



**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)
CAPITAL IMPROVEMENT PROGRAM (CIP) SUB-COMMITTEE MEETING
Public Works Building
201 N. Stone Avenue, 7th Floor Conference Room**

Friday, November 20, 2015
2:00 p.m.

Members Present:

Sheila Bowen, Bob Iannarino, Matt Matthewson, Amber Smith

Others Present:

Michelle Campagne (FRMD Deputy Director), Jennifer C. Coyle (RWRD, via telephone), Merva Douglas Bridges (RWRD), Meridith Litton (FRMD Division Manager) John Lynch (RWRAC), Patrick McGee (FRMD Division Manager), Jaime Rivera (RWRD), Lorraine Simon (RWRD), Mark Taylor (RWRAC), John Warner (RWRD), Jody Watkins (RWRD)

A. Call to Order/Roll Call

Jody Watkins called the meeting to order at 2:06 p.m.

B. Pledge of Allegiance

C. Safety Share – Bob Iannarino shared that many high schoolers dress in gothic black and use electronic devices. They are not paying attention. Be careful when driving at dusk, with it occurring so early when many people are driving home from work.

D. Call to the Audience - None

E. Discussion/Action

- 1. Goals and Expectations of Capital Improvement Program (CIP) the Sub-Committee.** Mr. Iannarino stated the goal is to provide assistance to the Financial Sub-Committee, and to alleviate the concerns and timeliness to address issues pertaining to the Department's budget, of the Committee, to provide an overview from the Department for their protocol on establishing the CIP program, and to provide the Committee some background.

Matt Matthewson reviewed an ordinance for the Committee, and shared three components.

1. The Regional Wastewater Regional Advisory Committee (RWRAC) acts as an advisory body for CIP planning and rate structure formulation.
2. Annually review and recommend the proposed RWRD Capital Improvement Program annual and five-year program.
3. Review and facilitate to RWRAC 10-year capital needs for the Department.

Mark Taylor added to review the CIP and bring this information to the Board of Supervisors (BOS).

Sheila Bowen stated to add provide recommendation and support of CIP.

Mr. Iannarino added be aware of protocol for Department reviews.

Action: Motion for items to be listed. Ms. Bowen made a motion: CIP sub-committee goals and expectations to annually review CIP for 2, 5, and 10-year programs against financial information provided and assure appropriate budget is available to support. Mr. Iannarino seconded. Motion passed unanimously.

- 2. Nominations of Chair and Co-Chair of CIP Sub-Committee**

Bob Iannarino – Chair

Sheila Bowen – Co-Chair

ACTION: Amber Smith made a motion. Matt Matthewson seconded. Motion passed unanimously.



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3. Fiscal Year 2014/15 Capital Improvement Program (CIP) Actuals

Mr. Iannarino, new Chair, took control of the meeting and asked for a staff briefing from the Department. John Warner, RWRD Deputy Director Conveyance Division, introduced his staff present. Jaime Rivera, Manager CIP Program; Merva Douglas-Bridges, Manager of CIP Tracking Support (financial side). Mr. Warner offered to provide a PowerPoint presentation of some of the projects, do site visits of active projects, and to host upcoming meetings.

Mr. Iannarino referred to the handout, DRAFT FY 2016/17 CIP Proposed Budget that was distributed. He informed the Committee that the Department is in the middle of Fiscal Year (FY) for 2015/16. He inquired on the status of the budget. Mr. Rivera, RWRD Manager CIP Program, currently the Department is off \$10 million of what was budgeted for this year, \$44.5 million. The Department will be at approximately 90% of what was budgeted for.

Merva Douglas-Bridges, RWRD Manager CIP Tracking Support, replied this Fiscal Year has \$47.5 million actual approved and budgeted for.

Mr. Iannarino asked if these numbers take into account the 3.5% base fee that was shelved. Mr. Rivera explained no, because this a long-term finance program.

Ms. Bowen asked what the assumptions in building the CIPs are. Mr. Rivera stated that personnel from the Treatment and Conveyance Divisions often find items broken and in need of repair in the sewer system. This generates a Project Request Form (PRF) that identifies a need—such as broken items that need repairs, or needs to be installed, process improvements, augmentation (planning and forecasting) to increase capacity, operations (maintenance). These forms are routed to Deputy Directors for approval. Then this request is routed to the CIP Tracking Support section. Once approved, this request then becomes a Project Charter. The Project Charter then gets routed to the Department Director and onto the County Administration for final approval. Once the project is approved, then the request is then routed to the County Finance Department and it is then incorporated into a final program. This is how the CIP Proposed Budget list is created.

Mr. Iannarino asked for a breakdown of the sections: Treatment, Conveyance, and where does Maintenance fit in. Mr. Warner elaborated on operational (maintenance) needs, augmentation (planning and forecasting to increase capacity or additional connections).

