



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

**MINUTES**

**Wednesday, December 2, 2015**  
**1:30 p.m.**

**Members Present:**

John Lynch (Chair), Armando Membrila, Mark Taylor (Vice Chair)

**Others Present:**

Jennifer C. Coyle (RWRD), Jeannie Davis (Board of Supervisors District 1), Keith Dommer (FRMD), Bob Iannarino (RWRAC), Patrick McGee (FRMD), Amber Smith (RWRAC), Lorraine Simon (RWRD), Jody Watkins (RWRD)

- A. Call to Order/Roll Call.** Meeting began at 1:41 p.m. Jody Watkins took roll call.
- B. Pledge of Allegiance**
- C. Safety Share** – John Lynch spoke on ladder safety. He stressed the importance of keeping centered while on top of ladders. Mark Taylor shared his recent experience of being in traffic and seeing a bicyclist who had been struck by a vehicle.
- D. Call to the Audience**
- E. Approval of Minutes**  
Meeting Minutes for November 10, 2015  
Mr. Membrila had requested in the prior meeting, held on November 10, 2015, an amendment be made that the meeting time be extended by an additional 30 minutes. This was not reflected in the minutes.  
**Action:** Mr. Taylor made a motion to approve. Armando Membrila seconded. Motion passed unanimously.
- F. Discussion/Action**
  - 1. Revised Rate Workbook**  
Keith Dommer, Director – Finance and Risk Management Department (FRMD), began the discussion by referring to the Preliminary Draft – Rate Setting Calendar timetable. He referenced proposed dates for Options 1 and 2. These dates represent what the timeframe is to meet target Board of Supervisor meeting dates, the Finance Sub-Committee to have a preliminary draft completed, Public Hearing dates, approval of the Final Draft from both the Finance Sub-Committee and the Regional Wastewater Reclamation Advisory Committee (RWRAC), and placement on the Board of Supervisors Agenda at an upcoming meeting. RWRD will create a calendar with all specific dates and requirement. It was suggested that the proposed rate calendar be shared with the Capital Improvement Program (CIP) Sub-Committee. Mr. Lynch (Chair) stated that the CIP Sub-Committee will be working to validate the need and timing of projects, factoring in the efficiency in delivering projects.

There were concerns expressed regarding having enough time to hold Committee meetings and being prepared to meet with the Board of Supervisors (BOS) for a rate increase request with the two options presented in the draft calendar. A request was made to squeeze in an additional meeting if necessary. A concern was expressed if the Department's budget is due in March 2016, is there time to wait until a May 2016 BOS meeting date. Patrick McGee,



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FRMD Division Manager, replied if the rate increase is not approved by the BOS, then the Department will need to make cuts to the Operations and Maintenance (O&M budget). A request was made that Jody Watkins, RWRAC Program Coordinator, time stamp the audio of the Finance Sub-Committee meetings when the Committee is discussing the debt. Ms. Watkins replied that by law, she is required to have the audio for the meetings posted on the Internet within three days. She did offer to have the audio posted sooner and to follow up by sending an email notifying all RWRAC members of this.

Mr. Dommer, made reference to the Five-Year Financial Projections, stating that no significant changes were made since the last meeting date.

### **2. Review of Various Administrative Overhead Charges**

Mr. Dommer made reference to the County overhead allocation process. The Central Payroll Section of the Finance Department was used as example for charges to the Department based on number of full-time equivalent positions (FTEs). Inquiries followed on funding sources for other Pima County departments, such as Public Works Administration; enterprise funds having their own revenue sources (Health Department, Pima Animal Care Center, and Wastewater Reclamation), grants, and general fund departments.

There was some discussion on overhead calculations other County departments charge to the Department. Specifically, if the Department is being charged a proportionate share of total costs from other County departments for services provided. An example of this brought up the fees the Department is charged by the Facilities Management Department for services they provide that are charged to the Department's O&M budget. Another example illustrated the 22% that FRMD charges the Department for their services. The example illustrated the Department has 466 FTEs in relation to the FRMD budget of \$17 million. The Department is charged \$3.639 million, by FRMD in relation to that department's total budget of \$17 million.

