

**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)
FINANCIAL SUBCOMMITTEE MEETING
Public Works Building
201 N. Stone Avenue – 8th Floor Conference Room
Wednesday, October 18, 2017, 9:30 a.m.**

Members Present: John Lynch, Corin Marron, Matt Matthewson (via phone), Armando Membrila, Mark Taylor

Others Present: Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Jackson Jenkins (RWRD - intermittently), Bart Kreps (Raftelis Financial Consultants, Inc. – via phone), Veronica Lopez (RWRD), Patrick McGee (FRMD), Xavier Rendon (FRMD)

A. Call to Order / Roll Call

John Lynch, Chair, RWRAC Financial Subcommittee, called the meeting to order at 9:36 a.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

Mark Taylor, Member, advised to be a defensive driver and watch for distracted drivers. Jennifer C. Coyle, Special Assistant to the Director, RWRD, noted the newest iPhone update provides a feature that recognizes when you are driving and goes into a “Do Not Disturb” mode, which mutes notifications while driving.

E. Approval of Minutes – Meeting Minutes of September 20, 2017

ACTION: Mark Taylor made a motion to approve the meeting minutes of September 20, 2017. Corin Marron seconded the motion. Motion passed unanimously.

F. Discussion/Action

The agenda items were discussed out of order.

1. 2018 Financial Plan

a. Proposed FY 2018/2019 Budget Process & Key Milestones

Keith Dommer, Director, Finance and Risk Management Department (FRMD), provided a list of tentative key dates for the 2018/2019 budget schedule. Mr. Dommer stated the Deputy County Administrator for Public Works (PW) will hold budget meetings with PW Directors the week of December 11, 2017 and will then meet with the FRMD the week of January 8, 2018. Patrick McGee, Division Manager, FRMD, distributed a draft RWRD budget calendar. Ms. Coyle stated RWRD has completed the capital equipment requests and have submitted those requests. The capital equipment budget is currently \$1 million more than last year and the department will adjust as the entire budget comes together to ensure a 0% increase. Personnel Services have also been submitted. Ms. Coyle stated Jackson Jenkins, Director, RWRD, has meetings within the next couple of weeks with the various Divisions to review their proposed budget requests. (Armando Membrila and Jackson Jenkins arrived at 9:45 a.m.)

2. Department Revenue Projections & Rate Implications

Mr. Dommer distributed four (4) forecasting spreadsheets and stated they are based on Period 15 for last fiscal year. Mr. Dommer first discussed the forecast which showed no new rate increases and stated this is the budget as it currently stands. Mr. Dommer explained for Fiscal Year 2017/2018 the debt service ratio is 1.13 and by Fiscal Year 2020/2021 would be in financial distress.

Mr. Dommer then went over the second forecast projections, which showed the commercial class rate increase of 16%. Mr. Dommer explained the revised estimate for the commercial class increase is approximately \$3.5 million annually. Mr. Dommer stated the projections had to be revised down due to new numbers in the customer class as multi-family was included and not just commercial businesses. The full benefit of the proposed increase would be seen in 2018/2019. Discussion then continued regarding these reduced revenue projections and the now conflicting announcement that with this 16% increase, another rate increase would not be needed until 2020. Mr. Dommer touched briefly on the possibility of reducing the debt service ratio and cash balance even further. This discussion was put on hold at this time as Bart Kreps, Project Manager, Raftelis Financial Consultants, Inc., was ready to present.

2. Raftelis Rate Structure Study

Mr. Kreps discussed the Rate Structure Study specifically focusing on the calculation behind the 16% increase to the Commercial Bill Class. Mr. Kreps discussed that first the total revenue requirements are allocated into various buckets. A portion of treatment costs and all Laboratory costs are allocated into the strength component. Discussion ensued regarding the 100% of the Laboratory costs being placed into the strength component rate and Mr. Kreps acknowledged there are many ways to design rates and allocate costs and this method is appropriate and the industry standard. A portion of General and Admin charges are also allocated into the strength components of the rate. Mr. Taylor expressed concern with this and discussion ensued.

