

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

**January 13, 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  
Bryan Foulk, Member

**Board Members Not Present:** Richard Byrd, Member

**District Staff:** Mark R. Stratton, General Manager  
Diane Bracken, Chief Financial Officer  
Charlie Maish, District Engineer  
Tullie Noltin, Recorder  
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, Bryan Foulk, Dan M. Offret, and Judy Scrivener were present. Richard Byrd was not present.

**II. General Comments from the Public**

There were no comments by the public.

**III. Consent Agenda**

- A. Approval of Minutes – December 9, 2013 Board Meeting.**
- B. Approval of Minutes – December 14, 2013 Special Board Meeting.**

**C. Ratification of Billing Adjustments.**

Mr. Offret made a motion to approve the Consent Agenda. Mr. Foulk seconded the motion. Motion passed unanimously.

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

**A. Election of Chair and Vice-Chair for the Board of Directors.**

Mr. Foulk nominated Ms. Scrivener as Chair. Mr. Offret seconded the motion. Motion passed unanimously.

Mr. Foulk nominated Mr. Offret as Vice Chair. Ms. Scrivener seconded the motion. Motion passed unanimously.

**B. Approval of Employment Agreement for the General Manager's Successor.**

Mr. Offret made a motion to approve the employment agreement with Joseph Olsen as General Manager for Metropolitan Domestic Water Improvement District effective February 3, 2014. Mr. Foulk seconded the motion. Motion passed unanimously.

Ms. Scrivener welcomed Mr. Olsen.

**C. Monthly Status of the District.**

Mr. Stratton said water consumption saw a significant reduction for December. The numbers were holding fairly well through November but December's low usage will be reflected in revenues. The Hub service area also used 3 million gallons less than last year. Albuquerque saw a 7% reduction in water consumption last year, so this downward trend is not only in this area. The Western region is having a reaction to long term drought and there is even a push by the Governor of California to put restrictions on water use. The District is still in a fairly decent financial condition.

All water expected to be recharged in the Avra Valley Recharge Project (AVRP) basins was recharged. The South Shannon GAC will be changed out shortly. Designation of Assured Water Supply for the Metro Southwest – Diablo Village area was approved. Staff met this morning regarding Cortaro-Marana Irrigation District (CMID) effluent, which will be discussed more in the General Manager's report. Advertising for the Camino del Sur waterline began today and that project award will be part of a future board meeting.

Orange Grove Road was not identified as a mainline replacement project but the District was informed by Pima County inspectors recently that a portion of our waterlines impact their work. The engineer assumed the waterline ran in a straight line, when it actually was contoured with the existing grade at the time of installation. The conflict needs to be resolved right away but the District has no contractor on board, so staff would like to use the City contractor. The contractor could resolve this before the District starts incurring delay damages from the County. Mr. Maish said the design modifications will be complete this week and the job order contract could be done in a week or two. Mr. Doyle asked for a ballpark figure on cost, and Mr. Maish said close to \$20,000 but another small area has been identified and details on that have not been looked at yet. Mr. Stratton said this work can be funded and there is also a Board contingency fund specifically for issues like this.

Mr. Offret asked for clarification on the M&I firming discussions. Mr. Stratton said the idea being proposed is having the Phoenix area store their water here and that is what the District and Tucson would recover during a shortage, while Phoenix would take our allocations from the canal. Right now they cannot use all of their allocation, so they could store their excess with us and when the shortages do come, they will still have wet water delivered to their treatment plants where we can do the recovery under our program. It would be a win-win.

**D. Financial Report.**

Ms. Bracken said revenue and expenditures through November continue to be very strong, with \$1,092,037 favorable. Water sales are \$925,389 ahead but we expect the winter months to have a decline. Operating expenditures are under budget by \$31,817. Revenue compared to expenditures is \$1,123,854 over budget for the first five months. Prior year comparison of revenue between November 2012 and November 2013 is \$1.1 million ahead, mostly due to water sales of \$696,664 higher. Operating expenses are higher this year in all categories except salaries and benefits; the increased amounts are primarily attributed to CAP purchases and legal fees. Capital improvement program Riverside Well project that was funded with 2013 WIFA loan is complete, with a final reimbursement of \$91,613 deposited in December. The 2007 WIFA loan for the Hub well and a couple other smaller projects are nearing completion. There were 97 meter applications in December and meter applications now total 197 this fiscal year, compared to 11 at the same time last fiscal year. The District's solar system continues to generate savings.

