



**REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC)
FINANCIAL SUB-COMMITTEE MEETING
Water and Energy Sustainability Center
2955 W. Calle Agua Nueva**

**Wednesday, December 9, 2015
10:15 a.m.**

Members Present: Sheila Bowen, John Lynch (chair), Armando Membrila, Mark Stratton, and Mark Taylor

Others Present: Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Jackson Jenkins (RWRD), Ally Miller (BOS District 1), Lorraine Simon (RWRD), Jody Watkins (RWRD), and Eric Wieduwilt (RWRD)

Call to Order/Roll Call

John Lynch (Chair) called the meeting to order. The meeting began at 10:20 A.M. Jody Watkins, RWRAC Program Coordinator, took roll call.

A. Pledge of Allegiance

B. Safety Share – Armando Membrila provided a safety share. When moving furniture be careful when lifting, pushing, squatting, and twisting.

C. Call to the Audience – None

D. Approval of Minutes

Meeting Minutes for December 2, 2015

ACTION: Mr. Taylor made a motion to approve minutes. Mr. Membrila seconded.

Mr. Lynch had a few items he wanted added to the meeting minutes. The first addition is under item #4, include the verbiage of pre-2010 and post-2010 debt service ratio. Additionally, he made a request for a financial analysis of alternatives to include pre-payment of the 2010 debt, to allow the Department to get out from under the old formulation for debt ratio. The final item was under the last sentence on item #3, questions raised to centralize the Finance and Risk Management Department, please add this for future discussion after the revenue rate process is addressed.

Mr. Lynch stated he has a motion and a second with the revisions that were just mentioned. Motion passed unanimously.

E. Discussion/Action

1. Draft Calendar of Dates Leading Up To Pima County Board of Supervisors (BOS) Review of Potential Rate Increases

Mr. Lynch opened the discussion by referring to the Draft Rate Setting Calendar. The Financial Sub-Committee is challenged with meeting the proposed schedule timeline in being prepared for the upcoming Public Hearings and getting the recommendations to the Board of Supervisors (BOS). Jennifer C. Coyle, Special Assistant to the Director, responded that the proposed dates are for the April 17, 2016 or April 24, 2016 BOS meeting. This would require posting the 60-day notice for a Public Hearing by mid-February, including the recommended rate request. The Committee has until January – February to have materials ready. A revised calendar will be prepared and distributed to the Committee.



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2. Rate Setting Workbook Review

Keith Dommer, Director, Finance and Risk Management Department (FRMD), stated the rate setting workbooks have been updated. He referred to the adopted budget for Fiscal Year (FY) 2015/16 with a rate increase and the budget with no rate increase. For rate setting, FY 2016/17 is under consideration.

3. Pima County Administrative Overhead Charges

The Total County Overhead for the Department of \$7.2 million is broken down into several areas: building use allowance, BOS allocation, Clerk of the Board, County Attorney, County Administrator, Facilities Management, Finance Department, Information Technology Department, Human Resources, Procurement, and Treasurer Department. The Committee had requested additional information on what the \$3.6 million FRMD charges the Department was comprised of. A breakdown of these charges was provided which include: warrants issued; allocations based on total amount of budget for revenue, expenses, Capital Improvement Program (CIP); payroll (based on the number of Direct Deposits for employees for each department); and financial control and reporting (financial statements).

