

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

**November 14, 2012**

**\*\* Board Room \*\***

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

**MINUTES**

**Board Members Present:** Bryan Foulk, Chair  
Dan M. Offret, Vice-Chair  
Richard Byrd, Member  
Jim Doyle, Member  
Judy Scrivener, Member

**District Staff:** Mark R. Stratton, General Manager  
Christopher W. Hill, Deputy General Manager  
Michael Land, Chief Financial Officer  
Charlie Maish, District Engineer  
Abbe Goncharsky, Legal Counsel  
Tullie Noltin, Recorder  
Warren Tenney, Clerk of the Board

**Executive Session**

**I. Call to Order and Roll Call**

Bryan Foulk, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 5:00 p.m. Bryan Foulk, Dan M. Offret, Richard Byrd, Jim Doyle and Judy Scrivener were present.

Mr. Offret made a motion to adjourn into Executive Session at 5:01 p.m. Ms. Scrivener seconded the motion. Motion passed unanimously.

Executive Session pursuant A.R.S. § 38-431.03.A.3 (consultation for legal advice with District Legal Counsel), regarding the claim made to the Occupational Safety & Health Administration and the Department of Labor.

The Executive Session concluded at approximately 5:55 p.m.

## **Regular Session**

### **I. Call to Order and Roll Call**

Bryan Foulk, 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. Bryan Foulk, Dan M. Offret, Richard Byrd, Jim Doyle 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 – October 10, 2012 Board Meeting.**
- B. Approval of Minutes – October 22, 2012 Board Meeting.**
- C. Ratification of Billing Adjustments.**
- D. Ratification of Bill of Sale – Nanini Waterline.**

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

Mr. Foulk asked for more information about the Nanini Waterline bill of sale. Mr. Stratton explained this is a standard transfer of assets, as part of the process with any development.

Motion passed unanimously.

### **IV. General Business - Items for Discussion and Possible Action**

#### **A. Monthly Status of the District.**

Mr. Stratton said water consumption continues to decline. In October, the District saw an 8% reduction in consumption from the previous year. This trend cannot be fully explained but is happening with other water utilities across the Tucson and Phoenix region. Arizonans are conserving water. Similar trends are being seen with electric and natural gas. October was relatively warm but usage was down in all service areas. Metro Southwest probably does not have as much outdoor usage as Metro Main or Metro Hub, which probably explains the smaller decline in Metro Southwest. Mr. Foulk asked if the trend is happening nationally. Mr. Stratton said the trend is similar in New Mexico. Other states are seeing some reduction but not to the extent Arizona is.

Some of the flow gates at Avra Valley Recharge Project (AVRP) are being reworked and new gates are being installed by BKW Farms. The District will be recharging our allotment and the Arizona Water Banking Authority and Marana will also be recharging at AVRP. The District is waiting for the Bureau of Reclamation to clean out the 24 inch line at the Cortaro-Marana Irrigation District (CMID) facility before a determination can be made on working with Pima County to build infrastructure for using effluent.

The District is still working on a Designation of Assured Water Supply at Metro Southwest with a couple of developers.

Capital projects are moving along. The La Canada South project is in the final stages. The La Cholla project has been closed out. Magee Phase 2 is finished with installation except the wash crossing. A small leak in the 30 inch line is being taken care of and once that is done, crews will be out of the roadway except for the wash crossing, which is expected to wrap up mid-December. Orange Grove Road and Magee Phase 3 are under a November 19<sup>th</sup> notice to proceed. Pima County just issued a permit for Innova for Magee Phase 3. Lowerings at the intersection of Ina Road and Oracle Road is out for bid. Most construction on that project will be conducted at night to ease traffic control. Riverside Well Transmission Main is on the agenda. Work at the Riverside Well is going out to bid and will be on the January agenda.

## **B. Financial Report.**

Mr. Land said revenues and expenditures compared to budget on a straight line basis in the first three months are \$323,000 over budget. Budgeted operating expenditures are over by \$41,000 and budgeted revenue in excess of operating expenditures is net \$281,000 ahead of budget on a straight line basis. Revenues are down \$416,000 compared to the same time last year for the first three months, primarily attributed to a decline in water sales and development revenues. Operating expenditures are on par with last year, at about \$6,000 ahead. Revenue in excess of operating expenditures is running \$423,000 behind last year's figure, so that is a drastic drop. The three capital improvement sources: the 2007 WIFA loan, the 2009 WIFA loan for Metro Southwest, and the 2011 bonds for RTA relocation projects, are each more than 75% spent. October was a banner month for new meter applications; five new applications bring the total to nine for the year but that is still four behind the same period last year. The solar system is running \$467 ahead of last year but is still \$1400 better than true electric costs compared with the same period the year before installation.

