



MEMORANDUM

Date: February 11, 2013

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

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "C.H. Huckelberry", is written over the typed name and title.

Re: **Update on Fiscal-Related Issues in Regional Wastewater Reclamation**

Introduction

Pima County is in the midst of major upgrades to our wastewater reclamation system, primarily the new construction of a wastewater reclamation facility to replace the Roger Road Treatment Plant constructed 60 years ago, as well as substantial upgrades and expansion at the Ina Road Wastewater Facility, which was constructed in 1977. Both upgrades are integrated in the detailed Regional Optimization Master Plan (ROMP) previously adopted by the Board for wastewater reclamation.

The upgrades and new facilities are required pursuant to permitting requirements of the U.S. Environmental Protection Agency (EPA) and the Arizona Department of Environmental Quality (ADEQ). Compliance timeframes for both facilities are 2014 and 2015. To date, development implementation of the ROMP program is ahead of schedule and under the first estimated budget.

Board of Supervisors Adopted Fee Structures

In March 2010, the Board adopted four future rate increases. The last rate increase will become effective July 1, 2013. Given the aggressive debt schedule, no additional rate increases are necessary at this time to amortize the significant debt incurred in the ROMP program. However, this could change, depending on system growth and operating and maintenance expenses.

In adopting the rates in March 2010, the Board also imposed an annual expenditure growth cap of 3.4 percent in operating and maintenance obligations of the Regional Wastewater Reclamation Department (RWRD).

Customer Growth is Flat

Table 1 below indicates the average number of customers per year since 2006, as well as the yearly percentage increase. As can be seen, customer growth is essentially flat at one-tenth of one percent. This reflects the general economic condition of our region since the beginning of the Great Recession in 2007. Overall wastewater revenues are most responsive to new customers being added to the system. Hence, wastewater revenues react almost instantaneously to current economic conditions or the market, unlike property tax revenues, which lead or lag the economy by 24 to 36 months (real time economy).

Table 1 – Average Number of Customers.

Fiscal Year	Average Number of Customers	Percentage Increase
2006/07	255,555	3.5
2007/08	260,007	1.7
2008/09	261,949	0.7
2009/10	263,596	0.6
2010/11	264,882	0.5
2011/12	265,051	0.1

Percentage Increase in Residential User Fee Rates

Residential sewer fees have increased considerably over the last decade. Prior to 2005, these rates were relatively low. However, with the knowledge of the pending ROMP expenditure program, the significant debt loads caused by ROMP and environmental compliance requirements of the EPA and ADEQ, decisions were made to raise user fees.

Table 2 below provides the 10-year history of rate increases, along with specific footnotes for those years when rate increases were more than double digit.

Table 2 – Summary of Wastewater User Fee Charges.

Fiscal Year	Date User Fee Charges Adopted ^(a)	Monthly Service Charge	User Fee Rates (\$per ccf)	
			Residential	Commercial/Industrial ^(b)
2002/03	March 11, 2003	\$2.61	1.05	1.05 - 3.81
2003/04	N/A	2.61	1.05	1.05 - 3.81
2004/05	April 13, 2004	2.71	1.09	1.09 - 3.96
2005/06	June 21, 2005	5.72	1.18	1.18 - 4.27

Table 2 – Summary of Wastewater User Fee Charges.

Fiscal Year	Date User Fee Charges Adopted ^(a)	Monthly Service Charge	User Fee Rates (\$per ccf)	
			Residential	Commercial/Industrial ^(b)
2006/07	July 11, 2006 ^(c)	5.72	1.25	1.25 - 4.54
2006/07	July 11, 2006 ^(c)	5.72	1.33	1.33 - 4.81
2006/07	February 13, 2007	5.72	1.41	1.41 - 5.10
2007/08	December 11, 2007 ^(d)	6.23	1.53	1.53 - 5.57
2008/09	December 11, 2007 ^(d)	6.82	1.68	1.68 - 6.10
2008/09	February 17, 2009 ^(e)	8.32	1.89	1.89 - 6.87
2009/10	February 17, 2009 ^(e)	8.32	2.13	2.13 - 7.75
2009/10	February 17, 2009 ^(e)	9.82	2.41	2.41 - 8.74
2010/11	March 9, 2010 ^(f)	10.46	2.65	2.65 - 9.61
2011/12	March 9, 2010 ^(f)	11.14	2.91	2.91 - 10.57
2012/13	March 9, 2010 ^(f)	11.86	3.20	3.20 - 11.63
2013/14	March 9, 2010 ^(f)	12.63	3.52	3.52 - 12.79

(a) The dates shown reflect the dates the User Fee increases were adopted by the Board and do not directly correspond to the effective date of the various increases.

(b) Indicates the range of user fee rates applied to various commercial/industrial users whose sewage flow contributions are in excess of normal, domestic-strength sewage.

(c) At the Board's July 11, 2006 meeting, two rate increases were approved. The first 6 percent rate increase became effective on August 11, 2006, and the second 6 percent rate increase became effective on January 1, 2007.

