



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

MEETING MINUTES

Wednesday, October 28, 2015

SUB-COMMITTEE MEMBERS PRESENT:

Sheila Bowen John Lynch Armando Membrila Mark Stratton Mark Taylor

OTHERS PRESENT:

Jennifer C. Coyle (RWRD)	Keith Dommer (FRMD)	Michelle Hamilton (FRMD)	Bob Iannarino (RWRAC)
Patrick McGee (FRMD)	Lorraine Simon (RWRD)	Amber Smith (RWRAC)	Jody Watkins (RWRD)

A. CALL TO ORDER/ROLL CALL. John Lynch, Chair, called the meeting of the Regional Wastewater Reclamation (RWRAC) Financial Sub-Committee to order at 2:10 p.m. Jody Watkins took the roll call and a quorum was present.

B. PLEDGE OF ALLEGIANCE.

SAFETY SHARE. Armando Membrila reminded everyone with winter visitors back in town please be careful when driving. There are some drivers who change lanes without using turn signals and drive under the speed limit.

CALL TO THE AUDIENCE. John Lynch provided the ground rules for Call to the Audience when asked to speak prior to the start and end of the meeting with comments provided by the audience. The Committee is not allowed to comment, but will note the comments.

C. APPROVAL OF MINUTES.

Meeting Minutes of September 16, 2015

ACTION: Mark Stratton made a motion to approve the minutes of the September 16, 2015 meeting. Armando Membrila seconded the motion. Motion passed.

D. DISCUSSION/ACTION.

1. REVENUE REVIEW (FISCAL YEAR 2009/10 TO FISCAL YEAR 2014/15).

a) Basis for Fee Calculation Methodology (Ordinance 13.24.030).

John Lynch stated that the fee calculation outlined in Ordinance 13.24.030 ties back to the Regional Optimization Master Plan (ROMP) Program. During the ROMP, the service fee increased approximately 6.5%, and the volume rate increased by approximately 10% per year. Currently the fixed service fee of \$12.63 is fixed. This amount is approximately one-third of the residential sewer user bill. Discussion centered around the fact that a significant portion of RWRD's costs are fixed; therefore, fixed rate portion of the residential sewer bill should be higher than one-third. Mark Taylor suggested that going forward the Committee should look at different options with fixed and variable rates. Mr. Lynch stated that the Committee should focus on the ordinance methodology in establishing rates. The Committee should consider using the present methodology or amend it. Mr. Taylor stated with water usage a



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consideration is what is normal for most water utilities. Ms. Bowen gave an example about capacity required for both plant and pipeline that is mandated by the state and suggested that rates should better reflect fixed costs. Mr. Lynch stated Mr. Jenkins goal is to set the rates more in balance with what the actual costs are for the Department.

b) *Basis for Connection Fee Methodology (Ordinance 13.20.045).*

Mr. Lynch advised that the State of Arizona passed a requirement for connection fee methodologies. Mr. Taylor stated that he believes this requirement does not apply to RWRD, since the department is a utility and not a municipality. He would like to bring this to the Committee's attention and confirm that the department does not have to comply with the requirement. Mr. Taylor stated as the Committee goes forward in setting rates, there stands a need to know how the connection fees relate to the user fees. There has not been a policy behind that previously. Connection fees are for growth and what costs are associated with the treatment plant. Mark Stratton clarified that connection fees are tied to capacity components (treatment and interceptor). In prior years, the amount of connection fees raised would subsidize user Operations and Maintenance (O&M) components. Mr. Taylor said that there needs to be a policy set up that's consistent and tied to the true cost. That philosophy should be maintained in the future.

i. Compliance with State of Arizona Requirements (i.e., ARS 9-463.05).

