PIMA COUNTY
WASTEWATER RECLAMATION

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)
FINANCIAL SUB-COMMITTEE MEETING
Public Works Building
201 N. Stone Avenue – 7th Floor Conference Room

Wednesday, January 6, 2016
12:00 p.m.

Members Present: John Lynch (Chair), Armando Membrila, Mark Taylor, Mark Stratton, Sheila Bowen

Others Present: Amber Smith (RWRAC)**,** Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Jackson Jenkins (RWRD), Patrick McGee (FRMD), Lorraine Simon (RWRD), Jody Watkins (RWRD)

Call to Order/Roll Call
John Lynch (Chair) called the meeting to order. The meeting began at 12:08 P.M. Jody Watkins, RWRAC Program Coordinator, took roll call.

A. Pledge of Allegiance

B. Safety Share

Patrick McGee, Division Manager, Finance and Risk Management Department (FRMD), provided a safety share. He was working around his house and pulled his back while lifting an object. His advice is to use your legs and not your back when lifting items.

C. Call to the Audience

Amber Smith (RWRAC), stated that during the Capital Improvement Program (CIP) Sub-Committee meetings, the Committee has realized that there are many moving parts. What she has learned is there are some Pima County Administrator and Board of Supervisor (BOS) decisions that have a direct impact on the Wastewater Department. Since the Wastewater Department operates as an enterprise fund, it ultimately has a negative impact on the users. An example is the Aerospace Parkway. While it is not unusual to have administrative decisions made for any jurisdiction, due to this Department operating as an enterprise fund there are repercussions felt by this Department.

Mr. Lynch stated that the CIP Sub-Committee meeting should be added as an agenda item in the future. Jennifer C. Coyle, Special Assistant to the Director, Regional Wastewater Reclamation Department (RWRD), stated for this meeting, this item can be discussed during Item 1, Draft Calendar of Dates Leading up To Pima County Board of Supervisors Review of Potential Rate Increases.

D. Approval of Minutes

Meeting Minutes for December 9, 2015

ACTION: Mark Stratton made a motion to approve minutes. Mark Taylor seconded.

Mr. Lynch had a few requested changes to the meeting minutes.

Item 3.i. – Request correction to reflect: There was a request for future discussion to obtain additional information regarding CIP should the Department reduce their CIP spending and what kind of dollar value would this have in the debt payments and debt service ratio.

4.i. – Request correction to reflect: The COPs do not have a direct effect on user rates.

4.i. – Remove the sentence that states: Mr. Taylor requested information on the pre-ROMP and post-ROMP capacity.
Mr. Lynch stated with these corrections I will make a motion to approve with revisions. The meeting minutes were approved.

E. Discussion/Action

1. Draft Calendar of Dates Leading Up To Pima County Board of Supervisors Review of Potential Rate Increases

Mr. Lynch stated Sheila Bowen, CIP Sub-Committee Vice Chair, will provide an update to this Financial Sub-Committee on where the CIP Sub-Committee is in the process, and how it's moving along in how it relates to the overall calendar.

CIP Sub-Committee Meeting
Ms. Bowen said that the CIP Sub-Committee has spent the last several meetings and gone over an extensive review of how the Department prioritizes and assigns CIP projects to various years and what types of decisions go into making those recommendations. The CIP Sub-Committee expressed kudos to Mr. Jenkins and the Wastewater Department for doing a very good job in implementing this program, especially in comparison to other County Departments. At today's meeting, most of the time was spent going through each of the CIP line items in the DRAFT FY 2016/17 CIP Proposed Five-Year Budget and questioning Department staff on those line items. Questions such as why the project was there, what was the project for, what type of priority it had, and what criteria (safety, environmental, or regulatory)? The Charter process the Department uses for larger-scale projects over $1 million was explained in a prior meeting. Through the Charter process a project list is identified, and projects are moved forward based on a ratings scale that gets positioned in a Fiscal Year (FY) period. There are several factors which are taken into consideration—regulatory, safety, cost savings, etc. The actual project that makes it through the Charter process has a defined scope, desired outcome, and many signatures which are required. The Committee was in agreement with that process in which projects the Department has identified, whether it be through the Closed Caption Television (CCTV) program, or other method.

The augmentation projects were the lion share of the discussion today. These augmentation projects are coming out of the CIP budget, which can potentially affect user fees. There were questions on how having these projects added to the CIP budget could increase potential user fees. Jackson Jenkins, RWRD Director, added that the CIP Sub-Committee was concerned that user fees are paying for some of the projects CIP budget. He referred to the Aerospace Corridor project, a $45 million project, is in this five-year CIP budget, at about $18 million. The BOS mandated that the Department complete and pay for this project. If that amount were taken out of the budget, without the $18 million cost, the amount of the requested rate increase could be less. Ms. Bowen continued these projects need to support development. If an Interceptor line is reaching its maximum capacity, in order for new development to come in, something has to be done to augment that line. There are several projects like this—Speedway, the Southeast Interceptor. Even though the funding is out of the CIP Sub-Committee's authority, the discussion covered how are these types of CIP projects funded? There was discussion of how these projects are prioritized. If the Aerospace Corridor project moves up in the CIP five-year plan, this could push out other projects. Should the augmentation projects be funded differently by the County? Should there be some other funding mechanism, and not enterprise funds? Should there be an impact fee that takes the funding out of the enterprise? This is because connection fees are collected later.

Mr. Lynch stated in meeting the obligations of the Department for this coming Fiscal Year, the CIP discussion items are pertinent to the process as we move forward. The Aerospace Corridor project would be funded, whether this should be all rate payers or economic development. Maybe there should be consideration for a funding source from someplace else. This is a policy item that this Financial Sub-Committee can get into later on. This Committee is under the gun to keep the Department moving forward with their programs for this coming FY 2016. Mr. Taylor said all of the concerns of the CIP Sub-Committee can't be addressed this year, but should be addressed next year, FY 2017. Currently, user fees are only being considered for an increase. Ms. Bowen stated she had thought connection fees were going to be addressed with this request for a rate increase. Mr. Lynch stated the Rate Setting Workbook review includes revenue from all sources. Mr. Jenkins stated a connection fee study was conducted in 2012. The connection fees have been realigned and the method was changed from fixture unit equivalents to water meter size. The value was adjusted through a formal calculation, of the value of the assets and the remaining capacity. It was $16.02 a gallon, for the average use for the different meter size. This is fairly current. It is difficult to justify changing the connection fees at this time. This is something that should be reviewed in three- to five-year increments. However, in the proposal that came from the BOS they had recommended a three percent increase. This proposal did not pass. The Department has a current and accurate means of connection fees that covers the cost of development.