Mr. Iannarino asked if any employee can identify the PRF for review to the Deputy Director. Mr. Rivera stated that anyone has the ability to generate a PRF.

Ms. Bowen inquired how does the CIP section group and prioritize projects. Mr. Rivera explained that RWRD each project has a different scope. The Department works on many of these projects with other jurisdictions.

Mr. Warner stated RWRD works on contingencies (i.e. build capacity), then work with the CIP Tracking Support section. What projects are flexible and which can be rescheduled.

Mr. Iannarino asked if projects were ranked in order of compliance requirements. Mr. Warner responded the National Association Sewer Service Companies (NASSCO) rating for condition of sewer pipes 1,2,3,4,5 is often used, but not for all projects. This is a national rating program used industry-wide.

Ms. Bowen expressed that the CIP FY 2015/16 budget is a catch up for problem areas in the system that is outstanding, for items not yet budgeted. She inquired if there is still outstanding work that needs to be done. Mr. Rivera stated that some projects allow for \$10 million charges per year, for multi-repair projects. At some point the CIP will catch up. Others could be separate major projects. Mr. Iannarino added these are ongoing carry overs.

Mr. Iannarino suggested having a savings for this Fiscal Year to have an impact on the current budget, or we moving more to future budgets. Ms. Bowen stated the potential need for FY 2016/17 savings or a rate increase is needed.



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Michelle Campagne, Deputy Director Finance and Risk Management Department (FRMD), explained FRMD looks at cash flows to determine how much in bonds must be sold to cover costs and create a debt schedule.

Ms. Bowen said projects are determined by anticipated costs, contingencies, and inquired if other factors or trends are used to determine this. Mr. Rivera stated when the project goes into design we know how much the repair will cost. There is already historical data on project costs available. Contingencies are estimated at 30% in the design phase. Contingencies vary from 10 to 30% once the construction bids are known. It is not until a bid comes in from a contractor that more actual costs are available. Project managers revise the budget as needed. There are sometimes unforeseen circumstances that arise. Additionally, there are some projects are funded, but they are late in being completed.

Ms. Bowen expressed concern if some projects are deferred and not delivered because adequate funding is not available.

Mr. Iannarino requested if a handout is available for CIP projects. Mr. Warner affirmed that he can make this available. He offered to educate and walk the Committee through a charter process. Mr. Warner stated the goal is to be effective, and to have flexibility with contractors, project managers, and project overruns (late start).

Amber Smith requested additional information on the 85% goal that the County requires the Department to spend on CIP projects. Mr. Rivera explained that the 85% is used as a measure to make sure project managers were on track with delivering their projects. The goal is to deliver the entire CIP as efficiently as possible and within or under budget, but there was not a set target under budget. Ms. Bowen followed by stating it is not just the amount spent, but also if the projects are being delivered. Mr. Rivera clarified that the Department is evaluated on several measures, which also includes how many projects were closed in the year.

Mr. Iannarino inquired about the easement conflict on the North Rillito Interceptor (NRI). He asked if this could delay the project. Mr. Warner confirmed that this could and the Department could pull this out of the budget for now, and could defer as a site specific project. This would be a more costly option. For now the Department is working through other phases of the NRI project. The goal is to be as effective and flexible as possible.

Ms. Bowen inquired on what controls are in place for these projects. Mr. Rivera spoke on target expenses, where the project managers update the cash flow for a project. As the project gets completed in phases it becomes easier to monitor how the project is running and being completed compared to goal.

Mr. Matthewson inquired on how NASSCO establishes project priorities. Mr. Rivera explained that there are eight or nine items the Department evaluates to determine priority. NASSCO is only one part of that process. How a project scores on the NASSCO rating determines its priority. It takes six months to get the procurement process going for a project. Mr. Warner elaborated that where the project is located and the population is located can determine its priority on the NASSCO rating.

4. Fiscal Year 2015/16 Capital Improvement Program (CIP) – Five Year Plan

Mr. Matthewson noted the FY2019/20 Treatment column appears empty. There are more items listed for the Conveyance and Augmentation. He inquired if there is a place holder for Treatment and Utilities to cover unexpected projects. Mr. Rivera stated, yes there is and it is called the bucket program. This bucket usually has between \$3 - \$5 million in place at any given time.

Ms. Bowen stated that the ROMP was a mandatory EPA program. ROMP gets done and other Conveyance projects are on hold. She inquired if there are other unknowns out there. Mr. Rivera explained that the CIP has been frozen. There is a five-year freeze on the last approved projects.



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Mr. Matthewson asked if there was a 10-year plans list. Mr. Rivera expressed long range plans are not tracked on five-year CIP.

Ms. Bowen inquired if the Department is looking at long-term needs. Mr. Rivera explained that the link between the planning and CIP is the augmentation portion of the program.

