

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

July 13, 2015

**** Board Room ****

**Metropolitan Domestic Water Improvement District
6265 N. La Cañada Drive
Tucson, AZ 85704**

MINUTES

Board Members Present: Judy Scrivener, Chair
Jim Doyle, Member
Helen Ireland, Member
Dan M. Offret, Member

Board Members Not Present: Bryan Foulk, Vice-Chair

District Staff: Joseph Olsen, General Manager
Diane Bracken, Chief Financial Officer
Charlie Maish, District Engineer
Tullie Noltin, Recorder
Steve Shepard, Utility Superintendent
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, Helen Ireland, Dan Offret, and Judy Scrivener were present. Bryan Foulk was not present.

II. General Comments from the Public

There were no comments from the public.

III. Consent Agenda

- A. Approval of Minutes – June 8, 2015 Board Meeting.**
- B. Ratification of Billing Adjustments.**
- C. Ratification of Bill of Sale – Encantada at Tucson National.**

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

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Olsen said fiscal year to date consumption is down 7% in Metro Main and 9% in Metro Hub compared to last fiscal year. Reduced demand trends have continued throughout the fiscal year but the District's revenue stability initiatives have allowed the continuation of financial stability.

This past month, the Utility Team fabricated a temporary bypass to the pretreatment filter for Metro Southwest – Diablo Village Well No. 1. This enabled the site to continue operating last month, while a permanent fix is coordinated. An 8-inch valve was installed at Metro Hub to ensure the system is properly isolated when a new development in the area is tied in to the distribution system. The Meredith and Wanda well repairs were completed and are back online.

Tierra Right of Way Services has continued to perform assessments in support of the Central Arizona Project (CAP) Recharge, Recovery, and Delivery System (RRDS) and provided staff initial environmental reports for three proposed well sites. Coordination meetings have occurred with Red Point Development, the owner of the proposed reservoir and forebay property. While there is more work to be accomplished, initial discussions with Red Point were positive. Mr. Olsen will give a presentation on Saturday, July 18, 2015 at the BKW Farms family board meeting to outline the historical collaboration between BKW Farms and the District. Mr. Olsen plans to also explain the importance of the CAP RRDS, as the proposed locations for all three recovery wells are located on BKW Farms property, within one mile safe harbor of the Avra Valley Recharge Project (AVRP) facility and various other groundwater savings facilities where the District is storing some of its CAP renewable allocations. BKW Farms is a key partner for the CAP RRDS.

B. Financial Report.

Ms. Bracken said revenue and expenditures through May are both favorable with revenue of \$437,074 over budget and expenditures \$96,941 under budget using a straight line projection. This results in a favorable excess revenue over expenditures totaling \$1,398,016. Increases in revenue are largely attributed to development revenue of \$443,872 over the budgeted revenue; however, this will be reduced \$204,341.07 at the end of June for refunded system development fees on prepaid meters that were not requested to be installed by end of the fiscal year, and the new rates taking effect on July 1, 2015. Water Resource Utilization fees are \$360,067 over budget for the fiscal year. The largest reduction in expenditures is in consultant and contracted services, which is \$404,028 under budget on a straight line comparison. Metered water sales are projected to be about \$560,000 under budget by the end of the fiscal year, with one month of revenue remaining to be posted, the current position is \$1,939,287 under budget. Water revenue for June is projected to be near \$1,380,000. A prior year comparison of revenue through May 2015 is \$376,285 higher than

May 2014. The total operating expenditures this fiscal year when compared to the prior fiscal year are lower by \$46,647. When comparing revenue in excess of operating expenditures to the prior year, the current year is favorable by \$422,932.

The District recovered \$3,716.89 of Local Government Investment Pool (LGIP) losses from Lehman Brothers holdings, who filed Chapter 11 in 2008. The District's remaining portion of unrecovered losses totals \$30,788.57 from the original total of \$47,300.04.

The Arizona State Treasurer's pulled collateral program statement for May includes \$1,238,413.64 of collateral coverage in addition to the \$250,000 FDIC insurance. Coverage in June will be even higher with debt service deposits on account for the July 1, 2015 payments.

