

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

THURSDAY, MARCH 19, 2020

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

MINUTES

Board Members Present: Judy Scrivener, Chair (electronic attendance)
Richard Sarti, Vice Chair
Jim Doyle, Member (electronic attendance)
Dan M. Offret, Member

Board Members Not Present: Bryan Foulk, 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

Study Session

I. Call to Order and Roll Call

Richard Sarti, Vice Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Study Session Meeting to order at 5:33 p.m. Jim Doyle, Dan M. Offret, Richard Sarti, and Judy Scrivener were present. Bryan Foulk was not present.

II. General Comments from the Public

There were no comments from the public.

III. Discussion of the Proposed Adjustments to Fees and Scheduling a Public Hearing

Mr. Olsen stated that staff has discussed with the Finance Oversight Committee (FOC) and the Board about wanting to keep our promise to the customers to sunset the Regional Transportation Authority (RTA) fee of \$3.00 for the average residential customer as originally envisioned at the

end of calendar year 2020. Even though there are RTA projects yet to be completed, those projects will be accomplished via the capital improvements program (CIP) based on priority. After reviewing what adjustments and proposed revenue were needed for Fiscal Year 2021, the recommendation is that the Water Resource Utilization Fee (WRUF), consumption charges and the water availability rate all remain the same, the RTA fee will sunset, and an infrastructure rehabilitation fee would be created, which would be \$.95 for the average residential customer and indexed up for larger meter sizes on a flat per month basis

Mr. Offret asked what the average customer usage is. Mr. Olsen stated that it depends on the service area. Metro Main and Hub is 7,500 gallons per month, Diablo Village is 5,200 gallons, E&T is 6,800 Gallons, and Lazy B 5,800 gallons.

Ms. Olsen stated that this fee would help address the capital infrastructure needs. Currently the only direct funding for the CIP program is the new meter capacity based connection fees known as the system development fee. Over the past five years, we have been working to invest in recapitalizing our infrastructure. This infrastructure rehabilitation fee is a start to provide non-growth based funding to augment the capital improvements program.

The recommendation is for the infrastructure rehabilitation fee to begin January 2021. For Metro Main and Hub customers who currently have the RTA fee, when the RTA fee goes away the new fee is created, which is an over \$2.00, or 4.1 %, decrease to the average customer's bill. In Metro Southwest, the service areas do not have the RTA fee so they will be seeing a 95 cent increase for the average residential customer, which would be a 2.3% increase at Diablo Village, a 2.4% increase at E&T, and 1.7% increase at Lazy B. A rate insert will be sent out to all customers advertising an information meeting and public hearing as well as the five-year rate increases for each of the service areas. The average over the past five years is less than a percent increase at Main and Hub with the 4.1% decrease, an average increase of 1.9 % at Diablo Village, an average increase of 2.3% at E&T, and an average increase of roughly 1% at Lazy B.

Ms. Bracken stated that the Customer Deposits amount has not changed since May 2004. The requested increase to the residential customer deposit is \$132.00, which is the equivalent to 2.5 times the average customer's monthly bill based on average consumption. This will cover the time period the customer had not paid the bill and will help reduce the amount for bad debt. The renter deposit is requested to be standardized to \$200 as well as set the deposit for Multi Family, Bulk Meters, and Commercial accounts at \$1,500. This is not much of a change in those areas since that is what they already are but to standardize them to the same rate.

Mr. Olsen stated that the Board is asked to consider authorizing staff to send out the insert with the information discussed as well as announcing an Information Meeting on Tuesday, May 5, 2020

and a Public Hearing on Monday May 11, 2020 before the Regular Board Meeting. The FOC discussed these items on Monday, March 16, 2020 and voted 5-0 that the Board move forward with the adjustments as discussed.

Mr. Doyle asked if the challenges of COVID-19 continue in May, will the Information Meeting be suspended or will it be available online. Mr. Olsen stated that meetings would be adjusted to continue to honor the recommendations to keep public gatherings to less than ten individuals. Discussion ensued regarding the options should COVID-19 continue into May. Mr. Olsen stated that the rate inserts will include a note that the meetings will be held pending resolution of COVID-19.

Ms. Scrivener stated she is in favor of leaving the information meeting on the 5th and the public hearing on the 11th contingent on the resolution of COVID-19.

Mr. Sarti moved to schedule a public hearing for May 11, 2020, at 5:30 p.m. for the purpose of discussing and possible adoption of an adjustment to the District's water fees as discussed. Mr. Offret seconded the motion. Motion passed by a roll call vote of 4-0.

