PIMA COUNTY
WASTEWATER RECLAMATION

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC) MEETING
Water and Energy Sustainability Center
2955 W. Calle Agua Nueva – Radon Conference Room

Thursday, January 21, 2016 - 8:00 a.m.

Members Present: Sheila Bowen, Barbee Hanson, Bob Iannarino, Bill Katzel, Rob Kulakofsky, John Lynch, Matt Matthewson, Armando Membrila, Amber Smith, Mark Stratton, Mark Taylor (Chair), Ann Marie Wolf

Others Present: Mary Allen (RWRD), Melanie Alvarez (Pima Association of Governments), Tom Burke (Pima County Administrator's Office), Jennifer C. Coyle (RWRD), Jackson Jenkins (RWRD), Doug Kirkland (RWRD), Patrick McGee (FRMD), Patti Nelson (RWRD), Jeff Prevatt (RWRD), Jaime Rivera (RWRD), John Sherlock (RWRD), Lorraine Simon (RWRD), John Warner (RWRD), Ricky Wascher (RWRD), John Warner (RWRD), Jody Watkins (RWRD), Charles Wesselhoft (PCAO), and Eric Wieduwilt (RWRD)

A. Call to Order / Roll Call
Mark Taylor (Chair) called the meeting to order. The meeting began at 8:03 a.m.
Jody Watkins, RWRAC Program Coordinator, took roll call.

B. Pledge of Allegiance

C. Call to the Audience
None

D. Safety Share
Jackson Jenkins, RWRD Director, shared information on the Department's focus on Safety. The Department is proud of its safety program. Safety is a pillar for the Department and there has been continual improvements in safety performance. Recordable safety incidents are tracked. There is a trend of each year having less and less incidents. The ultimate goal is to have zero accidents.

E. Approval of Minutes
Meeting Minutes for December 9, 2015
ACTION: Mark Stratton motioned to approve. Barbee Hanson seconded. Motion passed unanimously.

F. Committee/Subcommittee
Citizens' Water Advisory Committee (CWAC) Update – Meeting Report and Tucson Water Activities
Mark Taylor (Chair) shared that the CWAC Finance Committee recommended a 9.8% rate increase that went to the full CWAC board. The City Manager, Mike Ortega, did not feel comfortable with the increase. The City's focus will be on health, institutional, regulatory, and safety requirements for maintaining Tucson Water. Tucson Water staff is reworking the budget with a zero-percent increase and adding in the focus items. There may be some cuts as a result.

G. Discussion/Action

1. Director's Update - Jackson Jenkins
Operational Update
Mr. Jenkins informed the Committee that he is proud to be a part of this Department. He recognized RWRD staff members present at today's meeting: Mary Allen, Jennifer C. Coyle, Doug Kirkland, Patti Nelson, Jeff Prevatt, Jaime Rivera, John Sherlock, Lorraine Simon, John Warner, Ricky Wascher, Jody Watkins, Eric Wieduwilt, and Charles Wesselhoft (PCAO). He continued by saying that the Department is working on moving this utility forward and continues to make improvements.

2. RWRAC Capital Improvement Program (CIP) Sub-Committee Meeting Report & Update (15-20 minutes) Bob Iannarino and Sub-Committee Members
Bob Iannarino, CIP Sub-Committee Chair, stated that three meetings were held on an accelerated schedule. The Committee thanked staff for a job well done. The CIP Sub-Committee looked for discretionary items with the CIP

that could be moved out into the later years. However, it turned out to be an educational experience. The CIP staff brought the CIP Sub-Committee up to speed on how projects are prioritized and assigned. An explanation was provided on the rating system for the National Association of Sewer Service Companies (NASSCO) and closed-caption television (CCTV) program. During the CIP Sub-Committee meeting held on January 6, 2016, the Committee went through the CIP Five-Year Plan to scrutinize Treatment, Conveyance, and Augmentation projects. The projects included a combination of regulatory and proactive items necessary for operations and maintenance.

