

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE (RWRAC) MEETING

Water Campus

2955 W. Calle Agua Nueva – Radon Conference Room

Thursday, March 22, 2018, 8:00 a.m.

Members Present: William Garner (via phone), Rob Kulakofsky, John Lynch, Corin Marron, Jean McLain, Armando Membriola, Asia Philbin, Ann Marie Wolf

Members Absent: Bill Katzel, Matt Matthewson, Shaun McClusky, Mark Taylor, Amber Smith

Others Present: Mandy Armenta (FRMD), Adam Bliven (RWRD), Michelle Campagne (FRMD), Isai Centeno (FRMD), Jennifer C. Coyle (RWRD), Keith Dommer (FRMD), Barbara Escobar (RWRD), Jackson Jenkins (RWRD), Veronica Lopez (RWRD), Patrick McGee (FRMD), Julie McWilliams (RWRD), Jeff Prevatt (RWRD), Dan Quintanar (Tucson Water), Fernanda Quintanilla (RWRD), Jaime Rivera (RWRD), Timothy Thomure (Tucson Water), Caroline Vargas (RWRD), Chuck Wesselhoft (PCAO)

A. Call to Order / Roll Call

Corin Marron, Regional Wastewater Reclamation Advisory Committee (RWRAC), called the meeting to order at 8:05 a.m. Veronica Lopez, Program Coordinator, Regional Wastewater Reclamation Department (RWRD), took roll call and a quorum was present.

B. Pledge of Allegiance

C. Call to the Audience – There were no comments from the audience.

D. Safety Share

Jackson Jenkins, Director, RWRD, advised everyone to use extreme caution on roadways as our community has been identified as being one with some of the highest fatality rates among pedestrians and bicyclists. Be mindful of other drivers, pedestrians and bicyclists.

E. Approval of Minutes

Meeting Minutes for February 22, 2018

ACTION: Rob Kulakofsky made a motion to approve the meeting minutes of February 22, 2018. John Lynch seconded the motion. Motion passed unanimously.

F. Discussion/Action

1. Director's Update

Mr. Jenkins updated the RWRAC on the progress of the Request for Qualifications (RFQ) projects stating there are upcoming interviews scheduled for April 7th, for proposers interested in delivering the Design Build Project for the Biogas. Mr. Jenkins then stated that a firm has been selected for the Struvite Recovery Project, and an offer/negotiation for a guaranteed maximum price will be presented, with a second and third choice, etc. selected if we are unable to come to terms with the first choice. He went on to say the Twin Peaks gravity line project is currently being advertised and we have received packets from interested parties, which staff is in the process of reviewing. Interviews should take place in the next three weeks. Mr. Jenkins then went on to discuss the upcoming CIP Project to add a pump station to the Fairgrounds which is currently permitted for 20,000 gallons per day. Historically during the month of April this is exceeded due to the county fair, recently due to more events being held at the fairgrounds the flow has been exceeding 20k gpd three or four

