



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

**MEETING MINUTES**

**Friday, April 15, 2016 - 1:00 p.m.**

**Members Present:** Sheila Bowen, John Lynch, Armando Membrila, Mark Stratton, Mark Taylor

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

**A. Call to Order/Roll Call**

John Lynch (Chair) called the meeting to order. The meeting began at 1:00 p.m. Jody Watkins, RWRAC Program Coordinator, took roll call. A quorum was present.

**B. Pledge of Allegiance**

**C. Safety Share**

Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD), reminded everyone that it is supposed to be windy over the next few days, so be especially careful when opening a car door as it could potentially slam and get your fingers smashed or damage your car door. Mr. Lynch mentioned everyone should use protective safety wear (eye glasses), especially when pruning trees and yardwork at this time of year.

**D. Call to the Audience**

None

**E. Approval of Minutes**

Meeting Minutes for March 2, 2016

ACTION: Mark Taylor motioned to approve the minutes. Mr. Lynch seconded. Mark Stratton abstained. Motion passed unanimously.

*NOTE: Item #3 - Rate Study Scope of Work was moved ahead of Item F – The Committee took a moment to read.*

**F. Discussion/Action**

**1) July 2017 Rate Increase Option (Audio 1:05:15)**

**a. Revenue Impact**

**b. Impact on Debt Ratios**

Mr. Lynch previously requested that Keith Dommer, Director, Finance and Risk Management Department, create two additional Options (see #5 & #6) that would show what the implications would be to delay a rate increase from January 2017 to July 2017 followed by two additional increases in July 2018 and July 2019; and an Option that showed rate increases in July 2017 followed by two additional increases in January 2018 and January 2019.

Mr. Dommer referred to Handout #1 (Rate Option Summary - 11x17)

Mr. Dommer stated that Options #1 and #2 are managing the Department's finances to the edge of default and would be difficult to recover back to Financial Health.

Option #3 – Finance's original proposed Option to maintain the Bond Rating of 1.3%. A 7% rate increase would be needed immediately. Finance has since proposed a different Option (#4), taking other factors into consideration.

Option #4 – Has a little more flexibility and still managing on Financial Health versus a Default Ratio. The Default Ratio would be at 1.2 as opposed to a 1.3. The three 4% rate increases (orange highlight) would be the recommendation in the Financial Plan, which would take effect in January 2017, 2018 and 2019. The boxes to the right (yellow highlight) are future rate increases, 2020/2021 through 2022/2023, with no increase in 2019/2020. This Option includes the \$38 million prepayment, so it is important to track the cash reserve. This is Finance's preferred Option. *Note: The rate increase may not be adopted in time to go into effect in January 2017.*

Option #5 recommends the same three 4% rate increases (orange highlight); however, the dates they would take effect would be July 2017, 2018 and 2019. The boxes to the right (yellow highlight) are future rate increases, 2020/2021, 2021/2022 and 2022/2023 and would drop the Rating Agency Ratio to 1.15 in 2017. Mr. Dommer explained that as long as the Department demonstrates that the extra cash is being utilized to pay off debt the risk is minimal. Once the new rates go into effect, the Debt Ratio would increase.

The difference between Option #4 and Option #5 is that the rate increases don't change, only the effective date and the cash on hand is lower in Option #5. Both include the \$38 million dollar prepayment.

Mr. Dommer indicated that County Administration does not want to delay the rate setting for the Rate Study assessment. The Financial Plan could recommend a 4% rate increase as soon as possible in 2017 and additional future rate increases, in which the results of the Rate Study may have an impact on the recommendation. Discussion ensued. (Audio 1:17)

Mr. Dommer stated that he would like the Committee's recommendation to acknowledge that an immediate 4% rate increase is needed in 2017 and they could include language that would defer any future rate increases based on the results of the Rate Study or other information gathered. The Committee discussed changing the word for future "rate" increases to "revenue" increases.

## **2) Final 2016 Financial Plan**

The Financial Plan states that there is a need for three 4% increases; however, Mr. Dommer reiterated that there is considerable latitude with not specifying when the second and third increases need to be effective. Only the first 4% rate increase needs to be as early as possible in 2017. The Board could approve a one-time 4% rate increase and not approve any additional rate increases until a later date or could approve all three 4% increases.

The Rate Study will review the current methodology, how the portion is appropriated, fixed and variable, it does not recommend rate increases. The Committee wants to support the Finance Department in the immediate need of a 4% rate increase to be effective in early 2017; however, they do not want to recommend three 4% increases until they receive the final information on the Rate Study. Mr. Dommer reminded the Committee that there is no deadline on the Financial Plan since it is not tied with the budget. The Board does not approve the Financial Plan, it is for information only. Discussion ensued.

Mr. Dommer referred to the 2016 Financial Plan, page 16-17.

In the Recommended Section, the Finance Department will make a statement regarding the Debt Service Ratio and any recommendations to maintain the preferred 130 percent. The Committee has a section that can explain the increases and that they have reviewed and support the findings of the Finance Plan and approve the immediate need of a 4% rate increase in early 2017.

The Committee discussed and created the following to be added into the Financial Plan once the full Regional Wastewater Reclamation Advisory Committee (RWRAC) has had the opportunity to review and agree on the wording at their next meeting on Thursday, April 21, 2016.