The Treatment Division CIP projects have necessary regulatory and proactive measures. Examples include the Corona de Tucson Wastewater Reclamation Facility (WRF) upgrades necessary for permit regulation; and location of The Green Valley Lift Station situated in a floodplain, which is a safety concern.

The CIP Sub-Committee was educated with the Conveyance Division's state-of-the-art rating system with attention to those segments of the sewer conveyance system at risk, and those that requires maintenance and more frequent inspections of interceptor lines to check for deterioration. The CIP Sub-Committee concurred that the Conveyance element was appropriately aligned for the CIP.

The focus of the majority of the discussion was on the augmentation projects. Augmentation can accommodate new growth and is pro-active with the infrastructure to allow new companies to come to the region. A motion was made to recommend the approval the Five-Year CIP as is, with sensitivity that augmentation projects will impact user rates. This is the most discretionary area of the CIP. The sensitivity was that the Department is carrying a burden. The CIP Sub-Committee recognized that augmentation is a driver to the local economy. The CIP Sub-Committee recommended to investigate alternatives of other funding sources. There was discussion on looking at the cash reserve of $110 million and if the Department could utilize some of these funds to meet the mandated debt service ratio (DSR) for pre-2010 debt.

There was another motion that the CIP Sub-Committee understands and approves the process the Department uses to prepare the CIP budget with minor changes to the line items. The CIP Sub-Committee expressed the Department has the most efficient structure for being proactive with the infrastructure maintenance program. This model could be helpful to other County Departments. The CIP Sub-Committee was also in charge of reviewing a 10-year CIP budget. There will be a need to follow up on the remaining five years of the CIP budget at some point. For now, the Department needs to present information, review, and act upon for decision making. This makes this portion of the CIP budget difficult to forecast at this point. The completion of these projects require a due diligence to assess the physical infrastructure. There has been a recent emphasis with urban renewal and infill in the University of Arizona and Downtown areas. There are old conveyance systems that will need to be re-evaluated.

Other CIP Sub-Committee and RWRAC members also expressed their feedback. Sheila Bowen stated, in the evaluation of the prioritization and ranking for the CIP the list is huge. The Department has done a tremendous job of deferring some projects out to move some necessary projects forward. Amber Smith expressed, there are many checks and balances in place and making sure smart decisions are being made as to what projects get placed into the CIP. Political decisions made by the County Administrator and the Board of Supervisors (BOS) do not follow the same process. As a result, there are some very large CIPs dedicated for economic development that are thrown into the Department budget with very little notice. The CIP Sub-Committee recommended there should be further discussion with County Administration on how these decisions impact the Department. Ann Marie Wolf, added there could be economic development funds or other sources of funding available to fund augmentation projects that get thrown on the Department. Rob Kulakofsky stated, there are some areas along Speedway Boulevard and 22nd Street that need augmentation. Augmentation for infill projects will cost the Department more money. With more infill coming, it's wise to ensure enough money is coming in from connection fees to pay for these projects. A rate study needs to be conducted to assess connection fees and augmentation costs. This would help determine if enough connection fees are being charged. Ms. Bowen stated, there needs to be a better understanding on the timing of when decisions need to be made for rate increases, timing for public notices, and hearings. Mr. Lynch said, the Department is using a valid approach to connection fees and how they are assessed. There is still a need to validate this to ensure that the rate payers are not paying an inordinate amount for augmentation projects.

