

**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)  
FINANCIAL SUBCOMMITTEE MEETING**

**Public Works Building  
201 N. Stone Avenue – 8<sup>th</sup> Floor Conference Room  
Wednesday, November 15, 2017, 10:00 a.m.**

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

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

**ACTION:** Corin Marron made a motion to nominate Matt Matthewson to serve as acting Chair since the Chair and Vice-Chair are present by phone. Armando Membriola seconded. Motion passed unanimously.

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

Matt Matthewson, Acting Chair, RWRAC Financial Subcommittee, called the meeting to order at 10:05 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**

Armando Membriola, Member, stated this is the time of year “snow birds” visit Tucson and are not always familiar with driving around town and to be cautious while driving.

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

**ACTION:** Corin Marron made a motion to approve the meeting minutes of October 18, 2017. Mark Taylor seconded the motion. Motion passed unanimously.

**F. Discussion/Action**

**1. Raftelis Rate Structure Study**

**a. Edits to Study Based on October 26, 2017 Committee Feedback**

Jennifer C. Coyle, Special Assistant to the Director, RWRD, distributed the latest revision of the Raftelis Rate Structure Study (Study) to the Subcommittee. Mr. Matthewson stated at the last full RWRAC meeting, the RWRAC recommended revisions to the Study, Section 5 – Rate Design, and this latest Study reflects those revisions. Mark Taylor, Member, RWRAC, asked for a recap of what the revisions were based upon. Mr. Matthewson stated the revisions were based upon a general review of the previous Study and the main focus was on the reliability of the statistical data that Raftelis and RWRD generated. A concern that was communicated at the October 26, 2017 RWRAC meeting was that the sampling data was not statistically significant and did not support a 16% adjustment. In the Study, Raftelis amended the Study to clarify that while the results were not statistically significant, there were valid reasons to recommend a 16% adjustment. Ms. Marron added that the RWRAC meeting minutes of October 26, 2017 provide an accurate summarization of the meeting. Discussion ensued regarding what occurred at the October 26<sup>th</sup> meeting. Mr. Matthewson stated based on the motions that were passed at the previous Financial Subcommittee meeting, he felt it was important to move those two motions to the full committee. The first motion was to approve the Study and the second was to accept the department’s recommendation of a 16% adjustment to the Commercial Billing Class. Ultimately, both motions failed to pass. Ms. Marron referenced that included in the motion was to also compare the commercial user data against national averages.

**b. Rate Increase to Commercial Class Based on October 26, 2017 Committee Feedback**

Jackson Jenkins, Director, RWRD, directed the subcommittee to the three tables on Page 36 of the Study. Mr. Jenkins stated the first table is Commercial Only and is representative of 38 businesses and the samples collected had no representation of high strength users. The data yielded a much higher average concentrations than residential of the three components: Total Suspended Solids (TSS), Total Nitrogen (TN), and Chemical Oxygen Demand (COD). Mr. Jenkins explained the data calculations. Mr. Jenkins stated commercial is not being raised 16%, the strength factor is being raised by 16% or whatever it gets approved at. The data that was used to come up with the 16% multiplier on that portion of the formula was based on commercial only and is the most conservative sampling population, and thus, is the safest value to use. Mr. Jenkins reiterated the 16% multiplier in the formula is reasonable and the most conservative data set.

The subcommittee and staff continued to discuss and provide feedback on the Study. Mr. Membrilla asked why some feel there is not enough data to support the proposed increase. Mr. Taylor responded that there should be enough data to show the data is accurate, and the more data you have the more statistically accurate it is. Mr. Jenkins explained the sampling process the department conducted and how Raftelis came up with 16%. Discussion ensued regarding the 2015 sampling results based on the average strength of commercial plazas with no high strength users (Commercial Only), commercial plazas with high strength users (Commercial Mixed), and all customer samples (all inclusive). Mr. Taylor stated he wants to assure when this proposed increase goes before the Board of Supervisors, that there is proper data to support the 16% adjustment. Mr. Jenkins explained when sampling, those samples could be impacted by residential flow or high strength users, which makes getting commercial only samples a challenge and you will still have a statistical issue. Mr. Taylor stated if literature or data could be found to show what it standard for commercial rates, then that information could also be used to support the 16%. Mr. Jenkins replied by using a national average to justify which percentage to use would then make sampling and mathematical formulas unnecessary. (John Lynch exited the meeting at 11:00 a.m.) Discussion ensued regarding strength versus costs. Mr. Taylor reiterated he wants to stay within the framework of how Raftelis came up with the 16%, but his concern is how the data is not statistically significant. Mr. Matthewson stated staff need to present the Study, but also present supporting documentation and explain why this increase is justified. Staff and the subcommittee discussed how to proceed. Keith Dommer, Director, Finance and Risk Management Department (FRMD), stated the impression he got from the full committee at the last meeting was they did not want to be too precise or mathematical, but have logical and reasonable information. Ms. Coyle stated to date, one letter was received from the Oro Valley Chamber of Commerce. RWRD's Community Relations staff posted notices of this proposed increase on social media, in the newspaper, sent letters to approximately 10 business organizations, on the County webpage, and held a special public meeting on this matter.

