

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE**

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

JANUARY 27, 2020

MINUTES

Committee Members Present: Scott Schladweiler, Chair
Lee Jacobs, Vice Chair
Ralph Churchill, Member
Lee Mayes, Member
Kip Volpe, Member

Committee Members Not Present: Robert Shonka, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, District Engineer / Deputy General Manager
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility Superintendent
Theo Fedele, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Mr. Schladweiler called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Churchill, Mr. Jacobs, Mr. Mayes, Mr. Schladweiler, and Mr. Volpe were present. Mr. Shonka was not present. Ms. Fedele stated that Charlie Maish resigned from the Committee.

II. Election of Committee Chair and Vice Chair

Mr. Volpe moved to nominate Scott Schladweiler to serve as Chair for 2020. Mr. Churchill seconded the motion. Motion passed unanimously.

Mr. Volpe moved to nominate Lee Jacobs to serve as Vice Chair for 2020. Mr. Churchill seconded the motion. Motion passed unanimously.

III. Call to the Public

There were no comments by the public.

IV. Approval of Minutes – March 27, 2019 Meeting

Mr. Churchill made a motion to approve the minutes as presented. Mr. Volpe seconded the motion. Motion passed unanimously.

V. Discussion and Possible Recommendation for Mid-Year Review of Fiscal Year 2020 Adopted Budget

Mr. Olsen stated that Ms. Bracken would cover the details on the operating budget revenue and expenses, Ms. Bracken and Mr. Shepard would provide a status update on the various investments to support the District mission, which was referred to in the past as the capital equipment items, and he and Ms. Bowen would cover the Capital Improvement Program (CIP).

Ms. Bracken stated that metered water revenue is on track to be very close to the amount projected in the adopted budget, with 55% of the budgeted revenue realized as of December 31, 2019. The budgeted revenue was based upon the consumption levels from Fiscal Year 2017. Water Resource Utilization Fees (WRUF) are at 55% and are predicted to be near the budgeted amount by the end of the fiscal year. Penalties and service charges are higher this year than they were at the end of December 2018, and are projected to be over budget.

Mr. Volpe asked about the possible reason for the higher penalties and service charges and if there are any trends. Ms. Bracken stated that there is an increase in the numbers of the shut-offs and shut-off notices in the Metro Main service area. There are also more customers in the District.

Ms. Bracken stated that interest income is at 67%, and is projected to be on budget by the end of the year, with \$1.75 million of WRUF Certificate of Deposits matured and not reinvested based upon the cash funding for Northwest Recharge, Recovery and Delivery System (NWRDRS) and the Metro-only pipeline planned spending rate.

Pima County Wastewater revenue, which is received for providing sewer billing services, is projected to be higher than budgeted. The fee was increased effective July 1, 2019 from \$1.42 to \$1.50 per month per account for sewer billing services provided. The budget was based upon 18,353 active sewer accounts and there are 19,127 active accounts as of December 31, 2019.

Development revenue was budgeted with an estimated 180 meter applications in the Metro Main and Hub service areas, and 108 meter applications in the Metro Southwest service area. As of December 31, 2019, 180 meter applications have been received, with 149 in Metro Main and Hub

and 31 in the Metro Southwest service area. Development revenue is expected to be within budget by the end of the fiscal year with the same amount of revenue expected with a different distribution in the service areas.

The Regional Transportation Authority (RTA) fee revenue is planned be slightly higher than budgeted. Water storage is planned to be on budget. The Compensated System Conservation and Central Arizona Project (CAP) capital reimbursement will be received by April. Other income includes contributed IT assets with a value of \$26,399 from a UniTrend backup that was acquired at no cost to the District. At this time, revenue is projected to be about \$134,000 higher than the adopted budget.

Salaries are projected to be under budget by \$81,925. The budgeted Civil Engineer and Construction Inspector positions were vacant the first half of the year and one Utility Technician II position was added during the year. The net effect will create underspending in the payroll taxes, health and dental insurance, Arizona State Retirement, and long-term disability. Staff time charged to capital projects has already exceeded the adopted budget with half of the year completed. Staff are anticipating additional time will be spent working directly on projects with another \$112,927 expected by the end of the fiscal year. Workers' compensation costs continue to increase with an additional increase expected in April.