Mr. Lynch questioned how the Arizona Revised Statute affects Pima County. The County is the only provider that runs a utility and is not a town. Ms. Coyle informed the group that she will ask Chuck Wesselhoft, Pima County Attorney's Office, to research this and provide information on this topic to the Committee.

c) *Revenues by Source*

i. User Fees

Mr. Taylor inquired about revenues if there were no changes in rates. There are a number of variables, such as: total number of customers, connection fees based on meter size, and the winter-quarter average (WQA) \$3.523 per one-hundred cubic feet (CCF). Keith Dommer, Director Finance and Risk Management Department (FRMD), provided RWRD revenue information for FY 2009/10 to 2014/15. Items of discussion included: assumptions, operating revenues, sanitation user fees, non-operating revenues, and connection fees. The trend information was also provided to include total residential and high strength users. Residential users are the most significant customers, 66-69% of revenues are from residential fees. Commercial fees range from 27%-29% of revenues. Industrial users provide only 3% of total revenues. Michelle Hamilton, Division Manager FRMD, referred to the table for User Fees (FY 09/10 to 14/15) and elaborated on the numbers presented to include a breakdown on the numbers for total residential and non-high strength customers by FY. The numbers included volume and fixed fees for all customers. Mr. Dommer will have the revenues broken down for the three user classes (residential, commercial, and industrial/high strength) by components (volumetric and base).

ii. Connection Fees

Jennifer Coyle reported no formal waivers have been granted to any customers. Mr. Lynch stated that the Board of Supervisors (BOS) had questions regarding fee waivers. Ms. Coyle stated that Ally Miller, District 1 BOS, had requested this information. The department has compiled a full report that is with Mr. Huckelberry, Pima County Administrator, for transmittal to the BOS. Mr. Lynch requested a copy of that report be distributed to this Committee once it is released. He inquired regarding development incentives, if there were any waivers to connection fees. Ms. Coyle responded by saying there have been no waivers of any fees due to new development. Mr. Taylor requested



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information on the average fiscal year three-month WQA volume, the amount of volume per customer decreasing. Mr. Dommer stated he will provide a multi-year comparison for the Committee.

iii. *Miscellaneous*

1. *Surplus Material and Equipment*

Mr. Dommer referred to the line item Proceeds Sales of Other Assets. He explained that the revenue generated when the department sells surplus equipment stays with the department.

2. *Bio-solids as Renewable Resource*

Discussion centered on the revenue potential of biosolids. Disposal of biosolids is an expense to the department who pays a contractor to haul the biosolids and dispose of it. Ms. Coyle informed the Committee that a bid went out and the contract will go before the Board of Supervisors on November 10, 2015 to award the contract to Avra Gro. Mr. Membrilla had questions on if the farmers benefitted financially from receiving the waste at a reduced cost. Ms. Coyle will provide answers to this Committee.

3. *Other Miscellaneous Revenue*

Mr. Taylor inquired what the \$405,000 Other Miscellaneous Revenue reported for FY 2014/15 was comprised of. Mr. Taylor requested a breakdown on additional other miscellaneous revenue sources. Mr. Lynch requested information regarding projected revenues from the sale of biogas and what impact this may have on rates. Patrick McGee, Division Manager FRMD, stated the original contact had the amount estimated from \$50,000 to \$130,000 annually. Ms. Coyle said she will obtain that information for the Committee.

d) *Treatment Volume/Revenue Projection Methodology*

i. *Population*

Mr. Lynch stated revenues have been projected from tracking growth in the system based on population. The last few fiscal years, the population growth has been flat with a corresponding reduction in flows. He inquired on the criteria used—population or water consumption trends. Mr. Taylor responded by stating it is a combination of both. Mr. Dommer referred to the spreadsheet, RWRD Enterprise Fund Five-Year Financial Projections. He referred to the following: Actuals 2013/14, Actuals 2014/15, Adopted Budget with Rate Increase 2015/16, Budget Amount with No Rate Increase 2015/16, Forecasted 2015/16. The assumption models referenced included: Customers, Population Growth—University of Arizona (UA) Estimates, Calculated Flow Estimate (monthly), and Rate Factor – Volume. Mr. Dommer provided a detailed explanation of System Revenues, which included calculations of the projected 2015/16 Volumetric User Fee, Fixed User Administrative Fee, Sewer Connection Revenue, Other Income, and Total Revenues.