The overhead charges appear as Function Codes for services provided. The charges can be actual costs or proportionate costs. The Committee expressed concern over the amount of allocated costs for County services that are charged to the Department. An example of this brought up was the amount charged of \$7.2 million in Fiscal Year 2014-2015 for County Administrative Overhead. Ms. Coyle added that the Department has a \$330,000 Memorandum of Understanding with the Pima County Attorney's Office.

The Information and Technology Department (ITD) has charges for Help Desk Assistance, storage space, how many computers and connections are factored into these charges. Human Resources also had charges for payroll, hiring, and benefits administration charges are charged to the Department. A new and unexpected expense was the \$1.6 million the Information Technology Department (ITD) charged the Department for the leasing of equipment. This charge was due to a change in policy that all departments keep their computers current. There is a charge for the ITD Internal Service Fund that covers server space, new leasing of hardware and software. There was some discussion on the ITD General Fund and Internal Service Fund as separate items. Mr. McGee clarified that the General Fund ITD are for charges for staff that work out of this fund. The Internal Service Fund are for computer, server, and software costs. Mr. Dommer explained that there were changes on how some costs were allocated and charged to County departments from years past. Keith Dommer will provide the details for previous years ITD allocations which may show a decrease due to the new Internal Service Fund formation. Questions arose on ITD charges for Software and Maintenance Support charges. It was explained that these costs are for specialized software. More clarification was requested for Finance Department and ITD charges at a future meeting.

### **3. Fiscal Year 2009/10 to Fiscal Year 2015/16 Operations and Maintenance Budget**

A request was made for more of a breakdown of prior year's O&M charges. It is difficult and confusing to compare that data from years past because there were a lot of changes made during this time in how the charges are allocated. It is important to understand how and where the numbers are coming from. A question arose on charges for Repair & Maintenance Services. Mr. McGee replied for this Fiscal Year, 2015-2016 there are several CIP projects that were not capitalizable and therefore were moved to O&M budget at the end of the year. There were questions on the fluctuation of actual expenses for the five-year history. Mr. Taylor expressed that the Committee attempts to anticipate a budget



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and then sudden and unexpected expenses are charged that appear out of nowhere. Mr. Dommer stated he will be more diligent in keeping the Department updated of these surprises in the future. Mr. McGee referenced charges for Other Professional Services, which were expenses of \$10.8 million in FY 2015-2016 related to the new Agua Nueva plant. There was a comment made regarding how the Department was supposed to realize savings from having the Design Build Operate (DBO) facility, Agua Nueva. A review of the personnel charges since CH2M Hill, DBO firm that operates Agua Nueva, took employees does not show this savings in salaries and wages. Additionally, it appears that there is an increase in costs for overtime and on-call pay of 25%, and shift differential pay at 50% over last year. The question becomes, is the Department adding FTEs because it is more economical than having to pay additional overtime. Ms. Coyle explained that the Department is doing an analysis with Employee Relations on these numbers. The Department has a lot of internal promotion and a robust Staff Development and Training program in place. Vacancies are occurring due to employees being promoted. There were some heavy rains this past year that required more staff to clean overflows and infiltration caused from these rains. The Department will complete an internal investigation of these numbers. There was internal staff that received minor shift differential pay for working a revised shift. The Department has revised this, and there will be a decrease in these costs for this Fiscal Year. The BOS approved two new combo trucks that caused an increase in the Motor Vehicles – Capital line item. There was a question raised if the ITD charges include sophisticated systems used to record activities at the plant facilities. Mr. Taylor requested to have a financial plan that is comprehensive, something the whole Committee can agree with. Mr. Dommer, offered to provide a comparison of administrative overhead numbers for other municipal wastewater systems at a future meeting. A future discussion item to include the decision to centralize the Finance and Risk Management Department after the revenue rate process is addressed.