Audit costs were slightly higher than budgeted, however, costs are still under the agreed upon amount not to exceed \$25,000. The budget for water resources miscellaneous expenses totaling \$5,000 will not be spent in order to offset the increased costs associated with preparation of the Inorganic Chemicals (IOC) and synthetic organic chemicals (SOC) waiver applications. Survey services will incur \$4,000 in additional costs necessary to reestablish a survey monument and wellhead elevation. Janitorial Services are expected to be over budget with a new service provider.

The \$3,500 budgeted for well monitoring in Metro Southwest will not be spent. Utility staff will delay painting the E&T 22 tank and use the \$40,000 budgeted to replace the media at Diablo Village #1. Mr. Shepard stated that the Diablo Village #1 lead vessel was exhausted sooner than anticipated and was not budgeted for this fiscal year. Utility staff will delay the internal coating of the E&T22 tank, which will offset the cost of replacing the arsenic treatment media. Mr. Schladweiler asked if there was a change in the arsenic concentrations. Mr. Shepard stated that he did not notice a change in concentration, noting that Diablo Village #1 has been in the lead for the past few months due to construction activities at Diablo Village #2. Traditionally Diablo Village #1 was used as the secondary source.

Ms. Bracken stated the Education/Training/Travel account is anticipated to be \$5,000 less than budgeted as staff will not be attending all of the planned events.

Insurance deductibles were budgeted in account 54113. The actual expenses will post to the vehicle maintenance account. When repairs occur, the District is required to pay the first \$1,000 of a claim

associated with vehicle repairs. Vehicle lease expenses are planned to be higher than budgeted with one additional truck added to the fleet for the additional Utility Technician II. A low mileage vehicle will continue to be used for one additional year.

Computer software was planned to be over budget with the annual renewal cost of the Diligent Software that was purchased last year and not budgeted in the current fiscal year. The decision has been made to not renew the software.

Valves and supplies are planned to be \$10,000 over budget with the purchase of a pressure reducing valve (PRV) to be installed at Northeast Reservoir Booster Station (NERBS). Mr. Shepard stated that staff participated in a tabletop exercise for training purposes, as well as to identify any improvements that could be implemented to improve operational flexibility under various conditions. Staff determined the installation of an additional PRV between two of the large reservoirs would be beneficial. Mr. Olsen stated that the Board has approved the installation of the PRV. Mr. Shepard stated that the PRV will be funded from various line items that had lower than anticipated expenditures.

With all of the discussed changes, the District is anticipating to underspend the adopted budget expenses by \$176,769.10. In addition the \$500,000 Contingency Fund is not expected to be spent.

Mr. Churchill asked if there is one vacancy currently. Mr. Olsen stated that the Utility Technician I position was advertised and is closing today. The Construction Inspector interviews have been completed and the onboarding process has begun. This leaves one vacancy for the Civil Engineer position. Ms. Bracken stated that the budget was increased for the Utility position.

Ms. Bracken stated that the contractor has completed a large portion of the Lobby Security project. Since the contract was written to be paid upon completion, the District has not spent any money on this project yet. The original estimated price was \$72,000, with agreed upon changes to reduce it approximately \$4,000. The adopted budget was \$25,000. The air conditioner for the IT Server Room has been replaced at a cost slightly under budget. Two Dell switches were purchased for \$1,217 less than the amount budgeted for one switch.

Mr. Shepard stated that the upgrade of the Itron Field Collection System (FCS) is moving forward. This will replace the Itron MVRS software. The Network Administrator will configure the server and install the software. Staff will test the FCS prior to placing it into service. Ms. Bracken stated that dual systems will be operated concurrently for at least one billing cycle to ensure a smooth transition.

Mr. Shepard stated that a risk and resilience assessment is a requirement through America's Water Infrastructure Act of 2018. The cost for a consultant to assist with the assessment of the five service areas was budgeted in Fiscal Year 2020. The kickoff meeting is February 4, 2020, and the assessment will be completed before the end of the fiscal year. Mr. Schladweiler asked who the

consultant is. Mr. Shepard stated KUV Consultants.

