



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

Thursday, November 19, 2015
8:00 a.m.

COMMITTEE MEMBERS PRESENT:

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| Sheila Bowen | Bob Iannarino | Bill Katzel | Rob Kulakofsky | John Lynch |
| Matt Matthewson | Armando Membrila | Mark Stratton | Mark Taylor | Anne Marie Wolf |

OTHERS PRESENT:

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|-----------------------------|---------------------------|---------------------------|-------------------------|------------------------------|
| Jennifer C. Coyle (RWRD) | Keith Dommer (FRMD) | Jackson Jenkins (RWRD) | Patrick McGee (FRMD) | Jeff Prevatt (RWRD) |
| Lorraine Simon (RWRD) | Lilian von Rago (RWRD) | Richard Wascher (RWRD) | Jody Watkins (RWRD) | Charles Wesselhoft (RWRD) |

- A. **CALL TO ORDER / ROLL CALL.** Mark Taylor (Chair), called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 8:05 a.m. Jody Watkins took roll call and a quorum was present.
- B. **PLEDGE OF ALLEGIANCE.**
- C. **CALL TO THE AUDIENCE.**
- D. **SAFETY SHARE.** Armando Membrila shared how his travel to the meeting was delayed due to a vehicle that was stopped on the road. Mark Stratton added to be watchful for the El Tour de Tucson this weekend.
- E. **APPROVAL OF MINUTES.**
Meeting Minutes of the Regular Meeting, October 15, 2015.
ACTION: Mr. Stratton made a motion to approve the minutes of the Regular Meeting of October 15, 2015. Ann Marie Wolf seconded the motion. Motion passed unanimously.
- F. **COMMITTEE/SUB-COMMITTEE REPORTS**
1. **CITIZENS' WATER ADVISORY COMMITTEE (CWAC) UPDATE.** Mr. Taylor provided an update of November 4, 2015 meeting. He advised the RWRAC members that Tucson Water reports that water consumption has been decreasing at a rate of 7.1% for potable water and reclaimed down to 15% this past year. This equates to 81 gallons a day, down from 90 gallons a day.
 2. **RWRAC CAPITAL IMPROVEMENT PROGRAM SUB-COMMITTEE MEETING REPORT & UPDATE.** Mr. Taylor informed this Committee that the first CIP Sub-Committee meeting is tomorrow, Friday, November 20, 2015. All RWRAC members are welcome to attend.
- G. **Discussion/Action**
1. **DIRECTOR'S UPDATE**
 - a. **OPERATIONAL UPDATE.** Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD), provided information regarding recent solids handling issues at the Tres Ríos Water Reclamation Facility (WRF). CH2M Hill, design engineers for the Regional Optimization Master Plan (ROMP) upgrades, will bring



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representatives to evaluate problems with solids handling. Additional issues at the Tres Ríos WRF include the computer card at slide gate, and design issues with centrifuge for cake material. The centrifuge pumps are not functioning properly.

Mr. Jenkins advised the Committee that the Department has an easement that runs through a residential property along the North Rillito Interceptor Rehabilitation (NRI) project. The homeowner has encroached on the easement with building structures. RWRD is attempting to work with the homeowner to resolve this issue to complete the NRI project. Ultimately, the Department has the authority to condemn the homeowner's property if need be.

Final deadline if RWRD moves forward with two small solar projects at Green Valley and Corona de Tucson WRFs. There is an outstanding issue with net metering with the Arizona Corporation Commission, TRICO Electric, and Tucson Electric Power. Power needs vary during different times of the day. The Department is doing a final analysis.

Biogas – Negotiations continue with second place firm, Bio Fuel Energy, and their off-taker firm, Air Liquide. RWRD receives 12% of gross revenues, approximately \$150,000. Gas quality and gas quantity considerations. The Department needs to meet minimum gas volume to receive royalty payments. One of the digesters is not producing enough gas.

Tomorrow is the Water Energy and Sustainability Technology / UA grand opening of the laboratory expansion at the Water and Energy Sustainability Center (WESC). There will be a symposium and tours at 3 p.m. The final ceremony is 5 p.m.

It looks like the Department will approach the Pima County Board of Supervisors (BOS) again with a request for rate increase in the spring of 2016, to become effective July 1, 2016.

Mt Lemmon issue will come up again. The Department has option to charge that service area more than the rest of the regional wastewater system.

