



MEMORANDUM

Date: March 15, 2018

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Sewer Obligation Revenues for Continuing Major Capital Rehabilitation of the Conveyance System**

On the Board of Supervisors March 20, 2018 Agenda is an item regarding outstanding sewer revenue bonds and obligations for continuing the annual capital program related to major maintenance and repair of the sewer interceptor system.

An issue that has been previously raised is the County issues debt for sewer repairs. In the future, we will correspondingly need a sewer revenue increase to pay for the debt issuance.

The Board raised sewer revenues in previous years at a significant pace to finance the nearly \$700 million expansion and rehabilitation of the regional treatment system. This debt is now being repaid.

The attached March 14, 2018 memorandum from our Finance and Risk Management Director indicates the revenues now being generated by the department as required to maintain the ability to issue capital debt can be sufficient if this program is approved such that the County can begin to prepay debt payments with available cash. As of June 30, 2017, the Regional Reclamation Enterprise Fund had cash balances totaling \$171 million. Of the cash balance, \$89 million was unrestricted and undesignated. We have identified and are now beginning to prepay or deposit unrestricted and undesignated operating cash in accounts specifically set aside as specific trusts or escrow accounts to pay debt when due. This activity is significantly reducing and possibly will eliminate the need for future sewer system rate increases, other than those necessary for equity purposes among classes of users.

At this time, unless there is catastrophic and unforeseen capital draws for major events, I would not foresee the need for a sewer rate increase for at least the next 5 to 7 years.

CHH/anc

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Keith Dommer, Director, Finance and Risk Management
Jackson Jenkins, Director, Regional Wastewater Reclamation

Date: March 14, 2018

To: C.H. Huckelberry
County Administrator

From: Keith Dommer
Director



Re: **Prepayment of Pima County Sewer Revenue Debt to Reduce Pressure to Increase Rates**

Pima County Finance and Risk Management continually reviews the County's debt issues to seek ways to either reduce interest costs through refinancings or structure early payoffs. For the sewer revenue debt, use of available cash balances to repay debt before maturity can alleviate the need to raise sewer rates.

Pima County pledges sewer system revenues to finance the purchase and maintenance of sewer system capital assets. To obtain lower interest rates, investors expect the County to set sewer rates so that sewer system operating revenues less operating costs (net revenues) exceed 125 percent of the system's debt service costs. This 125 percent net revenue expectation generates sufficient cash so that investors have comfort that the County can repay the debt as scheduled. From time to time, this 125 percent net revenue expectation may also generate additional cash that the County can use to prepay debt. Although terms and conditions do not always allow the County to prepay debt ahead of schedule, cash can be set aside to repay debt at a future date. When cash is set aside in specific trust or escrow accounts, the County can treat the debt as repaid as soon as the County places cash into the trust or escrow account. The County then does not have to consider those future debt service costs when setting sewer system rates. Because debt service costs are reduced, the rate-setting net revenue target of 125 percent of debt service costs is also reduced. This can reduce or eliminate the need for future sewer system rate increases.

At June 30, 2017, the County's Regional Wastewater Reclamation Enterprise Fund had cash balances totaling \$171 million. \$89 million of that total was unrestricted and undesignated operating cash, meaning it could be used for any Wastewater related purpose. The Finance and Risk Management Department expects the Fund's unrestricted and undesignated balance to be nearly \$80 million at the end of the current fiscal year. Pima County's Regional Wastewater Reclamation Advisory Committee has identified approximately \$20 million (three months of operating costs) as an acceptable balance in the unrestricted and undesignated account. An important factor in this consideration is the Fund also maintains an additional \$40 million accounts internally designated for operations and emergencies. This means a total of \$60 million would be quickly available for unforeseen events. The County's rating agencies have also determined that \$60 million is a reasonable target amount in these three accounts. Since the

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County has \$120 million in these three accounts, the County has sufficient cash to prepay debt ahead of schedule.

The Finance and Risk Management Department has identified \$17 million of 2008 Sewer Revenue Bonds that the County can immediately prepay in this manner. By prepaying this debt, the sewer system's net revenues should exceed the 125 percent target and the County should not have to consider a rate increase. The County will save \$367,000 in debt service payments.

KD/tp

c: Tom Burke, Deputy County Administrator for Administration