Mr. Jenkins responded, a connection fee rate study was completed in 2012. The study accurately reflects the value of the remaining assets versus the capacity remaining in the system. The asset value of capacity was determined to be $16.02 per gallon, which averages $4,066 for a residential connection based on flow volume. The depreciation rate and new capacity infrastructure value are also considered. This could be something to review when a user fee study is conducted. Usually with augmentation projects, the developer pays for the conveyance infrastructure for capacity and gives this to the Department. In exchange, the developer would receive some credits applied towards the value of what they build. In some of the augmentation projects in the CIP budget, the Department will pay for the capacity that historically has been funded by the developer. With reference to infill projects, there has been tremendous growth along Speedway Boulevard recently with high-rise buildings constructed. There are some areas that are maxed out on capacity, such as along 22nd Street. Additional capacity is needed in that area or no more infill projects can be completed in that area. In a regional system, augmentation costs for capacity requires a balance that averages throughout the system. The Department has spent many years working on a calibrated hydraulic flow model for the Conveyance system that is area specific. This model provides information on what areas need additional capacity. Eric Wieduwilt, Planning and Engineering, Deputy Director, added it is worth looking at the spreadsheet for the connection fee study completed in 2012. The evaluation utilized data from 2010 projections for augmentation.

John Lynch, Financial Sub-Committee Chair, stated that the Financial Sub-Committee has determined that the Department has not had a rate study done in almost a decade. A rate study is needed given the fact that there are questions on how to fund economic development, how are fixed costs addressed, and how industry peers address these items. Once the budgetary process is complete for this year, Fiscal Year (FY) 2016/17, there is a strong probability for a motion to be made for the Department to undertake this study. The Financial Sub-Committee would work with the Department to look at the scope of work. Another area that wasn't discussed is the strength factors for industrial users. The rate study should be fairly comprehensive to look at all revenue streams and if they are equitable to all rate payers.

Mr. Taylor ended the CIP Sub-Committee discussion by saying, no matter what this Committee (RWRAC) decides to do, it needs to be done right away. After the Committee decides what to do with the rate increase, need to work on how to allocate projects with either capital or user fees. This will probably be a long process that may require outside intervention to assist with developing policy correctly and consistently going forward. Decisions and recommendations will be brought to the full RWRAC for further discussion.

3. **Finance Department Update of Meeting with County Administrator**– Tom Burke

Mr. Lynch stated that the Financial Sub-Committee met on January 6, 2016. Subsequently, new information was provided to the Committee following a meeting held the afternoon of January 20, 2016, with Chuck Huckelberry (Pima County Administrator), John Bernal and Tom Burke (Pima County Deputy Administrators), and Mr. Jenkins to discuss a recommendation for a potential rate increase for the Department. The discussion during the subsequent meeting date had implications for the decisions that were made at the Financial Sub-Committee meeting. Mr. Burke was invited to speak at the RWRAC meeting today to provide this new information.

Mr. Burke informed the Committee that following the last Financial Sub-Committee meeting, held on January 6, 2016, Keith Dommer, Finance and Risk Management (FRMD) Director, spoke with Mr. Burke regarding the Department's financial situation. This discussion led to a follow-up meeting with Mr. Bernal, Mr. Burke, Mr. Huckelberry, and Mr. Jenkins to discuss options for the Department regarding user rates and maintaining bond covenants. Prior to the Regional Optimization Master Plan (ROMP), bonds needed to be sold to finance the project. Now that the ROMP project is near its end, the Department is on a maintenance schedule to fund the CIP projects at $30-$45 million annually. The amount of debt to be sold for the next five years is less than what was sold in 2010. A 1.3 DSR is desirable to rating agencies for the County to obtain lower interest rates and maintain a good bond rating, AA. The actual bond covenants mandate that a 1.2 DSR is maintained. This means that after all operating costs are paid, the remaining net revenue is 20% more than the debt service.

