



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

**DRAFT MINUTES**  
**February 18, 2016**  
**8:00 a.m.**

**Members Present:** Sheila Bowen, Barbee Hanson, Bob Iannarino, Bill Katzel, Rob Kulakofsky, John Lynch, Matt Matthewson, Armando Membrila, Amber Smith, Mark Taylor, Ann Marie Wolf

**Others Present:** Mary Allen (RWRD), Marla Berry (RWRD), Jennifer C. Coyle (RWRD), Keith Dommer (FRMD via phone), Michael Dyckman (Marana Water), Jackson Jenkins (RWRD), Patrick McGee (FRMD), Richard Miranda (RWRD), Asia Philbin (Marana Water), Jeff Prevatt (RWRD), Jaime Rivera (RWRD), John Sherlock (RWRD), Lorraine Simon (RWRD), Michael Stanely (Mt. Lemmon), Timothy Thomure (City of Tucson Water Dept.), Lilian Von Rago (RWRD), John Warner (RWRD), Ricky Wascher (RWRD), John Warner (RWRD), Jody Watkins (RWRD), Charles Wesselhoft (PCAO), and Eric Wieduwilt (RWRD), Robert Zimmerman (Mt. Lemmon).

**A. Call to Order / Roll Call**

Jody Watkins, RWRAC Program Coordinator, took roll call. A quorum was present.  
Mark Taylor (Chair) called the meeting to order. The meeting began at 8:01 a.m.

**B. Pledge of Allegiance**

**C. Call to the Audience**

Michael Stanley introduced himself as the operator of the Mt. Lemmon Water System. He has resided at Mt. Lemmon for thirty-five years. Robert Zimmerman introduced himself as the Owner of the Mt. Lemmon Sawmill Café.

**D. Safety Share**

Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD), shared information on the flu (H1N1) season outbreak and that hospitals are at capacity. He stated that the Department has requested staff to wipe down counters, keyboards, phones with disinfectant wipes weekly (Wednesday Wipe Down) to keep germs under control and to frequently wash their hands.

**E. Approval of Minutes**

Meeting Minutes for January 21, 2016

ACTION: Ann Marie Wolf motioned to approve the minutes. Armando Membrila seconded.

Mark Taylor stated that the minutes do not need to be verbatim and can be scaled down to three or four pages to maintain the important and main points. No additional discussion. Motion passed unanimously.

**Citizens' Water Advisory Committee (CWAC) Update – Meeting Report and Tucson Water Activities**

(CWAC Meeting Minutes/Audio are posted at: <http://www.tucsonaz.gov/water/cwac>)

Mark Taylor (Chair) shared that a 7% increase has been recommended to the full Committee a few weeks ago.

It was approved by the full Committee and going back to the CWAC Finance Committee for rate allocation.

Mr. Taylor introduced the new Director of Tucson Water, Timothy Thomure. Mr. Thomure's background includes twenty one years in the Industry. He is originally from South Dakota as an Environmental Coordinator in the Mining Industry and moved to Tucson in 1999. Mr. Thomure worked from 1999 – 2007 with the City of Tucson in the

Department of Transportation (storm water section) and Tucson Water (long range water resources plan), and was the Clear Water Program Manager. He has worked the last eight years in the private sector as a Consultant, which included infrastructure planning, resources in the United States, United Kingdom and Australia working with over 100 different utilities. He became the new Director of Tucson Water on Tuesday, February 16, 2016.

## **F. Discussion/Action**

**1. Director's Update (5+ minutes)** - Jackson Jenkins, Director, Regional Wastewater Reclamation Department  
The "Pines" development in Marana have approximately six to eight homes that are settling quite significantly. The roads, sidewalks and sewer infrastructure are settling. Marana is working with Pima County Wastewater and the final stages are almost complete on the sewer lines. Roads and sidewalks will be redone and Pima County plans to add some "slip lining" to the sewer system. The County is working with Marana to see if any of the costs can be recouped from the Developer or Builder.