**c. Moving Forward – Implementing Modifications to the Rate Structure and other Billing Alternatives as Outlined in the Study**

Discussion ensued regarding the statistical data and how to proceed. Mr. Jenkins stated this matter has been discussed for several months and proposes that the subcommittee and staff wait to see the outcome of tomorrow's full meeting and that will help determine on how to move forward on the 16% increase.

Mr. Jenkins stated there are three other topics related to the Study that staff wants to recommend and have more discussion with the committee to get consensus. The 16% increase would take pressure off revenue needs and the financial picture of the utility and would allow more focus on the three topics, which are: 1) going to a fixed residential fee, 2) reduce to one class or consolidate the classes to something much lower, and 3) eliminate the Winter Quarter Average for commercial/industrial. This topic will be presented at the December full committee meeting.

Mr. Jenkins stated he will have staff research to see what information can be found for the national average benchmarks for commercial versus residential. Mr. Jenkins stated he does not know how valid that data will be.

**2. Department Revenue Projections & Rate Implications**

Mr. Dommer stated he would like the support of the subcommittee in recommending a target debt service ratio of a minimum of 1.2 and an unrestricted cash balance of three months of operating expenses. Mr. Dommer added he would like the authority to utilize excess cash to refund debt when due or to continue to reduce rates. Mr. Dommer went over ratings from various rating agencies. The debt cannot currently be refunded because the debt is not callable until future years. Mr. Dommer stated he would like to explore

taking the unrestricted cash and putting it in an escrow account that is restricted for paying off certain portions of debt when it comes due. Mr. Dommer stated if the debt service ratio goes below 1.2 that would trigger a rate increase consideration and if the unrestricted cash balance is under three months that would trigger a rate increase. Mr. Dommer went over what the rate standards are among other cities and the various rating agencies. Discussion ensued regarding Mr. Dommer's recommendation.

**ACTION:** Mark Taylor made a motion to accept the recommendation of a minimum of a 1.2 debt service ratio and a three month unrestricted cash balance of operating expenses. Corin Marron seconded the motion. The motion passed unanimously.

**3. 2018 Financial Plan**

Mr. Dommer stated the FRMD has finalized the 2017 FY numbers and those will be used for FY 2018 projections. The department is currently preparing for the FY 2018/2019 budget. Mr. Dommer stated he should have a workable model to discuss by the next subcommittee meeting.

**4. Fiscal Year 2017/2018 Expense & Revenue Update**

Patrick McGee, Division Manager, FRMD, provided the Period 4 Expense and Revenue update. Handouts were distributed to the subcommittee. Mr. McGee stated RWRD is approximately \$300,000 under budget for expenses, which the majority of that is in from personnel services due to vacancy savings. The debt service depreciation is \$91,000 over budget due to assets that were retired. Total revenues are forecasted at \$87,000 under budget at \$177M. Mr. Matthewson asked Mr. McGee to explain the debt service change on the handout. Mr. McGee stated the debt service was revised from Period 3. The Period 3 debt service was approximately \$2M over on the debt service that were based on non-cash items and those were removed.

**G. Future Agenda Items**

- Outcome of the Raftelis Rate Structure Study
- 2018 Financial Plan

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

**I. Adjournment**

**ACTION:** Corin Marron made a motion to adjourn the meeting. Armando Membrilla seconded the motion. The meeting was adjourned at 11:59 a.m.