Before 2010, sewer revenue bonds were sold and also borrowed from the Water Infrastructure Finance Authority (WIFA) to finance ROMP. Both of those types of debt required that a 1.2 DSR be maintained. Beginning in 2010, sewer revenue obligations were sold, which also required a 1.2 covenant, but allowed the use of unrestricted cash to be applied toward annual revenues for the ratio calculation. A question that the Financial Sub-Committee raised was, "what is the impact on the DSR if rates are not raised?" Mr. Burke provided an explanation with the assumption

of no rate increase occurring and the County using the available cash of $38 million to pay down 2007 sewer bonds and 2005 WIFA loans. If no rate increases occur, and the DSR drops below 1.3, rating agencies could downgrade the sewer debt and higher interest rates would be charged toward future debt issuances. This has a negative consequence. Currently, the Department is borrowing in the $30-$40 million range, and no longer the $200 million range as seen during the ROMP. Since the dollar amount being borrowed now, is less than a few years ago, the impact of paying higher interest rates is not as significant. To maintain a good bond rating, it will be necessary to raise user rates by FY 2017/18. Without a rate increase the bond rating could be downgraded and it would cost more to borrow, $300,000-$500,000 more per year. The Wastewater Department's debts are evaluated separately from Pima County's debt. The Department's debt is pledged against Wastewater fees, and Pima County's revenue comes from tax levies and the general fund. Though the debt from the Department has some impact on Pima County's bond rating, it does not have a major impact. A bond rating is done every time bonds are sold and a debt issuance is made. The rating services used are Standard & Poor's Index, and Fitch Ratings. During the last bond issuance in early December 2015, the County received an AA rating from Fitch. This is with the assumption that Pima County would authorize rate increases to maintain the DSR.

There are two tiers of debt. When debt is issued, there is an agreement with the investors that additional debt will not be issued unless certain conditions are met. This is debt priority, which the investor is in first place to receive the revenues. The Senior Debt is pre-2010, which consists of WIFA loans and sewer revenue bonds. The DSR of how much cash remains after paying for operating expenses is decreasing. The DSR is improving because there is more cash available to pay off less debt. The requirement is a 1.2 DSR for the Senior Debt. Currently the DSR is 4-5 times above that. There are no problems with the Senior Debt.

The Junior Debt is post-2010, is not voter approved and has a different classification. The current debt being issued gets paid after all of the 2009 and prior debt. The bond holders require a 1.2 DSR be maintained. Currently, overall debt for the Department is at 1.27 DSR. For the Junior Debt the DSR is 2.73. The reason this ratio is so high is because, cash is allowed to be counted towards revenue. The investors have agreed that the Department is in compliance with meeting the 1.2 DSR, when cash is added. If no rate increases occur, in FY 2019/20, the Department would not meet its bond covenants. Rates need to be raised by FY 2019/20 to meet existing debt. Currently, the discussion is to raise rates by FY 2017/18.

This current year, Certificates of Participation (COPs) were issued against the County general fund. This type of debt is not rated as a sewer debt because the sewer revenues are not pledged. The excess cash is used to transfer to the County general fund to pay for the debt. A rating on the sewer debt would not occur until FY 2017/18, when new debt is sold for the CIP. At that time, the bond rating could be lowered and there would be a higher interest rate.

Mr. Lynch asked, what if the BOS were to defer an action on a rate increase, but indicated an acknowledgement that a rate increase was warranted to maintain the DSR above 1.2, would that defer a rating agency downgrade? Mr. Burke's response was that this would be taken into consideration. The rating agencies have always felt the County increases rates when necessary. The rating agencies also consider cash and revenue sources. Mr. Lynch asked, if the County Administrator was vetted to a particular debt ratio. Mr. Burke responded, the County has always met the bond covenants and is considered a financially healthy entity. In FY 2020/21, there may not be enough money coming in if revenues are not raised or costs are cut. Mr. Lynch inquired if anything came out of the meeting with the County Administrator about rate increases going forward? Mr. Jenkins responded that the recommendation was the Department not approach the BOS with a rate increase for the coming FY 2016/17. The Department should defer approaching the BOS for a rate increase until FY 2017/2018. Mr. Burke added, in FY 2010/11, the BOS adopted four automatic 10% rate increases. In that motion, the BOS said any available cash should be used to either pay down debt or reduce rates. The longer a rate increase is deferred, the larger the amount of a rate increase is needed for the subsequent years. His recommendation would be to introduce rate increases that are lower over time than to wait and do a larger increase.

