

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

February 10, 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
Richard Byrd, Member
Jim Doyle, Member
Bryan Foulk, Member

District Staff:

Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Warren Tenney, Assistant General Manager
John Hinderaker, Legal Counsel

Executive 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 5:30 p.m. Richard Byrd, Jim Doyle, Bryan Foulk, Dan Offret, and Judy Scrivener were present.

Executive Session pursuant to A.R.S. § 38-431.03.A.3 (consult with attorneys for the District); and 38-431.03.A.4 (consider the District's position and instructs its attorneys) regarding the following:

- A. Claim against AECOM regarding Magee Road Phase I Waterline Relocation Project.
- B. Claim made by the Arizona Industrial Commission.
- C. Claim made by Donovan Hemway in Superior Court.

Mr. Offret made a motion to adjourn into Executive Session. Mr. Foulk seconded the motion. Motion passed unanimously.

Executive Session concluded at approximately 6:05 p.m.

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 6:05 p.m. Richard Byrd, Jim Doyle, Bryan Foulk, Dan Offret, 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 – January 13, 2014 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Approval of Water Service Agreement – Cross Middle School.**

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. Monthly Status of the District.

Mr. Olsen thanked the Board for the phenomenal opportunity to serve the District. Mr. Stratton is a tough act to follow but he and staff have been helpful in getting Mr. Olsen up to speed on the District's history and pressing issues of the day.

Monthly consumption was up in January by 3 percent over last January, which could be attributed to many factors, including dry weather and additional metered connections. Fiscal year to date consumption is in line with last year in Metro Main and there were increases in Metro Hub and Metro Southwest.

New connections for January total 16 compared to 97 last month but that is still very positive. The majority of new meters were for Metro Southwest.

All the water expected to be recharged at Avra Valley Recharge Project (AVRP) was accomplished, although Central Arizona Project (CAP) requested a one week outage to address issues with their discharge valves at three pump stations. Staff is working with CAP to store the approximately 200 acre feet that would have been recharged at AVRP during the outage at the Lower Santa Cruz Replenishment Project to ensure the recharge of the District's CAP order and meet storage commitments to the Arizona Water Bank Authority (AWBA).

Arizona Department of Environmental Quality (ADEQ) is anticipating the completion of a draft remedial investigation report at the South Shannon Superfund site in March, which will detail the contamination and assist in determining the final cleanup remedy.

On the wheeling front, staff submitted a water storage permit application to the Arizona Department of Water Resources (ADWR) for storing water in Tucson Water's Southern Avra Valley Storage and Recovery Project, and is also working on the recovery well permit application.

Annual static water level measurements of District wells have been completed. This information allows staff to track aquifer levels over time and the final results will be shared at the March Board meeting.

The Freer/Camino del Sur waterline award is scheduled for the March Board meeting and Smyth Steel is working on the fabrication of the three vessels for the arsenic treatment systems at Hub 1A, Hub 3, and Diablo Village.

B. Financial Report.

Ms. Bracken said revenue and expenditures are favorable by \$2,622,814 on a straight line basis. Metered water sales for the first six months of the fiscal year are \$8,236,009, which is \$802,891 ahead of budget. January and February have had lower consumption, which will be reflected in revenues collected for those months. Budgeted operating expenses are under budget by \$147,832 on a straight line basis. Revenue in excess of operating expenditures on a prior year comparison of July to December 2012 and the same six months in 2013 is ahead, mostly due to water sales. Operating expenses in all categories are higher this year, except salaries and benefits. The largest increased expenditures are CAP water purchased and legal fees. Capital improvements from the 2007 WIFA loan are 91.31% completed. Hub well and other capital projects are nearing completion. Meter applications this fiscal year total 213 so far, compared to 19 last year.

Monthly solar savings continue, with \$22,256 compared to \$23,522 for the same period in fiscal year 2010-11. The audited financial statements were included in board packets.