The facility, Lagoon Treatment System (pond), which is a percolation system at the Pima County Fair Grounds operates out of a general permit for 11-20 thousand gallons per day (mgd). Historically, the month of April exceeds 20mgd up to hundreds of thousands of gallons per day, mainly due to the Pima County Fair. An increase in events, RV hookups, tourism and economic developments have increased the activity; therefore, exceeding the permit limit from one month to four months a year. It is difficult to manage a treatment system when the flows are sporadic. The Department has met with Arizona Department of Environmental Quality (ADEQ) and discussed options, in which a new facility may need to be built. A long term fix would be to tie into the gravity route with a pump station to the South East Interceptor. The Department is working with the Fair Commission to replace faucets and showers with timers to reduce the water usage and create better drainage, so it doesn't flow into the pond. The Department is adding into the budget approximately \$4 million dollars in the next 3-4 years for a pump station that would allow the Fair Grounds to expand, which is a benefit for the Community. This would be a Capital Improvement Project (CIP). The County has only two lagoons, Pima County Fairgrounds and Arivaca Junction.

The Board of Supervisors approved the revised Ordinance "Engineering Design Standards 2016". Posted to website.

Tres Rios Reclamation Facility had some challenges last month, the biology was a little thick, and things are in better shape now. John Sherlock's (Deputy Director, RWRD) staff worked on the processes and the plant is working much better. As we learn more, additional processes are being created for future.

Next week the Department is meeting with CH2MHill to further discuss some of the solid issues. Agua Nueva and Tres Rios are running well; however, there are a few issues that need to be addressed.

Biogas project is moving forward with a firm to purchase the Digester Gas. The company would process, clean and inject it into the Southwest Gas pipeline and sell it to an off taker. The company will have a contract for Chuck Wesselhoft, Pima County Attorney, to review next week and begin construction soon.

The Department is working on a few solar projects, one at Corona De Tucson and one at Green Valley. Currently, there is solar at the Water, Energy and Sustainability Center (WESC) and Agua Nueva, which provides 1 megawatt of power that can be utilized. Very positive projects.

### **2. Mt. Lemmon Update (20 minutes) – Jackson Jenkins**

Mt. Lemmon Water Reclamation Facility is a 12.5 thousand gallons a day facility (permit limit 15,000 gpd). The weekends are higher due to summer, special events and Oktoberfest. It is a very challenging plant to maintain due to sporadic flow. The Facility has been utilized since 1982 and is a single system, closed loop reactor and has never been shut down, besides basic maintenance and replacement valves. The internal workings have never been taken apart and needs some definite rehabilitation. A new facility is being discussed versus rehabilitation. (See PowerPoint presentation.) The project could cost \$3.5 - \$4 million. Currently, it cost approximately \$300,000 a year of Operations and Maintenance (O&M) budget to run the system. The Forest Service has approved 77 connections; currently there are 31 connections, mostly residential; however, there is a Community Center, Sawmill Run Restaurant, several commercial buildings and a Post Office. Ann Marie Wolf stated that the cost should not be divided by the 33 residents as they are supporting tourism for the County as well and it would not be fair. The PowerPoint presentation includes: Formulas for Water Reclamation Facilities (WRF) O&M Comparison for Fiscal Year 2013/2014. Mt. Lemmon is significantly high due to the facility being an old operation and it needs an operator full-time, including overnight at times; Revenues from December 2014 through November 2015; Cost Effective Evaluation of Wastewater Services; Brown and Caldwell Study Vault and Haul Options/Alternatives (short term/long

term vs. permanent); Repairs to Existing WRF; Replace WRF with a new Plant; Installation of Private Septic and Holding Tanks; Discussion ensued. The Department is finalizing a summary of these options to Board Of Supervisors (BOS) as to how they want the Department to proceed.

**3. RWRAC Financial Sub-Committee Meeting Report & Update** (40 minutes) – John Lynch/Sub-Committee Members  
(RWRAC Financial Sub-Committee Minutes and Audio are posted at: [www.pima.gov/wastewaterreclamation](http://www.pima.gov/wastewaterreclamation))

