

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC) MEETING

Water and Energy Sustainability Center

2955 W. Calle Agua Nueva – Radon Conference Room

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

Members Present: Sheila Bowen, John Lynch, Bob Iannarino, Bill Katzel, Armando Membrila, Amber Smith, Mark Taylor, Ann Marie Wolf

Others Present: Mary Allen (RWRD), Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Barbee Hanson, Jackson Jenkins (RWRD), Kendall Kroesen, Patrick McGee (FRMD), Jeff Prevatt (RWRD), Lilian Von Rago (RWRD), Timothy Thomure (COT Water Dept.), Richard Wascher (RWRD), Jody Watkins (RWRD), Charles Wesselhoft (PCAO), Eric Wieduwilt (RWRD)

A. Call to Order / Roll Call

Mark Taylor (Chair) called the meeting to order. The meeting began at 8:00 a.m.

Jody Watkins, RWRAC Program Coordinator, took roll call. A quorum was present.

Note: Although the Committee has a total of 13 Members, which includes two vacancies, there must be seven members present to establish a quorum.

B. Pledge of Allegiance

C. Call to the Audience

None

D. Safety Share

Richard Wascher, Regional Wastewater Reclamation Department (RWRD), shared information about a missing hiker, who had close family ties and the hazards of hiking alone. Mr. Wascher reminded everyone that the temperatures are warming up and more people will be enjoying outside activities. Everyone should use common sense, be more aware of their surroundings, keep hydrated, practice safety and don't hike alone. Additionally, Jackson Jenkins, Director, RWRD, mentioned that it may be hot during the daytime, the temperatures at night drop considerably and people who venture out during the day are wearing shorts and t-shirts and don't realize how cold it gets at night. People should be proactive and wear protective gear to include the extreme climate changes.

E. Approval of Minutes

Meeting Minutes for March 17, 2016

ACTION: Armando Membrila motioned to approve the minutes. Ann Marie Wolf seconded.

Motion passed unanimously.

F. Citizens' Water Advisory Committee (CWAC) Update – Meeting Report and Tucson Water Activities

(CWAC Meeting Minutes/Audio are posted at: <http://www.tucsonaz.gov/water/cwac>)

Mr. Taylor stated that the CWAC had recommended a 7% rate increase and it is currently being reviewed by the Mayor and Council. Timothy Thomure, Director, City of Tucson Water Department (COT), confirmed that the 7% is accurate and that there are two different cost allocation models: 1) *Traditional approach* - which is based on cost of service by customer class. The rate increase to a single family residence would be 8.7%, which is higher than anticipated. 2) *Smoothing model* – reallocates across different customer classes and makes sure that any customer classes receive at least the 7% overall revenue requirement and redistributes the cost, which brings the rate increase for a single family resident down to 7.5%. Both models are part of the discussion. CWAC is recommending a rate increase for one year; staff is recommending two consecutive years along with a Rate Study.

G. Discussion/Action

1. Member Recognition – Barbee Hanson and Kendall Kroesen

Mr. Taylor thanked both Barbee Hanson and Kendall Kroesen for attending the meeting today, to be recognized for all their hard work and dedication for the years they had participated as RWRAC Members. Mr. Jenkins presented plaques to Ms. Hanson (Member for over eight years) and Mr. Kroesen (Member for five years) and thanked them for their commitment to the Department and Community. Mr. Kroesen stated that Wastewater is enormously interesting and appreciated the opportunity to serve on this Committee. Ms. Hanson thanked Mr. Jenkins and the Committee for letting her contribute her services and that she appreciated the educational experience and the integrity of the other Members.

Note: Item #4 will be discussed before item #2 due to time constraints. (Audio 15:27)

Mr. Taylor was recently appointed to the Central Arizona Project (CAP) – “Finance, Audit and Power Committee”, which meets on the third Thursday of the month in Phoenix. He is inquiring if the RWRAC Members would consider changing the RWRAC meetings from the third Thursday of each month to the fourth Thursday starting in August, 2016. Ms. Watkins will send out a Doodle Poll and obtain responses from each Member before any changes, if any, are made. Additionally, the Committee decided to cancel the meeting of May 19, 2016. Ms. Watkins will notify the Clerk of the Board.