## **C. Fiscal Year 2011-2012 Audit and Post Audit Letters.**

Mr. Land provided bound copies of the 2011-2012 Audit completed by Clifton Larsen Allen. The Board also received two letters from Clifton Larsen Allen regarding significant matters and recommendations on internal controls. One item identified was the recording of a contribution from Pima County for the reclaimed waterline. The District reduced the value of that project and the auditors said it should have been counted as revenue.

Mr. Offret asked how recharge credit valuations are determined. Mike Block, District Hydrologist, explained the last valuation was based on what the Town of Marana recently paid. If CAP started pricing, they would incorporate the cost of the original water, delivery costs, and operating and maintenance costs related to the recharge facility.

**D. Employee Medical & Dental Insurance Coverage.**

Mr. Stratton introduced Donna Trotter of CBIZ, who has been working to get quotes on employee medical and dental benefits for the coming year. The original quotes from Blue Cross Blue Shield of Arizona (BCBSAZ) reflected an increase of a little over 7% but that was dropped to 4.9%. The District budgeted a 10% increase and since BCBSAZ has provided good coverage, staff felt a provider change was not warranted.

Ms. Trotter said dental premiums increased more because member use increased to 94%. MetLife was unable to make any reductions. Mr. Stratton said it was recommended to have employees absorb some of the increased dental costs. The paycheck deductions will increase between \$1.00 and \$4.00, depending on whether the coverage is for a single employee or a family. Mr. Offret asked if the increase covers the difference, and Mr. Land said the District will actually split the increase with employees. In the case of family coverage, the increase amounts to about \$8.00 per paycheck and the District will pay the other \$4.00.

Mr. Offret made a motion to approve to have CBIZ administer for the 2013 calendar year a contract with Blue Cross Blue Shield of Arizona for employee medical insurance with employee deductions the same under the PPO Plan and HSA Plan and contracts for Employers Dental Service and MetLife for employee dental insurance as presented in the accompanying spreadsheet. Ms. Scrivener seconded the motion. Motion passed unanimously.

**E. Potential Debt Refinancing Options.**

Mr. Stratton said staff had been working with Mark Reader of Stone & Youngberg over the past several weeks looking at existing debt. Discussions have involved ways to modify or restructure the District's debt to realize cost savings, knowing next year debt payments are scheduled to increase by \$500,000. Additionally, the District needs to find a way to finance the CAP recovery

system and there is a potential for that to be absorbed within this financing package, with clear instructions that there be little to no impact on ratepayers.

Mr. Doyle left at 6:38 p.m.

Mr. Reader gave a PowerPoint presentation detailing the District's current financial status along with three refunding/restructuring alternatives. A written copy of the presentation was provided to the Board and staff.

Alternative 1 is to issue new refunding obligations for up-front cash flow savings. This would achieve cash flow and net present value savings by a total of \$550,000. The District would refund 2002 callable senior lien bonds and subordinate lien bonds, reduce cost of capital by approximately 2.5% (to be determined) resulting in significant cash flow savings, and structure cash flow savings primarily in Fiscal Years (FY) 2012/13, 2013/14, and 2014/15.

Alternative 2 would involve issue of new restructuring obligations to achieve targeted debt service objectives. The District would reduce annual debt service to approximately \$6.5 million for FY 2013/14 – 2018/19, from \$7.5 million. The Tucson Settlement Agreement would be amortized over a longer average useful life. This alternative would require the District to refund the allocated portion of non-callable 2002 subordinate bonds and 2002 senior lien bonds. The net present value loss of \$188,000 on subordinates would be somewhat offset by the savings on senior bonds.

Alternative 3 would purpose a restructuring, including the acceleration of planning and construction of the CAP project with minimal, if any, impact on utility rates. The District would assume a \$3,000,000 1% Engineering and Design WIFA loan which would close in the first quarter of 2013. The District would also assume a \$33,000,000 issuance on July 1, 2015 with a 25 year amortization at 4.25%, to include refinance of the \$3,000,000 E&D loan. The new debt service would be structured to achieve MDWID objectives.

Mr. Stratton explained that Alternative 3 provided a way to pursue the CAP recovery project, which the District has been wanting to do but has been uncertain how to finance. Mr. Stratton plans to meet with Oro Valley to discuss if they do want to partner. Mr. Offret indicated he would feel more comfortable if the District had a clear indication about Oro Valley's willingness to share costs in building a CAP recovery system. Mr. Foulk agreed. Mr. Stratton said he would discuss the potential partnership with Oro Valley and provide more information to the Board as soon as possible.