IV. Discussion of the Fiscal Year 2021 Requested Budget

Mr. Olsen stated that, as in previous years, a priority driven budget process was utilized for the investments to support the District mission as well as the capital infrastructure needs. With the other budgetary changes over the previous fiscal year there is one clarification. Since the budget books were prepared and after the meeting with the FOC, staff met with the Northwest Recharge, Recovery, and Delivery System (NWRRDS) Partners. Based on this discussion, the number in the Proposed Budget as it relates to the NWRRDS Partner reimbursements and how much the District will be expending will be decreased for Fiscal Year 2021 and increased in the Fiscal Years 2022 and 2023 budgets.

Ms. Bracken stated that the Fiscal Year 2020 Adopted Budget included 53.33 full-time equivalent (FTE) positions, and the Request Budget for Fiscal Year 2021 includes 54.58 FTE positions.

The total revenue from operations is \$22,575,716, a 1.48% decrease when compared to the Adopted Budget for Fiscal Year 2020. The Requested Budget includes \$4,763,190 of NWRRDS project fund reimbursement from the Town of Marana and the Town of Oro Valley along with \$1,337,255 of proposed new debt funding for the NWRRDS project. The projected beginning fund balance of \$13,816,623 for a total of \$42,492,784 of available funding.

Metered Water Revenue is budgeted based upon the Fiscal Year 2019 actual customer consumption data. With the processes in place to identify private fire risers when they are installed, the number of accounts billed has increased again this year from 253 to 292 account increasing this planned revenue by \$11,530. Water Resource Utilization Fees (WRUF) are budgeted \$30,907

lower than they were in Fiscal Year 2020 based upon the consumption levels from Fiscal Year 2019. Penalties and Service Charges has increased by \$20,000 to \$250,000, based upon Fiscal Year 2018 actuals of \$240,404 and Fiscal Year 2019 total of \$286,454. Investment income has been reduced with WRUF's CD maturing and not being reinvested along with a lower interest earning rate. Bond interest has also been reduced with lower yields and a debt service reserve requirement of \$2.3 million down from prior balance requirement of \$4.62 million with debt being paid and defeased. Pima County Sewer Billing revenue is based upon 19,000 accounts at the current rate of \$1.50 per account. This is an increase of \$29,265 when compared to the prior fiscal year. Development revenue is based upon 60-5/8" meters in Metro Southwest and 180-5/8" meters in the Metro Main and Hub Service areas. RTA fees have been budgeted for only one-half of the fiscal year for revenue reduction of \$422,500. The proposed Infrastructure Rehabilitation Fee of \$0.95 per month for the average customer in all service areas has been included in the budgeted revenue with a total of \$152,692.

The total budgeted revenue of \$22,575,716 from operations is \$339,076 lower than the Adopted Budget revenue in Fiscal Year 2020. Revenue from NWRRDS Partners and proposed debt funding total \$6,100,445, and the projected beginning fund balance is \$13,816,623 for a total available revenue of \$42,492,784.

The total expenses included in the Requested Budget are \$32,167,170, which is an increase of \$3,557,437.

The General Manager and Administration Team's requested budget is \$1,717,411 lower than it was in the prior fiscal year. With Central Arizona Project (CAP) water costs increasing \$154,531, wage and benefits cost increasing \$111,518, and includes \$956,806 for new debt service costs for the NWRRDS project, all being offset by the \$2,978,538 reduction in debt payment with only four remaining outstanding debt obligations.

The Engineering Team's requested budget is \$28,765 higher than the Fiscal Year 2020 Adopted Budget with wage and benefit increasing \$77,731 being offset with a \$20,000 increase in hours being charged directly to CIP projects. This Requested Budget includes a \$20,000 reduction in Corrosion Monitoring, a \$21,000 reduction for Miscellaneous Consulting Service, and the IOC/SOC waivers were completed in Fiscal Year 2020 removing \$13,000 from the budget.

The Utility and Southwest Utility Teams' requested budgets are \$429,988 higher than the Fiscal Year 2020 Adopted Budget. Wages and benefits are \$145,745 higher. The storage tank rehabilitation is \$168,000 higher with work planned for the Magee La Cholla South storage tank, recoat of 25,000-gallon storage tank at E&T 22, and tank modifications and cathodic protection test at Diablo Village #1. Well maintenance cost have increased \$35,000 and the requested meter replacement budget is \$80,000 lower to offset some of the cost increases. Regulatory fees and Southwest water purchases are increasing by \$65,184. Grounds maintenance support was hired for

well sites increasing the budget by \$21,000 and additional electricity cost totaling \$34,000 with a planned rate increase.