It was suggested that RWRD should charge different user fees for commercial and another one for industrial users, since the multipliers vary for each user class. Work with Industrial Wastewater Control to simplify the rate structure, one for commercial and a different one for industrial users.

Mr. Jenkins explained user fees need to increase to cover variable costs (debt service charges) and the cost of inflation. A rate increase is needed due to lost volume fees due to water conservation.

2. FINANCIAL UPDATE – Patrick McGee/Keith Dommer

RWRD Fiscal Year 2015/16 Budget

Patrick McGee, Division Manager, Finance and Risk Management Department (FRMD), stated there was not much change in the September 30, 2016 and October 31, 2016 Fiscal Year 2015-16 Expense and Revenue comparisons. He provided a breakdown on the following: Projected expenses are \$83.7 million, which is \$763,000 under budget. Much of this savings is due to personnel vacancies. Revenues are still projected to be \$10.2 million under-budget. Much of this variance is due to no rate increases and a decrease in flow volumes. There is a \$57,000 rebate from Tucson Electric Power for the Regional Optimization Master Plan project. The 2015 audited financials are completed and on the Pima County website.

3. RWRAC FINANCIAL SUB-COMMITTEE MEETING REPORT & UPDATE

John Lynch, Chair RWRAC Financial Sub-Committee, provided an update. He stated that the RWRAC Financial Sub-Committee has met three times.

September 16, 2015 – To discuss the goals and directions of this Sub-Committee for the coming year. Moving forward the Financial Sub-Committee has met with the Pima County Finance Department to have the format of the financial information received be more standardized. The goal is to develop a methodology to review the Department's finances and standardize use year-after-year. There was some discussion on volumetric and fixed fees to develop an understanding of them, as well as how to integrate them with the rate structure. The Committee recommended that a Capital Improvement Plan (CIP) Sub-Committee be established to review the various CIP



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projects the Department is working on. The Financial Sub-Committee would continue meeting separately to focus on revenues and expenses.

October 28, 2015 – The fee calculation methodology was reviewed. The Committee looked at the ordinance established for ROMP program. The ordinance fee calculation increased the volumetric fee 10% per year for four years, and the service fees 6.5%. The BOS will need to review this ordinance. The committee will address this moving forward. The projection methodology the Department has been using was reviewed, from past economic models. However, water consumption is a better indicator of rates. As water rates have increased, consumption has decreased. The Winter Quarter Average (WQA) are decreasing, because water consumption is decreasing. There were 12-15 questions that the Finance Committee addressed.

November 10, 2015 – Much of the time at this meeting was spent going through the 12-15 questions that were generated at the October 28, 2015 meeting. There was discussion on rates: how rates are established, how water consumption decreases are impacting revenue, and where revenue is generated between the classes (residential, commercial, and industrial). Worked with Finance Department for various assumptions for revenue, including WQA and population assessment.

Keith Dommer, Director, FRMD, spoke on revenues and referred to handout: RWRD Enterprise Fund Five-Year Financial Projections FY 2014 through 2020. He provided a brief description of components: Customers, Population Growth-UA \Estimates, Volume Rate, Rate Factor –Volume Fee, Service Charge Rate, Rate Factor – Flat Service Charge, Rate Factor–Connection Fee, Rate Factor – O&M Expenses, CCF–Calculated Flow Estimate, and Rate Factor – Volume. He explained that the spreadsheet depicts how the rates have been analyzed and what has been happening over time. The rate assumptions show that the in 2015 there are 270,000 customers, and budgeted for 276,000 customers. The projection factors in the UA Eller College estimates of population growth in customers. The Volume Rate, Rate Factor – Volume Fee is 3.5230 (\$3.52 per CCF). The monthly sewer bill has a fixed fee of \$12.63, and a three-month WQA (volumetric) fee to determine the average CCF (eight). The average monthly sewer bill is calculated as $\$12.63 + (8 \times \$3.5230) = \$40.81$. Currently, the WQA is now down to around seven CCF.

