

**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)
FINANCIAL SUB-COMMITTEE MEETING
Public Works Building
201 N. Stone Avenue – 7th Floor Conference Room
Friday, October 14, 2016, 9:00 a.m.**

Members Present: Sheila Bowen, John Lynch, Armando Membrila, Mark Stratton, Mark Taylor

Others Present: Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Veronica Lopez (RWRD), Patrick McGee (FRMD)

A. Call to Order / Roll Call

John Lynch, Chair, called the meeting to order at 9:05 a.m. Veronica Lopez, Program Coordinator, took the roll call and a quorum was present.

B. Pledge of Allegiance

C. Call to the Audience – There were no comments from the audience.

D. Safety Share

Mark Stratton reminded everyone to be cautious while driving as bicyclists are training for the El Tour de Tucson. Mr. Lynch added to also be aware of bicyclists when making right turns on red while driving.

E. Approval of Minutes – Meeting Minutes of April 15, 2016

ACTION: Sheila Bowen made a motion to approve the meeting minutes of April 15, 2016. Mark Stratton seconded the motion. Motion passed unanimously.

F. Discussion/Action

1. RWRD Budget Issues

Patrick McGee, Division Manager, Finance and Risk Management Department (FRMD), distributed and discussed the Fiscal Year (FY) 2016/17 Period 3 Expense and Revenue Summary as of September 30, 2016. Mr. McGee also distributed a FY 2017/18 Budget Calendar for the Sub-Committee's review.

2. 2017 Financial Plan

Keith Dommer, Director, FRMD, distributed and explained a graph showing Volume Rate Increases as Compared to Expenses by FY, which shows a cumulative effect of these rate increases for a 12-year period. Mr. Dommer provided this graph in response to a request made by Mr. Bill Katzel, RWRAC member. Mr. Dommer will provide a further detailed presentation on this data at the regular monthly RWRAC meeting later this month. Mr. Lynch stated he would like to have additional explanation on how the department feels their operations and maintenance (O&M) costs are trending with new facilities. Jennifer C. Coyle, Special Staff Assistant to the Director, Regional Wastewater Reclamation Department (RWRD), stated the spike in FY 2012/13 and FY 2013/14 was due to CH2M Hill coming on as the Design Build Operate (DBO), but also other O&M costs associated with having a state-of-the-art facility. In FY 2015/16, the budget leveled off and RWRD has a good handle on O&M expenses and did not go over budget. Mr. Lynch stated in the past, questions have been raised by the Board of Supervisors with regards to how the Department is spending its money. Mr. Lynch requested this be addressed with the Financial Sub-Committee so that they can then report back to the full RWRAC as to what the real drivers are with regards to the revenues of the Department and the debt service. Ms. Bowen suggested separating the two components, the debt service and the O&M. Discussion ensued regarding the debt service. Mr. Taylor stated if the rate increases are going to be compounded then the cumulative expense increases should also be compounded so they are the same. Mr. Dommer explained expenses is not a driver that is increasing expenditures; therefore, the revenue increases

may be the only thing that is compounded. Mr. Dommer provided an overview of total expenses as compared to total revenue. Discussion ensued regarding user fees as compared to connection fees. Ms. Bowen asked about the cost of capacity and if it is supported equitably by the connection fees and the user fees are supported by cost of service. Ms. Coyle stated she will look into that and gather information for the Sub-Committee.

Mr. Dommer distributed a 5-Year Financial Projection for FY 2017 through 2021, assuming three mid-year 4% rate increases. Mr. Dommer provided an overview of the data. Discussion ensued regarding the debt service ratio and the importance of maintaining a 1.2 – 1.3 rating. Mr. Dommer will re-evaluate and provide an update of the population growth and volume estimates at the next Financial Sub-Committee meeting. Mr. Taylor expressed concern over the data presented in the projections and that a 4% rate increase may not be enough.