Mr. Kreps discussed the process of allocating O&M expenses, assets, capital expenditures and debt service to cost drivers. The functionalized capital assets were allocated to cost drivers in a similar process as O&M functionalized expenses to cost drivers. The proportional breakdown used for assets is also used to allocate capital expenditures less connection fee revenue. Mr. Kreps explained the final step involves a reallocation of \$37 million of debt service to the account cost driver to be included in the service fee calculation. Mr. Kreps stated this \$37 million was reallocated from the volumetric cost drivers to the fixed cost driver, which supports an increased service fee. Mr. Kreps then discussed this now provides the net revenue requirements by cost driver.

Mr. Kreps explained *Exhibit 4.11: Units of Service by Customer Class* and how the volume measure was converted to pounds for COD, TSS, and TN for each customer class category. Mr. Kreps stated for each customer class, the cost allocation is the total unit cost of service multiplied by the units of service for that class. Mr. Lynch asked for clarification on the methodology of converting the volume into pounds for COD, TSS, and TN. Mr. Kreps stated it is a mathematical conversion that produces the formula and converts the volume into pounds. Corin Marron, Member, noted this is where the water sampling data was utilized. Mr. Lynch requested staff provide a summary that offers more insight and a description of how units of service were calculated from volume to pounds to better easily understand. Ms. Marron stated Mr. Lynch's request is similar to the request made by Ann Marie Wolf, Member, at the public meeting on October 16th. Ms. Coyle stated sampling data was included in the Board of Supervisors meeting packet that was submitted for the November 7, 2017 meeting, and will distribute this data to the RWRAC, as well. Mr. Lynch thanked Mr. Kreps for taking the time to call in and provide further explanation. Armando Membila, Member, asked which class an auto mechanic business fits into. Ms. Coyle stated she will request that information from staff and forward on to him.

ACTION: Mark Taylor made a motion to accept the one-time 16% increase to the commercial class in accordance with the Raftelis Rate Structure Study. Corin Marron seconded the motion. The motion passed unanimously.

Matt Matthewson, Member, asked if the five industrial classes with strength factors between 1.0 and 1.16 should also be rolled into the Commercial Bill Class to pay the same rate. Mr. Jenkins stated this would require another public notice and these classes are paying their fair share. The strength factors currently assigned are based on sampling data.

Discussion returned to the previous topic of revenue projections and rate implications. Instead of continuing with the remaining two spreadsheets, Mr. Dommer stated he is not ready to make a recommendation on the

1.15 debt service ratio and six-months of O&M unrestricted cash balance until he has time to consult with financial advisors.

Mr. Taylor expressed his concern regarding the potential mathematical error made on the original revenue projections and does not feel comfortable with the idea that FRMD would recommend lowering the debt service ratio and unrestricted cash balance requirements in order to make the numbers to work with regards to no further rate increases until 2020. Mr. Lynch and Mr. Taylor stated the committee was told previously that the debt service ratio should not go below 1.3. Then they were told 1.2. Then 1.15 in September and potentially even further. The committee and staff continued discussion and this topic was tabled until the next meeting.

ACTION: Mark Taylor made a motion to approve the Pima County Regional Wastewater Reclamation Department Rate Structure Study, performed by the Raftelis Financial Consultants, Inc., dated June 28, 2017 pending the addition of the conversion calculation summary. Corin Marron seconded the motion. The motion passed unanimously.

Ms. Coyle stated Mr. Kreps will be available via telephone at the RWRAC meeting next week to give a similar overview of the 16% calculation to the full committee.

3. November and December Meeting Dates

The subcommittee confirmed the next Financial Subcommittee meeting will be held on Wednesday, November 15th.

G. Future Agenda Items

- Recommendation on Optimum Debt Service Coverage Ratio and Minimum Cash Balance

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

I. Adjournment

ACTION: Mark Taylor made a motion to adjourn the meeting. Corin Marron seconded the motion. The meeting was adjourned at 11:17 a.m.