

**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)
FINANCIAL SUBCOMMITTEE MEETING
Public Works Building
201 N. Stone Avenue – 7th Floor Conference Room
Monday, March 13, 2017, 1:00 p.m.**

Members Present: John Lynch, Corin Marron, Armando Membrita, Mark Stratton, Mark Taylor

Others Present: Mary Allen (RWRD), Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Jason Grodman (RWRD – via phone), Jackson Jenkins (RWRD), Bart Kreps (RFC – via phone), Veronica Lopez (RWRD), Patrick McGee (FRMD), Julie McWilliams (RWRD), Ellen Moulton (FRMD – via phone), Fernanda Quintanilla (RWRD), Amber Smith, Eric Weiduwilt (RWRD), Chuck Wesselhoft (PCAO),

A. Call to Order / Roll Call

John Lynch, Chair, RWRAC Financial Subcommittee, called the meeting to order at 1:02 p.m. Veronica Lopez, Program Coordinator, RWRD, took the roll call and a quorum was present.

B. Pledge of Allegiance

C. Call to the Audience – There were no comments from the audience.

D. Safety Share

Ms. Lopez reminded everyone to be careful not to trip over telephone and computer equipment cords.

E. Approval of Minutes – Meeting Minutes of February 13, 2017

ACTION: Mark Stratton made a motion to approve the meeting minutes of February 13, 2017. Corin Marron seconded the motion. Motion passed unanimously.

F. Discussion/Action

1. Rate Study Preliminary Results Webinar

Bart Kreps, Raftelis Financial Consultants (RFC), presented a Power Point presentation via Skype and stated this presentation will provide the preliminary results of the rate study. Mr. Kreps provided an overview of what the presentation includes: the purpose of the study, a utility cost overview, discussion on the rate structure alternatives, to include feedback from the RWRAC that was received at a previous meeting, bill comparisons, affordability, and a discussion on the connection fees.

The purpose of the study was to perform a cost of service analysis. This process involves taking the costs and allocating those costs to customer classes based on how they use the wastewater system. The study did not include a determination of revenue requirements. Mr. Kreps stated the majority of the utility costs are fixed. Debt service is a fixed cost and the variable costs are commodity (utilities and chemicals) costs. Two main ways that costs are recovered are fixed charges and variable rates. Mr. Kreps discussed costs versus revenue.

Mr. Kreps stated there are two components to the rate structure, service fee and volumetric rate. Mr. Kreps explained how the adjusted volume rate is calculated. When the rate structure was reviewed, Mr. Kreps stated there were a number of considerations and conversations held to discuss the rate design. One was identifying cost components of service fees, which includes two primary components: the account component and the portion of debt service. Second, the overall composition of fixed versus variable costs was reviewed. Mr. Kreps stated some considerations they wanted to do when looking at volumetric rates was to assign a high strength factor to the commercial class and to reduce the number of customer classes that qualify as high strength customers.

Mr. Kreps went over the feedback received from the RWRAC at the December 15, 2016 meeting. Some of the options were to consider separating certain commercial customers from the general commercial class and to target commercial customers whose discharge is primarily from a single restroom and hand sink. Mr. Kreps stated they worked with RWRD staff to obtain additional sampling data to assess. The sampling from individual businesses can be challenging due to the location of the cleanout and limited flow. Mr. Kreps continued to discuss the assessment. Discussion ensued regarding the installation of separate meters at the County's cost.

Mr. Kreps stated there was recent sampling that was done that substantiated the recalculated volumetric high strength factors and continued to explain how they built in the data into their model. Mr. Kreps provided a review of the four rate structure alternatives and discussed two tables which showed the high strength factors and rate structure data for each of the alternatives. Mr. Kreps stated a customer's bill is dependent on how much water they use. The average customer uses a volume of approximately 7 Ccf. Discussion ensued regarding why there are so many customers at a zero volume. Mr. Kreps stated it could be that the customer is not always there, such as those who visit during a certain time of year or that the customer just does not utilize that much water. Mark Taylor, Vice-Chair, RWRAC Financial Subcommittee, stated the total number of customers listed does not seem to be accurate. Mr. Kreps stated he can re-review this data as the zero numbers may be overstated. Jackson Jenkins, Director, RWRD, stated he thought multi-family had a higher strength than residential and wanted to confirm what the data revealed. Jason Grodman, Permit and Regulatory Compliance Officer, RWRD, stated in 2015 when he reviewed the alternatives, one of them was a high density residential and the class average of 603 for COD and 207 for TSS slightly above the domestic background for 2013, but that it was not significant.