The District is wrapping up the bank changeover and has implemented a three point positive pay verification, ACH blocks, and ACH builders.

A total of 7 meter applications were received in June 2015 compared to 11 applications in June 2014. This fiscal year, a total of 121 meter applications were received compared to 297 applications in Fiscal Year 2014.

Mr. Olsen said the State pooled collateral program report shows \$1.2 million of collateralized coverage. The District is already moving towards an additional \$1 million of collateralized coverage, for a total of around \$2.2 million of collateral coverage, which protects public monies beyond FDIC limits.

Mr. Offret said he knows the solar array is saving the District money in electrical costs. He asked about the condition of the array and if it is functioning at its full potential. Ms. Bracken said she is not aware of any problems but part of the lease agreement states that Solar H2O maintains the equipment. Ms. Bracken monitors the costs monthly and if the District ever saw an increase in electric costs, she would call Solar H2O to make sure the equipment is working properly. Mr. Olsen said the lease agreement includes periodic options for buyout, to take control and ownership of the equipment. The first such period is still a few years in the future and staff plans to review the financial considerations to see what the District's best interests are at that time.

C. Legal Interpretation of Retiree Health Insurance Subsidy.

Mr. Olsen said in 2003 the Board approved a health insurance subsidy of \$125 per month for staff who were employed by the District for a period of at least ten years and who had retired under the Arizona State Retirement System. The 2003 motion stated the subsidy would be paid only up to a period of five years after retirement or until the retiree becomes eligible for Medicare. Recently, some staff arrived at a possible reading of the motion that the subsidy could be in place beyond five years, until the retiree reaches Medicare age. Legal Counsel was asked to review the matter and provide an interpretation.

Mr. Hinderaker said he looked at the documentation and there is only one reasonable interpretation of the language. The subsidy was intended to have a five year cap. If that were not the intent of the

Board, the Board would have simply made a motion that it would continue until the subsidy recipient becomes eligible for Medicare. The only way to read the language with effect to the entire motion is to say there is a five year cap. In addition, this reading is clearly supported by legislative history, which is the discussion by the Board at the time the motion was made. There were a couple of comments and they both included the need for a cap on the subsidy. The original motion said ten years and after the comments, the motion was amended to cap the subsidy at five years. It is Mr. Hinderaker's conclusion that there is a five year cap on the retirement subsidy.

Mr. Offret asked if there are taped recordings of the 2003 meeting. Staff confirmed. Mr. Hinderaker said he just read the minutes.

D. Offer to Purchase Ranch House Well Site Property.

Mr. Olsen said the Ranch House Well has been inactive since the District acquired the property 23 years ago. The well was officially abandoned in 2004. As there were no future plans for the site, it was identified for sale and disposal this past year. During initial planning for sale of the site, the ownership of one of the parcels was called into question and the District proceeded with the quiet claim title, which the Board authorized at the September 2014 Board meeting. A default judgment was received by the District in April 2015 and a notice of call for bids was sent to the two adjacent property owners. One adjacent owner offered \$12,500 for the property, which is close to its appraised as-vacant value of \$14,000. Staff recommends the Board approve the sale.

Mr. Offret said he visited the property and the well has a cement cap on it. He asked if the property will be safe if the cement is someday removed. Mr. Olsen said the well was abandoned according to Arizona Department of Resources (ADWR) standards and procedures. Mike Block explained the well was perforated and then filled with a grout and sand mixture. It was dry at the time of abandonment.

Ms. Ireland made a motion to accept the Offer of Purchase of the Ranch House Well Site property from Karen and Javier Arrieta in the amount of \$12,500 and direct staff to proceed with the preparation of the documents to finalize the sale of the property. Mr. Offret seconded the motion. Motion passed unanimously.

E. Approval of Quotes for Emergency and Miscellaneous Information Technology (IT) Support and Maintenance Services.

Mr. Olsen said the District relies on its IT systems and services to ensure continued daily operation. Examples include the need to download and access meter reads, the need to operate the Supervisory Control and Data Acquisition System (SCADA) to remotely monitor production sites and reservoir levels, and the need to keep more than 40 computer workstations functioning. Due to the criticality of the various IT components for the District, having emergency IT quotes ready aids the District in the rapid restoration of IT systems should an emergency occur. Beyond

emergency support, this vehicle can also augment the Network Administrator on critical issues, which is the one way this support was utilized last year.

