

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

WEDNESDAY, OCTOBER 16, 2019

****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
Dan M. Offret, Member
Richard Sarti, 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
Steve Shepard, Utility Superintendent
Theo Fedele, Clerk of the Board
Jeffrey L. Sklar, 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 M. Offret, Richard Sarti, and Judy Scrivener were present. Bryan Foulk was not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – September 9, 2019 Board Meeting**
- B. Ratification of Billing Adjustments**
- C. Ratification of Bill of Sale – Paseo at Linda Vista, Lots 1-64, Phase 2 (M-18-016)**

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

IV. General Business – Items for Discussion and Possible Action

A. Monthly Status of the District

Mr. Olsen stated that Fiscal Year 2020 combined consumption compared to last fiscal year-to-date for Metro Main is 4.8% higher, Metro Hub is 3.1% higher, and Metro Southwest is 9.5% higher.

The monthly status shows the water storage activities through September. The deliveries to Avra Valley Recharge Project (AVRP) of District Central Arizona Project (CAP) water have been completed and, even though staff took extra steps to dial in the deliveries, the deliveries finished 54 acre-feet (AF) beyond our order. Staff are working with the Town of Marana, as done in previous years, to acquire that water. As the Board likely recalls from last week's tour of District infrastructure, measurement of water deliveries to AVRP is accomplished with a weir. The planned AVRP upgrades next fiscal year included replacing the weirs with magnetic meters to enhance the accuracies of delivered water as opposed to having to wait until CAP publishes their formalized delivery volumes.

Mr. Shepard stated that in September there was a poly service line leak at Old Nogales Highway, which will be addressed during the mainline replacement. Fire hydrants damages have been addressed caused by issues such as hydrants being hit by vehicles or other causes impacting hydrant operation. The Hardy storage tank was drained and will be inspected and cleaned prior to the planned internal coating. The Riverside Crossing well was recently cleaned with a process called well jetting. Various mechanical methods have been used including brushing and bailing to clean the perforations within a well. Well jetting is a series of nozzles that rotates pushing potable water from the system at a pressure of about 19,000 pounds per square inch (PSI). The process starts at the bottom of the well and the tool is pulled up slowly at a rate of a foot per minute. The jetting cleans the perforations and the louvers in the casing. Photos of the well casing were shown to demonstrate the effectiveness of well jetting.

Ms. Bowen highlighted some of the notable items on the Northwest Recharge, Recovery and Delivery System (NWRRDS) project. The easement area from the airport road to the access road was cleared and the driveway was improved. About 1,500 linear feet of new airport access fencing was installed, the airport gate was relocated, and about 3.6 acres of land was cleared including the access road and the two airport well sites for the exploratory well drilling. The drilling for

exploratory well AVEX-01, on the south side of the AVRP facility, was drilled to 700 feet and well AVEX-03, on the easterly site on state land, was drilled 600 feet. The well was only drilled to 600 feet deep due to hard digging in areas that would not produce water. At each well, geophysical logging was accomplished to anticipate the production capacity, installation of the 5” casing pipe, and water quality data was collected and the data is being analyzed. The effort is expected to wrap-up mid-November. The recovery well permit received a complete and correct determination from ADWR so the public notice for October 17-24, 2019 is being prepared. The preliminary design to the transmission main is still in draft phase. Final comments are being wrapped up and is anticipated to be concluded at the end of the month. The preliminary layout is still in draft phase for the forebay site and conceptual pump sizing from the partner booster stations and is scheduled to be completed in about a month.

Mr. Sklar stated that the mediation was held on September 23, 2019 for the final condemnation case. The mediation was not successful at reaching settlement so the mediation process is concluded. The next step is preparing the case for trial. Depositions will occur later this month. The other side’s appraiser and the property owner have submitted an opinion of property value and the other side will be deposing the District’s expert appraiser and Ms. Bowen at the end of the month. Mr. Offret asked how long the trial will last. Mr. Sklar stated that a trial setting conference with the judge is scheduled for December 16, 2019 where the trial date will be given. This will be a jury trial that could last about 3-4 days.

B. Financial Report

Ms. Bracken stated that revenue and expenditures for August are both favorable when compared to a straight-line projection with revenue \$788,589 over budget and expenditures \$120,257 under budget. Revenue in excess of expenditures is favorable by \$908,846. When comparing revenue to the prior fiscal year, revenue in August is \$316,493 higher than it was in August 2018. The August metered water revenue is 6.93% or \$233,872 higher than the prior fiscal year. The total operating expenditures for August are \$81,801 higher than they were in August 2018. When comparing revenue in excess of operating expenditures the current year is favorable by \$234,692.

The Arizona State Treasurer Pooled Collateral Program Statement for August provided collateralization coverage of \$3,560,578.66 in addition to the \$250,000 FDIC coverage.

The September cash deposit balance is \$8,575,876.89, with \$9.5 million moved into investments. The investment balance as of the end of September is \$13,743,833.34, which is \$9,971,970.32 higher than the September 2018 balance.