Discussion ensued regarding the monthly commercial customer impacts data. Mr. Jenkins reminded everyone to keep in mind that there are approximately 255,000 residential total customers and approximately 21,000 commercial industrial accounts. Mr. Kreps stated when evaluating the alternatives, some of the top pricing objectives was revenue stability, cost of service based allocations, simple to understand and update, and affordability. Mr. Kreps went through the findings for each alternative. Mr. Kreps stated another item they were asked to review was a comparison of bills and how Pima County compares to other cities/regions. It can be difficult to make comparisons as systems are different and the way other utilities recover costs are different. Mr. Lynch commented comparisons like this can be too widely variable.

Discussion turned to the zip code level analysis. Mr. Kreps stated the consumption in low income zip codes are slightly less than the residential average. With regards to the connection fees, Mr. Kreps stated these fees are assessed to customers upfront as they connect to the system. Mr. Kreps stated calculations were updated with current data and it does support an increase to the current fee of approximately 2.6%. Mr. Taylor asked how this increase would affect the user fees. Mr. Kreps replied over time it will generate more revenue, but it would depend on how many customers are connected to the system and this would have to be factored into the Financial Plan going forward. Mr. Taylor asked Keith Dommer, Director, Finance and Risk Management Department (FRMD), if the department gets additional revenue through the connection fee, does this change the 4% request. Mr. Dommer stated there are various factors used to determine rates that users are charged for operation of the system. A primary factor is the debt service ratio. The bonding agencies only allow regular occurring revenues that are generated from the operation of the system. The rating agencies will not allow the County to use connection fee revenues in the calculation. Discussion ensued regarding the connection fees.

Jennifer C. Coyle, Special Assistant to the Director, RWRD, stated Mr. Kreps will be in attendance and presenting to the RWRAC at the public meetings on March 23, 2017. At that time, hopefully the RWRAC can make a recommendation or vote on the connection fee increase request. This item will go before the Board of Supervisors (BOS) at the April 18, 2017 meeting. A draft hard copy of the rate study results will be provided to the BOS at this time. Mr. Lynch commented he hopes it is clear that there are two different processes for the user fees and connection fees and hopes there is no confusion in differentiating between the two. Mr. Dommer noted an explanation could be provided on the difference between user rates and connection fees.

ACTION: Armando Membrilla made a motion to move the Call to the Audience agenda item up on the agenda. Mark Stratton seconded the motion.

G. Call to the Audience

Mary Allen, Program Coordinator, RWRD, asked if other utilities they looked at and did comparisons with, if they use business type or high strength factors to determine how they charge customers. Mr. Kreps stated some do, but not all, as it is not a requirement. Ms. Allen stated some customers do not fit into certain categories and are lumped into a commercial category and if this could be grouped by a high strength. Mr. Kreps stated the primary objective goal was to simplify the structure and consolidate some of the classes versus trying to drill into the commercial class and separate into more categories.

F. Discussion/Action

2. 2017/18 Budget Review

Patrick McGee, Division Manager, FRMD, distributed handouts and provided a brief overview on the FY 2017/18 Budget Summary and a Summary Comparison for FY 2017/18 Requested vs. FY 2016/17 Adopted.

3. Rate Increase: January 2017 and Future Fiscal Years

Mr. Lynch asked that this agenda item be deferred for a future meeting.

4. Financial Subcommittee Schedule

Mr. Lynch proposed the subcommittee meet after the BOS meeting on April 18th, but before the April 27th RWRAC meeting. Ms. Lopez will poll the Subcommittee members to schedule a meeting date/time.

G. Future Agenda Items

Mr. Lynch stated the next meeting agenda will be relatively the same as this meeting's agenda, except for the rate study item.

H. Adjournment

ACTION: Mark Stratton made a motion to adjourn the meeting. Corin Marron seconded the motion. The meeting was adjourned at 2:52 p.m.