Mr. Offret made a motion to approve the quotes and pricing submitted by Nextrio, LLC and Lightwave Technology for Emergency and Miscellaneous Information Technology Support and Maintenance Services and to direct staff to use the lowest bidder unless the performance or quality of service of the other bidder better meets the District's needs. Ms. Ireland seconded the motion.

Ms. Ireland asked about remote access service. Mr. Olsen said remote access service is where the IT contractor is set up to remotely access the District's network or workstations to troubleshoot from a distance. This configuration reduces response time because assistance can be provided without mobilization and staging time. Typically, someone would need to come to the District but there are instances where remote access could be used. The intent is to have the quotes parked unless there is a situation that requires assistance.

Motion passed unanimously.

F. Approval for the Purchase and Painting of Two 5,000 Gallon Hydro-Pneumatic Pressure Tanks.

Mr. Olsen said in 2007 the District conducted an evaluation of its hydro-pneumatic pressure tanks and identified tanks that were beyond their effective life cycle. Only two tanks remained on that list, at the Moore and New Linda Vista sites. This approval is to purchase and paint those two remaining tanks with adequate funds identified in the current fiscal year. The tanks would be provided by Smyth Industries, Inc. and would be painted by A-O Painting, who has experience in potable water coatings.

Mr. Offret asked if there had been issues in the past with painting tanks. Mr. Olsen said yes, potable water applications require special methods. If the product is applied too thick or in an incorrect manner, there could be issues with Volatile Organic Compounds (VOCs). Water quality samples taken before the tank is placed back in service will reveal if it is beyond threshold levels, which could cause delays in delivering water to customers, while the tanks are aired out and flushed. A-O Painting has experience with this type of painting and has had no VOC issues.

Ms. Ireland made a motion to approve the purchase of two 5,000 gallon pressure tanks from Smyth Industries, Inc. in the amount of \$46,396.52 and the tank painting with A-O Painting in the amount of \$10,593.80 for a total cost of \$56,990.32 and also moved to authorize the General Manager to approve additional funds as needed not to exceed \$2,000. Mr. Offret seconded the motion. Motion passed unanimously.

G. Approval of Well Licensing Agreement with BKW Farms.

Mr. Olsen said the CAP RRDS will recover a portion of the District's stored CAP water resources at either AVR or other groundwater savings facilities and convey the stored water to Metro Main, where it will be blended and delivered to customers to mitigate the annual average two foot decline to the aquifer. To ensure the District is able to right-size the recovery infrastructure, water quality and aquifer productivity information needs to be determined. This license agreement will allow BKW Farms, Inc. to provide the District access to one of their production wells to gain the necessary productivity data to help the District analyze the health of the aquifer and identify the number of recovery wells needed. The site covered by this license agreement is near one of the proposed recovery wells and BKW Farms will continue to be a key partner in the CAP RRDS efforts.

Ms. Ireland made a motion to approve the well testing licensing agreement between BKW Farms and the Metropolitan Domestic Water Improvement District and authorize the Board Chair to sign the agreement. Mr. Offret seconded the motion. Motion passed unanimously.

H. Update on Cortaro-Marana Irrigation District (CMID) Effluent Delivery Project.

Mr. Olsen said over the last month, there has been significant activity on the CMID Effluent Delivery Project, including a flow test to the existing pipeline, finalization of the draft intergovernmental agreement to bring to the governing bodies for approval within the next couple months, and permitting coordination with Arizona Department of Environmental Quality (ADEQ). Mike Block gave a presentation on the project to ensure the Board has current information and provide a better picture of how the effluent will be conveyed from the flume to CMID farmland.

