



MEMORANDUM

Date: May 31, 2013

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

From: C.H. Huckelberry
County Administrator 

Re: **2013 Regional Wastewater Reclamation Department Financial Plan**

The Chair of the Regional Wastewater Reclamation Advisory Committee has transmitted the attached adopted 2013 Financial Plan for the Board of Supervisors' information.

The rate structures adopted by the Board in 2010 remain in place, with the last scheduled fee increase to occur on July 1, 2013. This increase will occur on the first day of Fiscal Year (FY) 2013/14; hence, it is recorded as an increase for FY 2013/14. Based on the adopted plan, there will be no rate increase for FY 2014/15; hence, nearly two years will pass without a fee increase.

It is likely the rate increase necessary in FY 2015/16 will be no more than three percent. However, if connection fees increase significantly with the economy, such a fee increase may not be necessary. After the July 1, 2013 fee increase, it is likely there likely will be no fee increases for at least three years.

Also, please remember that with completion of the Regional Optimization Master Plan (ROMP) for wastewater treatment and the treatment capacity increases afforded by ROMP, an additional 160,000 residential connections can be made without further investment, which could potentially recover nearly \$651 million in connection fees, significantly reducing the current debt burden of the Regional Wastewater Reclamation Department.

If you have any questions or concerns regarding this adopted 2013 Financial Plan, please contact me.

CHH/dph

Attachment

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



**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
201 NORTH STONE AVENUE
TUCSON, ARIZONA 85701-1207**

May 21, 2013

The Honorable Chairman and Members
Pima County Board of Supervisors
130 West Congress Street, 11th Floor
Tucson, Arizona 85701

RE: Pima County Regional Wastewater Reclamation Department (RWRD) – 2013 Financial Plan

Dear Chairman and Members of the Board:

The Regional Wastewater Reclamation Advisory Committee's (RWRAC) principal function and responsibility is to annually review the financial details of the RWRD and to provide guidance and/or recommendations, as necessary, to both the department and to the Board of Supervisors (BOS).

Due to the level of detail and time required to appropriately accomplish this, a Financial Sub-Committee of the RWRAC was formed and has been meeting since December 12, 2012. The Financial Sub-Committee took the lead in the review of the Financial Plan, holding monthly discussions with Finance and Risk Management Department (FRMD) staff. Over these past few months, both the RWRAC and, in a much more focused environment, the RWRAC Financial Sub-Committee reviewed updates and revisions to the RWRD 2013 Financial Plan provided by FRMD.

The 2013 Financial Plan recommends the following:

- Continuation of the existing user fee structure as adopted by the BOS in 2010 with the last scheduled annual increase on July 1, 2013;
- No rate increase for Fiscal Year 2014-15;
- Evaluation to determine whether or not a rate increase will be necessary in Fiscal Year 2015-16 in order to maintain adequate debt service ratios in future years and to ensure favorable bond ratings.

As a result of these discussions, the RWRAC, at its April 18, 2013 meeting, unanimously adopted a recommended goal of a bond debt service ratio of 130 percent in order to maintain an adequate ratio that will ensure favorable bond ratings in the future.

The Honorable Chair and Members, Pima County Board of Supervisors
RE: Regional Wastewater Reclamation Department - 2013 Financial Plan
Page 2 of 2

In addition, at the RWRAC meeting on May 16, 2013, the Committee made a motion to approve the 2013 RWRD Financial Plan. The motion passed unanimously.

On behalf of the RWRAC, I would like to advise the Board of Supervisors of these two actions by the RWRAC, which unanimously support the 2013 RWRD Financial Plan. The Committee members and I are available at your convenience for questions or further discussion.

Sincerely,

A handwritten signature in black ink, appearing to read "Ann Marie Wolf", written over a horizontal line.

Ann Marie Wolf, Chair
Regional Wastewater Reclamation Advisory Committee

c: **Members, Regional Wastewater Reclamation Advisory Committee**
C.H. Huckelberry, County Administrator
John M. Bernal, P.E., Deputy County Administrator — Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation Department



2013 Financial Plan

Pima County Regional Wastewater Reclamation Enterprise Fund

April 2013

*Prepared by
Pima County Finance Risk Management Department*

2013 Financial Plan
Pima County Regional Wastewater Reclamation Enterprise Fund
April 2013

Summary and Recommendations.....1

Analysis of Cash Needs of the Regional Wastewater Reclamation Department.....2

Capital Improvement Program..... 2

Projected Revenues.....2

User Fees.....2

Connection Fees..... 3

Total Revenues.....3

Projected Operating and Maintenance Expenses.....4

Net Operating Revenues.....4

Sewer Revenue Debt Issues.....6

Debt Service Payments.....6

Cash Reserves, Cash Balances and the Expenditure Limitation.....10

1. Emergency Reserve Fund..... 10

2. Operating Reserve Fund.....10

3. Debt Service Reserve Fund.....10

4. Unrestricted Cash Balances.....10

Expenditure Limitation Impact to Wastewater Projects..... 11

Rating Agencies.....11

Sewer Rates..... 11

Recommendations..... 13

List of Appendices..... 14

- Appendix A – Key Assumptions used for Financial Plan**
- Appendix B – Five Year Financial Projections with Approved Rate Increase**
- Appendix C – Standard & Poor’s Key Water and Utility Credit Ratio Ranges**

2013 Financial Plan
Pima County Regional Wastewater Reclamation Enterprise Fund
April 2013

Summary and Recommendations:

On an annual basis, Pima County reviews the rate structure for the sanitary sewer services provided by the Regional Wastewater Reclamation Department. On March 9, 2010, the Board of Supervisors adopted automatic increases in fees effective annually through July 1, 2013. At the time the Board adopted this fee structure, the Board directed the County Administrator to prepare an annual report and analysis of the fees and to provide a copy of the report to the Board in conjunction with the County's overall annual budget process. Key assumptions used in the preparation of this report are identified in Appendix A to this report.