There was much discussion, comments, and questions expressed by the RWRAC members following Mr. Burke's update. Committee members expressed their frustrations with having received new information just prior to being asked to vote on a recommendation to the BOS for a proposed rate increase. The Committee members expressed concerns about being asked to make decisions and recommendations with insufficient information provided to them. Many Committee members voiced that their credibility looks bad due to these circumstances.

Ms. Smith stated, every single conversation at the RWRAC and Sub-Committee meetings for the past three years has been the sky will fall if the DSR fell below 1.3. The CIP Sub-Committee has spent many hours over the past few months and gone through every line item on the CIP budget to look at ways to cut spending. Now on the eve of the RWRAC meeting, everything is okay. This Committee has worked in good faith and now everything we've been told went out the window. Mr. Burke acknowledged Ms. Smith's frustration and responded by saying, the focus is on maintaining good financial debt ratios and good financial standing for debt that is issued.

Bill Katzel said, he was put on this Committee to monitor rate increases on behalf of constituents. He is a bit disillusioned that rates have to be manipulated. The constituents are concerned that they have to pay more even when they conserve. He still wants to represent constituents and have their confidence. Mr. Jenkins responded, it does not look like a rate increase will be needed for FY 2016/17. It has been four consecutive years the Department has operated without a rate increase, since July 2013. The Department is losing user fee revenue from decreasing flow volumes.

Mr. Taylor, expressed it's important for this Committee to understand what changed and why. Mr. Burke replied this changed in the last couple of weeks. Mr. Dommer brought to his and Mr. Huckelberry's attention the push back on rates. Additionally, it is difficult to raise rates during an election year. The question becomes what happens if no rate increase? Mr. Burke's personal opinion is that a small increase now is better and should be done, but it doesn't have to be done. That is what this Committee is supposed to decide and recommend to the BOS. The bond covenants will not be violated if there is no rate increase. In the future the Department will still need borrow with bond sales instead of the revolving COPs. This will require continual monitoring of the DSRs in the future. With the Senior Debt there are no worries. The hope was once past FY 2018/19, there would be no need to issue sewer obligations because there would be enough cash to operate on as a pay-as-you-go basis. Approximately $150 million in cash was used to avoid borrowing more money. If the cash is used to maintain debt ratios then there is a need to borrow more in the future. By not raising rates this would require the Department to continue to borrow and pledging revenues. Delaying raising rates has a short-term impact that takes care of the next two-three years, but it doesn't alter the paradigm of how to handle future debt. By FY 2023/24, most of the ROMP will be paid off.

Mr. Lynch commented, the RWRAC members were forewarned of this change just prior to this meeting. He is frustrated as a member of the Finance Sub-Committee, that we developed a methodical process on how to solve a problem. The process was very well thought out. He was very comfortable with the Financial Sub-Committee's approach. The issue is, if we don't have all the information necessary, then we're making erroneous decisions. Last spring, he was embarrassed when the Financial Sub-Committee and the RWRAC had made a recommendation for a rate increase to the BOS, and it was changed at the last minute. The Financial Sub-Committee was ready to make a motion to the RWRAC today. Now he is embarrassed again, because now all of a sudden it is not necessary. How is the Financial Sub-Committee to make decisions on looking at all the available alternatives with insufficient information? The thing that is most disturbing is that at the December 9, 2015 meeting we heard for the first time about differences in computing ratios between pre-2010 debt and post-2010 debt. Now we learn there are nuances to Senior Debt, Junior Debt, and how the DSR is calculated for each. Had the Financial Sub-Committee had this information available at the meetings, we would have come up with different conclusions and recommendations. As an Advisory Committee to the BOS we need accurate and timely information provided to us. We have been pounding on debt ratios from the very beginning and trying to understand that. Why weren't we provided with the nuances of debt ratios until this point in time when we were on the brink of taking something to the BOS? He is very disappointed to hear about this today.

