

**HIGHLAND PINES DOMESTIC WATER IMPROVEMENT DISTRICT
GOVERNING BOARD MEETING
FEBRUARY 25, 2021
PUBLIC SESSION MINUTES**

1. **CALL TO ORDER:** Board Chair Celia Carr called the meeting to order at approximately 9:30 a.m. Due to the COVID 19 Pandemic, the meeting was conducted remotely by telephone conference – with all attendees calling into the conference call.

2. **ROLL CALL OF BOARD MEMBERS:**

Celia Carr, Board Chair – Present
Sandra McClintock, Vice Chair – Present
David Cook, Board Member – Present
Bryan Crossley, Treasurer – Present
Patti Ferguson, Board Member – Present

All of whom participated in the meeting via telephone conference call, thus constituting a quorum.

Also attending the meeting via telephone conference call were: Natalie Galgano-Pinkley, District Bookkeeper/Administrator of Municipal Accounts & Consulting, LP (“MAC”) and Dave Dirren and Jarom Hlebasko of Sunrise Engineering.

3. **APPROVAL OF MINUTES:** Director McClintock made a motion to approve the minutes of the December 15, 2020 Regular Session. Director Ferguson seconded. The motion passed unanimously.

4. **CALL TO THE PUBLIC:** A call to the public was made for comments relating to District matters. There was no public at the meeting, and no comments were made.

5. **REPORTS AND CORRESPONDENCE:**

A. Chair Report: Board Chair Carr summarized the December 2020 and January 2021 maintenance reports from Fann Environmental. The only item of note being they were unable to read the water meters in January due to the snow storm. Customer billing for January and February water use will be done with the March water bills – with the water rates adjusted for 2 months of use versus one month.

Board Chair Carr also updated the Board that the District newsletter with magnets was sent out during the week of January 11th. She noted they plan to send another newsletter in July after budget adoption and with updates on the construction project.

Board Chair Carr noted on February 9th the District received the Decision Memo from the Prescott National Forest to proceed with the Transmission Line project. It has taken 2 ½ years to get this approved. There was some delay from the Forest Service at the end of January, and the Decision Memo was needed for WIFA’s final approval. Chair Carr and Director McClintock wrote a letter to Paul Gosar’s office asking for help with the National Forest Service. Within 24 hours, Mr. Gosar helped secure the Decision Memo. On February 18th the WIFA Board met, and the District’s loan was approved for approximately \$2.56 Million. The Board Chair noted there are many compliance regulations and criteria for the WIFA loan. Dave Dirren will be able to assist with compliance. These were two big accomplishments for the District this month.

- B. Administrative Report:** Ms. Galgano-Pinkley updated the Board that the owners of parcel number 100-05-011C had contacted her about paying the settlement of their high delinquent account. They said they intended to mail or drop off a check in the next week or two. Ms. Galgano-Pinkley also noted that their office had received an annexation request earlier this week. This has been forwarded to Mr. Whittington and Director McClintock to start reviewing.

Ms. Galgano-Pinkley next presented and summarized the January and February 2021 Financial Reports, and the checks issued to date for the Board's review and consideration. Director McClintock made a motion to approve the January and February Financial Reports and the checks issued to date. Director Crossley seconded. The motion passed unanimously.

6. BUSINESS:

Board Chair Carr noted that Items 6 A-C are all interrelated and will be discussed in conjunction with one another.

- A. Discussion and Possible Action re: 2021-2022 HPDWID Budget options/considerations and WIFA Loan Payment Information.**
- B. Discussion and Possible Action re: Flat Fee vs. Ad Valorem Property Tax for District operations, Main Transmission/Madizell Water Line Infrastructure Project costs and WIFA loan repayment information.**
- C. Discussion and Possible Action re: Operating Reserve Goals and Amount on Bookkeeper's Monthly Report.**

Ms. Galgano-Pinkley summarized the information from the WIFA Board meeting since that correlates to the Board's budgeting and tax collection needs. The WIFA loan was approved for the requested \$2,568,738 over a 20 year term. The WIFA Board also granted \$716,000 in forgivable principal; leaving \$1,852,738 to be repaid. In the packet for the Board's review, there is a summary page prepared by the WIFA admin regarding the loan approval. The highlighted item notes that WIFA approved the loan based on property taxes being assessed, and continually assessed for the life of the loan in order to meet WIFA's debt coverage requirements.

The Board was provided with some preliminary budgeting scenarios as a jumping off point for today's discussion. Ms. Galgano-Pinkley is looking for some direction from the Board, so as she and Director Crossley begin on budget preparation they can plan for the Board's desired reserves. She reminded the Board the WIFA loans are required to be paid out of system revenue, not tax monies. So these budgeting worksheets have been formatted to show WIFA loan being paid first, with any remaining system revenue being applied to general operating expenses. She noted the District is still early in the approval process for the 2021 loan. The final loan repayment schedule will be included in final budget preparation in a few months, but today's documents include a general payment calculation for reference.

The Board reviewed and discussed an example of a "steady state" budget for next year with potentially adding a 10% reserve. Director Crossley asked why start with a 10% reserve. Ms. Galgano-Pinkley included the reserve based off of Mr. Whittington's prior statement that the general industry normal was about 10-15% contingency per year. Director Crossley asked for a legal recommendation in writing regarding annual reserve amounts. There was discussion about what the reserve fund would be used for. Ms. Galgano-Pinkley noted the Board has an obligation to cover any and all expenses and repairs as they occur. She commented that each Board Member may interpret the obligation differently. That is why she started with Mr. Whittington's general guiding principal to budget at least a 10% reserve each year.