2. Director’s Update (15 minutes) –

Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD) (Audio 1:48:18)

Mr. Jenkins briefly discussed the six Pillars for the Department; Employees, Sustainability, Customers, Financial, Safety and Compliance. Mr. Jenkins stated that the Department always strives for zero accidents in the Safety Pillar. Currently, at Tres Rios, there are 826 days with no recorded injuries. In the Compliance Pillar, the Department strives for excellence and our performances are phenomenal. Mr. Jenkins mentioned that the Board of Supervisors will be reviewing the updated 13.20 and 13.24 Ordinances at the May 3, 2016 meeting, which include some “rate items”, not to include User Fee or Connection Fee increases.

3. 2016 Financial Plan (40 minutes) –

Keith Dommer, Director, Finance and Risk Management Department (FRMD) (Audio 1:22:30)

Mr. Dommer discussed the draft 2016 Financial Plan, which includes a brief summary and recommendations, which the Financial Sub-Committee had reviewed in more detail over numerous meetings over several months. The Committee reviewed the Executive Summary, Key Assumptions, Capital Improvement Program, Revenues, to include both User Fees and Connection Fees, Operating and Maintenance Expenses, Debt Financing and Debt Service Payments, Cash Reserves and Cash Balances, Debt Service Ratio, Expenditure Limitation, Bond Ratings, Recommended Rate Increases, RWRAC Recommendation and the List of Appendices. Mr. Dommer referred to the additional handout (not labeled), which is the recommendation from the FRMD for a 4% revenue increase in early calendar year 2017 to be inserted on page 16 of the draft 2016 Financial Plan. The Financial Sub-Committee (FSC) had discussed temporarily reducing the Fund’s Rating Agency Debt Service Ratio target from 1.3 to 1.2 and using the Fund’s unrestricted cash to pay off a portion of the Fund’s outstanding debt, which would delay a rate increase and reduce the percentage from 8% to 4%. The FSC also reviewed various Rate Options. (Audio 1:31:36) After careful consideration and review the FSC wrote a recommendation, voted and unanimously approved, (see handout “Advisory Committee Plan”). Mr. Dommer would like the full Committee to approve the recommendation to add to page 17 of the 2016 Financial Plan. Additionally, the word “rate” increase will be changed to “revenue” increase until the Rate Study is completed to determine which “rates” will need to be adjusted. The FSC agreed that a 4% rate increase is needed in early 2017 and the Rate Study will determine additional increases needed in the future. John Lynch, FSC Chair, confirmed that the FSC is recommending that some excess cash be utilized to pay down the debt and allow the Rating Agency Ratio to fall below the preferred 1.3 for a short period of time. Mr. Dommer stated that one of the features he drafted, shows that FRMD will be monitoring closely to maintain financial health while the Rating Agency Ratio is below the 1.3. Mr. Jenkins voiced his concern that information should be included to state the consequences if the rate increase is not approved and the Rating Agency Ratio falls below the preferred 1.3. Mr. Dommer stated that there is an Appendix B, which presents a “Five-Year Financial Projects Assuming No Rate Increases” which is identified in the Rate Workbook and will also show the cash balances and where the Rating Agency Ratios fall. Additional text will explain the consequences in more detail. Mr. Jenkins requested that the information include what the impact will be to current RWRD services, how it will affect staffing, and how will it affect RWRD’s overall budget if the rate increase is not approved. (Audio 1:36:22) Ann Marie Wolf reiterated that the handout (not labeled) is ready to be placed on page 16 of the 2016 Financial Plan under the “Recommended Rate Increases” with some slight edits from Mr. Dommer; Mr. Dommer will add information that will clearly outline the impact if a rate

increase is not approved per Mr. Jenkins concern; and the FSC recommendation (with a new date if the full RWRAC approves) for page 17 under “Advisory Committee Plan”.

ACTION: Ms. Wolf made a motion to approve the 2016 Financial Plan with edits, Bill Katzel seconded. Discussion ensued. Mr. Lynch recommended that any wording that states “rate increase” needs to be changed to “revenue increase” throughout the 2016 Financial Rate Plan as a friendly amendment to the motion. Ms. Wolf accepted the friendly amendment. Mr. Thomure asked for confirmation that the executive summary will be rewritten as “The adoption of one rate increase of 4% beginning January 1, 2017 and future rate increases to be considered on a year to year basis depending on the outcome of the Rate Study”. Motion passed 6-1.