Mr. Iannarino stated, it is eye-opening to hear that a drop in the bond rating from AA, to AA -, has a miniscule effect because the Department is over the bulk of their borrowing in trying to maintain the DSR. It would have been helpful to have known this before. There is still $200 million in additional debt. What is this for? Mr. Burke replied, this is for the CIP five-year budget.

Ms. Bowen added, when the RWRAC made a recommendation in FY 2010/11 for a consecutive four-year rate increase to fund ROMP there were numerous discussions on the debt coverage ratio and paying off debt early. That's what prompted the memo from the RWRAC to maintain a 1.3 DSR. She is frustrated like everyone else. Mr. Dommer was asked at the last Financial Sub-Committee about this and he is the first to respond. Kudos to Mr. Dommer for his willingness to look at this issue, but she questions why wasn't this done before when the

Committee has been asking for this information for years. Ms. Bowen asked, why is unrestricted cash being used to pay down Senior Debt when it has a negative impact on the DSR for the Junior Debt? Getting information at 4:15 p.m. the night before the meeting is too late. This is historically what FRMD does with this Committee. We either receive the information the morning of the meeting or late the night before. This should be in the agenda packet and be vetted by the Committee and the public. Not this level of rush through the material without having a level of understanding. She would like to encourage FRMD to provide accurate information on a timely basis.

Ms. Wolf stated, she has been a long-standing member of this Committee and has never seen this information before. She has been before the BOS several times and signed the memo recommending that the Department stay within the DSR. She feels like her credibility is shot.

Armando Membrila stated, he too has been on this Committee a long time. We have not received the answers we have been looking for. He feels the Committee has been used. There is nothing he can do along the political end that drives this. There is probably a lot that goes on that he doesn't know about. To be fair, the Committee needs to be informed. That's not going to happen because we are not high enough up on the food chain. None of us have any credibility. Who is going to want to listen to us anymore? Is there always going to have to be a rate hike? Why is a rate hike needed if the debt ratio is going down and there is money in the bank? Why can't it be a straight-line 3% rate increase every year no matter what? He represents the people who live in his district. These people need to know the answers to why they have to keep paying more.

Mr. Stratton expressed, the amount of effort that these committees have put in, the RWRAC, Financial Sub-Committee, and the CIP Sub-Committee, to come up with a recommendation and then have it blow up in our face. The part that concerns him is that all along the Committee has been told the DSR for the senior bonds was 1.2 and the recommended policy is 1.3. Now there is new information that the DSR is for the bond rating agencies and not the bonds themselves. When was this information available? This negates years' worth of information this Committee has received. He has disrespect for the attitude that it is okay to drop the bond ratings and pay more in interest for future bonds issued.

Ms. Smith shared, this isn't just a credibility issue with the BOS and constituents we serve. This is how she makes her living, is her relationship with the County. She has been meeting with the BOS to prepare them for what this Committee has been discussing. Last year this Committee agreed to support a rate increase request. There were two proposals three 3% increases, and two 4% increases. The RWRAC members trusted the information we received and recommended it. The Committee was once again told a rate increase is necessary. Now we're told a rate increase isn't necessary for another two years. She is inclined to not support rate increases because County Administration will figure it out on the back end.

Barbee Hanson asked, her notes indicated that Mr. Dommer found this information. Can you explain why and when Mr. Dommer found this new information? Did this surprise you? Mr. Burke responded, Mr. Dommer found this new information due to a request from the Financial Sub-Committee on what happens if the DSR drops below 1.2 Yes, it did surprise him because the rating agencies don't look at cash. His focus has always been how to maintain good bond ratings, so the County can continue to sell debt. Approximately $150 million in cash has been used to avoid borrowing and incur more debt.

