



MEMORANDUM

Date: February 1, 2017

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator *CHH*

Re: **Minutes of the January 26, 2017 Regional Wastewater Reclamation Advisory Committee Regarding Possible Rate Increase**

On January 26, 2017, an additional Regional Wastewater Reclamation Advisory Committee public meeting was held to discuss the proposed four-percent rate increase that will be considered by the Board of Supervisors on February 7, 2017.

The draft minutes of the meeting are attached for your information.

The discussion centered on the proposed rate increase, and the questions raised were related to this subject.

CHH/anc

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Carmine DeBonis, Jr., Interim Deputy County Administrator for Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation
Keith Dommer, Director, Finance and Risk Management

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE PUBLIC MEETING

Pima County Public Works Building

201 N. Stone Avenue, Basement Conference Room C

Tucson, AZ 85701

January 26, 2017

Members Present: Bill Katzel (phone), Rob Kulakofsky, John Lynch (phone), Corin Marron, Matt Matthewson, Shaun McClusky, Armando Membriola, Barney Popkin, Amber Smith, Mark Stratton, Mark Taylor

Others Present: Mary Allen (RWRD), Suzette Castro (RWRD), Supervisor Stephen Christy (BOS District 4), Jennifer Coyle (RWRD), Keith Dommer (FRMD), Racheal Eldridge (FRMD), Barbara Escobar (RWRD), Adriana Fuentes (RWRD), Jason Ground (PCCO), Jackson Jenkins (RWRD), Maria Klucarova (BOS District 3), Patrick McGee (FRMD), Julie McWilliams (RWRD), Supervisor Ally Miller (BOS District 1), Richard Miranda (RWRD), Mona Orozco (RWRD), Jeff Prevatt (RWRD), Fernanda Quintanilla (RWRD), Jaime Rivera (RWRD), John Sherlock (RWRD), Katherine Simmons (FRMD), Timothy Thomure (TW), John Warner (RWRD), Charles Wesselhoft (PCAO), Amira Van Winkle (Citizen)

A. Call to Order / Roll Call

Amber Smith, Chair, Regional Wastewater Reclamation Advisory Committee (RWRAC), called the meeting to order at 8:11 a.m., Adriana Fuentes, Program Coordinator, Regional Wastewater Reclamation Department (RWRD), took roll call and a quorum was present.

B. Pledge of Allegiance

C. Proposed Four Percent (4%) Rate Increase to Existing Sewer User Fees

1. Presentation, Keith Dommer, Director, Finance and Risk Management

Keith Dommer, Director, Finance and Risk Management, presented on the proposed four percent (4%) rate increase to the existing sewer user fees as outlined in the 2016 Financial Plan. Mr. Dommer specified that while the 2016 Financial Plan recommends three (3), four percent (4%) rate increases, the Pima County Board of Supervisors is only considering one (1), four percent (4%) rate increase as recommended by the RWRAC and the County Administrator.

2. Discussion/Questions

Mr. Dommer and Jackson Jenkins, Director, Regional Wastewater Reclamation Department, accepted questions throughout the presentation by members of the RWRAC and the public.

- A.** A member of the public, Amira Van Winkle, questioned the Committee's decision to recommend only one rate increase at this time. Discussion ensued on the Rate Study currently underway, the March/April 2017 completion goal, and that any rate calculation/class consolidation recommendations would potentially be included in further rate increase recommendations.
- B.** Supervisor Miller questioned who the consultant was for the Rate Study and the cost. Director Jenkins responded that Raftelis Financial Consultants was awarded the contract at a cost of just under \$100,000.
- C.** Shaun McClusky, Member, RWRAC, provided comment on the cost and questioned why this analysis could not be completed within the Department. Mark Taylor, Member, RWRAC, indicated a majority of utilities utilize third party consultants and the RWRAC recommended the rate study be performed by a third party consultant to obtain an objective view. Barney Popkin, Member, RWRAC, agreed with Mr. Taylor and added that it is traditional for government utilities to use third party consultants.