Mr. Lynch stated it was discussed at a previous Finance Sub-Committee meeting it had been a long time since the Department had a rate analysis done. This analysis includes connection fees. It's time for this to happen. Funding economic development related to augmentation projects, would fall nicely into this looking at how fees are established and allocated. This rate setting process is something we can review at another time. This review would look at fees and how they are established, how other programs are funded, and how the rates are allocated and if there should there be a higher percentage of fixed rates.
Mr. Taylor, RWRAC Chair, asked if the Financial Sub-Committee felt comfortable to defer those issues that the CIP Sub-Committee brought up for next fiscal year because of time constraints. Mr. Stratton stated he does because of the schedule for a Public Meeting. There is not time for this Committee to go more in depth with this at this time.

Ms. Bowen stated at the end of the meeting, the Committee concluded they are in favor of the CIP projects recommended on the Proposed Five-Year CIP Budget list. There was some discussion and questions that arose. The CIP Sub-Committee agrees with the concept and projects. Unless this Financial Sub-Committee makes any significant changes, the CIP Sub-Committee is recommending this Proposed Five-Year CIP Budget. A motion was made to approve the Five-Year CIP Budget as proposed. The Finance Sub-Committee should understand that there is an impact to users on some of the augmentation projects included in the CIP Budget list. The County should also look at the debt period on the funding for the Regional Optimization Master Plan (ROMP) at 15 years as it is, or for some longer period. There were concerns expressed over the County expenditure limitations. There are several million dollars sitting in an account that can't be touched. Is there a way to use those funds to pay off debt or do something else? The Department may have the ability through a statutory exemption possible for capital projects, but this may require voter approval. The Committee felt they had finished the assignment that was given to them by this Finance Sub-Committee. They also inquired if there were other items the CIP Sub-Committee had not yet addressed. There was mention of the 10-Year CIP Budget. There is a tentative CIP Sub-Committee meeting scheduled for next week to understand or act on the input that comes from this Financial Sub-Committee meeting today. If this doesn't happen that meeting will be cancelled. This CIP Sub-Committee will reconvene when the time is appropriate. The CIP Sub-Committee asked for a better understanding of the future years for timing to get started earlier with the process. The CIP Sub-Committee agreed the projects list, process, procedures and oversight the Department provided looks good. The Financial Sub-Committee needs to look at the revenue impact to user fees. Outside of the motion there was discussion of the repayment period for the bonds, using the cash to pay down debt, and does it require a vote? These are recommendations for the Finance Sub-Committee to review.

Mr. Lynch continued a clear understanding of the verbiage of the motions that were made by the CIP Sub-Committee could be brought here and we could act on those suggestions. These suggestions could be in a structured formal presentation as a recommendation from the CIP Sub-Committee. Mr. Lynch stated he was waiting for a formal narrative that the Financial Sub-Committee can respond to. From that perspective he would like the CIP Sub-Committee to go back and review those minutes and the ancillary recommendations that came out of that discussion of those motions and make sure these are clearly stated before it is presented to the Financial Sub-Committee for consideration.

Mr. Taylor asked when the meeting notes will be ready so that this Financial Sub-Committee can read the motions that were approved by the CIP Sub-Committee. He asked if the Financial Sub-Committee is supposed to act on these items today, where is the wording of what is to be reviewed. It sounds like the expectation is for the Financial Sub-Committee to look at material and discuss it today, so it can determine if there will be a CIP Sub-Committee meeting next week. Mr. Lynch said he was looking at it from a different perspective. He was hearing Ms. Bowen say the CIP Sub-Committee had gone through the whole CIP, their questions had been resolved, and they had voted to accept the CIP as presented by the Department. That accomplishes the task that the CIP Sub-Committee had been charged with. As the Financial Sub-Committee goes through discussing the budget for the CIP, if there are further questions that come up in regard to what that the total number is based on from the discussion today, the CIP Sub-Committee is prepared to go back in and respond to any questions that impact the bottom line CIP number. Ms. Bowen clarified that this did not need to be an action item today. The comments from the CIP

Sub-Committee were on funding sources for augmentation projects, use of expenditure limitation, and seeking voter authorization if that's an exemption that's allowed for CIP. This could be for future agenda items.

Proposed Rate Planning Calendar
Ms. Coyle, made reference to the Draft Calendar of Events. Today, January 6, 2016, is the day the Financial Sub-Committee if it approves the proposed calendar will need to vote on a recommendation for a rate increase should there be one. At the next full RWRAC meeting on January 21, 2016, the RWRAC would need to vote on a potential rate increase. If the full RWRAC votes for the rate increase, they would also need to vote on date for a Public Meeting. The date that is being proposed right now is February 18, 2016, at 8:30 a.m. This is the same day as the February RWRAC meeting, which will be held at 9:30 a.m. By the end of January the Department would notify stakeholders.
Should there be a decision to go ahead with a rate increase recommendation, at the RWRAC meeting on February 18, 2016, this is the date the RWRAC would need to vote on a final recommendation to the BOS having heard the comments from the Public Meeting. The following days would be the deadline for notifications to be distributed on the Department website for the BOS Hearing. Throughout March are some internal deadlines for the Department to compile Agenda materials. This preparation would lead up to an April 19, 2016 BOS review. There are BOS meetings scheduled on May 3, 2016 and May 17, 2016 as well. The BOS tentative adopted budget date is May 24, 2016. The BOS final adopted budget date is June 21, 2016. If the RWRAC elects to choose May 3, 2016 or May 17, 2016, this would push it very close.
Mr. Lynch stated a memorandum would come out of the Financial Sub-Committee to be presented to the full RWRAC. Ms. Coyle stated, once this Financial Sub-Committee makes a decision today, this letter can be created, reviewed over the next week, signed by Mr. Lynch, and presented to the full RWRAC. Mr. Stratton stated that a verbal motion would suffice. Mr. Taylor stated this Committee has not had sufficient time to fully prepare for this and vote for a recommendation. The RWRAC has not been brought up to date on the outcome of all the Sub-Committee meetings, gone over the CIP, or this Committee has not gone through the different alternatives. This is a lot to accomplish for the January 21, 2016 approval date. Ms. Coyle replied that a decision does need to be made today, if this Committee wants to hold another meeting next week. Unless the Committee wants to choose the May 3, 2016 or May 17, 2016 dates, Mr. Jenkins responded by saying the BOS needs to approve the final budget in June. A rate increase is part of the budget the Department has prepared. The BOS sets an earlier approval that sets a ceiling on the budget. He added the public comment period is 60 days.
Mr. McGee stated the County Departments need to have their budgets prepared by Friday, January 8, 2016. A supplemental budget with a rate increase proposal must be prepared as well. Even if the RWRAC does not make a decision now, both FRMD and RWRD must make a decision of what rates to recommend to Chuck Huckelberry, Pima County Administrator, by Friday, January 8, 2016. Mr. Jenkins stated the Operations and Maintenance (O&M) budget will be $84 million for FY 2016, and the CIP will be $45 million. The connection fees will be $11 million, which is $2 million less from FY 2015. The numbers will be virtually the same for FY 2015 and FY 2016. Rate increases are needed to meet the debt service. If not, something will need to be done to capital and O&M which could mean layoffs and services cut.
Mr. Lynch expressed he thought the Committee had until mid-February to go through this process. Ms. Coyle responded the Public Meeting could be moved out to March 17, 2016. This would give the Department staff one week to compile the memo, the BOS agenda items, and what if public comment provides changes and there is not enough time. Mr. Lynch expressed his concern is that the BOS is expecting tentative budgets. To fund the Department's budget, there needs to be a supplemental revenue stream in the way of a rate increase from a bond covenant standpoint. Keith Dommer, Director, FRMD, stated that he and Mr. Jenkins can work on the preliminary budget deadline without a vote from this Committee today. Mr. Taylor said there is time to put together some preliminary numbers for the budget today at this meeting. He stated his concern is going through all this information to get the full RWRAC up to speed, come up with the alternatives to approach the BOS, have it written, to a point to which they will approve it. Mr. Lynch suggested to defer this discussion until we go through some of the items first. He suggested that maybe the meeting date for the RWRAC could be moved out a little later.