C. Appointment to the Finance Oversight Committee.

Mr. Olsen said the Finance Oversight Committee (FOC) has had membership changes due to members resigning for various reasons. Mr. Robert Shonka, who has extensive water district experience, has volunteered to serve on the Committee and staff is pleased to recommend his appointment.

Mr. Offret made a motion to appoint Robert Shonka to the Finance Oversight Committee. Mr. Byrd seconded the motion. Motion passed unanimously.

D. Mid-year Review of Fiscal year 2013-14 Budget.

Mr. Olsen said that at the January 27th FOC meeting, Ms. Bracken provided a mid-year review of the current fiscal year budget and that Ms. Bracken will cover the salient points from that discussion as well as the one modification to the budget that staff is recommending.

Ms. Bracken briefly summarized the review. Metered water sales are up due to rate increases but unstable due to consumption. Staff is anticipating consumption declines over the next two months. Connection fees are double last year. Salaries and benefits are under budget and legal fees are over budget. Total operating expenses are under budget. Capital projects added to complete the 2007 WIFA loan and the addition of the recently approved second vessel at Diablo Village Well No. 1 appear on the spreadsheet. Staff is not planning on testing of recovery wells related to the CAP Water Recharge, Recovery & Delivery System under capital expenses. The FOC supported staff's recommendation to move forward with the current budget with only one additional request, the Reliability Centered Maintenance (RCM) pilot program and training at a cost of \$41,000.

Mr. Foulk made a motion based on the mid-year review of the Fiscal Year 2013-14 budget that no modifications be made to the budget except for the addition of \$41,000 to initiate the Reliability Centered Maintenance Program training and pilot study. Mr. Offret seconded the motion.

Mr. Offret asked how long the pilot study will be in effect. Ms. Bracken said staff will transfer all data for analysis and review, the training will last one week, and staff expects a fairly quick turnaround. After that point, the District will maintain the program. Mr. Offret asked if there is a big potential savings and Ms. Bracken confirmed. The RCM Program will help the District maintain our assets and record potential problems. Mr. Olsen said this kind of asset management

tool is used in the utility and other industries as a proactive rather than reactive approach to infrastructure maintenance activities.

Motion passed unanimously.

E. Discussion and Direction for Legislative Issues 2014

Mr. Olsen said staff has been tracking five proposed bills, two of which staff recommend that the District support, two which staff recommend no action at this time, and one which an amendment is recommended. Mr. Tenney went over the bills having potential impact on the District and staff's recommendations.

HB 2326 would allow AWBA to purchase long-term storage credits in order to continue to meet their firming requirements. Legislation has not been moving forward to date, primarily because ADWR, AWBA and CAP are working out a technical amendment. The basic concept is positive and staff is recommending support.

HB 2386 discusses financing special districts, which raises concerns about implications and unintended consequences. Staff is working with SAWUA Lobbyist Stuart Goodman, who has met with the sponsor of the bill and explained why domestic water improvement districts should be on the list of exclusions. Staff is recommending seeking an amendment on this bill.

HB 2523 has to do with funding the Water Supply Development Revolving Fund, which was created a few years ago but never funded. The District may not directly benefit from this but funding is generally positive for the state as whole.

Mr. Offret said he could support HB 2386, contingent upon the District's inclusion in the list of exempt organizations. Mr. Tenney recommended seeking the amendment first and perhaps later considering support.

Mr. Foulk made a motion to approve that the District support HB 2326 and HB 2523, and seek an amendment to HB 2386. Mr. Offret seconded the motion. Motion passed unanimously.

F. Amendment of Interim Remedial Action Contract with the Arizona Department of Environmental Quality for the South Shannon Treatment System.

Mr. Olsen said no action is necessary from the Board based on the eleventh hour information received from ADEQ. ADEQ does not require an Amendment as this is not for new encumbrances and was for the previous fiscal year and ADEQ has authorized the release of the requested \$114,250 for fiscal year 2013-14 operating and maintenance expense. While there is no action needed by the Board at this time, staff will likely bring an Amendment to a future

Board meeting to formally cover increases in operating and maintenance expenses for the current fiscal year.