i. RWRD Allocation Review

The \$3.6 million charged to the Department is 20% of the FRMD budget of \$17 million. The Department is comprised of 20% of the County's total budget, and gets charged this amount. County-wide the budget is \$2.5 billion, which includes revenues, expenses, and CIP. There was some discussion on how the breakdown of these numbers is determined. How the amount is calculated to determine the percentage. Is the allocation amount determined by total budget or a functional allocation? Mr. Dommer provided an explanation for each section of the Finance Department. Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD), explained that this is the methodology that is used as a percentage to allocate costs to each County department. Mr. Dommer stated that FRMD has 215 total employees that work for the entire County. Mr. Jenkins stated with the Pima County consolidation, 24-26 Finance Department positions were taken out of the Department and reallocated to Central Finance. The smaller dollar allocations are based on full-time employees (FTE)s. Many of the larger allocations are due to the Department's CIP budget, some County departments have no CIP budget. Since the Regional Optimization Master Plan (ROMP) is now complete, the CIP budget will drop significantly in a few years. The historical data used has a two-year lag period. Mr. Jenkins stated the ROMP annual spend rate was \$200 million per year. Now the average CIP spend rate is \$40 million per year. Mr. Jenkins used the example of when Pima Health Systems went away the County overhead did not change significantly. This is a dynamic model of how the cost allocations are determined. There was a request for future discussion to obtain additional information regarding CIP should the Department reduce their CIP spending and what kind of dollar value would this have in the debt payments and debt service ratio. Another future discussion item requested was the analysis of revenue management in-sourcing for the Department billing. A question was raised on what is the Revenue Management – Team 4 group. Mr. Dommer responded this is for the team that bills and collects for users that are not Tucson Water customers. Mr. Jenkins added this group interacts with the other water providers for the sewer billing and collections. FRMD gets charged overhead and some of that overhead is charged proportionately to the Department. These charges include Pima County Attorney's Office (PCAO) costs for collections, rent for space occupied, staff wages and benefits, and Information Technology Department (ITD) charges. Each department has a different overhead amount. Mr. Lynch asked if all of the overhead items have a factor built in for personnel. Mr. Taylor inquired what is the percentage number included in the Cost Allocation Plan for FY 2014/15. There seems to be an item missing.

Mr. Lynch asked how are the RWRD values compiled for the FRMD allocation. Mr. Dommer responded that the FRMD Deputy Directors meet with staff to compile the information for budget forecasting. The Financial Management and Audit Group administer and track the County's debt issuances, special projects, warrants, how many pay advices, and other factors.

ii. Increases or Decreases Over Time

All costs are incurred as a direct charge, included as overhead, and allocated. Mr. Jenkins inquired on adding a Public Works Overhead column, which appears as zero for every year; except for FY 2016/17 where it is reported as \$1.2 million. These numbers increase in FY 2014/15 to 9.9% and FY 2015/16 to 6.7% due to ROMP costs. At some point the Public Works Overhead gets charged for all the departments under that unit: Wastewater, Transportation, Environmental Quality, Parks and Recreation, Real Property, and Sustainability for example. It is important to know what all the charges are and what has



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changed over time. Mr. Jenkins asked if the County Overhead Charged Directly to Personnel Accounts comes from the Inter-Departmental Salaries Charged In category. The ITD charge of \$1.6 million had an impact on the Department's budget. A suggestion was made to look at how charges were previously allocated to the Department. Mr. Jenkins added this would show where the change has been. Mr. Dommer stated that the Public Works Overhead charge was not noted in the past financial records. These charges were noted in the Inter-Departmental charges. The two-year lag shows this expense increasing over time. Mr. Dommer stated the increase in FY 2014/15 was due in part to the ROMP project fee allocation. In FY 2015/16 there is a new line item, Public Works Overhead, of \$1.2 million. Mr. Jenkins requested to have the Public Works Overhead column added to show a breakdown of costs and where the changes have been. There have been some significant increases over the past few years. Mr. Taylor said the Committee needs to look at total overhead costs, not just Finance. County and Public Works Overhead are some of the top costs for the Department.

4. Debt Review

i. Debt Service Repayment Schedule and Potential Alternatives

Mr. Dommer spoke on the expenditure limitation report, in 1980/81, the State amended the constitution to cap government spending at an inflation-adjusted spending level at that time was 6 – 7%. Currently, the Department's spending level is at 13-14% of the Pima County total. The Department is spending at a level that exceeds its proportionate share of the County limit. To minimize this effect, the spending of debt proceeds is not subject to that expenditure limitation. The Department has issued Certificates of Participation (COP)s at a short-term to get around the spending limitation and also to minimize interest costs. There is some consideration to pay off the debt over a longer period of time to conserve cash. Mr. Dommer stated that the Department has a limited ability to sell off buildings and lease them back. Mr. Jenkins replied there are only so many assets which can be used for collateral for a certain amount of time until the debt is paid off, before they can be used again to pledge as collateral.