2. **Responses to December 9, 2015 Meeting Requests for Additional Information**

Budget Allocation Schedule – ITD Internal Service Fund for Hardware, Software, and Servers/Storage.
Mr. Dommer spoke on the overhead allocation for the Information Technology Department (ITD) leasing program. He added there were questions if the Department was receiving their fair share of allocations to the number of devices it had in relation to other departments. For FY 2017, the allocation for leased hardware is based on the number and type of devices leads to the $770,048 charge to the Department. Leased hardware is based on the number of computers. The enterprise software by unit cost is based on the number users and software licenses. The Leased Server/Storage number is based on the proportion of

shared storage and data the Department takes up on the County's ITD system. This includes the large amount of storage needed for the video of inside the sewer system.

Debt Restructuring Analysis, December 2015. Mr. Dommer stated this shows an analysis if the Department can refinance any of the debt and extend the payment period out into the future to see if there is any financial benefit for the next three years. The conclusion is no, this can't be done because the bond call dates won't allow us to call it early enough to have an effect. The debt service can be reduced about $6.5 million for the next five years. But, then the repayment would be $5 million each year for the remaining 10 years, at an additional cost of $20 million over the new 15-year term. This extended period of debt schedule and additional interest cost would burden the rate payers. This analysis was completed for the ROMP, of extending the 15-year repayment period to a 20-year repayment period. This would have been an additional $103 million in interest costs. Mr. Taylor asked if the reason that Mr. Huckelberry is focused on the15-year payback period as opposed to the 20-year period, is because of the cost to the rate payers in additional interest expense. Mr. Dommer replied, having the shorter period demonstrates that the Department is more fiscally sound to the bond rating agencies and fiscally responsible to not incur additional interest costs. Mr. Stratton stated that the 15-year bond debt requirement is County-wide. Mr. Dommer continued that he received direct instruction from Mr. Huckelberry to convey to the Financial Sub-Committee that he will not allow extending the debt past the 15-year term. In the years following FY 2023, there will be significant relief in debt service payments to the rate payers from the ROMP. Mr. Taylor asked what was the required ratio for the bond covenant requirement, 1.2 or 1.3 debt service ratio (DSR). Mr. Dommer replied that the requirement for bond covenants is 1.2 DSR. The bond rating agencies prefer a cushion of 1.3. Mr. Taylor continued that the Committee needs to come up with alternatives if the bond ratio goes below 1.3 and the repercussions. Mr. Dommer said the risk of our bond rating declines if the DSR dips below 1.3. It should be made clear to the BOS if the DSR dips below 1.3 these are the repercussions.

Mr. Lynch stated that in the prior year, FY 2015, in the Financial Plan and the responses to the BOS' questions, the importance of the 1.3 debt service ratio (DSR) requirement is not being conveyed strongly enough. Nowhere is there the statement of the consequences if the bond ratio drops below to 1.3. The aim is for the County to receive the best interest rate possible when they sell these bonds. Ms. Bowen said the bond covenant ratio of 1.2 is what has to be maintained. The goal was set to 1.3 as a cushion for the bond rating. Mr. Jenkins added there are also other factors, such as cash on hand, that go into the bond rating. Mr. Lynch recalls Tom Burke, former FRMD Director, stated to never get below a DSR of 1.3. The wording used in response to the BOS questions needs to be revised. Ms. Bowen inquired if the County always had a 1.3 DSR requirement. Mr. Dommer replied when the County issues general obligation bonds, there would not be an equivalent ratio. They are pledging their full faith and credit on Pima County. Mr. Dommer replied he has not studied the full history of debt that is guaranteed by The Department's revenues. It is the debt that is guaranteed by the Department's revenues that would have the ratios for rate setting to ensure there are enough revenues to operate the system and pay off the debt. Mr. Lynch added there is some differentiation between debt service ratios with other County departments. There is a slight ripple effect if outside observers see the Department not doing what needs to be done for revenue-backed debt, there will be questions about our full faith and credit that could affect the ratings on the rest of Pima County. Ms. Bowen stated part of that was moving more of the fee structure to the fixed side, to eliminate the variability. Mr. Dommer responded he would feel more comfortable with the department sticking to the 1.3 DSR requirement. To set rates high enough to meet the 1.3 DSR requirement would have negative impacts. There is also a balancing of the shock of a large rate increase with the importance of maintaining the DSR. He suggested that this conversation gets revisited once it is determined how to get to the 1.3 DSR. Mr. Lynch asked how vetted to the 1.3 DSR requirement is the County Administrator? Mr. Dommer responded he would find out. Mr. Lynch continued the Committee is dealing with a difficult situation in raising rates and the concerns of the BOS.

Regional Wastewater Reclamation Comparison of Wages, Direct Charges, and Overhead Charges.
Mr. Dommer informed the Committee there had been a previous discussion where the direct charges for Public Works Administration (PWA) are being charged to the departments. What was added were the Object Codes directly charged to specific Fiscal Year periods. In the FY 2016 adopted budget, it is a component of the overhead. The increase was related to the ROMP projects. There is always a two-year delay in the allocation of overhead. This number from the ROMP charges should decrease as there are less projects being administered.

Cost Allocation Plan for FY 2014-15 Based on FY 2013 Statistical Data
Mr. Dommer informed the Committee that there is a two-step allocation process that includes the statistics that FRMD costs were separated on. How much the Department was of that statistic, and the percentages, to come up with the final column for

budget year FY 2014/15. This worksheet shows the calculations of the Direct and Indirect Costs of FRMD's allocation. The total number is $3.6 million of FRMD's portion of the allocation.

Regional Wastewater Reclamation Department Enterprise Fund Five-Year Financial Projections, FY 2014 – 2020
Mr. Dommer advised the Committee this worksheet has the most recent numbers.