(d) At the Board's December 11, 2007 meeting, two rate increases were approved. The first rate increase of 9 percent became effective January 1, 2008, and the second rate increase of 9.5 percent became effective July 1, 2008.

(e) At the Board's February 17, 2009 meeting, three rate increases were approved. The first rate increase of \$1.50 for the monthly service charge and 12.75 percent for the user fee rates became effective March 20, 2009; the second rate increase of 12.75 percent for user fee rates became effective July 1, 2009; and the third rate increase of \$1.50 for the monthly service charge and 12.75 percent for the user fee rates became effective January 1, 2010.

(f) At the Board's March 9, 2010 meeting, four rate increases were approved. The first rate increase of 6.5 percent for the monthly service charge and 10 percent for user fee rates became effective July 1, 2010; the second rate increase of 6.5 percent for the monthly service charge and 10 percent for user fee rates became effective July 1, 2011; the third rate increase of 6.5 percent for the monthly service charge and 10 percent for user fee rates became effective July 1, 2012; and the fourth rate increase of 6.5 percent for the monthly service charge and 10 percent for user fee rates will become effective July 1, 2013.

Table 3 below shows the 10-year history of sewer residential user fee rate increases.

Table 3 – Percentage Increase in Residential User Fee Rates.

Fiscal Year	User Fee Percentage Rate Increases
2002/03	5.00
2003/04	0.00
2004/05	4.00
2005/06	8.00
2006/07 ^(a)	12.00
2007/08 ^(b)	15.00
2008/09 ^(c)	22.25
2009/10 ^(d)	25.50
2010/11	10.00
2011/12	10.00
2012/13	10.00
2013/14	10.00

(a) The 12 percent rate increase represents two rate increases that occurred during the fiscal year. The first for 6 percent became effective on August 11, 2006, and the second for 6 percent became effective on January 1, 2007.

(b) The 15 percent rate increase represents two rate increases that occurred during the fiscal year. The first for 6 percent became effective on July 1, 2007, and the second for 9 percent became effective on January 1, 2008.

(c) The 22.25 percent rate increase represents two rate increases that occurred during the fiscal year. The first for 9.5 percent became effective on July 1, 2008, and the second for 12.75 percent became effective on March 20, 2009.

(d) The 25.50 percent rate increase represents two rate increases that occurred during the fiscal year. The first for 12.75 percent became effective on July 1, 2009, and the second for 12.75 percent became effective on January 1, 2010.

As stated previously, with the four-year rate increases approved by the Board beginning in 2010, rates are sufficient to continue retirement of the ROMP debt with only minor future rate increases, depending on system growth and control of operating and maintenance expenses.

Please also remember, when ROMP is completed in 2015, the RWRD will have the capacity to add the equivalent of 160,000 new residential connections without additional major capital investment.

Sewer Connection Fees

Table 4 below shows the 10-year history of sewer connection fees and their increases over the years. With the exception of last year, sewer connection fees have increased. This year, there was a substantial reduction, based on matching new capacity requirements with building costs for modern treatment facilities and demand loading from residential structures.

Fiscal Year	Connection Fees
2002/03	\$20,279,607
2003/04	29,404,130
2004/05	36,906,421
2005/06	42,219,962
2006/07	30,756,891
2007/08	31,036,931
2008/09	18,283,654
2009/10	17,704,896
2010/11	19,624,015
2011/12	16,507,008

Over time, we have seen per capita sewer flow volumes decline due to modern plumbing fixtures that use significantly less water. In addition, we have seen the per capita occupation of residential structures decrease. However, these values vary significantly throughout our community from as low as two persons per household in retirement communities to as high as 3.5 in new residential communities, such as the Town of Sahuarita.

To match the cost of actual sewer treatment loading and provide economic development incentives, the Board lowered sewer connection fees significantly. If the regional aggregate residential sewer connection fee of \$4,066 is used to calculate connection fee revenues from the available new capacity of 160,000 units, then the estimated future revenue in connection fees to the RWRD would be nearly \$651 million. However, there is no way to accurately predict or forecast when this new capacity will be absorbed by new growth and, hence, receipt of those connection fees.