**F. Award of the Construction Contract for the Riverside Well Transmission Main.**

Mr. Offret made a motion to award the construction contract for the Riverside Well Transmission Main to Action Pipeline Contractors, Inc. in the amount of \$394,390.00, and to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$20,000.00 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Byrd seconded the motion.

Mr. Offret noted that of the five bids, only one was under the engineer's estimate and it was lower by \$44,000. Mr. Stratton said Action Pipeline is the contractor who just completed the La Canada project so they are familiar with the conditions. Mr. Maish said Action Pipeline has not moved their equipment from the area so there are savings in the organizational costs.

Motion passed unanimously.

**G. Approval of Right of Entry Agreement for Well Monitoring by the Arizona Department of Environmental Quality.**

Mr. Offret made a motion to approve the Environmental Access Agreement between the Arizona Department of Environmental Quality and the District with an expiration date of June 30, 2017. Ms. Scrivener seconded the motion.

Mr. Offret asked if there was any reason why we should expand the agreement to other well sites. Mr. Block said the wells mentioned are in either in close proximity to the plume or directly down gradient. Mr. Offret asked if testing is showing an increase in concentrations. Mr. Block replied there is no increase in the production wells but when pumpage varies at the South Shannon facility, there is a slight increase in concentrations. The District is trying to increase utilization of the well to capture and control the plume. ADEQ funding through the state budget has been reduced so they are not doing as much sampling as they have historically done. Mr. Byrd noted we are lucky to have any sampling. The District's South Shannon facility is the only Water Quality Assurance Revolving Fund (WQARF) site that does not have a completed remedial investigation, so that is where the District would like energies reflected.

Motion passed unanimously.

Mr. Byrd asked if there are any ADEQ wells on District property and Mr. Stratton said no.

**V. General Manager's Report**

Mr. Stratton said the District filed a claim with Pima County Department of Transportation (PDOT) because of unnecessary removal of lines. The Director of PDOT responded that the

County was not liable. The District met with legal counsel and filed a formal legal complaint on Friday, November 9, 2012. The District will continue to present the case to try to recover nearly \$1 million spent on unnecessary removals and relocations.

Mr. Foulk asked if the claim would be paid in part by the engineering firm or all by the County, if it comes to fruition. Mr. Stratton said it could be both because the design engineer failed to provide the District with final plans and the County hired them and approved District plans. Neither entity informed the District of changes. Mr. Foulk asked about the next step. Mr. Stratton said it is difficult to say but the County will likely take its time in responding. The claim will probably get to the point where a settlement or mediation is preferable to the legal process. It would be smarter for the County to settle. Ms. Goncharsky said the process will take at least several months.

The draft agreement on the reclaimed line to Omni Tucson National (Omni) has been sent. Mr. Tenney heard from Omni today and they are signing the agreement without any changes, so the District can proceed. A delivery date in March is estimated and will start repayment. According to Pima County, they will not be ready to take delivery of reclaim until they settle some other issues they have with Tucson Water.

Non-Indian agriculture water is made available through ADWR and CAP. There is a lot of interest in this as an additional supply for the Metro Southwest area. The costs associated will be analyzed once there is a firm determination from ADWR about how the reallocation will be handled.

On Tuesday, November 20<sup>th</sup>, the District will hold its annual Thanksgiving potluck. Turkey and ham will be provided by Mr. Stratton and Mr. Hill. Board members and their guests are always welcome and do not need to bring a dish to attend.

## **VI. Legal Counsel's Report**

Ms. Goncharsky said legal counsel has received, responded to, and closed out the claim filed with the Department of Labor filed by Donovan Hemway since the Board last met. Counsel continues to participate in the investigation of the Arizona Department of Occupational Safety and Health (ADOSH) complaint, also filed by Mr. Hemway. There has been somewhat of a resolution to Mr. Hemway's workers compensation claim, in that the hearing scheduled for Friday, November 16<sup>th</sup> will no longer be necessary because that claim has been reopened. As Mr. Stratton referenced, the Pima County claim is working its way through the process.

**VII. Future Meeting Dates; Future Agenda Items.**

Mr. Tenney said the next regularly scheduled session of the Board of Directors will be held on Monday, December 10, 2012.

Mr. Foulk asked if it might be necessary to schedule an additional study session regarding the proposed refinancing. Mr. Stratton said it may be sufficient to discuss the issue on the December agenda.

**VIII. General Comments from the Public.**

There were no comments by the public.

**IX. Adjournment.**

The meeting adjourned at 7:19 p.m.

---

Bryan Foulk, Chair of the Board

---

Warren Tenney, Clerk of the Board