NACWA 2014 Cost of Clean Water Index
Ms. Coyle stated the Committee had previously requested an O&M cost comparison of other wastewater utilities. Mr. Jenkins informed the Committee that $448 is the average national annual sewer service charge. The projected annual sewer service charge for 2016 is $488.76. The calculation is as follows: ($448 x 4.3%) = ($467.26 x 4.6%) = $488.76. The $488.76 is the average national sewer service charge for 2016. The 4.3% for 2015 and the 4.6% for 2016, are the projected rate increases nationally. The Department's average residential rate has dropped because of no rate increase, and the fixed fee of $12.63, and the multiplier (volume x 3.52). Previously it was 8 CCF and the bill came up to $40.81. Now the volume is lower, down to 7.0 CCF. This equates to $447.48 on an annual basis. This is approximately 9% less than the national average beginning in 2016. If the Department gets a rate increase in 2016, this gap can be closed.

Mr. Stratton stated his only concern with using the national average, when you look at the West Coast and the Southwest, someone may question that. Mr. Jenkins responded there are all sorts of variables with what different municipalities charge. NACWA is the most reliable data source that is updated every two years. This is a national average. Mr. Lynch added this national average takes in all the variables from hundreds of wastewater utilities. Mr. Dommer stated that the Committee had wanted to look at comparable averages for allocation overhead. The federal government in their grants administration has complicated rules on how overhead is calculated and allocated. They revamped all their rules and now a 10% overhead is the factor that the federal government allows as the standard for most governments. Mr. Lynch stated this information should go into the packets that go to the BOS. Mr. Jenkins responded the packet should state a rate increase is needed, and here are the ramifications if it doesn't happen. A lot of work went into the data the BOS was presented in the spring of 2015 and it doesn't appear that it was read. Mr. Taylor expressed this information should be in the packets as long as the numbers are correct. Mr. Lynch continued it is important for the BOS to know that all of this information was shared with the RWRAC, but it was also part of the Financial Sub-Committee's recommendation process to the RWRAC. Ms. Coyle added that a letter from the Financial Sub-Committee would be helpful.

Salaries & Wages Trends
Ms. Coyle advised the Committee that next handout covers salaries, wages, and trends. This is a snapshot response to some questions that were received. Salaries and wages seem to be decreasing. While overtime, on-call pay, shift differential, holiday worked pay, and special assignment pay are going up. Mr. Jenkins added salaries are dropping because the number of employees has been decreasing every year for the past several years. This has offset the rate of any salary increases. The second item, overtime, for FY 2015/16 represents three months, if you multiply times four, the result is $850,000. This amount is normal for overtime pay. Prior to those years when this amount was getting close to $1 million, this coincided with the ROMP construction. There was a lot of staff overtime working at Tres Ríos for numerous construction-related issues the past three years. Overtime will still be high due to a 9% staff vacancy rate for this fiscal year. In prior years overtime has been averaging 5-6%. On-call pay has been fairly consistent. Shift differential had a big drop from 74% last year to 40% this year. More research would be needed to explain this drop. Earlier years had more staff working overtime and a shift differential due to the ROMP-related construction at Tres Ríos. Holiday pay is decreasing some because of the decrease in the amount of staff. He provided the number of full-time employees (FTE)s budgeted.

Average Full-Time Employees

FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16 (period 3)	FY 16/17 Budgeted
580	520	512	506	495	475	467	460

3. **Pima County Administrative Overhead Charges**

Already reported – Item 2

i. RWRD Allocation Review

ii. Increases or Decreases Over Time

Already reported – Item 2

4. Debt Review

i. Debt Service Repayment Schedule

Mr. Dommer referred to the debt schedule on the back page of the Debt Restructuring Analysis, December 2015 handout, which refers to the bonded debt.

ii. COPs Overview

Mr. Dommer referenced the bottom of the Five-Year Financial Projections, FY 2014-2020 workbook. The amount of the payments for the Certificates of Participation (COP)s for FY 2013, 2015, and 2016 are listed.

Mr. Taylor commented that the COPs that are listed end after FY 2016. Mr. Dommer explained this is because there is uncertainty about the availability of the County assets to be leased and sold off, and letting the Department borrow from that. Mr. Taylor continued this will have a direct effect on the debt ratio. The County might say that the COPs will be used for other County uses. Should the Department make the assumption that the COPs are unavailable? Mr. Dommer replied that in governmental accounting there are three types of organizations within the government. Those that are funded primarily by property taxes which are the general fund departments, special revenue funds that have a restricted revenue source, and the enterprise funds which are self-supporting. The Department should not rely on the availability of COPs. Mr. Taylor stated that he had heard in the past that COPs will continue to be used by the Department on a rotating basis, particularly for the CIP. Ms. Bowen said the COPs have not been part of the DSR calculation in the past. Mr. Taylor expressed the Committee is making a decision without knowing about the ability to use COPs which could affect the debt ratio. Mr. Stratton inquired on the debt service reserve transfer. Mr. Dommer responded that it was anticipated that $45 million in bonds would be issued this year to pay for the CIP. Instead a decision was made to use a mixture of COPs and cash. As a result, this amount was not added into the reserve fund. Mr. Lynch referenced the December 9, 2016, Meeting Minutes which had a good explanation of COPs.
Mr. Jenkins said with ROMP, the Department was gearing up to raise rates and prepare for big spending. The model showed that total debt service payments component would peak at $120 million. This number has been lower and continues to drop. Now the number is at $75 million that peaks in FY 2016/17. Is this the peak and does it continue to drop as you go out more years? Mr. Dommer responded that this number remains at the $70 million threshold for the next few years and then drops significantly in FY 2022.

5. Rate Setting Workbook Review

The five-year CIP projections per the adopted budget were discussed. Mr. Jenkins advised the Committee that the workbook reflects $47.5 million budgeted for this current FY 2015/16. The actual spend rate is more like $42 million. This unspent amount will carry over into the next Fiscal Year period. The five-year CIP projections per adopted budget totals $199.3 million. The numbers from this morning's meeting are $196 million. This small amount won't make a significant difference. Mr. Dommer provided kudos to Mr. Jenkins and the Department for keeping the O&M expenses flat by effective cost control, even though extra costs were thrown at you. The workbook shows a 2% increase. Mr. Jenkins replied that 2% is a minor inflationary number. Leave this amount in as a safeguard in a conservative model like this.