G. Award for the Installation of the Replacement Variable Frequency Drives at the Herb Johnson Reservoir and Booster Facility.

Mr. Olsen said this item is to install three variable frequency drives (VFD) which will replace VFDs which were installed in the late 1990s. The drives are on hand and the scope of this award is for the removal of the old drives and necessary modifications to facilitate the installation of the new drives.

Mr. Offret questioned the difference among the bids. Mr. Maish said the quotes were reviewed and Kelly Energy is prepared to do the work per their bid.

Mr. Offret made a motion to award the Herb Johnson VFD replacement work to Kelly Energy in the amount of \$18,517.35. Mr. Foulk seconded the motion. Motion passed unanimously.

H. Approval and Award for the Demolition of the Bell Well Storage Tank and Related Components.

Mr. Olsen said although the cost for this award is well below the \$15,000 threshold for Board approval due to the lower than expected quotes received, he still wanted to bring this item formally to the Board as there have been previous Board discussions on this topic.

Mr. Foulk noticed the bids were all over the board. He asked if there have been any issues with the lowest bidder, SA Recycling. Mr. Maish said staff has checked into the company and the bidder feels confident in his price. The District has never worked with SA Recycling before.

Mr. Byrd asked if there have been any findings of asbestos or lead based paint at the site. Steve Shepard, Utility Superintendent, said the tank exterior did have some lead based paint but the contractor is aware and assumed that information in the bid.

Mr. Offret asked how long the demolition will take and Mr. Maish said a few weeks.

Mr. Foulk made a motion to approve and award the demolition of the Bell storage tank to SA Recycling in the amount of \$6,235. If necessary insurance of other requirements are not met, the project is then awarded to the second lowest bidder, Brienholt, Inc. in the amount of \$12,275. Mr. Offret seconded the motion. Motion passed unanimously.

I. Approval of Change Order #1 for the Hub Well 1A Site Improvements with Innova Engineering for Orange Grove Road Waterline Relocations.

Mr. Olsen explained since the last Board meeting, staff has determined that there is a significant quantity of additional waterline which needs to be relocated, about 3.5 times what was originally expected. Based on this additional scope, the estimated cost would be approximately \$75,000 if the same unit costs were used from the original waterline relocations along Orange Grove. However, as there are additional mobilization/demobilization costs and the time sensitive nature to accomplish the work, the cost is now \$99,640.

Mr. Offret made a motion to approve the Change Order #1 to the Hub Well 1A Site Improvements contract with Innova Engineering, LLC, which increases the contract amount by \$99,640 to complete additional waterline relocations along Orange Grove Road and establishes a new contract amount of \$445,045.00. Mr. Byrd seconded the motion. Motion passed unanimously.

J. Hoover Power Application.

Mr. Olsen said staff has received notification from the Western Area Power Administration (WAPA) of the potential to apply for portion a new pool of power resulting from increases in turbine efficiencies at the Hoover Dam. This power source would not only be renewable but may have beneficial financial implications for the District. What staff recommends is submitting an application to WAPA by the March 31, 2014 application deadline which will also allow staff to review associated power costs as more information becomes available. Should the application be approved, this item will be brought back to the Board for further discussion and direction.

Mr. Offret made a motion that the General Manager is authorized to submit an application to the Western Area Power Administration for Hoover D-1 Power by the March 31, 2014 deadline. Mr. Byrd seconded the motion.

Mr. Foulk asked if the District has a chance of getting approved. Mike Block, Water Resources Manager, said WAPA is opening up competition to include entities from California, Nevada, and Arizona. Greater than 20 applicants are expected for the Arizona portion but WAPA is limiting the allocations to 3 megawatts.

Motion passed unanimously.

