PIMA COUNTY
WASTEWATER RECLAMATION

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

MEETING MINUTES

Wednesday, December 10, 2014

SUB-COMMITTEE MEMBERS PRESENT:

John Lynch	Mark Taylor
Armando Membrila	Ann Marie Wolf
Mark Stratton	

A. CALL TO ORDER. John Lynch, Chair, called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) Financial Sub-Committee to order at 1:33 p.m. Veronica Lopez took the roll call and a quorum was present.

B. PLEDGE OF ALLEGIANCE.

C. SAFETY SHARE. Tom Burke, Director, Finance and Risk Management Department (FRMD) reminded everyone to get assistance when lifting heavy objects.

D. APPROVAL OF MINUTES.
Meeting Minutes of November 5, 2014

ACTION: Mark Stratton made a motion to approve the minutes of the November 5, 2014 meeting. Ann Marie Wolf seconded the motion. Motion passed unanimously.

The Sub-Committee decided to discuss the Regional Wastewater Reclamation Department (RWRD) Capital Improvement Program (CIP) topic first, and then discuss the RWRD budget topics.

E. DISCUSSION/ACTION.

1. **RWRD BUDGET ISSUES.** Patrick McGee, Division Manager, Finance and Risk Management Department (FRMD), gave the Period 4 Expense and Revenue Comparison report. There is $2.8 million overage due to under budgeted estimation of depreciation expense. Mr. McGee stated that there is excess budget authority under “Debt Service” and this will be used to cover the overage in depreciation. Under “Other Revenue,” there is approximately $727,000 shown that is interest revenue. The Department is forecasting to be on budget at this time in the fiscal year for its Operation and Maintenance (O & M) budget. Mark Stratton asked about the approximately $5,000

overage in supplies and services. Mr. McGee stated that that was an unbudgeted line item and that budget authority would be used to cover that as well.

Mark Taylor asked for clarification regarding what “contras” are. Mr. McGee explained that contras are used to zero out capital items that are show in the expense area so that expenses can be tracked but also moved to the capital side of the balance sheet.

Ms. Wolf asked that if because of the overage in the supplies and service, would another item have to be reduced by the amount of the overage. Mr. McGee stated that budget authority from Debt Service would be used to cover this overage and therefore another item would not have to be reduced.

2. **FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM UPDATE.** John Warner, Deputy Director, RWRD, provided a spreadsheet regarding the Capital Improvement Program (CIP). Ann Marie Wolf asked if there are any significant changes from what was presented at the November 5, 2014 Sub Committee meeting. Mr. Warner indicated that there were not significant changes from last month’s meeting.

   Mark Stratton asked if the yearly allocations were similar to what had been presented at last month’s meeting. Mr. Warner indicated that they were. Mr. Warner stated that over the next 5 year period, the Department is still forecasting approximately $214 million in CIP spending. Mr. Warner indicated that although a few projects had been moved between years, the overall dollar value was still the same for the next 5 years.

   Armando Membrila asked if shuffling projects around affected scheduling. Mr. Warner stated that it does, but that staff carefully reviewed the plan to ensure that nothing sensitive would be missed due to moving projects around. Mr. Warner also stated that the funding is critical on how the Department manages and expends it, and that Jaime Rivera, Program Manager, RWRD, is going to work very closely with the Project Managers to ensure the accuracy of their forecasting as well as staying on budget for their projects.

3. **2015 RWRD FINANCIAL PLAN.** Tom Burke, Director, FRMD, provided several handouts to the members of the Sub-Committee. Mr. Burke first presented the Department’s Operating Expenses from 2006 – 2019. Mr. Burke went on to explain that the large increase in expenses from 2006 – 2008 was due to the Department’s addressing issues that had been deferred due to the ramifications of the Speedway incident, but that since 2008, the Department had operated in the mid-$70 million range with respect to its operating expenses. Mr. Burke stated that for fiscal years 2014 and 2015, the Department’s operating expenses were increasing by an average of over 6%. Mr. Burke stated that the assumption for the Financial Plan was that from fiscal years 2016 – 2019, the Department’s expenses would increase by 4% per year.

   Mr. Burke stated that a change in the way that the County handles Information Technology (IT) costs will cause an increase in the Department’s expenses for next fiscal year. There will be an approximately $1 million increase in the Department’s expenses due to this change.

   Mr. Burke then discussed the Summary of Top Ten Expenditures from fiscal years 2012 through 2015. Mr. Burke noted that the biggest shift was in Other Professional Services due to the fact that the Department was now paying an outside organization to manage the new Agua Nueva facility. Mr. Burke stated that the other big increase was in area of Electricity. John Lynch asked if the electricity costs were a function of usage or of rates. Ms. Wolf stated that the costs increase was a function of both closing the power plant as well as the increase in rates that the utility commission was able to get.

Mr. Burke stated that the decrease in Chemicals and the decrease in Repair and Maintenance Supplies were offset by increases in Other Professional Services; once again due to the fact that the Department was now paying someone to manage Agua Nueva. Mr. Burke stated that there were other contracts for engineering and services within the category of Other Professional Services, but that the largest contract within that category was for the operation of Agua Nueva.

Mr. Taylor stated that the largest increases were in line items that appeared to be pretty much set, so that the approximately $83 million for the current fiscal year budget projection was probably an accurate projection.