**E. Approval of Right of Entry Agreement for Well Monitoring by the Central Arizona Water Conservation District.**

Mr. Foulk made a motion to approve the Access Agreement with the Central Arizona Water Conservation District. Mr. Offret seconded the motion. Motion passed unanimously.

**F. Approval of Cost Proposal for Oracle Road RTA Bus Pullouts Waterline Replacement.**

Mr. Foulk made a motion to approve the cost proposal for the Oracle RTA Bus Pullouts Waterline Replacements project to Action Pipeline Contractors, Inc. in the amount of \$40,600 and to authorize the General Manager to allocate additional funding a cumulative amount not to exceed \$10,000. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Mr. Offret seconded the motion.

Mr. Foulk asked why the General Manager would be allowed to approve changes of 25% over budget. He would rather see the number closer to 5%. Mr. Maish said the District does not have approved plans or a permit on this job and the process cannot move along without a contractor. We do not know what type of comments or additional work ADOT might require and there is a chance the contractor will have restricted work times due to the location, which will add costs. Mr. Foulk said he will stand with his original motion.

Motion passed unanimously.

**G. Approval to Purchase Second Vessel of the Layne Arsenic Treatment System for Diablo Village Well No. 1.**

Mr. Offret made a motion to approve the purchase of the second vessel for the Layne Arsenic Treatment System for Diablo Village No. 1 well facility to Layne Christensen Company in the amount of \$161,410 plus applicable taxes. Mr. Foulk seconded the motion. Motion passed unanimously.

**H. Discussion of Financial Scenario for CAP Recharge, Recovery & Delivery System.**

Mr. Stratton said staff is looking at what the financial future holds in determining the District's ability to design and construct the CAP Recharge, Recovery and Delivery System. The projections on revenue have been calculated with no increase in usage but increases in operating expenditures. No cost sharing with other providers has been taken into account, so the numbers reflect a conservative, worst case scenario. Ms. Bracken will cover revenue projections she has forecast and then the District Underwriter, Mark Reader, will talk about how to fund the system over the long term.

Ms. Bracken distributed the Proposed Debt Service Schedule and various Future Proposed Rates. She explained at the end of fiscal year 2019-2020, the end of the 2009 refinance of the 1999 bonds opens up some capacity to take on an additional project. The proposed interest-only debt is an estimate based on a five year construction draw-down. In fiscal year 2019-2020, both the Hub Water note and the 2002 subordinate bonds will be ending but the 2013 subordinate debt

payments will increase as principal is applied. In fiscal year 2023-2024, as construction comes to an end, the District would start paying full principle of the proposed debt, as the 2013 refinance of the 2002 senior bonds comes to an end. Debt coverage ratios need to be kept at required levels and Ms. Bracken pointed out how the timing plays into that. The proposed Utilization Fee increases are based on current proposed designs and land acquisitions. Annual increases to operating expenditures are factored in. Staff will provide the Board with updates as things change. Mr. Stratton said it is hard to predict the economy and metered sales but these projections give a snapshot with some assumptions.

District Underwriter, Mark Reader of Stone and Youngberg, a Division of Stifel Nicolaus, gave a Powerpoint Presentation on how the District could finance the CAP Recharge, Recovery & Delivery System.

Mr. Stratton said there are a lot of moving pieces but the main thing is getting started. Land acquisition is key because until a site is secured, it will be hard to create a design. Negotiations will need to take place for crossing I-10, the Santa Cruz River, and the railroad, even before we get to design. The Water Resources Utilization Fee monies are earmarked specifically for utilization of CAP water and effluent. Staff could work on land acquisition, making other entities aware of planning and intent of discussion, and then eventually soliciting consultants.

Mr. Offret asked if the land acquisition would include a well site and easement for the pump station. Mr. Stratton said the pump station requires a land purchase rather than an easement. An agreement with BKW Farms would be needed to utilize their wells versus drilling new wells, or a combination of both.

Mr. Stratton said if there are no objections from the Board, staff will continue to proceed and provide updates to the Board. Any contracts for consultants will be presented to the Board. The path to begin is clear but accomplishing all the steps will take several years considering the District's financial position and efforts to limit impact on existing customers.