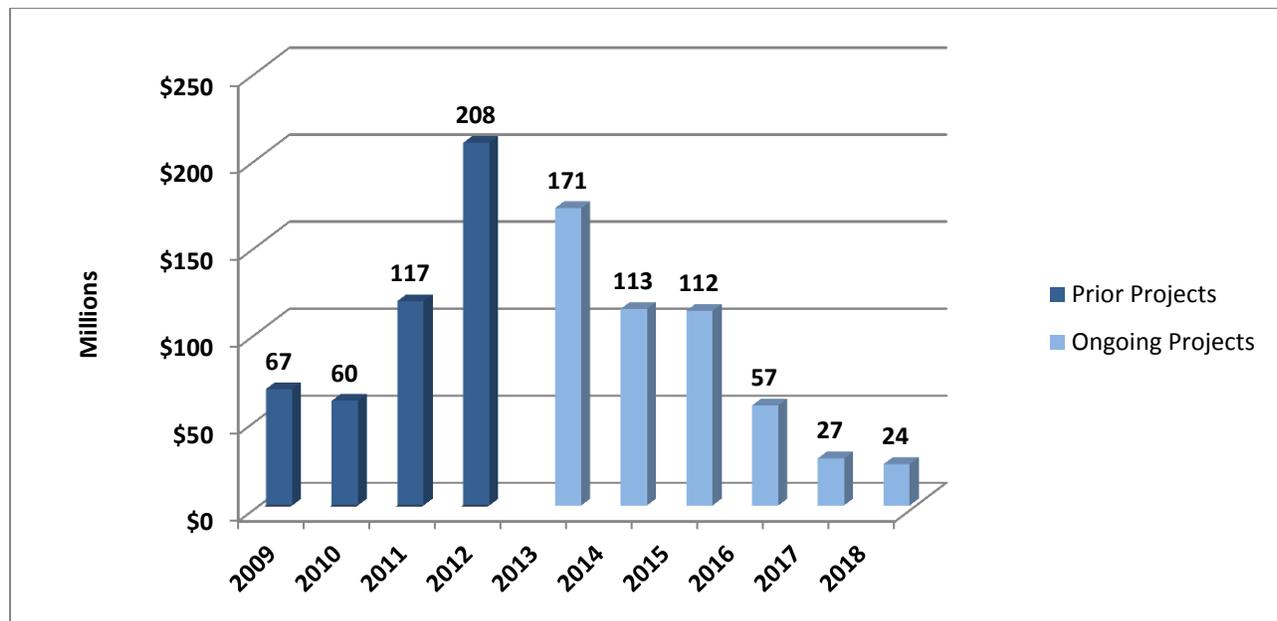
The Regional Wastewater Reclamation Department and the Finance Department have reviewed the projected revenues and expenses for the current fiscal year and for fiscal years through Fiscal Year 2017-18 and the projected capital improvement program for the same period. The focus of the review is to ensure that the County has sufficient revenues to meet all operating and maintenance expenses, to meet all debt service payments, to provide for the reserves required by the County's debt agreements and to maintain an adequate debt service ratio to obtain favorable bond ratings. This will enable the County to continue to issue debt for the improvements included in the Capital Improvement Program. Based on this review, the Finance and Risk Management Department is recommending:

1. The continuation of the existing user fee structure adopted by the Board of Supervisors in 2010 with the scheduled annual increase on July 1, 2013, and the continuation of the connection fee structure approved by the Board in May 2012.
2. In Fiscal Year 2013-14, the issuance of \$70 million of new debt.
3. In Fiscal Year 2013-14, an evaluation of rate increases that may be necessary for future years in order to maintain adequate debt service ratios in future years and to maintain low interest rates.
4. In Fiscal Year 2016-17, the early repayment of \$38 million of WIFA Loans and Sewer Revenue Bonds as that debt becomes callable.

Analysis of Cash Needs of the Regional Wastewater Reclamation Department

Capital Improvement Program: Pima County has completed significant construction of the Regional Optimization Master Plan (ROMP) capital improvements as well as improvements needed to perform ongoing maintenance of the conveyance system and treatment system. As can be seen in Figure 1, the County is past the highest levels of activity and will have much lower capital needs in the coming years. By the end of this fiscal year, the Department is expected to have completed \$623 million of the \$956 million capital program started in Fiscal Year 2008-09. For the next five years capital expenditures are estimated to be \$333 million. An additional \$25 million to \$30 million of capital improvements are anticipated to be needed annually thereafter.

Figure 1 Capital Project Costs



Pima County will continue to borrow funds for these capital costs. The County must generate sufficient sewer system revenues (1) to cover ongoing operating and maintenance expenses, (2) to meet the debt service payments for the debt issued for the capital programs and (3) to still have enough net operating revenues to meet minimum debt service coverage ratios.

Projected Revenues: Revenues from the wastewater system are generated from two major sources: sewer user fees and sewer connection fees.

User Fees: The sewer user fees consist of standard service fees and a volume rate fee. In 2010, the Board of Supervisors approved automatic rate increases for user fees through July 1, 2013, with 6.5% annual increases to the standard service fee and 10% increases to the volume rate fee effective on July 1 of each year through 2013. The last of these automatic rate increases takes effect on July 1, 2013. Based on the automatic rate

increases and the anticipated population growth rates, user fee revenues are expected to increase about \$15 million from \$145.4 million for the current fiscal year to \$160.3 million next year. After Fiscal Year 2013-14, absent any additional rate increases (as discussed below), user fee revenues would be expected to remain relatively level, with increases dependent upon future growth in the number of new users and in the real estate industry.

Connection Fees: On May 15, 2012, the Pima County Board of Supervisors adopted Ordinance No. 2012-27 establishing a change in the methodology for calculating connection fees. As part of this change, new connection fee rates were established based primarily on water meter size rather than fixture unit equivalents.

The principal factor affecting revenues from future connection fees will be the level of new construction within Pima County. The economy in Pima County is experiencing a gradual recovery from the Great Recession. For purposes of this analysis, future connection fees are projected to increase at the same growth rate as is being projected for new users, between 1.0% and 1.78% over the next five years.

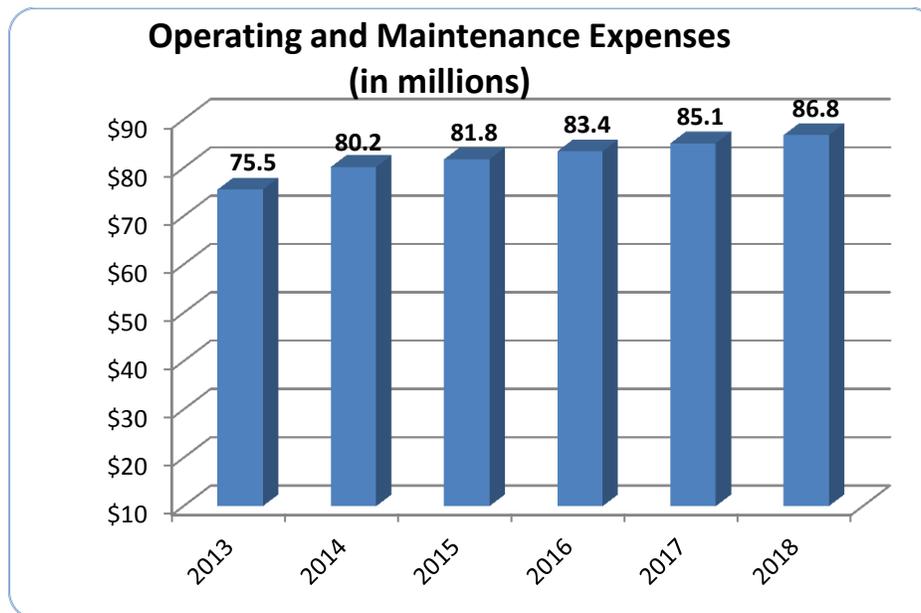
Total Revenues: Total sewer system revenues have increased rapidly since 2009. For the current fiscal year are expected to be \$162.5 million, with \$145.4 million of those revenues derived from sewer user fees, \$16.1 million derived from connection fees, and less than one million dollars from other sources. Revenues for the next year are expected to increase by \$28.2 million, with approximately \$14.5 million anticipated from the sale of the Marana Wastewater Treatment Facility to the Town of Marana and the remaining increase resulting primarily from the remaining rate increase for user fees. Thereafter, increases in revenue projections are based on projected population growth in Pima County.