months out of the year usually during the winter months. Installing the pump station will allow the flow to stay below 20k gpd. and take us into future expansion as well. There is a possibility of a gravity station being installed due to potential growth and high volume user in the Southeast Area. High volume allows for gravity flow. While we go forward with the pump station design and bid we will also go to 60% design on the gravity system to get cost estimates which will be only informational. Ultimately, it will be up to the Board of Supervisors (BOS) and Mr. Huckleberry to decide if it is cost effective and necessary. Mr. Lynch asked if the cost could be recouped thru connection fees. Mr. Jenkins answered in the affirmative. The discussion continued with Mr. Jenkins informing the committee of the upcoming shut down in the next month April of the Mt. Lemmon facility for approximately one week for cleaning, evaluation and needed repairs. Staff and contractors will be on site. This will also provide information for the \$5,000,000 Capital Project to replace the facility or look at other options. Mr. Jenkins mentioned that at the recent March 20, 2018 BOS meeting the BOS approved by a 5-0 vote the pre-pay pre debt service payments, by putting some cash reserve into a trust fund dedicated account for future debt. The result being that it may negate the need to ask for user fee increases for the foreseeable future. Mr. Jenkins stated that the key topics for discussion are the three billing options. Intent was to first present to Financial Subcommittee then to the full committee, but felt we are not fully prepared at this time, also not all members could be present. Will possibly present next month. The first topic is how many high strength user classes are appropriate for our utility we currently have 16 but could become 3 classes high, medium and low or just 1 commercial industrial class like residential user class. The second item is the elimination of winter quarter average for commercial industrial high user, businesses should use actual flow and volume. Third item is the loss of revenue due to less water use per capita; growth hasn't offset conservation and we lose revenues. Thought has been given to a fixed rate monthly bill. The final item is the equity issue where commercial class pays the same multiplier and residential class what can if anything be done about it. At this time has no plans to go to the board for a 16% commercial increase until more discussions take place. Mr. Jenkins proceeded to present a draft pie charts to explain our 2018/19 fiscal year budget, ie: cash disbursement, revenue and beginning cash balance. \$184,583,832 cash disbursement for the next fiscal year 2018/19 which explained in a percentage breakdown what our cost are, 55% (\$100,034,145) of it being debt service, the next big cost was personnel services at 17% (\$32,138,296), the next chart explained our \$173,522,052 in revenue 92%(\$160,328,008) of which is sewer user fees, next chart was \$149,590,966 beginning cash balance of which 42%(\$61,971,329) is unrestricted cash balance. The final chart broke down the CIP budget request of \$41,373,175 with 39 %(\$16,122,666) for Conveyance Rehabilitation. Mr. Keith Dommer, Director, Finance and Risk Management Department asked to have the large blue slice characterized as it was the expenditure side. Mr. Jackson answered that as we continue with our finance group we would come up with a better was to explain cost. Breaking down with more detail.

2. 2018 Financial Plan

Mr. Dommer gave a power point presentation of the 2018 financial plan which addressed the financial needs for the RWRD based on projected revenues, projected expenses, and projected capital improvement program expenses for Fiscal Year 2017-18 through Fiscal Year 2021-22. Methodology - to determine optimal sewer rates, Finance identified the projected cash needs for upcoming capital projects, operating and maintenance cost, debt service payments, (existing and planned). System revenues are decreasing. Overall, Fiscal Year 2018-19 revenues are projected to decrease slightly from the prior fiscal year due to reduced volume usage. Capital expenditures are estimated to be \$198 million through the end of Fiscal Year 2021-22. An additional \$35 million to \$45 million are anticipated to be needed annually thereafter. The Department is expecting to complete Fiscal Year 2017-2018 with O&M expenses of \$82.4 million. The budget for Fiscal Year 2018-19 has not been approved by BOS. The recommended budget is \$83.5 million with one to two percent increases for the following years. Total Debt service for Fiscal Year 2017-18 will be \$70.0 million with the use of \$16.6 million in unrestricted cash to prepay the 2008 Sewer Bonds. This prepayment is keeping us below the \$70 million threshold keeping the ratios above 1.3 which prevents the need for rate increases. Mr. Jenkins stated that he was impressed with the outcome as across the country the trend is most utilities are raising the rates more than inflation. Mr. Jenkins then asked Mr. Timothy Thomure, Director, Tucson Water, what Tucson Water's plan was for increase. Mr. Thomure replied that right now they are proposing 6.8, 6.56 and 5.5. Mr. Jenkins also commented that our rates have stayed flat and they are less than the national average. Mr. Dommer then continued the presentation and explained that as of January 2018 the predicted cash balance would be \$150 million with \$62 million unrestricted, with \$88 million restricted and