Mr. Stratton said ADWR is proposing a rather significant 20% cut to the aquifer so it is extremely important to move quickly. The District is opposing that proposal for the Tucson Active Management Area, along with the other SAWUA members. Mr. Offret said the District can opt-out of that if it becomes a reality. Mr. Stratton said it would be difficult to have water rights taken away that were paid for.

Mr. Doyle asked Mr. Reader for a recap of the history of the District's first bond rating 15 years ago. Mr. Reader said the District has demonstrated stability over the years and has progressed and evolved to where we are today. This is Mr. Land's last meeting and he has helped the District secure about \$80 million in revenue bonds. The District started out with some debt and

litigation with Tucson and that note was eventually refinanced at a discount. Over the years, different revenue bonds were completed to achieve different objectives. Though there have been economic difficulties, the District has done a good job on the revenue side making tough decisions when needed. Rate increases were made with significant thought behind them and attractive financings were completed. As a result, the District is an AA rated district, and that is quite an accomplishment.

Mr. Offret said he is in favor of moving forward. Ms. Scrivener said the consensus seems to be in favor.

**V. General Manager's Report.**

Mr. Stratton gave an update on CMID Effluent Utilization. There is a WIFA design grant for green-related projects for up to \$35,000 and District staff has been tracking to see if this project would qualify. Mr. Block, Mr. Maish, and Mr. Tenney met with the Bureau of Reclamation and CMID personnel and a number of additional issues that are creating obstacles were raised. Negotiations on a number of details outside the District's control must take place before design can be done. Staff could apply for the grant and begin selection process for design as the negotiations develop.

The Metro Southwest wheeling agreement with Tucson Water is being discussed, although permits will eventually be needed and this agreement will not be implemented for some time. Metro Southwest – Diablo Village includes two areas, Pomegranate Farms and Sendero Pass. The Camino Verde property owned by Marrs requires several considerations. Another component is the Lazy B area. There are benefits to wheeling service to Lazy B rather than paying the costs of operating the arsenic facility there.

Merit awards were approved in the budget and supervisors were tasked with justifying merits for each of their staff. About two-thirds have completed this process.

This is Mr. Land's last meeting and his last day will be Wednesday, January 15, 2014. After 19 years of service, his knowledge and expertise were a godsend. His are big shoes to fill but Ms. Bracken is capable. Mr. Land acknowledged the Board's support over the years and said it was a pleasure to serve. Mr. Stratton said a retirement celebration is scheduled and further information will be forthcoming.

**VI. Legal Counsel's Report**

Mr. Hinderaker said the litigation in which Metro has a claim against AECOM went to mediation this week and we were disappointed by AECOM's unwillingness to negotiate. Mr. Stratton and Mr. Maish attended. It was decided a settlement is not worth pursuing at this point. The expert witness deposition will occur on January 23, 2014 and John Iurino from Lewis Roca Rothgerber will depose AECOM's expert witness. Motions for summary judgment are expected and a trial date is set for May 13, 2014. There may be other chances for settlement before trial.

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

The next Board meeting will be held on Monday, February 10, 2014.

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

Ingrid Saber of 6322 Barcelona Lane asked questions about the cost of storing water for Phoenix. She thinks storing water will disturb our soil and air. The idea seems alien to her and she said the District should not be disturbing our area for anyone else. She wonders if it contributes to some coffers and whether there would be any punishment for dragging the project out, or reward for shrinking the contract. Mr. Stratton clarified that the proposed recharge concept with Phoenix would occur at existing facilities. Considering climate change issues and potential shortages on the Colorado River, this is just one innovative idea being discussed at this point which would require approvals and numerous agreements before it happens.

Ms. Saber said she is against a 5% salary increase. Mr. Stratton said 5% was the total forecasted increase to all salaries and benefits, which includes healthcare and retirement benefits, as part of the financial analysis to see if the District could pursue the CAP water system. Mr. Tenney noted this is a conservative forecast and does not mean it will definitely happen.

**IX. Adjournment.**

The meeting adjourned at 6:57 p.m.

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Judy Scrivener, Chair of the Board

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Warren Tenney, Clerk of the Board