Projected Operating and Maintenance Expenses: The Department is expecting to complete the current fiscal year with Operating and Maintenance (O&M) expenses of \$75.5 million. The O&M portion of the budget requested by the Department for Fiscal Year 2013-14 is \$79.2 million, representing approximately a 5 percent increase. For purposes of this financial analysis, Finance has increased the projection for next year’s O&M costs to \$80.2 million to account for the possibility of a salary increase being discussed by the Board of Supervisors for County employees. The most significant portion of O&M costs are related to employee compensation, which, at \$34 million next fiscal year, represents 43.4 percent of total O&M costs.

For planning purposes for subsequent years, this analysis assumes that the O&M expenses will increase by 2.0 percent each fiscal year. At that rate of increase, the O&M costs are expected to increase by approximately \$1.7 million annually during the next five year period. Figure 2 shows the projected increase in Operation and Maintenance Expenses over the Financial Plan period.

Figure 2



Net Operating Revenues: After paying for operations, the “net operating revenues” (i.e., total system revenues less the Operation and Maintenance expenses) must still be sufficient to meet (1) the required debt service payments, (2) those reserves established by the Board of Supervisors and those required by the debt covenants, and (3) the reserves necessary to enable the County to obtain favorable ratings from key rating agencies for debt issues. The County plans the timing of future debt issues to provide no more than the cash needed each year to meet the needs of the ongoing capital improvement program. The net operating revenues from the system are expected to increase from \$87.0 million this fiscal year to \$98.8 million by Fiscal Year 2017-18.

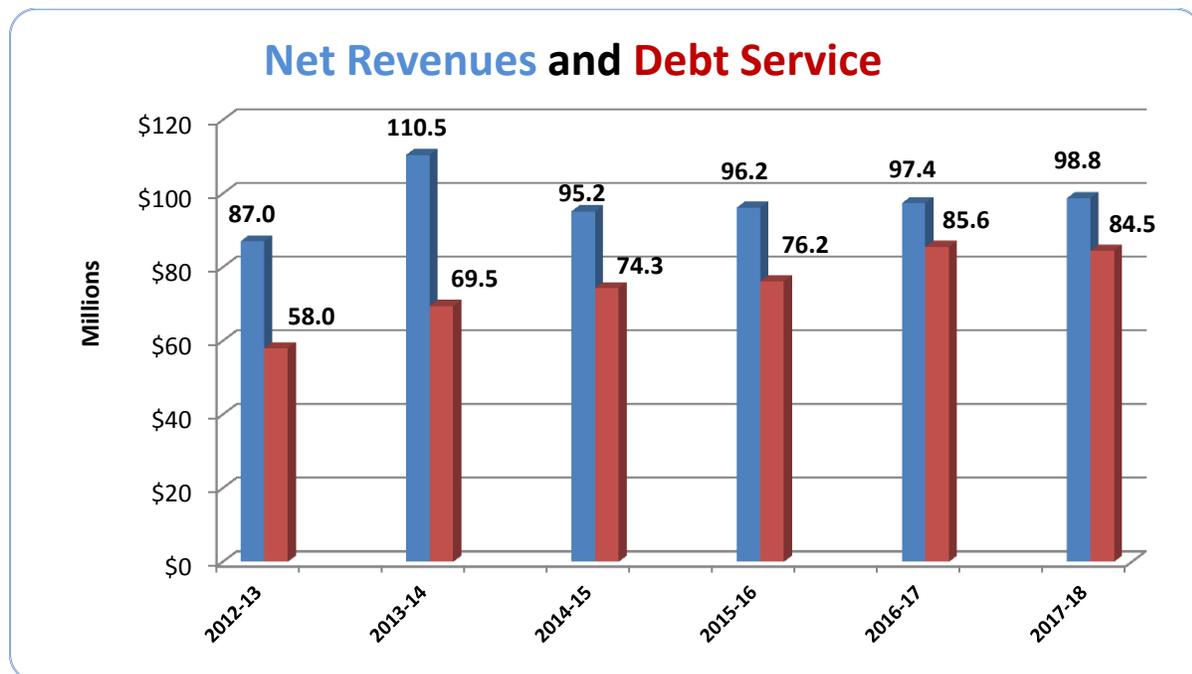
Because the County is still constructing the ROMP projects, the key factor affecting future sewer rates is the need to finance the remaining capital improvement program and to repay the debt.

Since 2004, Pima County has issued more than \$726 million in debt secured by the revenues of the system (which excludes more than \$40 million of COPs that were issued and have already been repaid). Of that amount, \$670.8 million is currently outstanding. In the next five years, the County anticipates issuing an additional \$225 million of debt secured by system revenues, while at the same time paying down \$239 million of principle, thus beginning to pay down debt faster than it is issuing new debt, leaving approximately \$657 million still outstanding at the end of Fiscal Year 2017-18.

In addition to the \$225 million of new sewer debt, the County plans to issue an additional \$60 million of Certificates of Participation (COPs) in this fiscal year for sewer capital projects, and another \$60 million again in 2015. Although these two COPs issues will not be secured by system revenues, repayment will be made from unrestricted cash generated from the system revenues. As discussed in more detail below, the County needs to finance capital programs through debt issues rather than through the use of available cash. The County is using available cash resulting from the net operating revenues, however, to significantly decrease the debt service requirements for debt by issuing the COPs which are repaid in three to five years.

Appendix B provides more detail of the projected revenues, expenses and net operating revenues of the system. Figure 3, below, shows projected net revenues available to pay the projected debt service through Fiscal Year 2017-18. Net revenues spike in Fiscal Year 2013-14 because of the anticipated sale of the Marana Wastewater Treatment Facility. The excess of net revenues over required debt service is one of the key factors used by rating agencies in setting the County's bond rating for sewer debt and is discussed in more detail below.

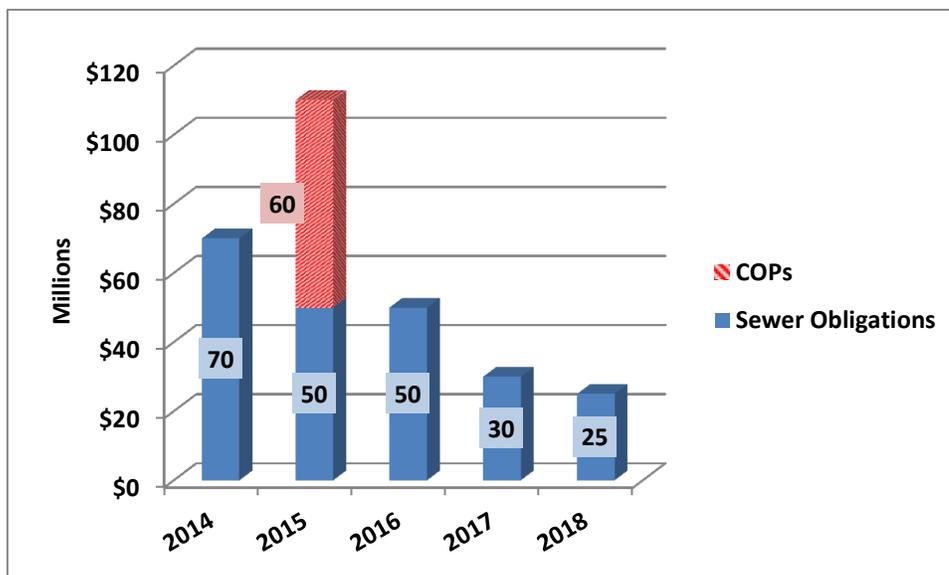
Figure 3



Sewer Revenue Debt Issues: As of June 30, 2012, Pima County had \$542 million of outstanding sewer revenue debt. In October 2012, the County issued an additional \$128.8 million of debt to fund capital projects for the current fiscal year, bringing the total current outstanding sewer debt to \$670.8 million. The County is including \$60 million of sewer projects in a larger Certificate of Participation that is being sold in May of this year.