3. Rate Increase Adoption Process

Mr. Lynch asked what the County Administrator has recommended to the Board of Supervisors (BOS) with regard to the rate increases. Mr. Dommer stated the County Administrator has presented the Financial Plan that recommends one 4% revenue rate increase in 2017, 4% or more in 2018 and 4% or more in 2019. The BOS has also been informed of the RWRAC's recommendation to do one 4% increase and await the outcome of Raftelis' rate study. Mr. Lynch asked if the County Administrator has seen the most recent projections. Mr. Dommer stated he has not. Mr. Lynch commented that the projections that the RWRAC based their recommendation on did not come to fruition and therefore, there may be a need to recommend a higher rate increase. If it is the Committee's recommendation, Mr. Dommer stated he could recommend more than 4% for one-year based on these numbers. Mr. Taylor stated he believes 7% is the rate increase that should be recommended. Mr. Lynch stated he agrees with Mr. Taylor since the numbers have changed since the RWRAC made their recommendation of 4% in April. Mr. Dommer stated based on these numbers he concurs that recommending more than 4% would be warranted, with recommending a 5% in January and possibly recommend another rate increase in six months. The projections provided were meant to open the discussion and give the Sub-Committee other options to consider. The Sub-Committee explored various rate increases and their impacts. Mr. Dommer will analyze the different options and report his findings back to the Sub-Committee at the next meeting. Mr. Taylor suggested that Amber Smith, RWRAC Chair, and Bob Iannarino, RWRAC Vice-Chair, be updated with the information discussed at today's meeting.

Ms. Coyle stated a 60-day public notice must be posted prior to the BOS meeting in January. Ms. Coyle will clarify with Chuck Wesselhoft, Deputy County Attorney, on whether the notice must indicate a specific number of the recommended rate increase. The Sub-Committee and staff discussed what the process would be if the RWRAC's rate increase recommendation changes and how to communicate that to the County Administrator.

4. Rate Study

Mr. Taylor asked if the formulas used in the 2012 Scope of Work are in the current Raftelis Rate Study. Ms. Coyle explained that Jackson Jenkins, Director, RWRD, determined that part of the Scope of Work be removed and that it be reviewed in-house. Ms. Coyle will assure that Mr. Jenkins addresses this matter in his talking points during the regular RWRAC monthly meeting. Mr. Taylor stated having a third party was important in assisting the Committee with justifying their decisions on rates. Mr. Lynch asked Ms. Coyle to communicate to Mr. Jenkins that the RWRAC would appreciate notification prior to any further major modifications to the Scope of Work so that they may include as an agenda item for discussion. Ms. Coyle stated the rate study is on schedule and is set to be completed in the Spring of 2017.

5. Meeting Schedule

Mr. Lynch stated he would like the Sub-Committee to meet prior to the next regular monthly RWRAC meeting and suggested meeting the week of October 24th. The Sub-Committee scheduled the next meeting for Tuesday, October 25th at 3:00 p.m. Mr. Lynch will contact Ms. Smith and Mr. Iannarino to update them on the discussion held at today's meeting, as well as to invite them to attend the meeting on the 25th; therefore, a notice will need to be posted that a quorum of the full committee may be present.

During discussion, it was brought to the attention of staff and the Sub-Committee that the Southern Arizona Water Users Association (SAWUA) will be holding a meeting on the same date/time as the RWRAC meeting on October 27th. Members from the RWRAC will be attending the SAWUA meeting. It was suggested moving the meeting time up an hour. Veronica will contact Ms. Smith and Mr. Iannarino to notify them of this meeting

conflict and discuss how they wish to proceed.

G. Future Agenda Items

- Revenue Needs and Potential Rate Increase Adoption Process
- Rate Study
- Meeting Schedule

H. Call to the Audience – There were no comments from the audience.

I. Adjournment

ACTION: Armando Membrila made a motion to adjourn the meeting, Mark Taylor seconded the motion. The meeting was adjourned at 11:13 a.m.