyle seconded the motion.

Mr. Offret asked why the painting cost is so much. Mr. Shepard explained the tank needs to be painted inside and out.

Motion passed unanimously.

V. General Manager's Report.

Mr. Olsen said the District has now received the proposed wheeling costs from Tucson Water for both the baseline and the peaking/fire flow scenarios. After discussions of the various rate components, both Tucson Water and Metro staff agree on the baseline wheeling rate and only 1% of the peaking/fire flow is still under discussion. There is essentially concurrence on most of the wheeling rate components. The IGA is now in the drafting phase and one IGA will include both wheeling scenarios. As discussed at the Rate Hearing in September, this IGA will wheel a portion of the CAP allocation to Metro Southwest and is one of three initiatives to be accomplished under the Water Resources Utilization Fee. Other initiatives are CMID effluent deliveries and the land acquisition for the CAP Recharge, Recovery and Delivery System, where we are currently reviewing submittals for the land acquisition consultant to be discussed at the November Board meeting.

The City of Phoenix Mayor and Council unanimously passed the IGA for the Inter-AMA firming pilot with the District on October 1, 2014. There was significant positive press and both the Tucson and Phoenix Mayors publicly spoke about the mutual benefits of this IGA. Phoenix has already placed its water order for 150 acre feet to be delivered to AVRP in 2015. Mr. Olsen recognized the extraordinary efforts of Mike Block, District Hydrologist, who enabled this innovative water management concept to be brought to fruition. His behind the scenes diligence and coordination ensured progress throughout the entire process, not just for the District, but for the cities of Tucson and Phoenix. Mr. Olsen and the Board thanked Mr. Block.

Mr. Olsen said early registration has begun for the Colorado River Water Users Association (CRWUA) annual conference, which will be held December 10-12, 2014. The theme is *Challenged but Unbroken: Sustaining the Colorado River*, an appropriate topic given the discussions on the shortages on the Colorado River. The Board is invited to attend.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing to report.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the next regular meeting will be held on November 10, 2014.

VIII. General Comments from the Public.

There were no comments from the public.

IX. Adjournment.

The meeting adjourned at 6:27 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board