designated. The Debt Service Ratio would stand at or near 1.3 through 2024 well above our target. Mr. Dommer also stated that our ratings had not changed and we maintain a AA rating in both Fitch and S&P. Mr. Dommer then referred to the rate workbook in Appendix B which shows the projections including the 3% rate increase, operating cost and debt ratio for the coming years, as of the January 2018 current forecast. Mr. Dommer then asked if there were any questions and stated that available today was hard copy of the financial plan, the numbers are solid with a few adjustments possible to the formatting and wording, and will present the final version to the FSC in April for approval by committee. Mr. Dommer spoke to the County Administrator and acknowledged that he did not allow the committee to present the report directly to the board at the last meeting. The Financial Plan must be accepted by the committee in April so it can be presented to the Board, the County Administrator will defer to the Committee to get report to the Board. We would like to get the financial plan to the Board before the Wastewater Budget is considered in May at the budget hearings. Mr. Dommer stated that any comments could be referred to him via Ms. Lopez. Mr. Jaime Rivera asked a question but unable to determine what was said. Mr. Dommer replied that if there are Certificates of Participation the goal is to compress payments as short as possible and make as close to cash as possible. Ms. Michelle Campagne, Deputy Director, FRMD, stated 2024 is the last year of new debt sales that we have projected. Mr. Lynch asked if it was possible to amend page in slide to match anticipated debt total. Mr. Dommer answered in the affirmative and that he would get with the department to see what the anticipated totals are. Mr. Jenkins stated that we are a \$40 million a year CIP stating that it was a reasonable assumption. Mr. Dommer then informed the Committee that Mr. Jenkins let him know that the Resolution for the prepayment plan had been approved by the Board on Tuesday. The resolution allows Chair/Vice Chair, Acting Chair or County Administrator to execute trust and escrow and prepayment documents in perpetuity. Mr. Thomure offered to present Tucson Waters Financial Plan. Financial plan was not presented.

3. Capital Improvement Program Subcommittee Update

This was covered in the Financial Subcommittee Update

4. Fiscal Year 2017/2018 Expense & Revenue Update

Patrick McGee, Division Manager, FRMD, provided the Expense and Revenue update for Period 8. Operating and maintenance expenses are \$82.4 million, which is approximately \$982 thousand under budget. Total revenues forecasted at \$180.8 million, which is \$3.4 million above projected budget.

5. Dispose-A-Med: Policy Options

Ms. Marron tried to initiate discussion on the Dispose-A-Med Program from last month's presentation regarding policies and options for the department to encourage users to participate. Ms. Marron suggested financial incentives with reduced rate for hospitals and assisted living facilities. There was no response and Mr. Armando Membriola, Member (RWRAC) suggested waiting for Mr. Matt Matthewson, Vice-Chair (RWRAC) to return to continue discussion. Ms. Marron agreed. Ms. Ann Marie Wolf, Member (RWRAC) requested a copy of the Dispose-A-Med presentation be emailed to her. Ms. Marron said she would get her a copy. Mr. Dan Quintanar made some statement but undistinguishable. Ms. Marron stated that she would check with Mr. Matthewson.

6. Financial Subcommittee Update

John Lynch, Chair, RWRAC Financial Subcommittee, provided no update, will defer to meeting in April.

7. Capital Improvement Program Subcommittee Update

No update.

8. Citizens' Water Advisory Committee (CWAC) Update

Dr. Jean McLain, Member RWRAC brought up the upcoming budget issues citing the 6.8% increase in 2019 to compensate for the reduced water use and rising health care cost. There is a public hearing on May 22, Town Hall meetings in March and April dates on Tucson Water website, and a listening session for reclaimed water customers on April 9th. Dr. McLain stated there are concerns regarding the 6.8% increase and how to increase participation in the limited or low income program. Mr. Thomure stated that rate increase does not apply to those on the environmental rate the target audience will be, school districts, golf courses. Mr. Thomure went on to further explain that they apply the rolling 5 year plan that breaks down as a 4 years,

2 year and 1 year . Mr. Membrila asked Mr. Thomure if they had factored in the rising health care cost in the plan. Mr. Thomure replied that health care cost is not something they control. Mr. Membrila stated that he would be interested in seeing a breakdown.

G. Future Agenda Items

- Tucson Water Financial Plan PPT
- Section 208 Plan Update
- Conserve to Enhance Presentation
- SOS Program
- Financial Plan – overview of major changes

Call to the Audience – None

H. Adjournment

ACTION: Ann Marie Wolf made a motion to adjourn the meeting. Rob Kulakofsky seconded the motion. The meeting was adjourned at 9:14 a.m.