Mr. Dommer went over the Five-Year Financial Projections, FY 2014 – 2020 worksheet. There was discussion on revenues, debt service payments, COPs, and five-year CIP projections per adopted budgets.
Mr. Dommer stated lowering the connection fee revenue from $13 million to $11 million, the DSR approaches 1.27. Mr. Jenkins stated that the $116 million in the volumetric user fee is several million less than what was budgeted. This is due to a volume decrease. Mr. Dommer responded this is the original budget when the impact of the rate increase was taken out. This is below the budget even after removing the impact effect of the rate increase. Mr. Jenkins added that even though there was some growth, the volumes dropped. Mr. McGee confirmed that the numbers are current. Mr. Lynch stated the DSR is 1.27 for the actual FY 2015/16 budget. Mr. McGee added that the DSR was 1.26 for the actual FY 2014/15 budget. Mr. Dommer referred

to the Fitch Bond Agency Rating that recently came out. Pima County received a favorable bond rating. Fitch issued this favorable rating on the assumption that Pima County will raise rates when it is appropriate. Ms. Coyle stated this information would be forwarded to the Committee. The 1.3 DSR is a nice target for the Department to shoot for, but this is not going to cause significant trouble if it dips a little below that. Mr. Jenkins asked what other income was comprised of. Mr. McGee responded this is for lease payments and TEP rebates. In particular, he was asking about the lease payments from the University of Arizona at the new WEST Center Laboratory. There are additional O&M costs the Department has with this addition that should be offset by the lease payments. Ms. Coyle answered that the lease revenue has not yet been added to this projection model. Mr. Lynch stated this small amount of $155,000 annually will not change anything in the calculations. Mr. Jenkins used another example for the cost of electricity at the Agua Nueva WRF. CH2M Hill exceeded the amount of electricity used at the Agua Nueva WRF. The Department was charged a pass-through cost. This pass-through cost was budgeted for. The Department received a refund check of $310,000. This amount is not reflected in other income. If the Department is being charged for O&M costs in the budget there should be corresponding revenue reported as well. Mr. Dommer asked if the Department did not add the revenue for these items in the projections. Mr. Jenkins stated this was not done. Mr. Lynch said for the purposes of what is being done here, this won't impact anything. Mr. Jenkins replied $500,000 a year is a substantial revenue amount. Mr. Lynch expressed, in looking at a rate increase this is a small number. Mr. Taylor added these numbers need to be added to make things right. Mr. Dommer informed the Committee when he added the $500,000 annual revenue, this raised the DSR by .01. The forecasted DSR for FY 2015/16 changed from 1.27 to 1.28, and for FY 2016/17 the DSR changed from 1.14 to 1.15. We can temporarily add this number to build the projection, until which time the Department provides a more accurate number.

Sensitivity Factors
Mr. Dommer referenced the sensitivity factors handout of how a 1% change in revenue, O&M expense, and debt service and their effects on the DSR. An increase in revenue by 1% increases the ratio by .03, a 1% decrease in the O&M increases the ratio by .01, and a decrease in the debt service by 1% increases the ratio by .01.
Mr. Taylor suggested options be presented on the white board for this Committee to discuss with the ramifications for each.

Option 1: 8% Rate Increase – O&M stays the same, CIP stays the same, DSR is greater than 1.3
Option 2: 4% Rate Increase – O&M and CIP decreases by 8%, DSR is equal to or greater than 1.3
Option 3: No Rate Increase – O&M decreases significantly, CIP decreases significantly, DSR is greater than 1.3
Option 4: No Rate Increase– O&M decreases somewhat, CIP remains the same, DSR is less than 1.3, at 1.14

Option 1: 8% Rate Increase – O&M stays the same, CIP stays the same, DSR is greater than 1.3.

Option 2: The effect of the O&M and CIP decreases have a less of an effect on the ratio than a revenue increase. The CIP relation to the debt service is not a 1-1-relationship. Mr. Jenkins asked, what is that number? How many millions in CIP equals one million of debt service? Mr. Dommer stated the CIP is not going to be in proportion to the O&M. The entire $40 million CIP could be removed without making much of a dent. This would explain why Option 2 and Option 3 are not being considered.

Mr. Dommer clarified it was his understanding that since the CIP is not being decreased this would eliminate Option 2 and 3. Option 2 was analyzed with the explanation that this is not being recommended because this is an undesirable effect. Mr. Taylor stated the effect has to be shown. Mr. Dommer stated that with Option 2, the effect on the DSR is less than reducing rates and the CIP cost, than the direct effect of increasing revenue. Ms. Bowen added what came out of the CIP Sub-Committee today is to look at some of the augmentation projects and see if there are alternative funding sources to pay for those projects, and get them off the CIP budget. Mr. Lynch commented this is something we can look at down the road. This could mitigate a rate increase next year. Mr. Stratton stated if you reduce the CIP and the Aerospace Corridor project can't be funded, what does that do to the BOS?

Mr. Jenkins stated the repercussions of Option 2 and deducting $11 million in the O&M budget would have a profound effect on operations. Programs would be cut and layoffs would occur. As a contingency, the Department has three months in operating reserves of $20 million, another $20 million in an emergency reserve fund, and $80 million in cash—some of it being restricted and unrestricted. The Department can't spend the cash because of the expenditure limitation. Mr. Lynch asked what would the bond rating agencies think if these types of cuts had to made? Yes, the ratios are being met but at what cost? Mr. Taylor stated that for a utility to operate, permit regulations have to be followed. Mr. Jenkins stated that the Department needs more than

$73 million in O&M costs to operate and meet water quality standards. Mr. Dommer stated if the entire CIP pulled and reduced down to zero, there would still need to be a reduction in the O&M budget to $78 million, or a 7% decrease. Mr. Taylor stated the Department has regulatory requirements for water quality and to maintain the sewer system. This needs to be conveyed to the BOS. Mr. Jenkins added the Department is required by contractual agreements to do augmentation projects.

Mr. Taylor suggested to eliminate Option 2 entirely. This would eliminate the need for the Department to reduce O&M or CIP costs. What should be presented to the BOS is the proposed amount of the rate increase at 7%. This would provide the BOS with an Option A and B alternative. Ms. Bowen stated the capital program was determined to be appropriate by the CIP Sub-Committee. Otherwise, with this option there would be cuts in necessary programs and services.

Option 3: Mr. Taylor stated what if the BOS decides no rate increase because it is an election year and the desired effect is to maintain the 1.3 DSR, what amount do the O&M and CIP have to decrease by? The CIP is referring to the $40 million.
Mr. Jenkins stated, is it the debt issuances and not the CIP or is the CIP just a number? Mr. Dommer, no it is the debt issuances. Mr. Jenkins asked, so it is the debt issuances that are tied in with the formula? Mr. Dommer, continued if $45 million is needed for the CIP, because there is no excess cash to use, $45 million in debt must be issued. The CIP drives the debt issuance, and the debt issuance drives the proposed debt service. If there was no CIP, and no debt was issued, this would wipe out to zero. Mr. Jenkins stated, last year during this exercise the recommendation was for three consecutive 4% increases. The conversation was the CIP could go to zero and this would not change that. When complete, the CIP was dropped $10 - $15 million, the amount of the requested rate increase dropped to two consecutive 3% increases. There was some impact. It is important to know how the CIP dollars impact the end result.

With Option 4, the DSR will decrease to 1.14. Mr. Jenkins added just because the debt can be recalled because it falls below 1.2%, it does not mean it will. If that's the case, then the Department could refinance the debt. Mr. Stratton stated that if the bond covenant fell below 1.2% it would be difficult for the Department to borrow money and refinance. Mr. Lynch added this could have a ripple effect through the entire County.

Mr. Dommer stated that this Committee has spent the past three months demonstrating why Options 2 and 3 will not work. The CIP Sub-Committee recommended no CIP reduction. The Department is not recommending a reduction in the O&M budget. Mr. Taylor stated that it is not up to the Financial Sub-Committee. This Committee can state we don't recommend these reductions. This is a BOS decision.