Mr. Shepard stated that staff will utilize RS Logix5000, a more updated design software, for the telemetry programming. This software will also be used for NWRRDS and at Metro Southwest.

Ms. Bracken stated that staff have started working on the website redesign. The cost of this is expected to be about \$10,000 under budget.

The automatic lift gate, will not be purchased saving \$4,500. Staff coordinated an exchange of vehicles to create this savings.

Mr. Shepard stated that the All Test Pro was purchased to test electric motors. The unit will generate a report on the condition of motor. This test can also be completed on motors that are new or reconditioned to verify they are working correctly.

Ms. Bracken stated that Southwest meter replacements are proceeding. As of December 31, 2019, 942 of the 1,768 meter have been replaced. To date, 1080 or 61% of the meters have been replaced.

The quotes for the Board Room audio system are being reviewed. The water heaters were replaced with a \$4,600 savings.

Ms. Bowen discussed the Metro-only portion of NWRRDS, stating that the consultant design of the booster station and a portion of the transmission main has started, and the in-house design of the remaining portion of the transmission main is ongoing.

Staff are working with the land owner to negotiate acquisition of a site for future facilities to support Herb Johnson Reservoir.

As part of the RTA La Cholla Boulevard waterline relocation from Overton Road to Lambert Lane, Oro Valley's roadway contractor is proceeding with the removal of waterlines. Based on the road construction schedule, a portion of the work related to adjustment of existing water facilities may roll into next fiscal year. The Pima County road contractor for the RTA Valencia Road project is expected to complete the water-related work by the end of this fiscal year. The design for the relocation of waterlines impacted by the Arizona Department of Transportation (ADOT) Oracle Road corridor project, as well as for replacing an existing waterline in the same area that has experienced recurring failures, is expected to be complete in the spring 2020. Bids will be solicited once the design is complete to enable construction to begin in Fiscal Year 2021.

Ms. Bowen stated that some remaining tasks, including electrical and the native plant inventory for the Avra Valley Recharge Project (AVRP), are being completed this fiscal year and are anticipated to be under budget. Mr. Olsen stated that the improvements are intended to achieve the permitted capacity at AVRP. A revised cost estimate was much larger than anticipated, so

construction was delayed and phased to ensure an adequate revenue stream to accomplish the upgrades. Further refinements in the planned construction will be evaluated to determine if the overall cost of the project can be reduced.

Ms. Bowen stated that the Old Nogales Highway mainline line replacement project is currently nearing completion and is anticipated to be finished within budget. The design is underway for site improvements to support the E&T 22 well replacement. Well equipping is expected to be moved to a future fiscal year. Design of the Diablo Village service line replacement is being completed by staff this fiscal year.

Design of the Pantano Road transmission main is underway. The design includes revisions to a previous design to minimize the impact to native plants. Additionally, staff identified an opportunity to replace aging infrastructure in the vicinity of the new transmission main and to tie side street laterals into the new transmission main. Design is expected to be completed under budget this fiscal year. The installation of the air vacuum valve for the Camino del Fierro transmission main will begin after the installation of the PRV at NERBS.

Mr. Shepard stated that 13 large meter vaults need to be replaced and will be budgeted over three fiscal years. The order has been placed for three of the vaults, which will be replaced over the next few months. Mr. Schladweiler asked what size the meters are. Mr. Shepard stated the meters range from 3-inch to 6-inch meters. The original vaults were a fiber glass composite and are starting to show wear. Mr. Jacobs asked if the meter vaults would be installed by District staff. Mr. Shepard stated that the vendor would build the vaults and District staff would complete the excavation, removal, and installation.

Ms. Bowen stated that planning for the central “A” zone and “B” zone booster station and some land acquisition support is expected to be completed this fiscal year.

Mr. Shepard stated that some of the facilities that have not been used in many years are set to be demolished. Ina / La Canada and Rasmussen tanks were demolished this fiscal year. Staff works with the contractor to dispose of those tanks. Some sites may be sold once the facilities are removed.