- D. Mr. McClusky questioned any large outstanding bills owed to the Department. Director Jenkins indicated outstanding amounts due by the Pascua Yaqui Tribe have been paid. Davis-Monthan Air Force Base (DMAFB) has funded a flow meter which has been installed and data is now utilized for monthly billing. Discussions are underway with DMAFB for approximately \$2.5 million in outstanding connection fees.
- E. Mr. McClusky questioned the name of the previous Department Director and if he was still paid by the Department or Pima County. Director Jenkins responded Michael Gritzuk was the previous Department Director and he is not a paid consultant of the Department or Pima County.
- F. Ms. Van Winkle questioned the \$500,000 increase in the Fiscal Year 17/18 budget request. Director Jenkins stated the \$500,000 cannot be associated to any one line item as many costs go up or down each year. Additionally, a \$500,000 increase is less than one half of one percent.
- G. Ms. Smith questioned the reduction in staffing by the Department over the past several years. Director Jenkins stated since Fiscal Year 2007/08 the Department has reduced its Full Time Equivalents by approximately 125 due to attrition and process improvements.
- H. Director Jenkins provided commentary on the Top Ten categories in the Operations and Maintenance budget and stated additional cuts to the Department's operating expenses could not be made without jeopardizing the safe operation of the system.
- I. Supervisor Miller questioned the contract with CH2M to operate the Agua Nueva Water Reclamation Facility (WRF). Director Jenkins provided an overview of the Arizona Department of Environmental Quality's (ADEQ) regulatory-mandated Regional Optimization Master Plan (ROMP) and the County's design-build-operate project delivery approach used for the procurement of the Agua Nueva WRF. Supervisor Miller further questioned the cost comparison for CH2M for the Agua Nueva WRF and the County's cost for operation of the Tres Rios WRF. Director Jenkins explained the Agua Nueva and Tres Rios WRFs are operationally two different systems; Agua Nueva WRF does not treat sludge and the Tres Rios WRF is the centralized sludge handling and treatment system for the entire County.
- J. Mr. McClusky questioned County Overhead and Mr. Dommer provided background on how this Object Code is calculated.
- K. Supervisor Miller questioned the Department's electricity costs. Supervisor Miller incorrectly stated the Department's adopted electricity budget for Fiscal Year 2016/17 included funding for a potential Tucson Electric Power rate increase and questioned if the requested Fiscal Year 2017/18 electricity budget would see a reduction since that rate increase did not pass. Director Jenkins clarified the original *request* did include an increase and, once it was determined that additional funding was not needed, it was moved to partially fund the Fiscal Year 2016/17 salary increases approved by the Board of Supervisors. Supervisor Miller questioned this statement by Director Jenkins and believes the electricity budget she saw for Fiscal Year 2016/17 was an increase from Fiscal Year 2015/16. Mr. Dommer clarified there are many iterations of the budget from initial request, to the budget book, to final adopted numbers and perhaps Supervisor Miller recalls seeing the initial electricity budget which included funding for the rate increase and not the final Adopted Budget number. Supervisor Miller requested the Fiscal Year 2016/17 Adopted Budget by Object Code.
- L. Supervisor Christy questioned at what point, once the Department's debt service payments begin to decline, might we see a stabilization or reduction of rates. Mr. Dommer stated that, based on today's known information, by 2024/25 the Department may begin to see a stabilization of rates but uses caution in that statement as there is no prediction for what the future holds.
- M. Tim Thomure, Director, Tucson Water, addressed discussion on the decline in water usage due to conservation efforts and high efficiency appliances. Mr. Thomure cited the *Avoided Costs of Water Conservation* presentation by Peter Mayer, P.E., Principal, Water Demand Management. Supervisor Miller requested a copy of this presentation and the Committee requested Mr. Mayer present at the February RWRAC meeting. Supervisor Miller at this time also requested a copy of the latest Raftelis presentation on the Rate Study.
- N. Matt Matthewson, Member, RWRAC, stated this utility is an industry leader, a benchmark utility, and sets wastewater treatment standards worldwide. Mr. Matthewson stated nickel and diming the Department

Jackson Jenkins, Director

is pointless as the Operations and Maintenance budget remains nearly flat, as shown in Mr. Dommer's presentation. Mr. Matthewson instead, requested more consideration on extending the debt service schedules. Mr. Dommer stated previous analysis provided to the Committee indicated restructuring is not beneficial to the County, the Department, or the rate payers. Specifically, \$383 million in additional interest costs over 40 years and a corresponding rate increase to pay for this increased interest cost. John Lynch, Chair, Financial Subcommittee, RWRAC, provided background commentary on the months of research the Financial Subcommittee has performed on the Operations and Maintenance budget and the debt service schedules.

- O. In response to a comment that this accelerated debt service schedule causes the wastewater bill to be higher than the water bill, Mr. Popkin stated wastewater is very expensive to treat. Mr. Taylor added the scientific mechanics to treat wastewater to EPA standards is much more complex than disinfecting groundwater for human consumption and while these mandates are not cheap, they are extremely important. Rob Kulakofsky, Member, RWRAC, added the possibility of future regulations on issues such as emerging contaminants could be imposed and the 15 year repayment schedule makes sense to keep the Department financially ready for such regulations.
- P. Supervisor Miller provided comment on the impact of an increase to the sewer user fee has to a low income family. Armando Membrilla, Member, RWRAC, responded with information on the Department's Sewer Outreach Subsidy program which is available for customers at various economic categories and family size. Supervisor Miller stated many families were just outside of those categories and could not benefit from the program.
- Q. Ms. Van Winkle inquired if Mr. Dommer's PowerPoint presentation was available to the public. Jennifer Coyle, RWRD, stated the presentation was supporting documentation included in the Board of Supervisors Agenda and is also posted on the Department's webpage.
- R. Mr. Popkin inquired about the term Enterprise Fund and Mr. Dommer explained.
- S. 9:48 a.m. Supervisors Miller and Christy leave. 9:51 a.m. Mr. Thomure leaves.
- T. Mr. Dommer continued his presentation concluding that the Department needs a rate increase because the Department's debt service and operating costs have exceeded operating revenues for each of the previous three years, the current year, and without rate increases also for each of the forecasted future years. Without a rate increase, by the end of Fiscal Year 2018, rating agencies will consider the Department's financial health to be insufficient, and within three years, the Department will be in jeopardy of not meeting its contractual debt requirements.
- U. Director Jenkins responded to questions from Mr. Popkin on ROMP, when ADEQ first contacted the Department, and the deadline for completion.

D. Call to the Audience

Jason Ground, Unclassified Program Coordinator, Pima County Communications Office, introduced himself and requested a few minutes of any Committee members' time after the meeting to discuss a brief survey he's working on.

E. Adjournment

ACTION: Mark Stratton made a motion to adjourn the meeting, Shaun McClusky seconded the motion. The meeting was adjourned at 10:13 a.m.