4. RWRAC Financial Sub-Committee (FSC) Meeting Report & Update (40 minutes) –

John Lynch/Sub-Committee Members

(RWRAC Financial Sub-Committee Minutes and Audio are posted at: www.pima.gov/wastewaterreclamation) (Audio 15:27)

Mr. Lynch gave a summary of the April 15, 2016 RWRAC Financial Sub-Committee meeting. One of the main items discussed was the “Scope of Work” on the Rate Study, specifically the connection fees and the implications of policy decisions by the Board of Supervisors (BOS) with regard to economic development. Mr. Lynch referred to the formula that had been developed in 2012 to determine the asset value and how it related to the Department’s infrastructure. The formula is calculated by the “asset value divided by the remaining capacity”, which includes both depreciation and interest on any loans that were used to construct the asset.

$$\frac{\text{Asset Value}}{\text{Remaining Capacity}} = \$16.02 \text{ per gallon}$$

Mr. Lynch stated that the current rate payers don’t understand why they are having to pay for economic development that they may not utilize. Mr. Jenkins indicated that current users are paying for future expansion, such as the Aerospace Corridor. Mr. Dommer explained how the current users pay for economic development; however, realizing that future rate payers will pay forward as well. The Aerospace Corridor was a policy decision that was approved by the BOS, which affects RWRD’s budget. The FSC discussed in detail the effects of economic development, where the costs should be allocated and felt some costs should be charged to the General Fund. Ms. Wolf reiterated that the Committee asked if the Rate Study could request how other municipalities are funding economic development. (Audio 23:20) Discussion ensued. Mr. Dommer explained that many years ago, Pima County decided that the sewer system and operations would be an enterprise and based on that decision the enterprise needs to be self-supporting entirely by itself, which includes growth and development and expanding customer base. Looking for alternate funding for the sewer system would be a basic fundamental change in the direction the BOS had historically set up. The economic development of today was paid by past users; therefore, today’s users are paying for future economic growth. Mr. Jenkins summarized that per the Census there are 2.7 people per residential household, 80 gallons a day of sewage per person and an Infiltration and Inflow (INI) factor of 17.5%, which multiplied equals 253.8 gallons per home, per day (capacity on the system). The formula (asset value divided by remaining capacity) equals \$16.02 per gallon, which is multiplied by the 253.8 gallons equates to \$4066 (rounded up) dollars for a new connection fee.

$$2.7 \text{ people/household} \times 80 \text{ gallons per day per person} \times 1.175 \text{ INI} \\ = 253.8 \text{ gallons per home/per day}$$

$$\text{Formula (asset value divided by remaining capacity)} = \$16.02 \text{ per gallon} \times 253.8 \text{ gallons} \\ = \$4066 \text{ (rounded up) connection fee}$$

The Rate Study is going to review the methodology (since 2012) to see if the equation is close to \$16.02 or if it has increased or decreased. Depending on the new value, the Department may recommend a change in connection fees. Several members reiterated that they would like information added to the Rate Study to include how other municipalities fund economic development and are there other communities that have an enterprise fund. Review how other communities appropriate future augmentation capacity in their financial package. Mr. Jenkins requested that the Committee create the language they want added to the Rate Study. Discussion ensued. (Audio 48:50) The Committee suggested to expand and add information to item G “Benchmark” on the Scope of Work for the Rate Study. (see handout)

(Audio 1:05:24)

ACTION: Bob Iannarino made the motion to revise the end of the first sentence to include “and how those agencies account for the cost of future system capacity to promote economic development.” John Lynch seconded.

Motion passed unanimously.

Discussion ensued regarding any additional costs to the Rate Study for the revision. The Committee confirmed to continue with the Rate Study if the additional cost is 10% or less; otherwise, they will need to review.

(Audio 1:18:35)

ACTION: Ms. Wolf made the motion to approve the Sewer Rate Study Scope of Work dated 4/20/2016 with the additional language that was approved (see above). John Lynch seconded.

Motion passed unanimously.

5. Financial Update (10 minutes) –

Patrick McGee, Division Manager, Finance and Risk Management Department (FRMD) –

RWRD Fiscal Year 2015/16 Budget (Audio 1:52:40)

Mr. McGee referred to the handout “Forecast Report – Period 8” and stated that the Department was doing a great job staying under budget for expenses; however, revenue decreases are out of the Department’s control.

H. Future Agenda Items

Next meeting will be June 16, 2016

Mt. Lemmon Update – Additional Discussion – Jackson Jenkins

2016 Financial Plan – Keith Dommer

Nominations and Election of Officers

Planning & Engineering – Flow Monitoring - Eric Wieduwilt

Planning & Engineering – Development Liaison Unit – Eric Wieduwilt

Compliance & Regulatory Affairs Office (CRAO) – Jeff Prevatt

I. Call to the Audience

None

J. Adjournment

Bill Katzel made the motion to adjourn the meeting, Armando Membrila seconded.

Meeting adjourned at 9:56 a.m.