



REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE PUBLIC MEETING

Pima County Administration East Building
130 W. Congress, 1st Floor
Board of Supervisors Hearing Room

MEETING MINUTES

Thursday, February 19, 2015

COMMITTEE MEMBERS PRESENT:

Ann Marie Wolf	Armando Membrilla	Mark Stratton	Sheila Bowen
Mark Taylor	Kendall Kroesen	Jackson Jenkins	
Bob Iannarino	Rob Kulakofsky	Amber Smith	
John Lynch	Matt Matthewson	Barbee Hanson	

COMMITTEE MEMBERS ABSENT:

Bill Katzel Alan Forrest

A. CALL TO ORDER. Ann Marie Wolf, Chair, called the public meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 8:33 a.m. Veronica Lopez took the roll call and a quorum was present.

B. PLEDGE OF ALLEGIANCE.

C. PROPOSED SEWER USER FEE INCREASE.

1. DEPARTMENT SUMMARY/REGULATORY REQUIREMENTS.

Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD) made a presentation. Mr. Jenkins stated at the previous public meeting there had been questions raised as to why the Department was proposing to raise rates, and what was the Department doing to save money as opposed to asking for more money. Mr. Jenkins stated the Department takes care of the greater Pima County area and not just Tucson. Mr. Jenkins stated the Department has 475 employees. Mr. Jenkins stated the Department has eight wastewater treatment facilities, 3,400 miles of conveyance pipeline, and 28 lift stations. Mr. Jenkins gave an overview of the different types of staff the Department employs – engineers, administration staff, state certified operators, etc.

Mr. Jenkins stated the Regional Optimization Master Plan (ROMP) was implemented over the last several years because it was mandated by the Arizona Department of Environmental Quality (ADEQ) which represents the Environmental Protection Agency (EPA). Mr. Jenkins stated when he joined the Department in 2004, the average resident's rate was approximately \$13 per month and that the quality of the effluent generated at that time was low. Mr. Jenkins stated the initial professional cost estimate for implementing ROMP was approximately \$720 million. Mr. Jenkins stated that the interest on the money borrowed to implement ROMP is the primary driver for these proposed rate increases. Mr. Jenkins stated with the upgrades of ROMP and the Department's investment in upgrading its conveyance infrastructure Pima County now has good quality infrastructure as compared to other

communities around the United States. Mr. Jenkins stated now the average residential rate is closer to \$40 per month primarily because of ROMP and because in the past the Department was not appropriately investing in its infrastructure. Mr. Jenkins stated with these proposed rate increases the average residential rate could be closer to \$45 per month which is about the national average. Mr. Jenkins stated ROMP was delivered ahead of schedule and under budget. Mr. Jenkins stated that fiscal responsibility is very important to the Department and that the Department would not be asking for rate increases if it did not feel it was necessary.

Mr. Jenkins introduced the Regional Wastewater Reclamation Advisory Committee (RWAC) and gave a brief overview of their function. Mr. Jenkins stated the members of the Committee are private citizens and that the Committee is not related to RWRD. Mr. Jenkins stated the biggest focus of the Committee is on the finances of RWRD.

Mr. Jenkins presented three Powerpoint slides related to trends in chemical costs, energy costs, and the total number of employees over the last few fiscal years. Mr. Jenkins stated the Department continuously looks for ways to save money. Mr. Jenkins gave a before-and-after demonstration of the water the Department starts with and the final product the Department produces. Mr. Jenkins stated energy is a large component of the cost of cleaning the water. Mr. Jenkins stated even though the rates the Department is charged for energy have gone up, through a variety of factors, the Department has been able to hold energy costs relatively stable over the last several years.

2. 2015 FINANCIAL PLAN

Tom Burke, Director, Finance and Risk Management Department (FRMD) made a Powerpoint presentation regarding the 2015 Financial Plan. Mr. Burke stated in order to create a multi-year financial plan it is necessary to make assumptions related to expenses, revenues, etc. Mr. Burke stated the biggest overall cost is the cost to operate the system. Mr. Burke stated the assumption related to growth is that growth in Pima County will occur at approximately 1.5% per year over the next four years. Mr. Burke stated the assumption related to operating expenses is that those expenses will be increasing by approximately 4% per year. Mr. Burke stated the assumption related to Capital Projects was that they would total approximately \$245 million over the next four years. Mr. Burke stated the Financial Plan assumes the issuance of an additional \$225 million of debt in order to pay for the Capital Projects. Mr. Burke stated the Financial Plan assumes an interest rate of 5.5% on the debt payments. Mr. Burke stated the Financial Plan also contemplates that the County will use some of the cash to pay down \$115 million in existing debt over the next four years.

Mr. Burke explained that 68% of the revenues come from the volumetric portion of user fees. Mr. Burke stated over the last five years flow to the system has been decreasing by approximately 2% per year. Mr. Burke displayed a table that showed in 2009, RWRD treated almost 24 billion gallons of wastewater. In 2014, that volume had dropped to approximately 21.8 billion gallons. Mr. Burke stated although the volume of wastewater has decreased, the cost of operations do not decrease. Mr. Burke stated system revenues have grown from \$106 million in 2009 to \$176 million in the coming year. Mr. Burke stated in the last 6 years the Department has spent \$709 million on construction and in the coming four years it is anticipated the Department will spend approximately \$240 million more in capital projects. Mr. Burke explained debt is a major driving force for calculating the amount of revenues needed. Mr. Burke stated in 2015 the debt service payment will be approximately \$71 million, and debt service will remain above \$80 million per year for seven years beginning in 2017. Mr. Burke discussed the County's preference to only borrow debt for a 15 year period of time, and explained that for this reason after 2023 debt service should drop off substantially.