Mr. Iannarino stated that this segment is flexible to respond to economic development pressures to segway from planning element.

Mr. Matthewson asked about partial buckets for later projects FY 2017/18 and FY 2018/19. Mr. Rivera explained the buckets are frozen on the amount for each fiscal year, because we cannot increase. Once the buckets are gone, then certain projects must be delayed for lower priority projects to take care of emergency projects.

Ms. Bowen stated 85% is a target to spend on the program adequately, and not a limitation on how much can be spent.

Ms. Bowen inquired that five fiscal years, why there is approximately \$45 million budgeted in each of the first three years and less in the remaining years. Mr. Rivera explained that the CIP section is taking care of broken pipes, pumps, etc. The future years look lower because the out years were underfunded.

5. RWRD CIP Budget Impacts on RWRD Debt Service Ratio and Five -Year Model

Mr. Iannarino inquired on how close are the bottom line totals. Ms. Campagne stated these items are reflected on Mr. Dommer's spreadsheet (refers to other spreadsheet, not provided at meeting) and they are close. The numbers were provided by RWRD as of October 22, 2015. The Planning and Budget section work with these numbers. Mr. Iannarino asked if there was an adjustment to the CIP. Mr. Rivera stated these numbers are based on what the Department submitted to the BOS.

Bonds are sold in January. First year has only one-half year of an interest payment. Reducing the CIP budget by a few slight million, up to \$5 million, will not have an impact on the debt-service ratio. Mr. Iannarino inquired on what impact a significant drop in the CIP has on the debt-service ratio.

Ms. Bowen stated the Committee needs to work with the Department on their criteria. Mr. Matthewson added if cost cutting becomes a strategy, then the Department is prepared to cut 50% of its CIP projects. Ms. Bowen also added the Committee needs to know if we defer projects which projects are mandatory, the cost to delay projects, and environmental considerations. Mr. Matthewson said what happens when the Department cuts full-time employees against CIP projects, and which projects are cut. Ms. Smith said there are trade-offs in deferring some projects.

Ms. Campagne replied with the new debt being issued and the associated payment for that debt. If \$20 million is owed for Certificates of Participation (COPS) proceeds, this equates to \$500,000 in interest payments. Mr. Iannarino said \$42 million additional debt service payments assigned to the CIP budget. It is important to understand the protocol.

Ms. Bowen stated the Department got to this place due to the funding requirements and priority placed on the ROMP. Thousands of other projects were deferred.

Mr. Iannarino stated that \$40 million budget on a continual basis is an easy way to plan. There is a discretionary process involved in this process.

Ms. Smith stated that even small cuts to the CIP budget shows the Committee is making a conscientious effort.

Ms. Bowen inquired on the asset value of the wastewater system. Ms. Campagne stated she will provide this information at a future meeting.



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Mr. Iannarino inquired on the impact of FTE staff reductions tied to this program. Mr. Rivera stated no, staff reductions have occurred due to attrition. The target is to finish projects on time 85%. The goal is project completion, not the dollar amount spent.

Ms. Bowen asked what happens with potential cuts to the CIP and how this affects the budget. She suggested this could be a public private partnership for funding. She inquired on how this is measured against needed projects.

F. Future Agenda Items – Charter process, presentation of CIP projects, Chairman of Advisory Committee provide input on agenda items for this committee.

G. Call to the Audience

Mr. Lynch stated the importance of validating a need and timing on projects, and to use all resources available to deliver efficiently and economically for CIP Projects. Also to address delivery methods economies for Job Order Contract (JOC), Construction Manager at Risk (CMAR), and Design Build procurement. He expressed a concern if JOC Contractors are overloaded to get the best price? Analogy of looking at NASCO rating for urban area vs. well-developed area. What happens with a Sanitary Sewer Overflow (SSO) discharge in a wash area and the cost to clean it up? Consideration on what are the risks of making these determinations. How well does the CIP group estimate projects to assure the Department is not carrying more contingency in capital projects than is needed. Wasn't Tres Ríos a part of ROMP? There are many Tres Rios projects listed in the CIP Projects Report, explain.

Mr. Taylor expressed that concerns pertaining to the bond debt service ratios are reserved for discussion with the Finance Sub-Committee.

H. Adjournment

Mr. Iannarino made a motion to adjourn the meeting. Ms. Smith seconded the motion. Meeting adjourned at 4:02 p.m.

NEXT REGULAR MEETING DATE:

December 3, 2015

8:30 a.m. – 10:00 a.m.

Conveyance – 3355 N. Dodge Boulevard

Persons with a disability may request a reasonable accommodation by contacting Jody Watkins at (520) 724-6500 or by fax to (520) 724-9635 or by email jody.watkins@pima.gov. Requests should be made at least 24 hours before the scheduled meeting to allow time to arrange the accommodation.