Mr. Lynch stated, it is frustrating to the Finance Sub-Committee, who is supposed to look at all options available. There have been numerous options that have all been discounted, because we have been told they are not workable. We are entrusted to keep the BOS members in the know. It hurts the Committee's credibility when the BOS hears information that is totally different from someone else. Provide us with the information we need and let us, the Committee, make the decisions on the best way to move forward.

Mr. Taylor stated, it's important for this Committee to understand what changed. We have been told the DSR should never go below 1.3 or there will be a reduction in the bond ratings. If the DSR falls below 1.2 the bonds could be recalled. This had been said forever. As of today that is not the case. Why did this change and why is this Committee just hearing this today?

Mr. Burke responded, he still would recommend a rate increase. The BOS would probably not approve a rate increase for this year, FY 2016/17. Last year the BOS did not approve a rate increase. It had been discussed in

March 2015 and August 2015. From a financial standpoint, the Department does not approach bankruptcy for a certain time. The industry evaluates if an enterprise is financially sound by its ability to maintain a 1.3 DSR and its revenue stream. Yes, the Department has cash in the bank. However, in the State of Arizona, the Department cannot utilize all the cash and operate on a pay-as-you-go basis. That being the case, the Department needs to borrow money. It is the revenue stream that the Department is evaluated on. Yes, the Department can survive without having a rate increase. However, each year without an increase the Department become less financially sound. Eventually the Department may get to a point where the revenues can't pay the debt. When the 1.3 DSR and four-year consecutive rate increases were done in FY 2010/11, the Junior Debt had not been issued yet.

Matt Matthewson asked, the Fitch analysis shows the Department grew its cash position from $11 million to $111 million in five years. It looks like the Department is making around $20 million a year. How did that grow? Why is the Department not making those earnings in the succeeding years? Instead it appears that the cash balance is decreasing $20 million a year. Mr. Burke responded, the reason the unrestricted cash balance went up so quickly is because of the rate increases that occurred at the early stages of the accumulation of debt. The Department currently owes around $650 million in debt. For the first three years of the ROMP debt, principal payments were deferred and only interest payments were being paid. The Department was bringing in money before debt had to start being paid off. Five years ago the Department's debt was $30 - $40 million a year. Right now the debt service payment is $69 million a year and will increase to $85 million a year. Each year the amount of debt service payments has been going up. This means the Department is needing more cash each year to pay the debt service payments. At the same time less revenue is coming in with the current rates and flow volumes that continue to drop. While the debt service is increasing the revenue is decreasing, and eventually the Department will no longer have excess cash available. This is what is causing the loss of cash. If the debt is not paid down by $38 million next year, ultimately the Department would spend an additional $7.5 million in expenses spread out over future years. This helps in the short term, but the Department winds up spending more money.

Mr. Jenkins asked, if the $110 million in cash is restricted or unrestricted. Mr. Burke replied this is unrestricted cash. Mr. Jenkins presented a scenario assuming $38 million in cash is used to pay off the 2005 and 2007 debt, and the WIFA loans. If the Department received no rate increase, with the DSR requirement of 1.3, there would have been reductions to the Operations and Maintenance (O&M) budget of $10-$11 million. Where would the needed cash be coming from to avoid that scenario? The Department has set aside $20 million in emergency reserves, and $21 million for three-months of operating expenses. Would the money be coming out of those funds? Mr. Burke responded, there is $110 million in unrestricted cash that can be used for anything. The other cash is set aside for emergencies and operations. In the long-term plan, the cash could be used to borrow using COPs instead of sewer revenue debt. If the cash is being used to pay down debt, then the Department will need to start planning future debt sales.

Mr. Membrila asked, why does the debt service continue to increase instead of decrease, if payments are being made? Why are higher payments occurring in the future years instead of paying off debt as it is incurred? Mr. Burke responded, as debt is sold, a certain amount continues to be paid off per year. The debt payments are spread out equally over 15 years. Additional monies are being paid because new debt is being issued and the debt service is growing. The debt from 2010 has not been paid off yet.