Based on the current schedule of capital projects shown in Figure 1 above, Pima County will need to issue an additional \$225 million in sewer debt together with \$60 million of COPs in the next five years. These debt issues are currently scheduled at \$70 million in the first quarter of Fiscal Year 2013-14; \$110 million in Fiscal Year 2014-15 (including \$60 million of COPs); \$50 million in Fiscal Year 2015-16; and \$30 million in Fiscal Year 2016-17, and \$25 million in Fiscal Year 2017-18. The anticipated debt issues through Fiscal Year 2017-18 are show in Figure 4, below. After 2018, it is anticipated that the County will be able to finance ongoing sewer capital needs through recurring issues of Certificates of Participation to enable the County to pay for capital improvements on essentially a rotating pay as you go basis.

Figure 4 \$285 Million of Future Debt

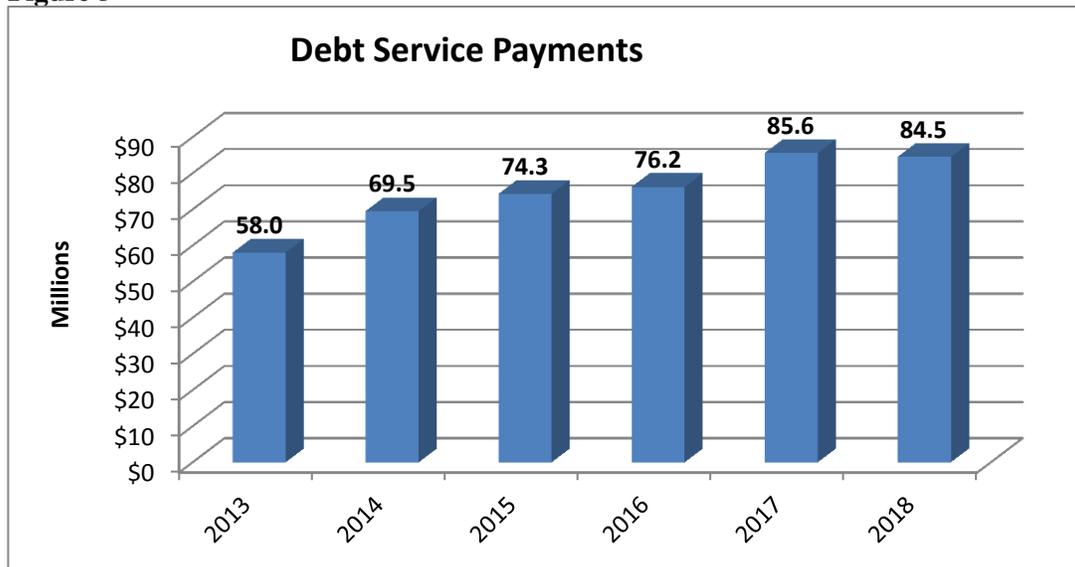


Debt Service Payments: Because the County must issue significant debt to fund the ROMP and other capital projects of the sewer system, the debt service payments are expected to continue to increase in the upcoming years. Debt service for the current fiscal year will be \$58.0 million, up from \$42.6 million last year.

As additional debt is issued to pay for the ongoing capital projects, the debt service payments will increase by \$11.5 million to be \$69.5 million for Fiscal Year 2013-14. Based on the projected cost to complete the planned capital projects, debt service payments are expected to increase to \$85.6 million by Fiscal Year 2016-17, an increase of more than \$27 million above the current year's debt service.

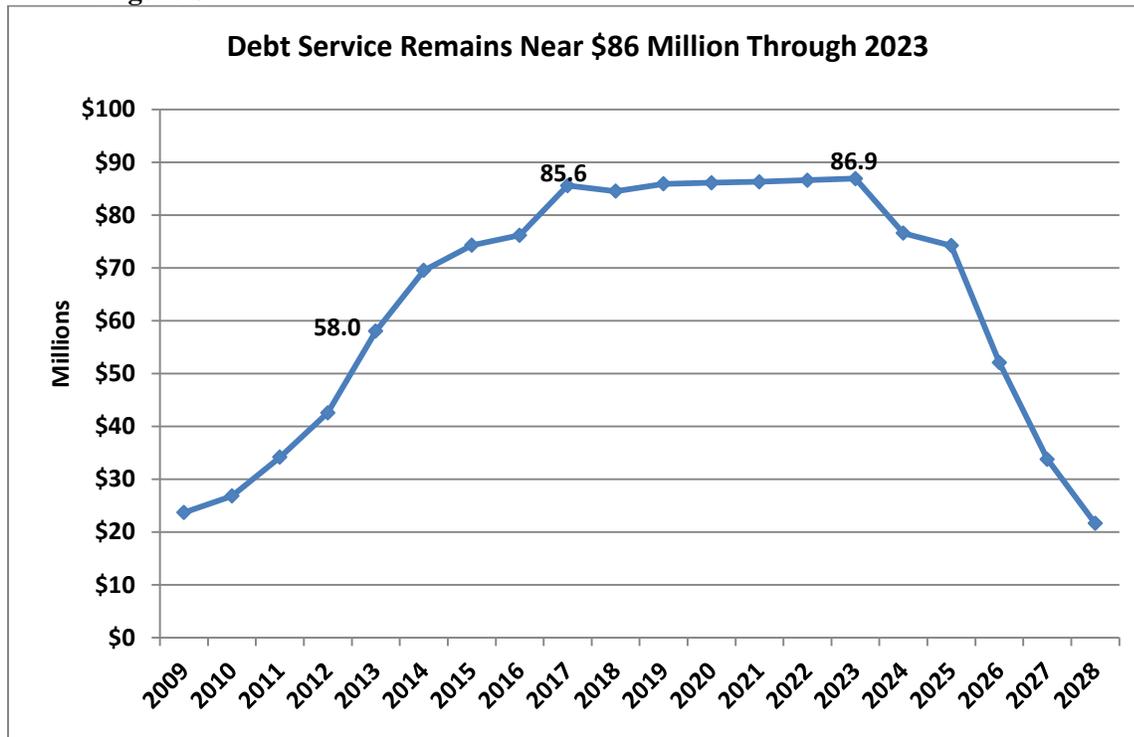
These estimates are based on an assumption that future debt will have an interest rate of 3.0 percent in Fiscal Year 2013-14, and that the interest rate will increase by 0.5 percent annually thereafter to reach 5.0 percent by Fiscal Year 2017-18. This reflects the favorable interest rates Pima County has received in recent sewer revenue debt issues, but anticipates a slight rise in future interest rates. Future interest rates in the municipal debt markets are highly unpredictable and any major change will require re-evaluation of this financial plan assumption. Projected annual debt service payments through Fiscal Year 2017-18 are shown in Figure 5.