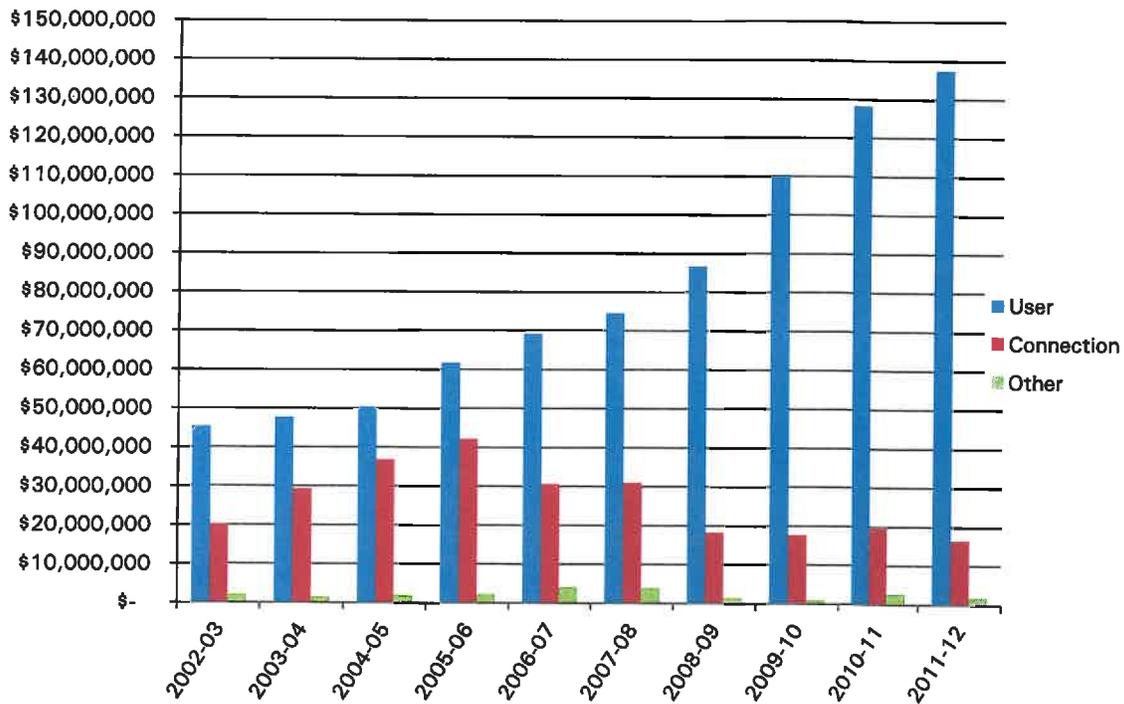
Comparing past and present user and connection fees over the last 10 years results in Table 5 below.

Table 5 – Summary of Regional Wastewater Reclamation Department Revenues.

Fiscal Year	User Fees	Connection Fees	Other Revenues	Total
2002/03	\$ 45,318,741	\$ 20,279,607	\$ 2,134,862	\$67,733,210
2003/04	47,685,465	29,404,130	1,517,077	78,606,672
2004/05	50,393,306	36,906,421	1,966,633	89,266,360
2005/06	61,735,147	42,219,962	2,269,126	106,224,235
2006/07	69,294,198	30,756,891	4,171,181	104,222,270
2007/08	74,636,355	31,036,931	3,956,969	109,630,255
2008/09	86,738,469	18,283,654	1,339,794	106,361,917
2009/10	110,053,772	17,704,896	863,061	128,621,729
2010/11	128,240,863	19,624,015	2,649,826	150,514,704
2011/12	137,431,809	16,507,008	1,675,228	155,614,045

We have charted these revenues and segregated them by user fees, connection fees or other revenues in Figure 1 below.

Figure 1 – Summary of RWRD Revenues.



There has been a marked decline in connection fee revenue in the last seven years and a significant increase in user fees. The revenues in Fiscal Year (FY) 2011/12 represent a more typical wastewater reclamation organization in ratios of user to connection fees. Perhaps connection fees will be a little higher or a larger percentage of overall fees in the future. However, in looking at FY 2005/06 connection fees, which are nearly two-thirds of user fees, there is clearly an imbalance in the cost distribution of service between users and new connectors.

As the economic recovery begins to take hold, we would expect considerable growth in connection fee revenue and more normal distribution of departmental revenues, which would reflect connection fees at approximately 25 percent of overall user fees.

Debt Service Obligations

Table 6 below shows future debt service obligations of the RWRD. Also included are the debt service obligations for the last five years. It is clear these obligations are growing and will peak in FY 2022/23.

Table 6 – Debt Service.

Fiscal Year	Debt Service
2007/08	20,545,429
2008/09	23,656,762
2009/10	26,789,745
2010/11	34,156,914
2011/12	42,553,150
2012/13	58,002,612
2013/14	69,673,215
2014/15	74,742,969
2015/16	76,873,335
2016/17	86,405,279
2017/18	85,446,184
2018/19	86,833,194
2019/20	86,995,189
2020/21	87,116,740
2021/22	87,340,766
2022/23	87,569,759
2023/24	77,144,078
2024/25	74,720,297

Table 6 – Debt Service.

Fiscal Year	Debt Service
2025/26	52,509,083
2025/27	34,094,669

These debt service obligations are reflective of the nearly \$700 million capital investment being made by the County in the wastewater reclamation system through ROMP. While these obligations peak in FY 2022/23 they will then begin to decline significantly. While total revenues have increased substantially for the RWRD over the last 10 years, the increase is necessary to pay the growing debt service obligations, reflecting the required capital investment to meet permitting requirements.

Future Rates Summary

At this time, we do not anticipate any significant future rate increase to operate the RWRD and meet its debt services obligations. However, if there is no major recovery in the economy, i.e., few new connections and new customers, it is possible small rate increases will be needed within the next year or two. If there is a recovery, rate increases can be postponed indefinitely.

CHH/mjk

- c: Chair and Members, Regional Wastewater Reclamation Advisory Committee
John Bernal, Deputy County Administrator for Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation
Tom Burke, Director, Finance and Risk Management