#### 4. Review of Various RWRD Debt Issuances and Obligations

Mr. Dommer distributed the Bond Covenant Calculation and Debt Schedule. Mr. Dommer opened the discussion by stating it is important that the Committee understand the required debt service ratios when discussing rate setting. He went on to explain the requirements and calculations were different for bonds issued prior to and after 2010. Bond covenants require that the bond ratio be above 1.2%. Rating agencies prefer that the bond ratio be above 1.3%. If the bond ratio falls below 1.3%, then the bond rating could drop. A question arose on how much the Department has in pre and post 2010 debt. A question arose on Certificates of Participation (COPS), short-term (three years) debt pledged against County property. Ms. Coyle explained the necessity for the Regional Optimization Master Plan (ROMP) to clean the effluent to avoid potential state and federal fines. Ms. Coyle also discussed the differences between bonds and obligations. Bonds are voter approved and obligations are not. Because of the situation the previous Ina Road Wastewater Reclamation Facility was in, the County Administration and BOS moved forward with obligations to fund the mandated ROMP program. Mr. Dommer stated ROMP are revenue bonds and not pledged by Pima County. There was discussion regarding the 2010 Obligations and 2011 Refunding. The concerns expressed were that the Department is stuck with the 2010-2025 repayment schedule, to increase the payment schedule to pay off the Department's debt prior to 2010, and the tradeoff between cutting overhead costs of paying off some debt. Mr. Dommer explained that if the ROMP bonds are extended it could increase the Department's cash position, but the interest costs would increase by \$103 million. There was a question raised if the bond repayment schedule was already set with a suggestion of having 25-year bonds. Mr. Dommer explained this can only be done with new debt, otherwise there are penalties to pay. Another question was raised what it would take to pay off the pre-2010 debt of \$140 million, this could save the Department \$30 million in interest costs. Mr. Dommer stated the Department needs to maintain a certain number of cash reserves available.

Mr. Taylor said there are a few options: don't do anything and accept a bond de-rating, have a rate increase, decrease O&M expenses, or refinance the pre-2010 debt. The financial analysis of alternatives should include the pre-payment of 2010 debt to get out from under the old formulation of debt ratio.

Mr. Dommer offered to provide the Committee with the following items for the next meeting: comparison of O&M costs for other comparable jurisdictions, what rates these jurisdictions are charging customers, what percentage of each expense category the Department is being charged, the ITD allocation for charges, large unexpected CIP, and O&M costs in the horizon, COPS repayment schedule, and debt service extension schedule. Ms. Coyle will provide an updated Draft Rate Setting Calendar.



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**G. Future Agenda Items**

Debt Service Repayment Schedule, Overhead follow up, rate workbook, responses to the Call to the Audience, the Centralization of the Finance and Risk Management Department, Comparative O&M Costs and Sewer User Rates for Other Wastewater Systems, The Percentage of Each Expense Category the Department is being charged, the ITD Allocation for Charges, Large Unexpected CIP, and O&M Costs, COPS Repayment Schedule, and Updated Draft Rate Setting Calendar

**H. Call to the Audience**

Mr. Iannarino requested to have clarification provided with the five-year CIP. He questioned the proposed additional debt service column, and what if there was not additional CIP debt. There was a request to revise the charter agreement. He stated that the CIP Sub-Committee Agenda tomorrow covers an overview from the Department CIP five-year plan, a look at the Charter process, why there are carryovers from the Tres Ríos ROMP program into the CIP budget. Having this information will assist with providing direction on how the CIP Sub-Committee scrutinizes the program. He questioned if the Department has its own finance staff already and if there is a duplication of effort. He stated it would be helpful to add a calendar or line item from the CIP to fit the schedule. Bob questioned if the Committee needs direction from the BOS on how to do this. Ms. Smith requested a change to the debt repayment schedule and to cut expenses.

**I. Adjournment**

Mr. Taylor motioned to adjourn. Mr. Membrilla seconded. Meeting adjourned at 4:17 p.m.

**NEXT REGULAR MEETING DATE:**  
**December 9, 2015**  
**10:30 a.m.**  
**Water and Energy Sustainability Center**  
**2955 W. Calle Agua Nueva**