Figure 5



The projections of debt service for future debt include an assumption that Pima County will use available cash to accelerate the payment of principal on debt, and thereby reduce debt service requirements. This financial plan incorporates using approximately \$98 million of cash to refund \$38 million of existing debt in Fiscal Year 2016-17 and to borrow \$60 million through Certificates of Participation to provide additional interest savings. Debt service for the COPs is not part of the debt service paid with pledged sewer revenues, but is ultimately paid with unrestricted cash from the system. Based on these assumptions, debt service should peak in Fiscal Year 2016-17, remain relatively stable for several years and then begin to decrease rapidly after Fiscal Year 2022-23. Figure 6 shows both the historical rise in debt service payments and the projected payments from the \$58 million this year to \$85.6 million by 2017. These estimates assuming no new debt is issued after 2018. Beginning in 2017, debt service is expected level off around \$86 million annually, through 2023, after which time debt service should decline significantly each year.

Figure 6



The current rate structure is expected to generate sufficient revenue to meet the anticipated debt service payments for each of the upcoming years. Although the projected revenues are sufficient to cover the \$86 million in future debt service, unless system growth exceeds the Pima Association of Governments population growth estimates, the revenues will not be sufficient to provide adequate debt service ratios to maintain the current favorable bond ratings and to continue borrowing with low interest rates in later years.

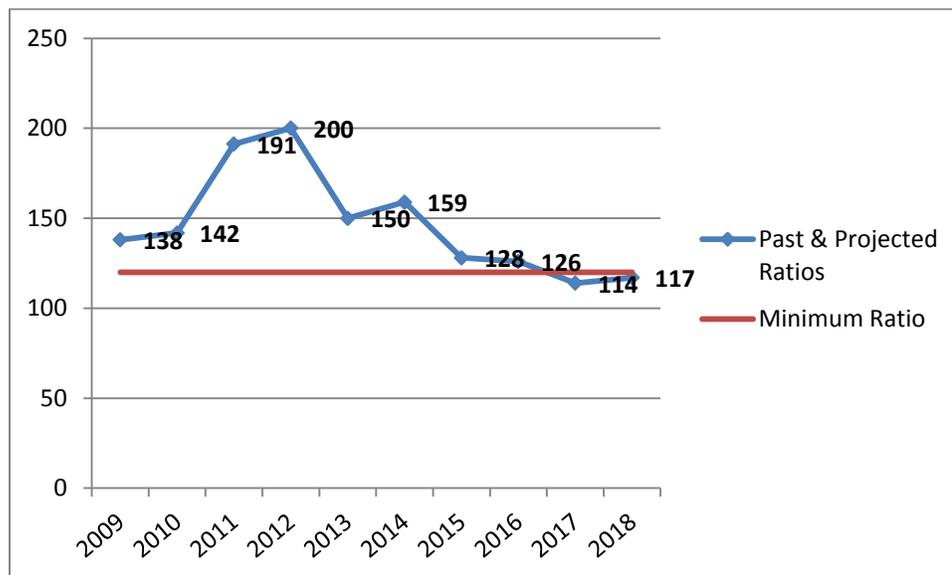
The debt service ratio is the ratio between net operating revenues and debt service for each year.

$$\text{Debt Service Ratio} = \frac{\text{Net Operating Revenues}}{\text{Debt Service Payment}}$$

In the current fiscal year, the net operating revenues are projected to be \$87.0 million and debt service is projected to be \$58.0 million, yielding a debt service ratio of 150 percent. Although the County anticipates a slight rise in the debt service ratio for Fiscal Year 2013-14, that increase is caused by the one-time sale of the Marana Wastewater Treatment Facility. By Fiscal Year 2014-15, given the current assumptions of growth in revenues, expenses and debt service, the debt service ratio is expected to drop to 128 percent, and continue dropping to 114 percent by Fiscal Year 2016-17. In upcoming years, as the debt service ratio continues to decrease, there is an increasing chance that bond rating agencies would downgrade the sewer revenue bond ratings unless the County has additional rate increases.

Unless the number of users or the number of connections increase at a greater rate than projected in this financial plan, the County will need to increase the fee structure in the near future. To maintain low interest rates, the debt service ratio should be higher than the minimum 120 percent. Standard & Poor’s rating agency, which rates the County’s sewer debt, has indicated that a debt service ratio of 100 percent (*excluding* connection fees and other non-recurring revenues) is a basic requirement. When connection fees are excluded in the calculation of projected net operating revenues, the County’s debt service ratio could drop below 100 percent by 2017. To achieve “strong” debt service coverage, a ratio of 150 percent should be attained (See Appendix C for S&P’s report on sewer ratio ranges). Figure 7 shows the projected debt service coverage ratios as compared to the 120 percent minimum. Given the anticipated increase in debt service payments and decreases in the debt service coverage ratios, the County must carefully evaluate rates during the next fiscal year for a possible increase in Fiscal Year 2015-16.

Figure 7 Debt Service Coverage Ratio



In order to have adequate debt service coverage at the time the County was beginning to issue major sewer obligations, four annual sewer rates increases were adopted by the Board. Those increases enabled the County to maintain a debt service ratio of more than 150 percent for each of the years of the automatic rate increases. Based on the projected decline in the debt service ratios, unless sewer revenues increase above these projections, the County will need to adopt a moderate rate increase, potentially in the range of 3 percent beginning in July 2015.

The Regional Wastewater Reclamation Advisory Committee Recommendation.

The Regional Wastewater Reclamation Advisory Committee discussed the possibility of future rate increases at its April 18, 2013, meeting. The Committee adopted a recommended goal of achieving debt service ratios of 130 percent with the understanding that future rate increases may be necessary to be near that goal.

Cash Reserves, Cash Balances and the Expenditure Limitation: Pima County has several types of restricted cash accounts to meet the various debt covenants as well as to establish an emergency fund to enable the County to handle unexpected events. The restricted cash accounts include:

1. **Emergency Reserve Fund** – \$20 million has been set aside into an Emergency Reserve Fund. The fund is for unexpected events affecting the ongoing operations of the system. The fund is not formally restricted by debt covenants or by statute and is available for any use relating to the sewer system that the County deems appropriate.
2. **Operating Reserve Fund** – The County maintains 90 days of anticipated operating expenses in this restricted fund. This fund currently has approximately \$18.9 million in reserve. By the end of next fiscal year, these reserves are projected to increase to \$20.0 million.
3. **Debt Service Reserve Fund** – This restricted fund is used to set aside cash for debt service payments. On a monthly basis, the County transfers one-twelfth of budgeted annual debt service into this reserve account to ensure cash is available for the annual debt service payments. Additionally, the County will have \$30.5 million for debt service reserve held either by WIFA or by the trustee bank servicing the sewer revenue obligations. These funds will be applied to the final debt service payments for the respective debt. By the end of next fiscal year, these debt reserves are projected to increase to \$33.8 million.
4. **Unrestricted Cash Balances** – At the March 9, 2010 Board of Supervisors meeting, the Board adopted a series of future rate increases and, simultaneously, restricted any unrestricted cash balances to be used for reduction of debt or for rebate of sewer fees. To this end, the County plans to retire debt as soon as the debt instruments are callable. During Fiscal Year 2016-17, the County will call and prepay \$38 million of Sewer Revenue Bonds and the WIFA Loans. To further reduce future debt payments by paying for projects quickly, the County will finance projects by issuing \$60 million of Certificates of Participation in the current fiscal year and \$60 million in 2015 with terms of approximately three or four years, as opposed to the traditional fifteen year term for the sewer debt. This action significantly reduces future debt and interest.