The Committee requested exploring future options for debt analysis. COPs are the use of unrestricted cash, so the Department does not have to issue additional bonds. The COPs do not have a direct effect on user rates. Mr. Dommer explained that COPs have an indirect effect on rates. If more debt is issued, this can affect the ratio. This analysis is still incomplete at this time. Mr. Lynch elaborated that COPs are Pima County debt, not Department debt. Mr. Dommer added there is no guarantee that the County will allow the Department to continue to use the COPs. Currently the interest rate on COPs is between 2-5%, in line with that of bonds. Mr. Taylor stated that the debt service ratio for FY 2018/20 will be based on no COPs, but instead revenue debt to cover CIP costs. Revenue debt are obligation bonds, which are not voter approved, but provide more favorable ratios. This instrument is approved by Mr. Huckelberry, Pima County Administrator, and the Board of Supervisors. The Committee can only make recommendations.

The Committee has been discussing the option of taking on new debt to payoff old debt. The Department is limited to only paying off \$38 million in old debt. This debt has no option to call early, and would provide no benefit on the debt service ratios until FY 2019. By moving principal out into the future, interest costs will still be incurred. There were several questions that were raised. The ROMP program was regulatory and also planned for future growth (capacity). The costs were covered primarily by sewer user fees. What covers the future capacity costs? Mr. Jenkins stated this was covered with connection fees. The formula was calculated at remaining capacity 35 million gallons a day (MGD) available, value of assets remaining on the books, and value per gallon. The lion share of revenues was shifted to user fees, which are more consistent than connection fees. Mr. Lynch said the indebtedness has to be paid off in the 15-year window, and connection fees won't generate the amount of revenue needed. An additional question was raised if the debt period (15 years) was appropriate for the portion of capacity that was provided by the ROMP. A portion of the ROMP could be refinanced that might provide a benefit by looking at a different term, because it would be paid by connection fees over a longer period of time. Mr. Jenkins responded by saying the post-ROMP capacity provided, is a small number. The daily pre-ROMP MGD for both the Roger Road Wastewater Reclamation Facility (WRF) and the Ina Road WRF was 78.5 MGD. Now post-ROMP, the daily capacity for both the Agua Nueva Water Reclamation Facility (WRF) and the Tres Ríos WRF is now 82 MGD. Mr. Jenkins stated it is important to share the Raftelis Report to see how the connection fee was calculated. Mr. Taylor requested a copy of the Raftelis Report be distributed. Mr. Lynch requested that Mr. Dommer provide a memo to the Financial Sub-Committee advising why the pre-2010 debt could not be refinanced until 2019.

ii. COPs Overview

The Committee was looking at a scenario where the Department was not using obligation bonds and instead using COPs for financing needs. There is competing needs for use of the COPs between Pima County departments, and the use of COPs is



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not always available. Mr. Taylor added the scenario looks at not using COPs past FY 2016/17, and instead using obligation bonds. There are COPs outstanding of approximately \$20 million for FY 2015/16. There is no guarantee that COPs will be available after 2016. Mr. Dommer stated that \$20 million in COPs is scheduled to be issued in the spring. He added that the effect of pushing the payment schedule out will be negligible for rate setting. The debt service does not appear on the Department's financial statements and these payments are not considered debt service. Instead the debt service appears as Operating Transfers Out. There are still 2013 COPs outstanding and the final payment of \$5 million is being made this year, FY 2015/16. COPs are typically issued for a three – four year repayment schedule. Mr. Lynch added that after FY 2016/17 it appears that future financing will be accomplished through sewer revenue debt.

Mr. Dommer offered to re-do the worksheet for the \$20 million in COPs for a 3-4 year schedule. He will also develop sensitivity factors to different options: changing revenues to different percentages, changing expenses, and reducing debt service payment to show how these will effect debt service ratios. Also four scenarios will be presented: do nothing, refinance and extend debt, increase rates, and decrease costs. Mr. Jenkins requests the Department be prepared with re-numerations for the different options. This will show the consequences of different options and how this will affect Department operations. There are consequences associated with the options provided.

F. Future Agenda Items

Same as current Agenda

Ms. Coyle suggested to have the next meeting extend for a longer time period, 3 1/2 – 4 hours.

G. Call to the Audience

None

H. Adjournment

ACTION: Mr. Taylor made a motion to adjourn meeting. Mr. Stratton seconded. Meeting adjourned at 12:09.

NEXT REGULAR MEETING DATE:

A doodle poll was requested to look at the period between December 9, 2015 and the first week in January 2016.