4. RWRAC Financial Sub-Committee Meeting Report & Update – John Lynch and Sub-Committee Members
Mr. Lynch stated based on today's discussion, it is not worth spending time on this. Kudos to Keith Dommer, FRMD Director, for doing an exceptional job in supporting the Financial Sub-Committee and responding to the Committee's requests for information with details within very short timeframes. His due diligence has taught this Committee about the nuances and calculations for debt ratios. Additional comments from the Financial Sub-Committee echoed Mr. Lynch's kudos. Both Mr. Dommer and Patrick McGee, FRMD Division Manager, have done a tremendous job. The Financial Sub-Committee needs to look at rates again with the new information received today. Having smaller increases over a longer period as opposed to larger increases over a shorter amount of time need to be evaluated, along with the implication to rate payers. At this point to move beyond the calendar is a waste of time until the Financial Sub-Committee can meet again and start delving into this new information.

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

Jennifer C. Coyle, RWRD Special Assistant to Director, began to provide an overview of the proposed rate

calendar. She informed the Committee that this proposed calendar was reviewed and approved by the Financial Sub-Committee at the last meeting. This calendar outlines the steps leading up to a BOS review for April 19, 2016. Should there be an approved rate increase, that rate increase goes into effect one month following approval by the BOS, which would be May 12, 2016. The Committee could go to the BOS in May 2016, which would put the potential rate increase to take effect in mid-June 2016, for a July 1, 2016 start. The timeframe can be stretched out one month. What is the pleasure of the committee?

Ms. Wolf expressed to stop looking at the calendar. Instead the Committee should focus on what is the process to come up with a good recommendation. Requests can be brought to the BOS at any time. This Committee is not driven by the calendar. Public meetings, draft letters, can be done whenever the Committee chooses. Poor decisions have been made in the past by having been driven by the calendar. She recommended that this Committee spend as long as it needs to review the information and then make a recommendation.

There was much discussion that followed. Ms. Bowen stated, care should be taken when assuming that rates will decrease at some point. This assumption is being based on the ROMP being complete. This does not look into the future with potential new regulatory changes that could drive other needs of the Department.

Mr. Lynch requested a letter be drafted by FRMD stating that the RWRAC was going to propose a rate increase request to the BOS. However, new information from FRMD was late in being presented to the Committee that had significant impacts on their recommendation for a proposed rate increase. Due to the late arrival of this information the RWRAC is now reassessing the need for a rate increase.

Mr. Membrila expressed a concern with the recommendation of not being calendar driven and how this will affect the Department with their budget timeframes. Mr. Jenkins replied there is a public meeting requirement of 60 days. Based on the new information and the dialogue there probably will not be a rate increase recommendation for FY 2016/2017. The Department is not pressed for any timeframes. Mr. Burke added, the only concern is the County's annual budget process.

5. Ordinance Revision - Jennifer Coyle
Mr. Taylor stated this topic will be discussed at a future meeting to allow time for the Committee members to review the information.

6. Mount Lemmon Wastewater Treatment Plant Study Update - Jackson Jenkins
Deferred for next meeting.

H. Future Agenda Items

Review letter sent to BOS for 1.3 DSR recommendation
Rate consultant
Different funding sources for CIP augmentation projects

I. Call to the Audience

Mr. Jenkins stated he was very appreciative of the work this Committee does. He knows the tone of the Committee has changed after this meeting and he understands everyone's frustration. He thanked the Committee for all of the time they have spent serving the Department.

J. Adjournment

ACTION: Mr. Taylor made a motion to adjourn meeting. Mr. Membrila seconded. Meeting adjourned at 10:17 a.m.

NEXT REGULAR MEETING DATE:
Thursday, February 18, 2016