K. Non-Indian Agricultural (NIA) Priority CAP Water Reallocation.

Mr. Olsen said ADWR has recommended to the Secretary of the Interior to allocate 299 acre-feet (AF) of NIA priority water to Metro Southwest, which equates to Metro Southwest's estimated 2020 demands. Mr. Block did an excellent job with the application process and ADWR had no questions on the District's application. As the actual allocation will not be finalized until at least the end of this year, and potentially even longer, the opportunity exists to determine the most

feasible financing option to pay for the additional water resource during the upcoming fiscal year budget process. Once the allocation is finalized, this item will be brought back to the Board for direction along with recommended financing options.

Mr. Foulk commended Mr. Block on a job well done.

L. Effluent Reuse Update.

Mr. Olsen said there are many moving pieces and recent developments on this item and asked Mr. Block to give a brief synopsis.

Mr. Block explained the background, concerns, and next steps in getting the Cortaro-Marana Irrigation District (CMID) effluent pipeline operable. Arizona Department of Transportation (ADOT) plans to expand I-10 in 2015 and their designs show the relocation of a drainage way impacting the pipeline. Last week, District staff met with the Bureau of Reclamation and CMID at Pima County Regional Water Reclamation Department on the status of the project on Pima County's property. Pima County is supportive of creating a new easement through an intergovernmental agreement (IGA). The Bureau presented two alignment options to connect back to the CMID system; one is a gravity flow system for \$900,000 and the other, a pressurized system for \$650,000. Pima County has 6,000 AF of effluent supplied per year. Execution of an IGA and construction would take at least six months to complete. Among the challenges facing the County is the question of whether CMID abandoned their infrastructure on County property and the financial responsibility of replacing it. CMID believes they did not abandon the pipe so that point could be contested. The County wants an IGA for a new easement to be held by effluent holders with the owner responsible for the cost of planning, design, and construction of the pipeline delivery system. They would like effluent holders to consider partnering on project. District staff explained to the County that our agreement with CMID gives us first priority. The Bureau has not formally presented how it wants to use any remaining capacity. The ADOT construction of an Ina Road overpass will not affect the effluent project but the expansion of I-10 will. If the system is operating before the I-10 expansion, ADOT would need to keep it running, which is one incentive to operate the pipeline. Issues related to costs, cost sharing, ownership and capacity will need to be worked out.

Mr. Offret asked if the Bureau of Reclamation has the capacity to move as quickly as the District would like. Mr. Block said that question was asked at the meeting a couple weeks ago and the Bureau said they could move quickly. There are concerns about the time it takes for environmental review. Mr. Olsen said staff will be back with a better scope, costs and financing options regarding this effluent project.

Related to the District's effluent reuse efforts, staff has prepared a letter of support for CMID's permit application for a groundwater savings project, should the Board agree to direct staff. Mr. Offret and Mr. Foulk said they are in favor. Ms. Scrivener agreed on the direction.

V. General Manager's Report.

Mr. Olsen said the title search on Ranch House Estates revealed that one of the two properties did not indicate the District as the legal property owner. Tierra Right of Way Services has been directed to correct the ownership issue, which is prudent regardless of whether the District moves to sell the properties.

The annual budget process begins this month, and, as both Ms. Bracken and Mr. Olsen are new to the District, a budget kickoff is being scheduled with staff to ensure a smooth process. The key budget related dates between now and June are provided for situational awareness.

The meter replacements in Metro Hub have been completed and the automatic meter infrastructure network is undergoing a final shakedown. The technology is the same as what was leveraged in Metro Southwest and results in a higher fidelity on consumptive use data and saves significant staff time from manually reading the meters.

Mr. Olsen will be attending the Multi State Salinity Coalition (MSSC) Conference from February 19th to the 21st and will be assuming Mr. Stratton's role as the District's representative on their board of directors upon Mark's retirement. The AZ Water conference will be held May 7th – 9th in Glendale. If any Board members wish to attend, please let staff know.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items.

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

VIII. General Comments from the Public.

Ms. Scrivener thanked Mark Stratton for his years of dedication, service, perseverance, patience, creativity, and knowledge. This is his last meeting before retiring.

IX. Adjournment.

The meeting adjourned at 6:50 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board