Expenditure Limitation Impact to Wastewater Projects: Due to the constitutional expenditure limitations restrictions in Article IX, Section 20, of the Arizona Constitution, the County is not able to use available cash to fund capital improvements on a “pay as you go” basis. The expenditure limitation restricts the use of "local revenues" which consist of primary property taxes, impact and connection fees, and any other fees charged for County services, including all fees charged for sewer services. The County may not exceed the expenditure limit even if there is cash available to spend.

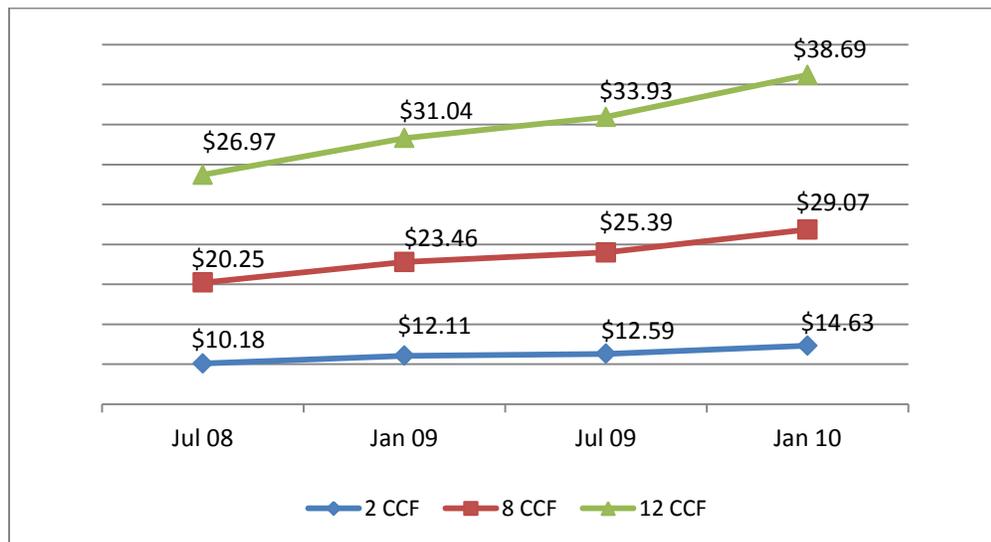
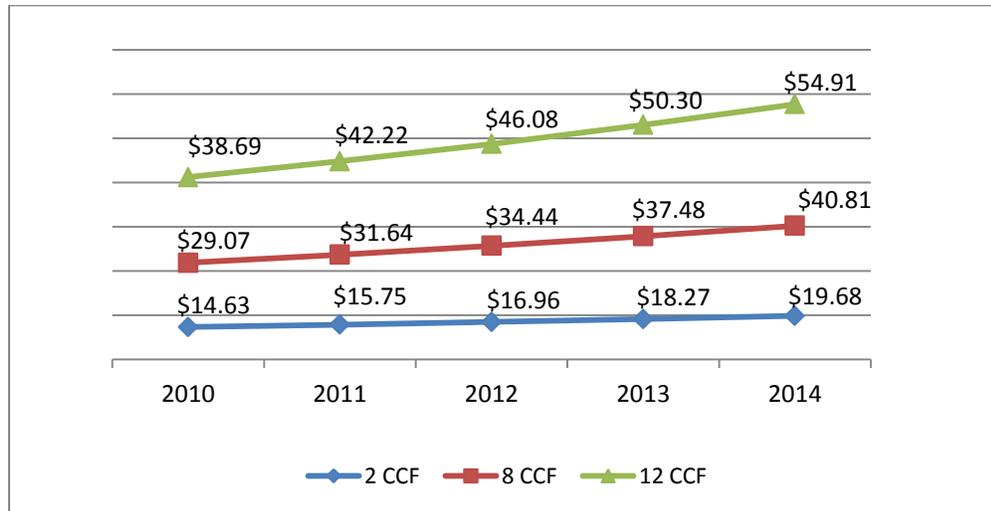
Although the County cannot use the cash to fund projects on a “pay as you go” basis, the County can use the cash to pay debt service without impacting the expenditure limit. In order to comply with the expenditure limitation, the County must fund sewer capital projects with *borrowed* funds, and use available unrestricted cash to pay the debt service on such funds. The issuance of the Certificates of Participation described above enables the County to use the available unrestricted cash within the Enterprise Fund to finance through relatively short term financing at very favorable rates. Such financing technique allows the County to approximate a “pay as you go” approach to financing the sewer improvements.

Expenditures related to the wastewater system and to the law enforcement system have increased at a rate greater than the rest of Pima County. In recent years, County's overall expenditures have essentially been near the Constitutional limit and are expected to remain near the limit for the foreseeable future. The expenditures limit for Pima County, established by the State's Economic Estimates Commission, is \$527.4 million for next year.

Rating Agencies: Pima County currently receives ratings from Fitch Ratings and from Standard & Poor’s for debt issued by the County, including sewer revenue debt. The most recent rating reports from these agencies, issued for the December 2012 debt issue gave Pima County sewer debt an AA- rating from Fitch and an A+ rating from Standard & Poor’s.

Sewer Rates: In 2010, the Board of Supervisors set sewer fees through July 1, 2013. The rates and effective dates for the volumetric sewer fee for a residential customer is currently \$3.203 per CCF, and will automatically increase by 10 percent to \$3.523 on July 1, 2013. The standard monthly service fee is currently \$11.86, and will increase by 6.5 percent to \$12.63 on July 1, 2013. Typical monthly residential users’ bills based on various volume levels are depicted in Figure 7. These rates are the same rates shown in the 2011 and 2012 Financial Plans.

Figure 7 Average Customer Monthly Bills



Recommendations:

The Pima County Finance and Risk Management Department is recommending:

1. The continuation of the existing user fee structure adopted by the Board of Supervisors in 2010 with the scheduled annual increase on July 1, 2013, and the continuation of the connection fee structure approved by the Board in May 2012.
2. In Fiscal Year 2013-14, the issuance of \$70 million of new debt.
3. In Fiscal Year 2013-14, an evaluation of rate increases that may be necessary for future years in order to maintain adequate debt service ratios in future years and to maintain low interest rates.
4. In Fiscal Year 2016-17, the early repayment of \$38 million of WIFA Loans and Sewer Revenue Bonds as that debt becomes callable.