**a. Overview of February 10, 2016 Meeting**

John Lynch noted that a correction to the handout on Rating Agencies, the Junior Debt Holders' denominator should read "Senior and Junior Debt". Mr. Taylor also noted that Net Revenue is "Total Revenue minus O&M". Mr. Lynch explained the three formulas: Junior Debt is a reference that the Department incurred in 2010 and after, the Senior Debt is pre 2010. The formulas for both Junior and Senior debt "holders", are due to the bonds have a covenant that requires the ratio is depicted in the various formulas not to fall below 1.2. If the ratio falls below the 1.2 for either formulations, the County would be in default of the bond covenants. The Rating Agency Debt Ratio is important as they review the ratio and establish a rating for future bonds to be sold. It does not affect the rating or interest rates on bonds that had previously been sold. The Rating Agency Debt Ratio is more conservative than the Senior Debt or Junior Debt calculations. Senior Debt is calculated as: Senior divided by Net Revenue, whereas Junior Debt is calculated as: both Junior and Senior Debt divided by Net Revenue and Unrestricted Cash. Keith Dommer, Finance and Risk Management Director, stated that Rating Agencies and the people that monitor our bond responsibilities are primarily focused on our continuing ability to generate revenues, which are generated from continuing operations and our O&M cost. The County was able to negotiate that the unrestricted cash be allowed as part of the net revenues in the Junior Debt. Mr. Taylor asked if the Senior Debt was paid off, would the Junior Debt now become the Senior Debt? Mr. Dommer responded that the Senior Debt Holder no longer be applicable and the Junior Debt would be govern to default situations. Bob Iannarino asked, how much of the bonds prior to 2010 was tied directly to ROMP expenditures? Mr. Dommer responded that was very little.

Mr. Lynch reiterated that the full RWRAC's goal since 2012-2013 was to keep the Rating Agency Debt not go below 1.3. If the Rating Agency Ratio fell below 1.3 for a limited duration, it would not be looked at too negatively for future rate settings. It was also exemplified in the recent Fitch Rate Settings (December 2015). The Committee is considering all the Options and their implications in order to lessen the impact to Rate Holders. Also focusing on the Board of Supervisors statement, when the ROMP increases were put into effect, if any excess cash become available that the cash could be utilized to pay down existing debt and/or reducing rates. Finance and the Committee have discussed and suggested making a prepayment of debt (\$38 million). Delaying the prepayment would cost the Department an additional \$7.5 million in interest. The Committee inquired what the implications would be if the prepayment was delayed only one or two years and how would that affect the need for a rate increase. Several scenarios and options are being considered. The "draft" Financial Plan 2016 will not be available until February 24<sup>th</sup>. The Committee needs at least one more meeting with the various scenarios before they can come back to the full Committee with a recommendation. Mr. Dommer recapped that the best financial health for the Department is a 1.3 Rating Agency Ratio and is concerned going below that ratio. Utilizing excess cash and to spend down a little, is only a temporary change before the debt ratio falls to critical levels. The Committee needs to make a decision on a clear rationale, which is the Department has excess cash and the best use of the cash is to spend down a little by delaying a rate increase for rate payers, this is only temporary. Mr. Lynch responded that the Committee realizes that a rate increase will be required, but there is potential that it could be delayed as they are considering all the Options. Mr. Dommer indicated the regular activity, predictable activity, rational activity, and stable activity are areas that the Rating Agencies review. The County is currently being rated right now and Mr. Dommer said that the Committee needs to be very careful. Currently, the County's COPs are being rated. Both rating agencies, Standards and Poor's, and Fitch will be releasing to the public their ratings in a few days.

Mr. Taylor restated that the goal of 1.3 is a debt ratio for good financial health and for the rating of the bonds; however, there are other factors to be considered, such as excess cash, willingness to increase rates. Mr. Lynch reemphasized that the RWRAC had recommended (2012/2013) the goal to keep the debt ratio at 1.3, and is still the goal. Indicates to the Rating Agency the optimal goal for financial health of the Department and be able to obtain the best rates in the market place. The Rating Agency Ratio of 1.2 does not indicate "default", it can be determined reviewing the Senior Debt Holder and Junior Debt Holder equations to indicate when the Department is in default under those bond covenants. They are different equations and are much less conservative compared to the Rating Agency. Ms. Wolf recollected when the Committee recommended the goal of 1.3 debt ratio, it would affect all of the County, which is incorrect. The Bond Rating only affects the Department's future bond sales. Mr. Lynch responded that the Sub-Committee had a discussion and depending on where the debt ratio is, it could potentially affect other departments in the County and not just the RWRD. Ms. Wolf would like the Committee to reconsider the letter of the recommended goal of 1.3. Mr. Taylor stated that the debt ratio of 1.3 is not just for future bond sales, but to

maintain financial health for the Department. Bill Katzel feels the Board needs to consider that the Department receive more revenue, at least temporary, to maintain the 1.3 without increasing rate fees.