On June 14, 2015, the District completed a weeklong test on CMID's existing pipeline to check for leaks and structural integrity issues. The test was useful and there is minimal leakage. District staff met with the other partners, CMID and Bureau of Reclamation, and discussed the finalization of the intergovernmental agreement that will allow for the construction of an interconnect from the Tres Rios Reclamation Facility to the CMID pipeline. The District has been working with Pima County on the reuse permit that CMID will need to utilize the effluent. Pima County had discussions with ADEQ about modifying their aquifer protection permit, so they could have their reclaimed water facility permitted for both B+ and A class reclaimed water. The application was expedited and submitted last week but ADEQ can take up to 186 days to review that application, so the District will probably not know if it is approved until December or early January. Arizona Department of Transportation (ADOT) is looking at widening Interstate-10 at Ina Road and staff is continuing to monitor that project's design and construction schedule. The widening of I-10 will have an impact on the CMID canal where it goes under Ina Road. The District has been working with a party about purchasing the excess credits once the project is up and running. That proposed agreement will probably be presented to the Board in September.

Mr. Offret asked for the size of the pipeline and Mr. Block said 24 inches.

Mr. Block talked about the methods and challenges during the recent flow test. The test showed no significant losses. Bureau of Reclamation is continuing to work on design of the interconnect project and will be coordinating with CMID on bringing electricity to the site for the temporary pump. The District's construction bid package will be ready by the end of year, so if ADEQ issues Pima County the aquifer protection permit, the District can then start bidding and construction. The District and the Bureau of Reclamation will also be purchasing reclaimed water signs as part of the ADEQ requirement for any effluent going into CMID's canals or fields. District staff will continue to monitor ADOT activities and will be working with Pima County about two years down the road for the permanent project, once data on the temporary project is obtained.

V. General Manager's Report

Mr. Olsen said Arizona Power Authority (APA) published the draft Hoover Power reallocation numbers on June 15, 2015 and the District was preliminarily granted 422 kilowatts (kW) of this financially efficient and renewable power pool. The Western Area Power Administration granted the District 179 kW, so under the draft proposal, more than double the amount is allocated to the District by the APA. It should be cautioned that at some of the meetings after publication there has been concern expressed by some groups about the methodology of how the power reallocation pool was determined so the District must wait until final numbers are published to determine if the 422 kW will remain or decrease.

The Bureau of Reclamation has authorized almost \$400,000 in matching funds to the Southern Arizona Water Users Association (SAWUA) and the Tucson region to accomplish a basin study on the Lower Santa Cruz River Basin with a goal to identify imbalances in water supply and projected future demand as well as identify water sources needed to improve water reliability for all users. The basin study is one of only two basin studies selected in the Western United States and is a result of SAWUA's leadership and the dedication of member entities to ensure this compelling basin study was submitted. Contributions by the District's Mike Block and Warren Tenney had a large hand in ensuring the application's positive progress. More work needs to be done to develop the scope of work and supporting implementation documents.

In a show of multi-agency collaboration, the Inter-AMA Firming concept the District is currently participating in with the cities of Phoenix and Tucson was nominated for the Governor's Arizona Forward Award along with other various innovative water related solutions to the pending drought and shortage on the Colorado River. Mr. Olsen showed the award nomination video. The District is pleased to be part of such an important project with key water entities.

Mr. Offret asked if the CAP questions on the Inter-AMA intergovernmental agreement have been resolved. Mr. Olsen said there have been many discussions but we are currently in the pilot phase and that is a time for determining unintended consequences and finding out what remains to be done administratively. CAP had questions relating to the administrative phase and precedent setting, so the District is working on educating all the entities involved. The next step is to sit down

with all agencies to make sure that everyone is speaking from the same language and definitions with a common operating picture.

VI. Legal Counsel's Report

Mr. Hinderaker said he had nothing further to report.

VII. Future Meeting Dates; Future Agenda Items

The next regular Board meeting is scheduled for Monday, August 10, 2015.

VIII. General Comments from the Public

Betsy Canto, a resident of the District who works as a horticulturist, made comments about rainwater harvesting. She enjoyed courses about rainwater harvesting in college and she would like to see greater monetary incentives to encourage rainwater harvesting in the future, if possible.

IX. Adjournment

The meeting adjourned at 6:40 p.m.

Judy Scrivener, Chair of the Board

Warren Tenney, Clerk of the Board