The Debt Service Coverage Ratios were provided. There was much discussion regarding the debt service ratios. Mr. Lynch stated that due to the amount of the borrowing the department has experienced the past few years, RWRD has to be sensitive to the 1.30% bond covenant ratio. Mr. Dommer elaborated by saying the contracts under which the debt is issued legally require a 1.20% debt service ratio. The rating agencies require 1.30% for favorable bond ratings. Ms. Coyle clarified that only RWRD follows the 1.30% debt service ratio, this is not County-wide as Ms Wolff stated in a previous meeting.

Mr. Lynch stated that previously, Mr. Burke, former Pima County Director of Finance and Risk Management, was adamant that RWRD needed a 4.5% rate increase for next Fiscal Year. Mr. Burke was very resistant to accept a lesser amount. When the department went before the BOS with a rate increase request at 4.0%, the amount then dropped to 3.0%. This hurts the Committee's credibility.



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The Committee invested much time in this process. Mr. Dommer responded he will support the Committee, as long as the requests are financially feasible and reasonable. The present Capital Improvement Projects (CIP) are much smaller than what the ROMP was. He recommended a good credit rating if the department will need to borrow a lot of money in the future for another huge capital project. Mr. Lynch stated that he understood Mr. Huckelberry would go before the BOS again in January 2016 with another request for a rate increase, 3% to take effect April 2016, and 3% to take effect October 2016. Mr. Dommer will confirm.

- ii. *Potable Water Consumption*
Deferred at this time.

e) *Projection of Revenue for Fiscal Year 2015/16 and Fiscal Year 2016/17 with no rate increase.*

Mr. Dommer stated projections for the O&M budget this fiscal year are \$84 million. The O&M budget, debt service ratio is scheduled out for the next five years into the future. The next Financial Sub-Committee meeting will require additional time to complete the discussion on revenues. The Committee will be sent the O&M budget breakdown categories prior to the next meeting. There was additional discussion on the debt repayment schedule and how to reschedule. Mr. Lynch added that Mr. Huckelberry had stated the ROMP repayment schedule would not be extended out past 15 years. Future items of discussion will include the repayment period on debt rationale and opportunities to refinance the debt. The Committee had many requests on how the Department's financial information is reported. Those requests included a new spreadsheet with information how the Department is meeting the current FY 2015-16 budget, cash flow, remove depreciation expense from the budget, and actual numbers with the assumption of no rate increase. This reporting method would make it clearer for the Committee to see if the department is meeting its revenue, cash flow, ability to meet debt service, and budget and by how much. Mr. Dommer confirmed that he could provide the financial information (cash flow financial statements, GAP financial statements, budgetary information, rate setting, CIP funding sources, and a five-year projection period).

The Financial Sub-Committee will be listed as a full agenda item at the next RWRAC meeting. Mr. Lynch will provide a summary on what the Financial Sub-Committee discussed at this (October 28, 2015) meeting and the upcoming (November 10, 2015) meeting.

E. FUTURE AGENDA ITEMS.

- Revenues (recap of this meeting and with new format)
- O&M breakdown
- Connection fees – Eric Wieduwilt
- New rate model with quarterly flow
- Review of materials provided to committee
- Opportunities to refinance debt
- Rationale for repayment period on the debt

F. CALL TO THE AUDIENCE.

Ms. Smith stated it is difficult to get a rate increase approved during an election year.

Bob Iannarino expressed an interest in discussing a debt payment plan restructuring longer than 15 years. A question if the University of Arizona has connection fee waivers.

ADJOURNMENT

ACTION: Mark Stratton made a motion to adjourn the meeting. Mark Taylor seconded the motion. The meeting was adjourned at 4:10 p.m.

NEXT REGULAR MEETING DATE: November 10, 2015