Mr. Olsen stated that each year, investments, which were previously called capital equipment, are funded to invest in the District and enhance capabilities. This year based on the prioritizations and discussions with all the teams, the number one recommended item is replacing the iPerl meters at Metro Hub. The meters at Metro Southwest and Hub have been notoriously difficult as it relates to the amount of adjustments needed and failure rates that are significantly higher than industry average. Only one of those service areas could be completed in Fiscal Year 2020 so the meters at Southwest are being replaced this fiscal year and Metro Hub will be completed in Fiscal Year 2021. The next two items are replacing Windows servers and upgrading virtual machines. Another item is the valve machine, which is about 20 years old, and is used to exercise valves. The last item above the funding line is the variable frequency drive for the South Shannon well. The South Shannon well is a remediated treatment site and needs to operate with the Wildwood and Deconcini wells to blend at the Deconcini tank to get below the health advisory levels for 1,4-Dioxane. The challenge is if Deconcini or Wildwood are offline then Shannon is off and there is no operation.

Ms. Scrivener asked how many iPerls there are. Mr. Olsen stated that there are 1,735 at \$141.21 in the budget estimate, which could oscillate downward but that is what the budget numbers were. Ms. Bracken stated that was the count when the budget was prepared.

Mr. Olsen stated that the investment requests that are not funding for Fiscal Year 2021 includes a three person maintenance crew. One of the specific performance objectives was identifying the items the Utility team are not getting accomplished on a daily, monthly or annual basis such as valve exercising at regular intervals, full break down maintenance of pressure reducing valves, ensuring functionality of fire hydrants, and other preventative activities. A three person team with one lead utility technician and two utility technicians would need to be added to accomplish these tasks.

Mr. Offret asked what does the \$161,000 include beside salaries and what type of equipment is needed. Mr. Shepard stated the \$161,000 for the three person maintenance crew includes salaries, vehicles, communication devices, uniforms, and Personal Protective Equipment (PPE). Ms. Bracken stated that the vehicles would be equipped with the necessary tools.

Ms. Bowen reviewed the Capital Improvements Program items. The NWRD Project's key tasks include drilling three recovery wells, the final design of the transmission main and forebay, starting final design of the recovery wells, completing a portion of the final design of the supervisory control and data acquisition components, starting construction on the transmission main, and working with TRICO Electric regarding power to the well sites and the forebay. The key tasks for the NWRD Metro-only Project include program support and consultant design of the booster station and transmission main from the forebay to Blue Bonnet Road, and District staff completing the design of the transmission main from Blue Bonnet Road to Herb Johnson. For the RTA La

Cholla Boulevard Project, Oro Valley's contractor has completed the removals of the existing abandoned waterlines and the adjustments are dependent upon the completion of the road work. The Arizona Department of Transportation (ADOT) Oracle Road Pavement and Drainage Upgrades include replacement and relocation of waterlines in conflict with road improvements and the replacement of an aging waterline that is prone to failures along the corridor. All construction work must be done in Fiscal Year 2021 ahead of road construction. The Avra Valley Recharge Project (AVRP) Recharge Improvements experienced increases in the cost estimate for the total project, which necessitated splitting the project. The work in Fiscal Year 2021 includes the new turnout off the BKW canal plus a new metering station and future work includes reconfiguring the basins. The schedule was revised for the E&T22 well and the tasks in Fiscal Year 2021 include land acquisition services. One large meter vault will be replaced in Fiscal Year 2021; there are a total of 13 vaults to complete.

Mr. Olsen stated that there is no requested motion for the Board to consider and the FOC voted 5-0 for the Board to approve the budget as presented.

V. Discussion on the Potential Northwest Recharge, Recovery and Delivery System Debt

Mr. Olsen stated that based on market conditions, rates are presently lower than anticipated. Staff will remain flexible and agile regarding the timing on going out for debt, possibly moving forward sooner rather than later, which could provide substantial savings to the District.

Ms. Bracken stated that we are tentatively looking at borrowing \$21.3 million to fund the NWRRDS project. The initial plans and estimates were a 5-year plan at a 4% interest rate. On Monday, the going rate was 1.6-1.65%. At that rate, the District could have saved \$5.5 million. As of today, the market did a flip and rates are now at 3-3.5% but they could flip again. Staff is moving forward and getting ready to take advantage of a beneficial rate for District ratepayers. As of now, we are back to the previous schedule.

Mr. Olsen stated staff discussed this item with the FOC at their meeting on Monday for their feedback and input to pass on to the Board. The FOC members agreed locking in the debt at a lower rate at a savings to the District makes sense. Staff will continue to move forward with the required steps and remain flexible. Prior to finalizing debt acquisition, staff will discuss with the Board and request final Board approval. Based on the timing to secure debt, a special meeting may be held if needed.

Ms. Scrivener stated she agreed with proceeding as discussed and would be open to a special meeting if needed.

Ms. Bracken stated that she was listening to a webinar this week and the advice is to be prepared to take advantage of an opportunity when it occurs and prepare by accomplishing the tasks that need to be completed. Completing these items can cut three to four months off the process for debt issuance.

VI. General Comments from the Public

There were no comments from the public.

VI. Adjournment

The meeting adjourned at 6:23 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board