Mr. Taylor stated Option 1 is the real only alternative. Options 2 and 3 are not alternatives, they are repercussions. Mr. Lynch stated to be prepared to address to the BOS questions that came up from the prior rate increase request in the spring of 2015.

Mr. Dommer stated he can come up with a factor that would show that. Ms. Bowen asked if the cash could be used to fund CIP projects. Mr. Dommer replied the worksheet shows what the unrestricted cash balance is. If the cash is restricted, this means there are restrictions on it imposed by an external party. The restricted money is untouchable and this is why it is not used in this analysis. It would not be an option to use this restricted money for any other purpose other than what it is set aside for. As it gets released it shows up in this analysis. Mr. Jenkins asked, what is this restricted money? Mr. Dommer responded most of this is related to bond covenants. Mr. Jenkins asked, so the emergency reserve would not be a bond covenant issue? Mr. Dommer responded this is $20 million of the $80 million. Mr. Jenkins stated there is three months of operating expense in reserve as well. Mr. Dommer stated his focus has been on those amounts that effect the debt ratio and what the Department has to work with. Mr. Dommer offered to get the details. Mr. Jenkins said he was curious as to what was restricted and unrestricted cash. Ms. Bowen asked if the unrestricted cash could be used to fund CIP projects, if the expenditure limitation could be changed by a voter action. This would be issued similar to COPs where financing could come out of the cash. Mr. Dommer responded yes. The unrestricted cash balance can be used to fund CIP projects. This is what is being done this year by having $44 million in the CIP and only using $20 million of debt. The Department is using up the unrestricted cash. In later years the unrestricted cash balance becomes almost non-existent. This money is being used in part for operations. There is not a lot of that available and there is the expenditure limitation in Arizona. Pima County spending is based on its spending level in 1980. At that time the Department's expenses were 6-7% of the County's total. Currently it is 16% of that total, taking up 10% more than the spending ceiling from the rest of the County. It would be challenging to try and take away more of that percentage from the rest of the County spending. Spending that unrestricted cash to fund the CIP would exceed the expenditure limitation.

Mr. Jenkins referred to the worksheet for forecasted FY 2015/16 net revenues of $87 remaining after the O&M expenses are paid. Then the Department will make a $69 million debt service payment. This would leave approximately $20 million extra. The unrestricted cash balance is still being reduced by $10 million and bringing in $20 million in COPs. That's $30 million more. There is enough with the net revenue to cover the debt payment. So why wouldn't we be doing that? Mr. Dommer explained there is $18 million remaining covering the bonded debt service payment and the O&M expenses. Additional money is needed to cover other portions of the spending which used up another 6.5%. There was initially $110 million. There has to be more placed in the restricted accounts for the $3.6 million of change in restrictions of cash. The $110 million beginning unrestricted cash balance, less the change in restrictions of cash, is $100 million in ending unrestricted cash balance. Mr. Dommer clarified non-COPs debt service payments. Mr. Jenkins continued, then there were old COPs payments of $22 million, including 6.5% of assets. That's why there was a need to take $10 million from the unrestricted cash balance and borrow $20 more million in COPs. Mr. Dommer, responded yes because the $44 million in CIP spending isn't reflected. Mr. Jenkins stated it seems like there was sufficient cash to cover everything. Mr. Dommer responded he would need to confer with the Cash Management section. Mr. Jenkins said it looks pretty close if the $20 million in COPs isn't taken out. Mr. Dommer replied this provides the opportunity to spend that money and not have it subject to the expenditure limitation.

6. Vote on Recommendation to full RWRAC on Rate Increase

Mr. Dommer led an exercise for the Committee to discuss how changes in user rates, O&M and CIP spending can affect the DSR. The results from this exercise will yield the best options for recommendation to the full RWAC and ultimately the BOS.

What if there is a 5% increase in the volume fee and a 5% increase in the base fee, the DSR goes to 1.25. He does not know if the augmentation factors are built into the connection fees. His assumption is that the connection fees were designed for increasing the capacity of the system through growth over time. If this analysis were done this would be the place to recover some of those costs. It seems reasonable to build in an inflationary factor. The BOS felt it was unfair to charge all the users in the system and not those people adding into the system. Mr. Taylor stated if the Committee is not planning to approach the BOS with connection fees this year, this should not be used. Mr. Dommer replied increasing the base rates than what was decided in the last study is different from let's have a new study and figure everything out all over again. The BOS wanted to add a little bit to the rate without restudying it. Mr. Lynch inquired if the connection fee analysis of 2012 included any consideration for inflationary increases. Mr. Jenkins responded the study took the estimates at that time for ROMP and extra capacity. The capacity has increased, while the volume has decreased. There are a number of moving parts that are working against raising the rates. The treatment plant capacity was set since it was part of ROMP. Any of the augmentations that are adding capacity into the conveyance system could go into that equation for connection fee rates. But there is also depreciation that writes off some of the asset value of $1.2 billion. Mr. Lynch stated, so the improvements to the system have been offset by depreciation. Mr. Dommer continued with the example, if the connection fee was increased by 5%, there is not any significant increase. Mr. Jenkins explained this is because connection fees are less than 10% of Department revenues. Mr. Dommer concluded connection fees have no effect on the ratio. Mr. Lynch said the BOS needs to be reminded there is no inflationary factor for connection fees. It is all based on improvements to the system versus depreciation to the system. Mr. Jenkins added and this is divided by capacity. Capacity is greater now because people are using less water. Mr. Lynch expressed that the BOS needs to be made aware that methodology to increase connections fees does not justify it.

If the volume fee and base fee are increased to 7%, this gets the DSR to the desired 1.3 for FY 2016 and 1.25 for FY 2017. This is considering the other factors already explored except for decreasing the CIP. To stay at a 1.3 DSR for the following year, that would require a 1% increase.

Mr. Lynch stated that if the volume fee and base fee were increase to 5%, the DSR goes to 1.25. This is where it has been for the past two years. Requesting two 5% increases would increase the DSR to over 1.3.

Ms. Bowen stated that full RWRAC had asked for the 1.3 DSR requirement to be evaluated.

Mr. Dommer went to the next scenario with two 4% increases for the volume fee and base fee, which places the DSR at 1.28 for FY 2016/17, and 1.23 for FY 2017/18.

Mr. Lynch asked what would two 4.5% rate increases do? Mr. Dommer illustrated that two 4.5% increases to the volume fee and base fee places the DSR at 1.24 for FY 2016/17, and almost to 1.3 DSR with just a 4% increase.

Mr. Taylor requested to use the numbers above with the options previously discussed to see what the effects would be for next FY 2016/17. If the Committee can get through next year, the BOS would be much more open the following year, FY 2017/18, since it is a non-election year. Mr. Membrila stated if we get through next year and in the following years huge increases are requested, the BOS isn't going to go for that, election year or not. Mr. Stratton recommended asking for a multiple-year rate increase as opposed to a single-year request.