Director Crossley brought up the idea to have a risk analysis completed for the District – to have a more specific look at HPDWID’s needs versus the industry standard. This would be something the Board could easily complete: First identifying risks to the District – contamination, line breakage, etc.; Second – translate the risk into what income net of expenses you need to cover those risks. The analysis gets down to the root of what scenarios trigger a financial situation – unexpected events that could reasonably happen in the course of business. The District’s biggest risk is most likely its aging infrastructure. Director Crossley would look at all of the triggers and estimate what effect an event would have on net revenue. The Board could then determine the risk the District is comfortable with in a certain time frame. Director Crossley recommended that a risk analysis would be prudent prior to determining the District reserve needs.

Director Ferguson asked if the Board would be able to complete the analysis themselves, and if it could be completed prior to the budget approval. Director Crossley stated it was a simple analysis that could be done well before the budget is adopted. Again he noted that once the Board can see their risks, they can determine what reserve they are comfortable with and work that into the planning.

Ms. Galgano-Pinkley mentioned that while her firm’s generalized industry standard is one year of reserve since that can cover most unforeseen expenses; it is the Board that determines what their “magic number” is for reserves. Once the Board determines their goal number, she will plan and budget to get them to that goal.

Director McClintock mentioned that she has been working on determining the ages of all the District pipes for Sunrise Engineering and she could provide it to Director Crossley if needed. Board Chair Carr also mentioned that this ties into the GIS presentation later today where Sunrise helps determine age and repair needs for District infrastructure.

Director Crossley also noted that there may be other ways for the District to cover the risks. One option to consider would be business interruption insurance. Another option is to self-insure, which is what the reserve is. There may even be options for support from the State or from FEMA.

The Board briefly reviewed the scenarios where increased rates or taxes were included, but the discussion on raising any income will wait for the risk analysis. Director Crossley recommended first looking at 2021-2022 as a “steady state” and going from there – with special consideration of the last year’s budget/actuals since 2020-2021 was an anomaly for the District. Board Chair Carr commented that she does not think it was too much of an anomaly, but more of a new normal. Director Crossley mentioned it would be helpful to start a five year plan to account for some of the new activity in the District and prepare for future items. Ms. Galgano-Pinkley mentioned her office does prepare 5 or 10 year plans, and offered to start preparing one for the District if they were interested. The 5 year plan can then be updated with the information from the GIS system that is being discussed later, if the Board chooses to move forward with that project.

Board Chair Carr also mentioned the City of Prescott has raised the water rates they charge to the District by 3.4%. In preparation for the budget and rates adoption, there were also two new rate structures to review. These structures aimed to simplify the tiers and raise rates slightly to match the City’s raise.

In conjunction with reviewing the WIFA Loan Payment information, Director McClintock made a motion that the District establish an account with Yavapai County for the WIFA 2021 reserve. Director Ferguson seconded the motion. The motion passed unanimously.

D. Discussion and Possible Action re: Agreement between HPDWID and Arizona Cactus Pine Girl Scout Council. Board Chair Carr received an update from the Camp’s contact a

week ago that they are reviewing the contract. Chair Carr said the District would like to have an executed contract by May 31st, prior to the new fiscal year. The contract does include a provision that the Camp would pay their proportionate share of the transmission line project – but it does not state the amount. She also noted the Camp has a new Camp Manager – Karen Hill.

- E. Discussion and Possible Action re: Main Transmission/Madizell Water Line Infrastructure Project, approval by Prescott National Forest, construction timeline and upcoming bidding process.** Dave Dirren went through a tentative timeline with the Board and he will email a summary to them as well. They are getting ready submit the plans to Yavapai County for permits, which usually takes about 30 days. Bid documents will go out and we should be ready for bid approval around April 20th. The notice to proceed will go to the contractor around May 10th, and construction should completed approximately February 2022 (8 -9 months of construction). He noted that a special board meeting will probably be needed around the end of April in order to approve bids. The Board agreed to hold a meeting on April 20th at 10:00 am.

Mr. Dirren noted he will need to include the contract package from WIFA in the bid information. Ms. Galgano-Pinkley said received a general contract packet from WIFA, but she will verify with them it is current and forward to Mr. Dirren.

Ms. Galgano-Pinkley made a quick addition to her Administrative report. She updated the Board that she received a response from the insurance company on the fire hydrant claim. On the District's initial invoice they requested repayment for damages, water loss and an admin fee. The insurance did not approve the admin fee or the water loss since there was no documentation for how much water was lost. Mr. Galgano-Pinkley has provided them with the email from Fann with the estimated water loss for documentation, and is waiting for their response. The insurance also wanted to depreciate the hydrant. Director Crossley noted the depreciation is not the District's responsibility – and the District should be made whole from the negligence.

- F. Discussion and Possible Action re: Global Information System (type, size and age of pipe, pipe material, meters, valve, pumps water towers) and cost analysis – year one and modeling plan (flow analysis, pumps, pressure reducing valves) – year two.** Mr. Jarom Hlebasko from Sunrise Engineering gave the Board as presentation explaining the uses of a GIS system and showing the Board examples of GIS systems Sunrise Engineering has built in the past. The Board asked Mr. Dirren to bring a proposal for the cost to set up the GIS system for the next Board meeting.

- 7. FUTURE MEETING DATES:** The Board Chair mentioned the upcoming meeting dates. Pending COVID, the next meeting will be held at either the Library, at Municipal Accounts & Consulting's office or via telephone conference. The next meetings are currently scheduled for March 9th at 10:00 am and April 20th at 10:00 am – location to be determined.
- 8. ADJOURNMENT:** There being no further discussion, the meeting was adjourned at 11:04 a.m.