

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

December 10, 2012

**** Board Room ****

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

MINUTES

Board Members Present: Bryan Foulk, Chair
Dan M. Offret, Vice-Chair
Richard Byrd, Member
Judy Scrivener, Member

Board Members Not Present: Jim Doyle, Member

District Staff: Mark R. Stratton, General Manager
Christopher W. Hill, Deputy General Manager
Michael Land, Chief Financial Officer
Charlie Maish, District Engineer
John Hinderaker, Legal Counsel
Tullie Noltin, Recorder
Warren Tenney, Clerk of the Board

Regular Session

I. Call to Order and Roll Call

Bryan Foulk, Chair of the Board of Directors of the Metropolitan Domestic Water Improvement District (District), called the Board Meeting to order at 6:01 p.m. Bryan Foulk, Dan M. Offret, Richard Byrd, and Judy Scrivener were present. Jim Doyle was not present.

II. General Comments from the Public

There were no comments by the public.

III. Consent Agenda

- A. Approval of Minutes – November 14, 2012 Board Meeting.**
- B. Ratification of Billing Adjustments.**

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

IV. General Business - Items for Discussion and Possible Action

A. Monthly Status of the District.

Mr. Stratton said it appears November usage is up slightly; however, Mr. Land believes the numbers may actually balance because October readings covered a slightly shorter period than November. If consumption is starting to increase, that will help revenues. Metro Hub is using a lower amount than last month and the same period last year but Metro Southwest is using more than last year.

Construction is coming to an end on a number of projects. Work on La Cholla Boulevard has been closed out and La Canada South is being finalized. As noted in the General Manager's report, the Magee Phase 2 project is under a change order for several hundred feet of waterline in conflict that were not part of the plans. Other utilities are also affected so potential delay fees will probably be split with all the parties involved.

Mr. Offret asked if 64 service orders is a high number. He asked if there were any problems in system. Steve Shepard, Utility Superintendent, said it sounds low but he will find out. Mr. Land noted service orders are generated from customers calling in with a problem, such as high reads.

Mr. Offret noticed that a number of projects that used to be listed under the heading "Hydrology Projects" are now called "Water Sustainability Projects". He asked if these projects will now be designated under the new 10 cents per thousand gallon fee that begins in March 2013. Mr. Stratton confirmed the new heading groups all projects related to water resources management.

B. Financial Report.

Mr. Land said revenues are up after the first month of the rate increase. Revenues compared to budget on a straight line basis are \$307,000 ahead. Expenditures are \$46,000 under budget and budgeted revenue in excess of operating expenditures are ahead by \$354,000 net. Metered sales for the first four months of the fiscal year are running \$360,000 under budget, so he hopes to make up some ground in December. Expenditures are down \$105,000 compared to the same month last year. Revenue in excess of operating expenditures is \$451,000 behind the previous year for the first four months. Capital improvement program funds are more than 75% spent in all three issues. Remaining monies from the RTA fee total about \$700,000 and the District may

need to dig into operating funds to close the projects. There were no new meters in November so the total is slipping below last year.

C. Schedule for Regular Board Meetings in 2013.

Mr. Offret made a motion to approve the date and time for the regular sessions of the Board of Directors meetings in the year 2013 as outlined in this report. Ms. Scrivener seconded the motion. Motion passed unanimously.

D. Approval of Resolutions 2012-7 and 2012-8 to Refund 2002 Senior Water Revenue Bonds and Restructure the Debt on the 2002 Subordinate Obligation Revenue Refunding Bonds.

Mark Reader of Stone & Youngberg recapped the financial refinancing and restructuring options he presented to the Board last time and passed out a new, condensed one page handout. The CAP utilization portion has been put on hold but the restructuring does allow it to be added in the future if the Board would like to pursue that project. He also had the opportunity to speak with the District's Finance Oversight Committee last week. Proposals have been solicited and are due on December 13th. One proposal has come in already. The new present value loss has been lowered to an estimate of \$150,000 in the new handout. He hopes to receive more bids this Thursday and be in a position to close the issues in the first part of the new year.

Mr. Foulk asked how the debt service percentage will be affected if the District goes ahead with the CAP recovery project in a few years. Mr. Reader said this is modeled on the spreadsheet. The maximum annual debt service is \$7.5 million and if the District does nothing, it will be at that level. In a couple of years the debt could be structured around the same figure with some variables.

Mr. Offret asked if it would behoove the District to take advantage of acting in 2012 versus next year. Mr. Reader said the team did have a chat about the potential of the fiscal cliff on financial markets. The general consensus says it is better to be nimble and move sooner rather than later in case of a meltdown in the financial markets. Bidders could always pull their bids or raise rates if they want to. Congress is considering doing away with tax-exempt interest so there is some nervousness about selling tax-exempt bonds right now if Congress may turn around and declare all tax-exempt bonds taxable. The team will move as quickly as allowed and will monitor the situation on a day to day basis.