Discussion ensued related to a deconstruction of what did happen versus what would have happened with respect to the Regional Optimization Master Plan implementation.

Ms. Wolf noted that although Jackson Jenkins, Director, RWRD desires to keep costs down, many of the items that are driving cost increases are outside of his control.

Mr. Membrila asked if there was a difference between the Interdepartmental Salaries – Charged In and the County Administrative Overhead. Mr. Burke stated that in the past charges related to Finance, IT, and Human Resources (HR) salaries were charged through the Interdepartmental Salary line item. Now they are included in the Overhead charges.

Discussion ensued related to the electricity rate increase and the vote of the utility commission.

Mr. Burke then discussed the graphs related to CIP projects and Debt Service. Mr. Burke stated that the $60 million in Certificates of Participation (COPS) that the County desires to issue this fiscal year will be paid back over the course of 6 years at approximately $10 million per year. Mr. Taylor asked if it would be possible to pay down these COPS faster than the 6 year term. Mr. Burke stated that it would be possible, but that the Financial Plan anticipates paying off the 2005 WIFA loans and the 2007 bonds in 2017, and they have a higher interest rate. Therefore, it is his desire to pay off the higher interest rate obligations sooner. Mr. Burke then discussed the Department's cash position.

Mr. Burke discussed the graph related to Debt Service showing that the debt service is expected remain above $80 million per year until it reaches its peak in 2023. After 2023, debt service is expected to drop significantly. Mr. Taylor stated that he was concerned that the expected drop to $20 million in debt service in 2028 might not be realistic. Discussion ensued related to present versus future treatment plant capacity needs, as well as outlying facility and interceptor needs. Mr. Burke stated that one of the assumptions of this debt service calculation is that after 2019 that only COPS will be issued and not debt pledged by sewer revenue.

Mr. Burke then discussed the graphs related to how the debt service ratio is calculated. He stated that the debt service calculations used to create these graphs assumes no action by the Board of Supervisors with respect to rate increases. Mr. Burke noted that the debt coverage ratio was expected to drop significantly in 2017 to below the 120% minimum requirement. Mr. Burke stated that the Department needs to maintain a good bond rating otherwise fewer people are interested in buying debt, and interest rates go up. Mr. Burke stated that currently the County has an AA rating for its debt.

Mr. Burke stated that in order to have public hearings on any proposed rate increase in January, then he will use Period 5 O & M expense numbers (November), and December Capital Program numbers for his report. Mr. Stratton agreed with Mr. Burke's comments. Mr. McGee stated that the cessation of operations at Randolph Park was expected to result in approximately $1 million of savings.

Mr. Burke presented a series of spreadsheets with different scenarios with respect to rate increases. Mr. Burke stated that he is going to recommend against delaying rate increases because doing so would necessitate an 8.5% rate increase in 2017 to achieve the 130% debt coverage ratio. Mr. Burke stated that his recommendation to the Board of Supervisors will be that they set a series of rate increases over a three year period. Mr. Lynch asked if there was an anticipation of selling more bonds during this three year period. Mr. Burke stated that after selling the $60 million in COPS this year, he anticipates having to sell more debt over the next four years.

Discussion ensued regarding the different rate increase scenarios, with emphasis on the 4% and 4.5% options. Mr. Burke stated that the Raftelis study regarding the methodology for how the County bills for sewer rates could also have an effect on the need for further rate increases. Mr. Burke stated that his recommendation would be for the 4.5% rate increase scenario. Mr. Burke stated that debt service continues to go up, but that the 4.5% rate increase carries the Department past 2019 with the 130% debt coverage ratio. Discussion ensued regarding which option the Sub-Committee would bring to the Full Committee.

ACTION: Ann Marie Wolf made a motion to recommend to the Full Committee a 3-year series of 4% per year rate increases. Mark Taylor seconded the motion. Motion passed. The vote was 4 – 1 in favor. Mr. Membrila voted against the motion.

Ed Curley, Senior Program Manager, RWRD stated that if the Full Committee takes action at their December 18, 2014 meeting then it would be possible to set the timing of public meetings related to the proposed rate increases. Mr. Curley discussed the statutory 60-day notice. Mr. Curley stated that we could begin looking at public meetings in the January/February 2015 timeframe. Ann Marie Wolf stated that she preferred to have public meetings on a separate day from the regularly scheduled Full Committee meeting. Discussion ensued regarding the public meetings. Ms. Wolf requested that the public meetings be added to the Full Committee agenda for the December 18, 2014 meeting. Mr. Lynch asked if the December 18, 2014 agenda allowed for adequate discussion time for this item. Mr. Curley stated that there was sufficient time allotted for this discussion. Mr. Curley stated that the February 19, 2015 Full Committee meeting had sufficient time allotted for the Committee to discuss any comments received from the public and the public meeting.

F. FUTURE AGENDA ITEMS.

- Public Meetings
- RWRD Budget Issues

G. CALL TO THE AUDIENCE. Ed Curley addressed the Sub-Committee and announced that he will be retiring at the end of December.

ACTION: Mark Stratton made the motion to adjourn the meeting. Ann Marie Wolf seconded the motion.

H. ADJOURNMENT. The meeting was adjourned at 3:11 p.m.