Bob Iannarino recalls that COPs is not an option as it will not be available in future years for the Department, as it is going to be utilized for other departments. Mr. Dommer stated that the County is not guaranteeing that the Department will have COPs to facilitate CIP, would likely be available in part, but can't depend on it to fund \$30-\$40 million. The Board approved \$20 million in next year's budget for the Department on Tuesday, February 16, 2016. Discussion ensued. (Audio 1:31:00)

Mr. Dommer will bring the questionnaires and topics discussed at the Rate Agency meetings to the next Financial Sub-Committee meeting, so that the Committee can have a better understanding of some of the factors. Mr. Dommer wants the Committee to have clarity of the ratios to help prevent any misunderstandings. The Net Revenue in the three equations are regular, continuing activity generated by the operations of the system. If the Department is supplemented with other sources that are not generated by the activity of the Department (user fees), which is pledged for the Department's debt, there is no effect on the ratios. Discussion ensued. (1:40:12)

#### **b. Rate Study**

(Audio 1:46:44) Mr. Lynch indicated that all members of the Finance Sub-Committee voted unanimously at the meeting of January 6, 2016, to recommend the Department conduct a Rate Study. Mr. Jenkins provided a presentation and indicated that the Department had not had a formal Rate Study process in over ten years. Since then, there have been many changes and a number of issues that have implications on current rates as well as future rate increases. There is a significantly greater portion for the Department's operations, which are fixed costs; however, the current rate structure does not indicate that. The fixed costs currently make up approximately one-third of the total rates that users pay. The benefit of a Rate Study is a more equitable form of paying the rates and a more stable form for the Department. The study would help indicate the strength factors, what they are and how current they are, particularly given the composition of the wastewater that the Plants' treating and whether the treatment processes require additional cost associated with industrial strength wastewater.

Another factor is the economic development driver in the community. The Department is charged with the infrastructure of the development (World View, Mt. Lemmon, Pima County Fair Grounds) and the Committee wants to understand if rates are the best mechanism to pay for those types of economic development type processes. Mr. Lynch stated that a Rate Study would help with providing a better guidance for the Committee as the Department sets its rate process. The Department provided a "draft" Sewer Rate Study that included the Overview, Scope of Services, Study Objectives, Study Requirements, Expectations of the Consultant, and Services to be provided by Pima County and included a Rate Study Timeline graph. (see handouts)

MOTION: Ms. Wolf motioned that the RWRAC recommend to the Department that a Rate Study be conducted. Mr. Membrilla seconded the motion.

Presentations from the Consultant would be coming to both the Financial Sub-Committee and RWRAC to give updates throughout the process. Discussion ensued.

The Committee voted to approve the Department to continue with the Rate Study and was approved unanimously.

**4. Financial Update** (10 minutes) Patrick McGee, Division Manager, Finance and Risk Management  
RWRD Fiscal Year 2015/16 Budget  
Skip – Move to next meeting.

**5. Ordinance Revision** (20 Minutes) - Jennifer C. Coyle, Special Assistant to the Director, RWRD

#### **a. Committee Comments and Discussion**

Ms. Coyle recapped that the Committee was presented with the proposed Ordinance revisions in December 2015. Several updates have been made since then and updated copies were mailed in the Members' packets last week to include a copy of the track changes document and a clean version. A notice was advertised in the newspaper and a press release inviting the public to attend today's meeting, so they could listen to the discussion and give their comments. Additionally, a courtesy notice was advertised for the stakeholders in the Community (SAHBA, TAR, NPA). Mr. Taylor reiterated that these revisions do not include a user fee increase, only some miscellaneous fee increases. Mr. Jenkins restated that this is to recoup the costs to perform the tasks and functions associated with fees (permits). Discussion ensued regarding overdue fees and the hardships for some consumers. (Audio 1:58:35)

#### **b. Call to the audience**

None

**c. Potential Vote on Recommendation to Board of Supervisors on Ordinance Revision, including New and Increased Customer Service Process Fees**

MOTION: Amber Smith motioned to approve the Ordinance 13.24 revisions.

Barbee Hanson seconded the motion.

Discussion ensued regarding the overdue amount of \$48 being excessive. See Addendum on page 6 (1.3), which outlines the costs. Additionally, on page 13 (Ordinance) Director's Proceedings, states that the Director may require an account adjustment if he finds the User's protest is justified. An in-depth report by Raftelis was conducted over several months regarding the various fees and these fees were recommended.

The Committee voted to approve the Department continue with the Ordinance revisions

Approved unanimously.

**G. Future Agenda Items**

Financial Sub-Committee Updates

Mt Lemmon Updates

**H. Call to the Audience**

None

**J. Adjournment**

Bill Katzel made the motion to adjourn the meeting, Bob Iannarino seconded.

Meeting adjourned at 10:13 a.m.