Also present was Tim Stratton of Gust Rosenfeld, the District's Bond Counsel. He described the two accompanying resolutions, one for the seniors and one for the subordinates. The resolutions authorize the District to receive the proposals coming in to Mr. Reader and will allow the District

to move forward with the bond issue if the terms are satisfactory. As Mr. Reader mentioned, the timing is complicated. There is good reason to take advantage of lower interest rates through bank qualification on the senior lien bonds in 2012. Mr. Offret asked if the District would be eligible for another bank qualification in 2013. Mr. Reader confirmed the opportunity exists and Tim Stratton said the District saves more by splitting.

Mr. Offret made a motion to approve Resolution 2012-7 to refund the 2002 Senior Water Revenue Bonds and Resolution 2012-8 to restructure the debt on the 2002 Subordinate Obligation Revenue Refunding Bonds. Ms. Scrivener seconded the motion. Motion passed unanimously.

Mr. Offret said he really appreciates the opportunity to increase the District's cash flow savings. The debt service coverage is changing quite a bit. The District will have a lot of operating revenue savings from this move and Mr. Offret thinks that is great. While he likes the idea of being able to loosen our belts, like much of America, over the years the District has been attracted to easy financing for many projects. The debt service is eating up the operating revenue. This is an issue Mr. Offret has thought about. The Northwest CAP project is something we have known about for ten years and he feels the District needs to move towards this project and not continue to let other projects get in the way. He wants to be certain the cash flow savings is not eaten up with other immediate things. He asked Mr. Stratton if there is any way to formally dedicate a percentage of this cash flow savings to build a savings account or fund exclusively for the Northwest CAP projects. He would like to see an agenda item next month to allow the District to take a percentage of those savings and allocate it annually for the next few years to the CAP project. Mr. Stratton said it will be placed on the January agenda for the Board to consider.

Mr. Foulk noted a new 10 cent fee was just established to begin saving for water resources. Mr. Offret said that fund could be used in addition to this one to fund the Northwest CAP project. He is concerned there are already five other projects qualified for the money the fee will generate. He feels the CAP project is the most important one for the next 20 years, so the Board should honor that and save for it over the next 10 years.

Mr. Foulk said he likes the idea of putting money away now because we know a project is coming but starting in 2013-14 the debt service will be jumping up a large amount, bringing the District closer to what it has now. Mr. Foulk is in favor of restructuring some of the savings but not as much as Mr. Offret is proposing. He would like to prevent rate increases and accumulate funds primarily under the new fee.

Mr. Offret said would like the Board to make a commitment to the CAP project rather than kicking the can down road.

E. Agreement for Delivery of Reclaimed Water to Omni Tucson National Resort.

Mr. Stratton as had been mentioned closely working with Omni Tucson National on an agreement to serve reclaimed water to nine holes, which they plan to average over all 36 holes to take in a shorter period of time. Pima County has not provided any direction on their intentions for use of reclaimed water but they have contributed \$500,000 towards the construction of the line. The agreement will allow the District to move forward with the ADEQ permitting process and everything should be in place to begin delivery in March 2013.

Mr. Offret asked about the cost of the metering station. Mr. Stratton said the estimate was in the appendix but he will have to verify the actual costs. Mr. Foulk asked about payments by Omni Tucson National to the District. Mr. Stratton explained there is a capital component and the District will receive consistent payments for 20 years. Mr. Foulk asked if the District has any direct advantage to delivering reclaimed water. Mr. Stratton said another user would help defray the costs of operation and maintenance (O&M). Mr. Tenney said 10% will be added to the usage charge to cover the District's costs. If another user received reclaimed water, the administrative and O&M costs would still exist to deliver the reclaimed water but the capital component would not. Mr. Stratton noted there are currently no agreements involving Pima County because Tucson Water (TW) would charge at the potable rate. The TW pipeline is at capacity so they cannot provide a full commitment and they do not have storage in their system. There is not a lot of potential usage from Pima County but TW is saying their 24 inch reclaim line does not have capacity.

Mr. Offret made a motion to approve the agreement with Omni Tucson National Resort for the delivery of reclaimed water. Mr. Byrd seconded the motion. Motion passed unanimously.

F. Award of the Construction Contract for the Ina Road/Oracle Road Intersection Waterline Relocation.

Mr. Offret made a motion to award the construction contract for the Ina Road/Oracle Road Intersection Waterline Relocations to Select Development in the amount of \$131,991.06 and to authorize the General Manager to approve the following changes to the construction contract: 1) allocate additional funding a cumulative amount not to exceed \$10,000.00 and 2) increase the original construction contract term a cumulative amount not to exceed sixty (60) calendar days. Any changes in excess of the above limits will be submitted to the Board of Directors for approval. Ms. Scrivener seconded the motion.

Mr. Foulk asked if Select Development has their equipment on site. Mr. Stratton said their equipment is nearby and can be driven to the Ina Road – Oracle Road intersection easily. The time frame is short on this project; it must be completed by February 28th.

Motion passed unanimously.