The Capital One Bank MasterCards were used to purchase \$44,240.37 on the September statement with up to 1.25% cash back earnings. The cash back amount received from transactions processed in the prior month totaled \$305.64 or 1.15% with a cash back total of \$5,853.51 as of September 30, 2019.

Thirty-two new meter applications were received in September compared to 22 new meter applications received in September 2018. Twenty-eight of the new meter applications were for the Metro Main and Hub service areas and four new meter applications were for the Metro Southwest service areas. As of the end of September, 109 new meter applications have been received, compared to 83 applications at the same point in the prior fiscal year.

C. Approval of Audit for Fiscal Year 2019

Ms. Bracken stated that the District's independent financial auditors from HintonBurdick have reviewed the District's ledgers, transactions, reconciliations, and internal controls for Fiscal Year 2019 as required by the District's Bond resolutions.

District staff are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statement that are free from material misstatements, whether due to fraud or error.

The Auditors performed procedures to obtain audit evidence about the amounts and disclosures in the financial statement, and have provided an objective opinion that the District's financial statements fairly present, in all material respects, the financial position of the District is in conformity with accounting principles generally accepted in the U.S. and the Governmental Accounting Standards Board (GASB).

When planning and performing the audit, the Auditors consider the District's internal control over financial reporting to determine what audit procedures are appropriate for the circumstances. During this process, they did not identify any deficiencies in the financial internal controls.

Fiscal Year 2019 ended with a net position increase of \$10.44 million. The ending net position is \$92,607,423. The total District assets and deferred outflow of resources increased \$1.33 million and the liabilities and deferred inflows of resources decreased by \$9.11 million. The total operating revenue was \$383,751 lower with metered water revenue decreasing \$727,753 when compared to the prior fiscal year. Operating expenses were \$72,181 higher than the prior fiscal year. The

income from operations totaling \$7.89 million. Non-operating income and expenses had a net total of \$765,273 creating an income before contributed capital of \$8.66 million. The District received \$1.78 million of contributed capital in Fiscal Year 2019.

Mr. Olsen stated that Ms. Bracken covered the numbers and results of another solid audit accomplished by the internal auditors which echoes the great work that Ms. Bracken and the supporting staff accomplish during the audit as well as throughout the year.

Mr. Offret moved to approve the independent audit of the District's Financial Statements for Fiscal Year 2019 as presented. Mr. Sarti seconded the motion. Motion passed unanimously.

D. Continuation Agreement for the Annual Audit Services

Mr. Olsen stated that the District's Procurement Policy was most recently updated by the Board in November 2018 to clarify various procurement activities in accordance with relevant Arizona State Statutes. One of the refinements was to clarify the differences between professional and non-professional services. Professional services include such activities as engineering and survey services and associated contracts are not to exceed a period of five years without re-solicitation. Non-professional services include items such as billing software services, mail services, and auditing services. While the District's independent auditors are highly skilled and professional in all their interactions with the District, they are not defined as a professional service in State Statutes. Non-professional services do not require re-solicitation or a re-advertising request for these services within the five year period as required by professional services.

As such, given the highly competent and detailed independent audits performed by HintonBurdick since 2015, it is recommended the Board authorize HintonBurdick to continue as the District's independent auditor on an automatic annual renewal basis until such time that either the District or HintonBurdick determines a change is warranted. If approved by the Board, HintonBurdick has agreed to accomplish the Fiscal Year 2020 audit with a 3% increase from Fiscal Year 2019 for a total audit cost of \$25,750.

Mr. Doyle asked if the 3% increase would occur every fiscal year. Mr. Olsen stated that the increase is defined as a cost of living increase and could potentially increase 3% each year. Similar to other automatic renewals, if there is an unreasonable increase, staff will determine the best interest of the District and possibly re-solicit for those particular services. Staff would then present the results of the solicitation to the Board for consideration.

Mr. Sarti moved to approve the continued use of services from HintonBurdick, PLLC Certified Public Accountants & Advisors to provide the District's independent auditing services until either

party decides a change in services is warranted and provides written notice of termination within 60 days beyond the contract completion date. Mr. Offret seconded the motion. Motion passed unanimously.

E. Authorization to Modify Designation of Assured Water Supply for Metro Main

Mr. Olsen stated that the District possesses a broad and diverse water resources portfolio to ensure the ability to meet current and future customer demands. This portfolio includes 13,460 AF of annual CAP Municipal and Industrial (M&I) subcontract water, up to 1,048 AF of remediated water from the South Shannon Treatment Facility, recycled water, groundwater allowance, and long-term storage credits. The District's Main, Southwest – Diablo Village, and West service areas are also a Central Arizona Groundwater Replenishment District (CAGRD) Member Service Area (MSA) where CAGRD replenishes ground water pumping, on the District's behalf and for a fee, should the District exceed any of its water resources portfolio.

When the District obtained a 100-year designation of assured water supply in 1995 for Metro Main the District also obtained a Member Service Area Designation from CAGRD which was incorporated into the Designation of Assured Water Supply (DAWS) application as an additional source of water. While CAGRD requires a per AF cost for any replenishment activities, there is also a base cost that must be paid each year independent of replenishment requirements. In 2019, Metro Main CAGRD membership required a payment of approximately \$42,000 and that will increase to approximately \$55,000 in 2020.