Mr. Jenkins stated his desire is to obtain an appropriate one-time rate increase proposal for this coming budget period, FY 2016. Then conduct a rate study for the following period, FY 2017. The following year the formula might be changed to shift an alignment on what the real costs are for the Department, this is revenue neutral. If at that time the numbers indicate another rate increase is needed, then ask for another one. Ms. Bowen added the variable rate is losing ground every year and the Department is trying to achieve stability. Mr. Lynch suggested a Request for Quotation (RFQ) go out to retain a consultant to conduct a rate analysis and when those recommendations could be available to the Finance Sub-Committee and RWRAC. This would assist on when the timing is for the next go round. He requested a formal schedule like what was done with the BOS. Mr. Jenkins stated this needs to start immediately. He recommends to increase the fixed amount of the rate and leave the variable amount unchanged. The same 7% increase could be obtained, but loading this into the fixed portion makes it closer to reality. The fixed portion increase needs to be around 20-25%. Mr. Dommer stated this would make the fixed portion of the bill $15.15 from $12.63, which gets the DSR to 1.26. If the increase is 30%, the fixed would become $16.42, this takes the DSR to over 1.3. If the fixed portion becomes $15.79, this gets us where we need to go. Mr. Jenkins said the net impact is a 7% increase to the sewer bill, which would be loaded into the fixed portion and only one-third of the bill. Mr. Dommer stated, this would place the burden on all the rate payers which has some political sensitivities. Mr. Lynch stated that in FY 2017/18 the DSR would be at 1.25. Mr. Dommer said this would solve the problem for two years. Mr. Jenkins added this would give the Department time to conduct a rate study. Mr. Dommer stated adding $6 monthly to the fixed portion is $19, which gets the DSR to 1.3 in FY 2019. Mr. Stratton expressed this would be a much more stable rate structure. Mr. Dommer stated to adjust for strength factors in the O&M costs at 2% if the flow volume keeps decreasing, which means the fixed cost is higher.

Mr. Jenkins said this would put revenue in line with the fixed costs for the Department. This also takes away from the volatility of the decreasing volumes. The net rate increase amount is still 7%. Mr. Stratton stated the sensitivity here is for a low-volume user they would pay a higher increase than a high-volume user. Ms. Bowen suggested to look at what would have a negligible impact on the lower-tier user group. There was discussion that the BOS probably would not consider this option. Mr. Jenkins said this option could be packaged after the rate study is complete. Mr. Lynch stated to present to the BOS the option to raise the fixed portion of the bill by a dollar amount as opposed to a percentage. Mr. Jenkins expressed his preferred option is to load the rate increase to the fixed portion of the bill. Mr. Stratton agreed that the fixed portion needs to increase to support Department fixed costs and the cost to provide the infrastructure for the service of the utility regardless of volume.

Mr. Dommer suggested that the percentage needs to be equated to what the increase would be to the average user's sewer bill. Mr. Lynch stated this is a more equitable allocation of the rate and also buffers the Department from the continuing decreases in the volumetric. Mr. Jenkins added this method is also closer in line in the costs for the Department to operate. Mr. Stratton recommended a name change from a service fee to something more appropriate, like system availability fee. It needs to be understood by the public that they are receiving something for this increase in rates. Mr. Lynch asked for staff to do research on what the fixed portion of wastewater bills typically are called for other municipalities. Mr. Dommer stated part of the message would be that a 5.8 – 6.0 % revenue increase is needed. To receive this increase is to increase fees by 7%. Ms. Bowen stated increasing the fixed component of the sewer bill would bring financial stability for FY 2017/18.

Mr. Dommer did a scenario with a 3% rate increase, which reduced the O&M budget to $79 million, also reducing the CIP, which placed the DSR at 1.28 for FY 2016/17.

Mr. Taylor suggested stating to maintain a 1.3 DSR, these are the options. We are only at next year, FY 2016/17. Mr. Lynch stated to keep in mind in looking at FY 2017/18, the DSR is 1.28, and increases in O&M costs continue to reduce the amount available for CIP.

Ms. Bowen asked what if the O&M could stay the same and there was another funding mechanism for CIP from other sources. Mr. Dommer did the math and stated this amount would be negligible. A rate increase would still be needed. This Committee agreed this information needs to be conveyed. McGee stated because the borrowing money does not have a large effect right away because the costs are spread out over time. Mr. Dommer stated the assumption is for a 15-year repayment period.

Mr. Membrila asked if there is a wastewater facility that is being operated as a non-government entity. Would it make sense to do a survey to see what it would cost if this operation would go to the private sector and show the cost for the rate payer? Mr. Jenkins replied a survey wouldn't provide that answer. Mr. Lynch referred to the NACWA 2014 Cost of Clean Water Index that was discussed earlier during this meeting.

Ms. Bowen stated the CIP Sub-Committee evaluated the CIP budget, and the Financial Sub-Committee evaluated the Department's operating budget. This Committee agrees that the costs are all in line and appropriate. So the driver is really the debt service coverage ratio. What rate increase is closer to supporting the goal of a 1.3 DSR? The alternative for stabilizing rates is a 7% increase. The preferred alternative is to move this increase to the fixed component. Then the Committee looked at the impacts if no rate increase, then there would be significant impacts to the O&M budget, and negligible to the CIP.

There were questions that came up on the four fee increases that were tied to the ROMP. This Committee needs to respond to that question. Also, when the fee increases were put into place, the project costs were significantly less at $605 million, than what was initially forecasted at $720 million. The question will come up, why are my rates going up again? Why am I paying more? This program should have already been paid for with the prior rate increases. Mr. Jenkins responded a narrative on this topic had already been provided to the BOS in the Financial Plan, pages 5-6. Mr. Lynch stated he remembered reading in the previous Financial Plans that future rate increases would be necessary. Mr. Jenkins added there are also other costs besides ROMP. There is still $40 million needed to sustain and rehabilitate the infrastructure in capital project costs. Mr. Lynch shared that there is a perception that the Department's operating costs are excessive. There are some parties that want to micro-manage costs. He would hate to see a valid recommendation for a rate increase get defeated because of this micro-management of costs that are insignificant to the overall program. Mr. Taylor asked if the Committee needs to prepare responses to what potential questions the BOS might have. Mr. Jenkins stated, this has already been prepared for the BOS previously. Mr. Lynch expressed the Financial Plan to present to the BOS needs to be made shorter. Going forward this could be condensed to more of an Executive Summary of 2-3 pages with supporting appendices. A presentation to walk the BOS through this rate increase recommendation is needed. Ms. Bowen recommended generating talking points for each of the Committee members. Mr. Jenkins stated the Committee is free to do so if they choose, but cautioned he has received feedback this could backfire. Some of the BOS may feel this is a strong-arm tactic coming from the Department. The BOS may still vote no, because this is an election year. Mr. Dommer further cautioned that the BOS has been chastising people at public meetings for not presenting complete and clear proposals. Be sure to include the details on the alternatives and the repercussions associated with them. Mr. Jenkins replied that if the BOS wants to not approve the rate increase, their mind has already been made up, no matter how much detail is provided. Ms. Bowen stated at least the BOS has been advised of the repercussions associated with the alternatives, and their constituents will know. Mr. Lynch requested that Department staff speak with the County Attorney and what happens if a rate increase is not approved by the BOS and the bond covenant falls below 1.2%. He would like a statement from the County Attorney and the bond counsel to this effect.