G. Status of Colorado River Basin Supply and Demand Study.

Mr. Tenney said the preliminary report was informational only and the full report is scheduled to be released by the Bureau of Reclamation on Wednesday at the beginning of the Colorado River Water Users Association (CRWUA) conference. This marks the first time supply and demand has been quantified on the Colorado River. There has been an assumption that the river was over-allocated in the past. The report does not promote a single solution. We will hear more about the study later this week in the media and at the CRWUA conference.

H. Approval to Utilize Contracts from the City of Tucson Cooperative Purchasing Program.

Mr. Offret asked how the District qualified for this opportunity. Mr. Stratton said any government agency who qualifies can tag on and having the ability to utilize Tucson contracts helps increase buying power. Municipalities also tap into state contracts for smaller routine items. If there is a large water main break, smaller entities like the District may not have enough resources, so to have access to Tucson's contractors provides a safety net for the District. Ms. Scrivener said she supports the idea. Mr. Offret agreed and said he is glad to have options.

Mr. Offret made a motion to approve the use of the City of Tucson's Cooperative Purchasing Program for procurement of materials and services when it is in the best interest of the District. Ms. Scrivener seconded the motion. Richard Byrd abstained. Motion passed unanimously, 3-0 with one abstention.

I. Demonstration of Metro Southwest's Automated Meter Reading System.

Steve Shepard, Utility Superintendent gave a demonstration on the District's automated meter reading system (AMR, AMI). The Itron AMI infrastructure is being deployed in the Metro Southwest service areas. It allows for the collection of data through collectors and repeaters. There are currently four components to the software but Itron is consolidating those into one user friendly version.

Mr. Offret asked if the signals go straight to collectors or to the repeaters first. Mr. Shepard explained signals can be managed through repeaters or directly by collectors, depending on the signal strength. Each collector can read up to 100,000 meters. The District uses 22 Itron repeaters that are also used by gas and electric providers. Data summaries show hourly readings and alarms for certain situations like tampering. Mapping helps with location of meters and system performance tools show meters not communicating. Staff is still learning and working to make the system more intuitive. Mr. Stratton mentioned there is a web based utility not included with

the current package which allows the customer to track their own water usage using the same views customer service sees now. Almost all of the charts can already be sent to customers in PDF format. As customer service becomes more comfortable with the system, it will be more beneficial. Over the years, more areas can be automated.

Mr. Foulk asked about alarms. Mr. Shepard explained staff is working on leak alarms with Itron. Currently, alarms will sound for continuous flow of at least one gallon per hour for seven days. As of this morning, 114 leaks that met those criteria were detected. The meters are fairly accurate but we do not want to contact customers to let them know there is a leak unless there really is one. Mr. Hill said it was initially hoped this system would solve a lot of issues. As the software is developed, the District will be able to better define the parameters of valid issues but for the time being, there is too much white noise.

Mr. Byrd asked how resilient the system is to power outages. In the event of a power outage, data is maintained in both meters and end points and can be restored. The meters and endpoints are battery powered with a warrantied 20 year battery life.

Ms. Scrivener asked if there are any security features to prevent people from damaging the AMI meters by running over them, for example. Mr. Stratton said meter box lids are metal but anyone can remove them. The equipment is vulnerable.

J. Approval of Change Order No. 4 for the Metro Southwest Hybrid Automated Meter Reading System with National Meter and Automation, Inc.

Mr. Offret made a motion to approve Change Order No. 4 with National Meter and Automation, Inc. Mr. Byrd seconded the motion. Motion passed unanimously.

V. General Manager's Report

Mr. Stratton gave an update on the additional work needed at Magee Phase 2. The District is working with other members of SAWUA to mitigate damage by the coming TEP rate increase. Roof access above the mezzanine level has been installed to improve safety, so workers do not have to climb all the way up on ladders. The Water Resources Research Center (WRRC) is now advertising their Annual Conference, to take place on March 5, 2013 at the University of Arizona. Board Members are welcome to attend. The Christmas luncheon is happening on Tuesday, December 18th. Mr. Stratton met with Tucson Water on boundary issues near Metro Southwest. It was decided the District would serve a certain area through a wheeling agreement that TW did not want to serve. The Developer probably wants assurance that the property will be served to make sure it remains marketable. Mr. Stratton will attend the WIFA meeting with Mr. Land. Next month, the Board will hold an election for Chair and Vice Chair.

VI. Legal Counsel's Report

Mr. Hinderaker said Abbe Goncharsky could not be present due to illness. The status of the former employee Donovan Hemway matter has not changed materially and communications continue. The claim against Pima County and their engineering company was filed about a month ago. Counsel has 120 days to serve and is expected to do so in 30-60 days.

VII. Future Meeting Dates; Future Agenda Items.

Mr. Tenney said the next regularly scheduled session of the Board of Directors will be held on Monday, January 14, 2013.

VIII. General Comments from the Public.

There were no comments by the public.

IX. Adjournment.

The meeting adjourned at 7:26 p.m.

Bryan Foulk, Chair of the Board

Warren Tenney, Clerk of the Board