As the District has a diverse water portfolio that does not envision the need to ever rely on CARGD in Metro Main during any of the build-out or growth projections, it is recommended that the District de-enroll as a cost savings measure. The de-enrollment of CAGRD is for Metro Main only. Metro Southwest – Diablo Village and Metro West both are members of CAGRD and could conceivably be a situation, although unlikely, where CAGRD replenishment would be required in the future.

To accomplish this, two actions are required. The District must work with the Arizona Department of Water Resources (ADWR) to modify the District's DAWS to remove any reference to CAGRD in our water portfolio and to request that the CAWCD Board approve the District's de-enrollment from CAGRD. Both of these actions require a Board resolution.

Mr. Offret moved to approve Resolution 2019-6 authorizing the General Manager to submit a Modification of a Designation of Assured Water Supply application for Metro Main to the Arizona Department of Water Resources. Mr. Sarti seconded the motion. Motion passed unanimously.

F. Authorization to De-Enroll from the Central Arizona Groundwater Replenishment District for Metro Main

Mr. Sarti moved to approve Resolution 2019-7 authorizing the General Manager to submit a De-Enrollment Application for Metro Main to the Central Arizona Groundwater Replenishment District. Mr. Offret seconded the motion. Motion passed unanimously.

G. Approval and Award for Storage Tank Coating

Mr. Olsen stated that the District operates 21 above ground steel storage tanks that are internally coated to provide a barrier between water and the steel. This barrier protects the steel from corrosion but the coating typically lasts about 20 years and needs to be reapplied to ensure continued useful life of the storage tank. The Hardy Storage tank has a capacity of 432,900 gallons and was constructed in 1970. The last internal coating replacement was accomplished in 2000, approximately 19 years ago and coating replacement is recommended to ensure continued use of this key infrastructure asset.

The City procurement contract was utilized to obtain quotes and it is recommended that the Board award this work to AO Painting in the amount of \$129,217.68.

Mr. Offret moved to approve the internal coating of the Hardy Storage Tank and award the work to AO Painting in the amount of \$129,217.68 and authorize the General Manger to approve up to an additional \$1,000 for any necessary repairs that may be required. Mr. Sarti seconded the motion. Motion passed unanimously.

H. Presentation on the District's Customer Service Team

Mr. Olsen stated that Brian Smith, Utility Customer Service Supervisor would provide a presentation as part of the continued series of presentations highlighting the amazing dedication and contributions of staff to the District's mission.

Mr. Smith provided a presentation on the activities of the Utility Customer Service Team.

V. General Manager's Report

Mr. Olsen stated that the Compensated System Conservation Agreement to support Arizona's Drought Contingency Plan (DCP) was signed by both Central Arizona Water Conservation District (CAWCD) and the District and as of October 1, 2019 has also been signed by the Bureau of

Reclamation (BOR). This agreement was the result of an idea by the District, and subsequent collaboration with CAP staff, to create a brand new template for compensated system conservation and to mitigate shortages of Non-Indian Agricultural (NIA) water in support of the DCP. This agreement now serves as a viable template for entities with M&I CAP subcontract water throughout Arizona who wish to partner with CAP for Compensated System Conservation and to support the DCP.

At the July 2019 Board meeting, Carollo was approved to accomplish an independent cost estimate for the Partner components of the NWRD in accordance with the District's Debt Management Policy. Since then, Carollo has reviewed the technical reports and other available materials to arrive at their independent cost estimate. As expected when you have multiple engineering firms accomplishing a cost estimate, Carollo's costs differed from that of the Program Support Consultant, HDR. A reconciliation meeting was held with District Staff, HDR, and Carollo to align and validate the various assumptions. This resulted in HDR's estimate for the Partner components of approximately \$41.2 million and Carollo's estimate for the same work is \$44.8 million. These two estimates are within 8.7% of each other, which is impressive as these estimates are considered a Class three or Class four respectively. Both consultants echoed the mutual benefit of the reconciliation meeting to gain additional insight on assumptions and how to further refine the respective cost estimates. To best ensure project success, we are financially planning based on the higher Carollo estimate while setting the goal for HDR and our staff to execute within HDR's cost estimate.

Now that cost estimates are independently validated, along with projections of District only infrastructure estimates, the issuance of debt will be delayed from April 2020 to April of 2021. This results in a substantial savings to the District of over \$3.8 million compared to if the debt was issued in April of 2020 while not delating the accomplishment of the project due to revenue funding initial elements. Thank you to Ms. Bracken for performing this cost saving calculus.

VI. Legal Counsel's Report

Mr. Sklar said he had nothing to report.

VII. Clerk of the Board Updates; Future Meetings

The next regularly scheduled Board meeting will be held on November 13, 2019.

VIII. General Comments from the Public

There were no comments from the public.

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IX. Adjournment

The meeting adjourned at 6:57 p.m.

Judy Scrivener, Chair of the Board

Theo Fedele, Clerk of the Board