Mr. Burke stated this year the Department will have approximately \$92 million left over after paying operations and maintenance costs, and \$71 million of this remaining revenue is needed to pay debt service. Mr. Burke showed a graph that demonstrated that unless there is a rate increase, the net revenue after debt service will decline each year from \$21 million this year to approximately \$3 million

in 2019. Mr. Burke stated there must be a minimum 20% cushion in order to meet the covenants with our existing bond holders, but that rating agencies are looking for a 30% cushion. Mr. Burke stated the goal of the County is to set sewer rates so that it meets the 30% preferable requirement. Mr. Burke discussed the definition of debt service ratio. Mr. Burke explained for fiscal years 2015 and 2016 it is anticipated that the Department will be at the 130% preferred debt service ratio, but that after that the debt service ratio will drop below the minimum 120% ratio required by the bond covenants.

Mr. Burke stated what is being proposed is a series of three annual rate increases of 4% each beginning July 1, 2015. Mr. Burke stated this series of rate increases will bring the debt coverage ratio back up to around the 130% target for the bond rating agencies.

Mr. Burke showed a summary of the impact on the average 8ccf bill since 2004 and including the proposed rate increases. The dollar impact on the average 8ccf bill would be approximately \$1.60 - \$1.80 per month.

Mr. Burke reviewed the Financial Plan recommendations which are as follows: issuing an additional \$225 million in debt, \$60 million of which would be in Certificates of Participation (COPS); paying down \$38 million of Water Infrastructure Financing Agency (WIFA) loans and sewer revenue bonds that can be called in 2017; and implementing the 4% rate increases for each of the next three years.

D. CALL TO THE AUDIENCE.

Ms. Wolf reminded the audience that anyone wishing to address the Committee should fill out a Speaker Request Form. Mr. Anthony Miller addressed the Committee. Mr. Miller asked if the Department had ever reached the \$720 million originally budgeted for ROMP. Ms. Wolf reminded the audience that during a public meeting the Committee cannot respond to comments from the audience, but can only listen to input from the public. Mr. Miller stated he takes in 4ccf of water each month, and is charged for 4ccf for wastewater, but that not all the water he uses makes it to the sewer. Mr. Miller asked since there is no flow meter for wastewater, how does the Department know how much flow is entering the system from his house? Mr. Miller asked if there would be a rate increase every year to take care of the debt that has been incurred. Mr. Miller stated he has asked the water department employees he has seen in his neighborhood why they are putting water down the sewer. Mr. Miller stated the answer he has been given is that the water is necessary to get the solids to flow down the conveyance system.

Ms. Wolf explained that Committee members who wished to address the Committee as members of the public could do so at this time as well.

Armando Membrila addressed the Committee. Mr. Membrila spoke of the dissatisfaction of people in his neighborhood over the proposed rate increase. Mr. Membrila stated the median income of his neighborhood does not match the median income of Catalina Foothills. Mr. Membrila stated he personally feels the Department can wait one year for a rate increase and does not believe it would have to be an 8% increase but could be closer to a 5% increase. Mr. Membrila stated he is not opposed to paying debt off early, but is opposed to people who use the system now paying it off while people who come into the system later will not be.

Matt Matthewson addressed the Committee. Mr. Matthewson emphasized the “as required” part of the function and purpose of the Committee as set forth in the Ordinance that the Committee is to “annually review the revenue requirements of the sanitary sewerage system and recommend to the governing body rate adjustments as required.” Mr. Matthewson stated since the debt coverage ratio for next is forecasted to be 131% the rate increase for next year is not required. Mr. Matthewson urged sustaining the intake budget. Mr. Matthewson reminded the Committee of the questions at the last public meeting regarding the Department’s salaries but stated the problem is not with salaries, but in overhead and

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support costs and those are areas where additional “exercising” should be found. Mr. Matthewson stated with the Department’s focus on process improvement it should expect that same mentality from its suppliers. Mr. Matthewson urged the Finance Department to find ways to deal with “the pig in the python” that would not result in rate increases. Mr. Matthewson expressed a need to retest the assumptions of the Financial Plan. Mr. Matthewson reminded the Committee that Pima County is the 6th most impoverished community in the country and the Committee should be sensitive to those realities. Mr. Matthewson stated the commercial rate payers will pass on their increased rates to their customers. Mr. Matthewson reiterated that the rate increase is not required and should not be passed.

Mark Taylor addressed the Committee. Mr. Taylor stated the Financial Sub-Committee has spent about two and a half years focusing on the finances of RWRD. Mr. Taylor reminded the Committee of the need to have a fiscally sound utility and that conveying and treating wastewater is not a cheap process. Mr. Taylor explained the need to maintain the infrastructure and not delay a Capital Improvement Program (CIP). Mr. Taylor stated the Department is operating in the cheapest methodology possible for the long-term cost. Mr. Taylor stated that waiting and then implementing a larger 8.5% increase would not be fiscally responsible. Mr. Taylor stated what the Committee should do is what is best for the customers long term, and that his opinion is that the proposed increases are fiscally responsible.

Ms. Wolf reminded the Committee that the regularly scheduled RWRAC meeting would convene after a five minute break.

E. ADJOURNMENT. The meeting was adjourned at 9:29 a.m.