List of Appendices

Appendix A – Key Assumptions used for Financial Plan

Appendix B – Five Year Financial Projections with Approved Rate Increase for July 1, 2013

Appendix C – Standard & Poor’s Key Water and Utility Credit Ratio Ranges

APPENDIX A - FINANCIAL ASSUMPTIONS

2013 Wastewater Financial Plan Assumptions

	Current Year						Comments
	2013	2014	2015	2016	2017	2018	
User Growth rate		1.0%	1.4%	1.5%	1.6%	1.78%	Rates for 2014 through 2017 are the "Medium Growth" estimates issued by Pima Association of Governments
Rate Increases:							Rate Increases approved by Board of Supervisors in 2010
User Fee increases	10.0%	10.0%	-	-	-	-	
Service Charge	6.5%	6.5%	-	-	-	-	
Connection Fees	13,486,450	13,621,315	13,812,013	14,019,193	14,243,500	14,497,034	FY 2013 is based on February Projections less the accrual of \$2.6 million for DM, which is shown as a non-recurring revenue.
Connection Fees Growth factor		1.0%	1.4%	1.5%	1.6%	1.78%	Rates for 2014 through 2017 are the "Medium Growth" estimates issued by Pima Association of Governments
Marana payment		14,500,000					Assumption that the sale of the Marana WWTF will be completed before June 2014. The estimate is an estimate of the present value of the payments.
Pascua Yaqui payment		1,200,000					
Davis Monthan Payment	2,612,730						
Annual rate of expense increase	3.4%	6.2%	2.0%	2.0%	2.0%	2.0%	FY 2014 includes a potential salary increase estimated at 3% of compensation, approx. 1.2% of the total 6.2% increase. No compensation increase has been approved by the Board.
GIP per 1/21/13 Schedule	170,797,587	112,889,448	111,901,734	57,645,989	26,967,000	23,674,721	
Debt Assumptions							
Sewer Obligations	150,000,000	70,000,000	50,000,000	50,000,000	30,000,000	25,000,000	
COPS Issues	60,000,000		60,000,000				
Interest rates	2.4%	3.0%	3.5%	4.0%	4.5%	5.0%	
Use of available cash:							
Call 2004 WIFA Loan					\$10.3 million		
Call 2007 Bonds					\$27.8 million		

APPENDIX B

**Regional Wastewater Reclamation Department Enterprise Fund
Five Year Financial Projections with Approved Rate Increase for July 1, 2013
Fiscal Years 2013 through 2018**

	Projected					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
System Revenues:						
Sewer Utility Service	145,422,856	160,280,873	162,520,465	164,953,622	167,587,920	170,565,467
Sewer Connection Revenue	16,102,180	14,823,315	13,814,023	14,021,223	14,245,571	14,499,147
Engineering Review & Inspection Fees	120,000	100,000	100,000	100,000	100,000	100,000
Other Income - Marana	-	14,500,000	-	-	-	-
Other Income	895,673	968,000	578,987	544,983	541,497	395,932
Total Revenues	162,540,709	190,672,188	177,013,475	179,619,828	182,474,988	185,560,546
Operations and Maintenance Costs:						
Employees Compensation	35,390,261	35,400,186	36,108,190	36,830,354	37,566,961	38,318,300
Consultants and Outside Services	7,573,213	10,299,718	10,505,712	10,715,827	10,930,143	11,148,746
Treatment Supplies and Chemicals	8,919,784	8,248,655	8,413,628	8,581,901	8,753,539	8,928,609
Utilities	6,503,018	5,983,403	6,103,071	6,225,132	6,349,635	6,476,628
Sludge	1,408,040	1,451,582	1,480,614	1,510,226	1,540,430	1,571,239
Repairs & Maintenance	4,612,672	5,626,534	5,739,065	5,853,846	5,970,923	6,090,341
General and Administrative	8,812,189	10,891,328	11,109,155	11,331,338	11,557,964	11,789,124
Capital Expenses	2,292,127	2,282,054	2,327,695	2,374,249	2,421,734	2,470,169
Reduction	-	-	-	-	-	-
Total Operations and Maintenance Costs	75,511,304	80,183,460	81,787,130	83,422,873	85,091,329	86,793,156
Net Revenues	87,029,405	110,488,728	95,226,345	96,196,955	97,383,659	98,767,390
Debt Service Payments						
Principal	25,934,449	30,234,678	31,466,303	30,429,369	37,695,553	36,938,626
Interest	25,019,880	23,906,089	22,603,989	21,158,235	19,621,981	16,603,494
Total Existing Debt Service Payments	50,954,329	54,140,767	54,070,292	51,587,604	57,317,534	53,542,120
Proposed Debt Service	7,048,283	15,357,449	20,207,345	24,594,975	28,234,898	30,962,726
Total Debt Service Payments	58,002,612	69,498,216	74,277,637	76,182,579	85,552,432	84,504,846
Debt Service Coverage - Bond Rating Agency	1.50	1.59	1.28	1.26	1.14	1.17
Debt Service Coverage - excluding non-recurring revenue	1.22	1.17	1.10	1.08	0.97	1.00

September 15, 2008

Criteria | Governments | U.S. Public Finance:
**Key Water And Sewer Utility Credit
Ratio Ranges**

Primary Credit Analysts:

Theodore Chapman, Dallas (1) 214-871-1401; theodore_chapman@standardandpoors.com
James Wiemken, Chicago (1) 312-233-7005; james_wiemken@standardandpoors.com

Table Of Contents

Reading Behind The Numbers

Key Rating Factors

A Note of Caution

Key Ratios

Income Levels – Household/Per Capita Effective Buying Income As A
Percentage Of U.S. Level

Debt Service Coverage

Liquidity

Total Debt To Net Property, Plant And Equipment

Top 10 Customers As A Percentage Of Total Operating Revenues

Fixed-Charge Coverage

Key Water And Sewer Utility Credit Ratio Ranges

Municipally-owned utilities continue to demonstrate rating stability and solid-investment-grade financial metrics despite concern about current economic conditions and the impact on local governments (see the article, "U.S. Public Finance Report Card: Water Supply Pressures Could Test The Stability Of Providers," dated Feb. 4, 2008, on RatingsDirect).

The representative ranges of ratios for water and/or sewer utility revenue bond issuers below provides an indication, through the use of descriptors, of what constitutes a high to low ratio from an analytical credit perspective. The selected ratios represent key factors Standard & Poor's Ratings Services uses in the credit rating process.

Municipalities may also own and/or operate other enterprises such as electric utilities, solid waste or other systems. While many of the metric addressed below also are part of the analysis for these other enterprises, Standard & Poor's will address key ratios specifically for those enterprises at a later date.

The ratios complement Standard & Poor's periodic updates of historical median ratios for rated utilities. (These medians represent measures of economic, financial, and system indebtedness characteristics.) The statistics will drift up and down during economic cycles because Standard & Poor's analysis is forward looking. In recent years, the medians have tended to outperform analytical guidelines.

However, it is not the case that an issuer must attain certain financial metrics in order to guarantee a certain rating or rating level. Financial condition -- historical, current, and likely future -- is only one of the criteria points for a water and sewer utility revenue bond rating.