*We support the findings and recommendations outlined in the 2016 Financial Plan, which identifies current and future revenue shortfalls for the Department. We recognize the urgency for a revenue increase as early in calendar year 2017 as possible. We further recognize a Rate Study is underway, which is necessary to equitably allocate the cost of providing service. Therefore, we recommend an initial 4% revenue increase to take effect as early as possible in calendar year 2017. The Committee also recommends revenue increases for fiscal year 2017/2018 and beyond, consider the methodology and findings of the Rate Study and future financial plans.*

ACTION: Mark Stratton made the motion for the RWRAC Financial Sub-Committee add the information above to the 2016 Financial Plan under the Advisory Committee Plan, page 17. Armando Membrilla seconded. Discussion ensued. Motion approved unanimously.

Mr. Dommer will be submitting Option #4 in the Financial Plan, which recommends three 4% rate increases beginning with the first rate increase in January 2017 and again in January 2018 and January 2019. This includes the \$38 million dollar prepayment.

Ms. Watkins will send the approved motion to the full RWRAC by noon on Monday for their review. Hard copies will be available at the next RWRAC meeting on Thursday, April 21, 2016.

Mr. Dommer will update the 2016 Financial Plan and change the words from “user” fees to “revenue” fees. Option #4 is currently in the draft 2016 Financial Plan and will have the full Rate Workbook. Once the RWRAC reviews and approves the motion above at their next regular meeting, it will be added into the “Advisory Committee Plan” for finalization.

### 3) Rate Study Scope of Work (Audio 11:00)

Jennifer C. Coyle, Special Assistant to the Director, RWRD, stated that the first version of the Scope of Work was very comprehensive and has been condensed considerably due to duplication of work from other departments. The Department was requesting detailed information such as current debt, potential restructuring and payout terms and population growth; however, this information is already provided by the Finance Department. The Rate Study will be supplemented with information from the Finance Department.

Mr. Taylor inquired about the distinction of Capital Improvement Program (CIP) projects and if they were going to be reviewed as User Fees or Connection Fees. Mr. Lynch thought it was more a policy issue and not a Rate Study issue. Mr. Jenkins agreed it is more a policy discussion. The CIP formula is that the debt service goes into the user fee; however, the item “Update 2012 Connection Fee Model” will review any capital projects from 2012 forward that are augmentation or capacity projects, add them to the same methodology that was done in 2012, which adds in the value of the asset for any capacity or augmentation related CIP project and dividing it out by the capacity of the remaining and depreciating that has occurred over that same period of time. If the same methodology is utilized, the Department can review and request from the Board of Supervisors for an increase in user fees or connections fees. See equations. Discussion ensued.

$$\frac{\$Asset}{\text{Remaining capacity Interest}} = \$16.02 \text{ per gallon in 2012} \qquad \frac{\text{Debt Service}}{\text{Principal}} \qquad \frac{\text{Ratios}}{\text{Debt Covenants}}$$

Residential fee is calculated by taking the Census average of 2.7 people per household multiplied by 80 gallons per person equals 216 gallons per day per house, plus an INI factor, living system of 17-17 1/2%, which equals 256 gallons multiplied by \$16.02 equals the connection fee, which equals \$4,066.

Mr. Dommer, stated that current users are utilizing things now that users paid for thirty years ago. We are getting benefits from previous users who paid, which evens out over time.

Mr. Jenkins explained that high strength user fees (16 company types), such as restaurants and laundries (commercial/industrial), RWRD conducts sampling of those industries every five years and adjusts their user fees accordingly. Similarly, the Department should check connection fees every five years and add it to the Rate Study.

Mr. Dommer stated that it is a policy issue as to what capital projects end up in the County’s fund. The Rate Study will show how those capital projects will affect the rates and how they will be reallocated. Discussion ensued. The Committee would like the study to show a guideline on how often and when the connection fees should be addressed to include financing and how rates will be set.

Mr. Dommer explained that when Debt Service is paid, it is the “Principal” or the cost of the asset to include capitalizing on the Interest.

The consultants will attend one public meeting, two RWRAC meetings (also public meetings) and one presentation to the Board of Supervisors meeting presenting the final report. Additional advertising in the Daily Territorial and AZ

Daily Star newspapers as needed. Ms. Coyle stated that the original public meeting, which will solely focus on the Rate Study, will take place in the Board of Supervisors Hearing Room and the two RWRAC meetings (public meetings) will take place at the Water and Energy Sustainability Center.

The bid process will begin next month with the hopes that the Rate Study begins on July 1, 2016.

The Committee discussed recommending a 4% rate increase effective 2017 and be able to modify the second recommended increase after reviewing the completed Rate Study. Mr. Dommer explained that the 2016 Financial Plan from the Finance Department is to recommend three annual increases of 4%, one in 2017, 2018, and 2019, not being specific how the revenue is going to be generated, or when increases need to be implemented in those three years; however, the 2017 increase needs to be implemented as quickly as possible. Mr. Dommer would like to include a letter from the Committee stating that both Finance and the RWRAC are in line with the recommendations. A supplemental letter from the RWRAC could be included and detail what the Committee wants to do if it is different than the Financial Plan. Rates can be increased without being in the budget.

**ACTION:** Sheila Bowen made the motion for the Department to go forward with the Rate Study with edits. Mark Stratton seconded the motion. Armando Membrila abstained. Motion approved.

#### **4) Potential Vote on Recommendation to Full RWRAC on Rate Increase**

See 2016 Financial Plan above for action and vote.

#### **G. Call to the Audience**

None

#### **H. Future Agenda Items**

No future agenda items at this time.

Note: Mark Taylor and Ann Marie Wolf are not available in May and Armando Membrila is not available in June.

#### **I. Adjournment**

Mr. Lynch made a motion to adjourn. Mr. Membrila seconded. Meeting adjourned at 3:20 p.m.