Mr. Taylor asked Mr. Dommer how close was he in preparing a document for this Committee to review. Mr. Dommer replied that FRMD makes its own recommendation, an Annual Financial Report. This will overlap what the Committee is working on, so this is an integrated message. Mr. Jenkins added the RWRAC will vote in support of the Financial Plan or not. Ms. Coyle stated the Committee will have a separate cover memo to the BOS from the Chair in support of the Financial Plan. The cover memo can explain in detail the process the Committee went through. Mr. Lynch had questions on the Committee's recommendation and the Financial Plan. Mr. Stratton explained that Mr. Dommer is preparing the Financial Plan independently. The Committee will be responding to the Financial Plan stating it has been reviewed and support the recommendations that are included in the Financial Plan. Mr. Dommer informed the Committee the Financial Plan with a tentative budget he is preparing will be ready in March for the BOS. Mr. Lynch asked what was being presented to the BOS. Mr. Jenkins responded two options: a 7% user and fixed fee increase, or 0% user with a 25% fixed (or dollar amount).This should include the repercussions for each. Also, the repercussions if no rate increase is approved.

Ms. Bowen added that it will be clear that only a single year rate increase is being proposed at this time. Mr. Taylor asked if the Financial Sub-Committee is ready to have the full RWRAC vote on this. Mr. Stratton stated to plan on having the full RWRAC to vote on January 21, 2016. If the RWRAC needs more time, then the Financial Sub-Committee can regroup and go to the alternative schedule that was discussed. Mr. Lynch stated he asked that motions made at the CIP Sub-Committee be formalized and sent to them for their concurrence. Do we want to meet again before January 21, 2016, to look at the verbiage from the CIP Sub-Committee meeting? Or do we move out the RWRAC meeting to another week or two? Ms. Bowen stated that one of the things the CIP Sub-Committee had asked for was the debt restructuring memo that Mr. Dommer prepared. Also, the recommendation that the Financial Sub-Committee look at cash to fund CIP projects. Once the CIP Sub-Committee meeting minutes for January 6, 2016 are reviewed the task is to see if there were additional questions asked by the CIP Sub-Committee members that were not answered at this Financial Sub-Committee meeting. It was agreed that the CIP Sub-Committee did not need another meeting. Mr. Taylor requested to have something in writing that the Financial Sub-Committee can present at the full RWRAC on January 21, 2016. Mr. Jenkins stated the Department will have something prepared that the Financial Sub-Committee can present at the full RWRAC.

Ms. Bowen stated she might need some assistance with the motion from the CIP Sub-Committee that the CIP augmentation projects had an impact on user fees. She asked to look specifically at the augmentation portion of the CIP budget. Mr. Jenkins responded, that is a very small amount, $10 million. Mr. Dommer stated that it would be inappropriate for the County to subsidize the enterprise fund for these projects. Otherwise, the Department is not operating as an enterprise fund. Mr. Taylor added this would leave $30 million in the CIP, what would be the reduction in the O&M? Mr. Jenkins continued, this would be moratoriums in some growth areas. There would be no work on 22nd Street and no Aerospace Corridor—which is economic development. Ms. Bowen clarified, that the Committee was not against augmentation projects. The concern was funding these projects through user fees appropriate. Mr. Jenkins clarified that the CIP Sub-Committee had expressed that these projects help development, which adds to the tax base, and are not really wastewater fees. There should be an impact fee for this. The Department will pay $45 million for an Aerospace Corridor that may be in 30 years we will receive maybe half of this cost back. A developer will usually pay to build capacity and provide this asset to the Wastewater Department as an asset. The developer then would receive credits towards what they built in capacity.

Mr. Dommer summed up what items will be necessary for the RWRAC meeting on January 21, 2016.
Wastewater Department will prepare the interim documents, such as the cover memo from the Financial Sub-Committee, debt restructuring memo, copy of Fitch report.
Mr. Dommer will prepare the Financial Plan complete by March 17, 2016 or March 24, 2016.
Mr. McGee will prepare a supplemental budget request for a proposed rate increase.
Ms. Bowen stated the CIP Sub-Committee does not need to meet again. She and Ms. Smith will advise the members of this.
Mr. Lynch stated the Financial Sub-Committee will not meet again prior to the January 21, 2016 RWRAC meeting.

ACTION: Mr. Lynch asked for a motion to recommend the two alternatives discussed, 7% user and fixed fee increase or a 0% user, 25% fixed (or dollar amount) increase to the full RWRAC. Mr. Stratton made a motion for the two alternatives discussed as potential rate increase options recommended at the Financial Sub-Committee meeting for the RWRAC to consider.
Mr. Membrila asked if the Financial Sub-Committee is still waiting for information, then how can this motion be made? Mr. Stratton explained that the Financial Sub-Committee has already discussed what the percentages would be. Mr. Lynch added that the Committee is only waiting for some background documentation to include with the proposal, such as the minutes to the CIP Sub-Committee meeting of January 6, 2016. The Financial Sub-Committee had already accepted the Capital Program. Mr. Membrila continued the question, I asked an hour and one-half ago was if we were ready to move forward with this? At that time the Committee said no. Now we are, because we talked about this a little bit? Mr. Lynch responded the Committee was not ready at that time because we had not gone through the workbook exercise yet. I apologize if my response to you at that time wasn't clear.
Mr. Lynch called for a vote. Motion passed unanimously.

Mr. Jenkins stated, ask the BOS to recommend that the Department conduct a rate study.

ACTION: Mr. Lynch asked for a motion to have the Department conduct a rate study. A rate study had not been held for several years. There was consensus among the Committee members that a rate study was appropriate at this point in time. Mr. Membrila made a motion for the rate study. Mr. Stratton seconded. Motion passed unanimously.

F. Call to the Audience

Ms. Smith asked if there are different fixed rates for residential and commercial customers. If so, offer a $4 fixed rate increase for residential customers and a higher one for commercial customers. This would be easier for residential customers to absorb. If a 7% increase in user fees is imposed, this would be very negative for commercial users which is counter-productive to the local economy. Also, there is sensitivity to low-income residential users with a rate increase. The low-income subsidy program is extremely under-utilized. This program could be more emphasized for low-income users. What are sanitation fees?

G. Future Agenda Items

The CIP Sub-Committee had requested understanding the timing of the schedule so they can start the budget review process sooner next time.

Schedule for a rate study.

H. Adjournment

ACTION: Mr. Stratton made a motion to adjourn meeting. Ms. Bowen seconded. Meeting adjourned at 3:46 p.m.

NEXT REGULAR MEETING DATE:

TBD