Reading Behind The Numbers

Means, particularly for lesser-weighted ratios, may give a false impression in certain cases that deviations from the means may imply the need for a rating change, when in fact we may believe there is analytical comfort in a broad band of numbers for a particular ratio.

Examples of this phenomenon are evident when comparing key ratio ranges to the means for similar ratios. While a credit with a liquidity of six months' cash on hand would be technically "below average," relative to the rated universe of issuers, regardless of system size, we would nevertheless likely view it as having strong cash reserves.

Similarly, an issuer with total debt service coverage of all obligations of 1.4x, meaning pledged revenues are 40% greater than the revenue requirements, would likely be characterized as "good," all other things being equal.

Key Rating Factors

The relative weight of each factor is discussed in detail in Standard & Poor's Criteria section on RatingsDirect (the most recent article was published June 25, 2007). When evaluating water and sewer systems, Standard & Poor's examines six main factors:

- Economic considerations;
- Financial data/capital improvement plan;
- Rate criteria;
- Operational characteristics;
- Management; and
- Legal provisions.

Variation in the relative strengths or weaknesses of any of these factors can influence our opinion of creditworthiness and, accordingly, our ratings. Additionally, there is no dependent relationship between a general obligation (GO) rating and the revenue rating of the same entity. Due to the significance of the service area and economic base in our analysis and the frequent overlap of senior staff at the government and utility levels, the ratings of GO bonds and revenue bonds tend to be close, but there is also significant room for divergence, as seen in the case of Jefferson County, Ala.

A Note of Caution

Ratios do not tell the whole story -- they are only a portion of what Standard & Poor's uses in its analysis. Economic, administrative, structural, and other qualitative factors may outweigh any of these ratios when a rating is assigned. Numbers alone cannot determine an entity's willingness to meet its financial obligations, nor can they reveal a history of reactive or nonexistent rate adjustments or the operating restraints presented by the state/local framework.

The key ratios below do not represent a complete set of the ratios Standard & Poor's uses in its analysis. We also incorporate information from many internal and external databases. Depending on various credit conditions, certain ratios can take on more significance than others. In addition, a municipal entity's trends in any of these ratios may be more important to us than the historical ratios. A rating, after all, is prospective in nature.

Key Ratios

Income Levels – Household/Per Capita Effective Buying Income As A Percentage Of U.S. Level

As is the case with GO debt ratings, wealth and income levels are an important credit factor in our analysis, as they provide insight regarding the economic resources of a utility's service area. It does not necessarily imply the rate base's ability to pay a utility bill or a utility's willingness to make rate adjustments, but we believe it is still one of many important factors. One way to evaluate wealth and income levels is to look at the household/per capita effective buying income of the locality relative to the average U.S. level.

Below 65% Low

65% - 90% Adequate

90% - 110% Good

110% - 130% Strong

Above 130% Very Strong

Debt Service Coverage

Given that there usually are legal covenants that require an issuer to provide some transparent level of security to the bondholders, Standard & Poor's views the minimum level of operating revenues (excluding impact fees and other nonrecurring revenues) available for debt service as generally sufficient, i.e. 1.0x, for all liens. A ratio of less than 1.0x may indicate a mismatch between revenues and revenue requirements, and, possibly, a technical default by the bondholder that may compel further action such as a review of the appropriateness of the current rate schedule and structure.

Wholesale or regional systems, or joint action agencies, which typically provide water or sewer services on a cost-of-service-based rate schedule, will typically have lower coverage, although the criteria for wholesale utilities -- which typically includes an analysis of the system's participants' general creditworthiness -- allows less emphasis to be paid to the wholesaler's financial metrics.

<1.0x Insufficient

1.0x to 1.25x Adequate

1.26x to 1.50x Good

>1.50x Strong

Liquidity

A typical water utility earns most of its revenues -- often more than half -- from May through August. While sanitary sewer systems typically have more constant revenue flows, it is increasingly common for sewer billings to be either tied to water demand, or even be a flat, fixed rate. Because there is usually some fluctuation in cash flows due to seasonal demands, the amount of precipitation, or other economic or customer base trends, we look to whether a utility has some reasonable level of unrestricted cash or equivalents for working capital. In our analysis, Standard & Poor's also gives credit to cash and investments that may be designated, but ultimately available for any lawful purpose such as a renewal and replacement fund or a rate stabilization fund. Generally speaking, a system that simply distributes a third party's treated water to its retail customers, or collects and conveys its sewer flows to a regional sewer treatment facility operated by another entity, has less operating and financial risk, in our view, and may therefore require less working capital.

<30 days Low

30 to 60 days Adequate

60 to 120 days Good

>120 days Strong

Total Debt To Net Property, Plant And Equipment

Simply referred to as "debt to plant," this ratio is an approximation that can be used as a proxy for total system indebtedness. A ratio of 0% means the system has no debt outstanding and 100% means there is as much debt outstanding as net depreciable value of the system's assets, although it is certainly possible for the number to be greater than 100%. Total debt per retail customer account is another useful measure in our view, but when the issuer is a regional or wholesale system, the number of ultimate water meters is not always discernable. System indebtedness is useful for a number of reasons: it can give insight into, for example, whether the system is in the middle of a large growth- or rehabilitation-driven capital program (in which case the debt to plant number is high). It can also be closely tied to the system's rates and capacity for additional debt.

<40% Low

40% to 60% Moderate

60% to 80% Moderately high

>80% High

Top 10 Customers As A Percentage Of Total Operating Revenues

A system's high dependence on one or more of its principal customers for revenue need not constrain its rating. However, the fact a system's business could be affected by the changing fortunes of one of its principal customers should not be overlooked either. Therefore, Standard & Poor's looks at the relative diversity or concentration of operating revenues derived from sales to customers to gain insight into this potential vulnerability.

Examples might include a water-intensive food processor shuttering operations, the expiration of the contract of a large wholesale customer, or a major local employer relocating a facility to somewhere outside the service area. Conversely, if revenue distribution among the principal customers is relatively evenly dispersed, concentration concerns are more likely to be mitigated even if in totality the top customers comprise a large portion of total revenues.

<15% Very diverse

15% to 25% Diverse

26% to 40% Moderately concentrated

>40% Concentrated

Fixed-Charge Coverage

Similar to debt service, fixed-charge coverage is Standard & Poor's internally adjusted coverage calculation that factors into account that some utility systems are distribution-only and/or collection-only, with capital-intensive treatment plants built, owned and operated by another entity. Obligations to those third parties are typically off-balance sheet and often treated as operating expenses, not debt. These may also include raw-water purchases or

other contractual obligations or participation in a joint action agency.

We believe fixed-charge coverage allows a more realistic comparison between "pipes-only" systems and those that also include treatment plants. Standard & Poor's treats any recurring long-term obligation as fixed, especially capacity payments or other minimum demand costs that the system must pay regardless of whether the service is delivered. The adjusted debt service coverage calculation, therefore, removes these fixed charges from operating expenses and instead treats them as if they were debt, allowing for a more meaningful quantitative comparison between these systems and those with actual on-balance sheet debt.

<1.0x Insufficient

1.0x to 1.20x Adequate

1.21x to 1.40x Good

>1.40x Strong

Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: research_request@standardandpoors.com.