Ms. Bowen explained the cost breakdown of the Partner portion of NWRDRS. Various tasks were completed this fiscal year at lower costs than anticipated. The unspent Program Support services associated with those items will not be reallocated, unless authorized by the Partners. A conceptual cost opinion was completed to comply with the District’s funding policies. The cost of the study was not allocated to the Partners. A blending study is underway to enable the District to ensure delivery of NWRDRS does not exceed previously-approved targets for hardness. The cost of the blending analysis is being funded by the District and is not allocated to the Partners. Mr. Volpe asked questions regarding the project totals. Staff offered clarification on the breakdown of costs.

Mr. Churchill moved that staff proceed as presented based on the Committee's mid-year review of the Fiscal Year 2020 Adopted Budget. Mr. Jacobs seconded the motion. Motion passed unanimously.

VI. Update on the District's Calendar Year 2020 Goals

Mr. Olsen stated that every year, as part of the Board's performance review of the General Manager, there is a review of the District's specific performance objectives. These objectives reflect the unique and compelling items that require additional focus during the upcoming calendar year to refine and enhance the capabilities of the District. The approved Specific Performance Objectives for calendar year 2020 were discussed as follows:

1. Work succession planning activities on planned and unplanned retirements, separations, etc.
2. Select/award final NWRDSD Design consultant for shared transmission main/forebay site and drill three recovery wells.
3. Partner with other water providers to advocate the State Legislature to create a dedicated funding stream (versus solely fee-based) for the Water Quality Assurance Revolving Fund (WQARF) Program.
4. Work subsequent details regarding the Arizona Department of Environmental Quality (ADEQ) initial funding commitment regarding the design and construction of 1,4-Dioxane treatment at the South Shannon Treatment Facility.
5. Create an unmet capital infrastructure needs list, including assets aged beyond their effective useful life, to aid in prioritizing limited CIP financial resources and to educate the public on current/future infrastructure challenges.
6. Implement the Field Collection System to modernize the District's meter reading capability.
7. Work with Pima County and stakeholders to obtain access to the District's recycled water at the Tres Rios WRF in order to convey a portion to nearby groundwater savings facilities; reducing groundwater pumping while enhancing the value of this water resource to District ratepayers.
8. Complete the site-by-site security review and create a 5-year implementation plan for identified upgrades.
9. Implement a regular cycle of compensation analysis and position description review for each staff classification to ensure the correct skill-set to accomplish the District mission and retain applicable talent.
10. Create and implement a 5-year Information Technology plan that modernizes the District's cyber domain, proactively replaces aged out hardware prior to failure, and upgrades applicable capability to enhance the ability to accomplish the District mission.

11. Analyze and discuss with the FOC and Board of Directors the creation of a flat monthly Infrastructure Rehabilitation fee that would provide a revenue stream, beyond new connection fees, to address District capital needs.
12. Perform a review of preventative maintenance activities within the Utility Team that are not fully addressed including valve exercising, fire hydrant testing, detailed site inspections, and wellsite housekeeping and determine the appropriate staffing level required to accomplish these core tasks.
13. Update the District's Long Range Water Resources Plan for each of the District's six service areas to ensure relevancy and accuracy as five years have passed since these plans were first created.

Mr. Volpe requested a review the goals. Mr. Olsen reviewed the goals and provided clarification as requested. Mr. Mayes asked if there is a program used for the infrastructure to track preventative maintenance and costs. Mr. Shepard stated that staff uses Maintenance Connection to populate work orders, generate preventative maintenance schedules, and reminders. Mr. Mayes asked if the District utilizes a Geographic Information Systems (GIS). Mr. Olsen stated that staff will begin working this fiscal year to convert District valve maps to GIS for future implementation.

VII. Clerk of the Board Updates; Future Meetings

The next Finance Oversight Committee meeting is scheduled for March 16, 2020, at 4:00 p.m.

VIII. Call to the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 5:10 p.m.

Chair
Finance Oversight Committee