Mr. Taylor stated that the objective is to have a healthy utility that maintains a good Operations and Maintenance (O&M) and CIP process. The Committee needs to go through this standard process and focus on having a healthy cash flow and meet the debt ratio. The key is not whether there is a rate increase or decrease to meet Department O&M and CIP expenses. The key is to understand the process, meet expenses, and utilize the same process year-after-year (standardized). Then a decision can be made. The job of the Committee is to give info to the BOS on what it takes to maintain a health utility. This involves an analysis of the debt service ratio and cash reserves at end of the year, and how this affects the bond ratio.

There was much discussion regarding rate fees and expenses. Bill Katzel stated that he was appointed by Ray Carroll as an advocate for rate payers. There are many fixed income constituents in Green Valley.

Mark Stratton explained that the debt service will need to decrease first to pay off ROMP. Additionally, revenues are down from lower consumption. The O&M expenses are also higher. These factors must first be addressed before rate decreases are possible. The Department needs to meet bond ratios at a healthy level due to the amount of borrowing from ROMP.

Mr. Jenkins stated that the request for a rate increase was denied by the BOS. This translates to a zero-change in revenues. The Department's revenue has dropped because of the volume component of the bill. Additionally, some of the Department's costs have gone up due to inflation. The Department is short on money due to a volume drop and increase in inflation. If there are no rate increases in the near future, the Department will need to make changes in how it does business. The BOS will need to decide what services will need to be eliminated, quality levels of service, capital that needs to be expanded.

Bill Katzel mentioned the outcome of the recent Pima County bond election was that the voters denied all bond requests.



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Bob Iannarino asked about the impact of the number of users in Green Valley. Mr. Jenkins responded 2 million gallons a day (MGD) of a 65 MGD system.

Ann Marie Wolf stated this committee can look at other alternatives to see if the rates are divided up fairly and if the rate structure is appropriate.

Armando Membrilla said he could appreciate the fixed income situation. The path is to justify whether the upcharges are bona fide and can justify why the customer rates are going up. The rates can't come down. The volume is dropping and expenses are increasing.

Mr. Lynch stated that the Wastewater Department is an enterprise fund. It has to be a stand-alone entity, which makes it different from other county Departments. Consequently, the Financial Sub-Committee is going through a very detailed process. The last time the request for a rate increase went before the BOS, the Department did not do their homework to educate the BOS members on what the funding needs are. This will not happen next time. The Committee is attempting to reach out to the BOS members and their staff as well to attend the RWRAC and Financial Sub-Committee meetings. There will be a background report provided to the BOS members so they can understand the revenue needs of the Department.

Mr. Taylor stated that he has received feedback from the BOS that they are interested in attending these meetings. The Committee's purpose is to bring information to the board that shows what it takes to maintain a healthy utility that provides good service to the community. The numbers will tell the story. The BOS makes the decision if the community can afford this.

Mr. Katzel asked what is the ordinance that makes the Wastewater Department an enterprise entity.

Chuck Wesselhoft, Pima County Attorney's Office, replied that the bond ordinance of 1983 governs how the utility operates. It is a contract with the bond holders, and serves as the basis for how the Wastewater Department operates. If all wastewater bonds are paid off, then it is possible to convert to a different structure. However, this is not very likely.

Sheila Bowen stated that no one wants to have a rate increase for no reason. There is a low income rate subsidy program in effect and this info is communicated through Pima County's communication program.

Mr. Membrilla asked how popular is the low income subsidy program. It appears there was not a significant increase in the utilization of this program.

Ms. Wolf stated this program is not being utilized because many of the people, who qualify for the program, are not aware that it even exists.

Jennifer C. Coyle, RWRD Special Assistant to the Director, responded that an action plan sent has been sent to the BOS. Ricky Wascher, RWRD Program Coordinator, is working on preparing a report to the BOS. The Committee will receive a copy of this report once it is complete. Information on this program is being communicated in customer bill inserts.

Mr. Dommer continued. His job is to look at the financial information, see what direction the Department is going in with regard to rates, and if the numbers show there is compliance with the bond covenants. There has been great discussion and suggestion from the Committee members.

Mr. Jenkins elaborated the revenue projections are now depicting the population growth models and flow models show a decrease in revenues.

Mr. Dommer explained the spreadsheet depicts a ten-year history with projections into the future.

Mr. Lynch stated the premise of the prior 10% increase during the ROMP years, the goal was a 10% increase in revenues. The premise did not achieve its ultimate goal to sustain the Department.



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Ms. Wolf stated, the increase in fees is not an increase in revenues. These are two completely different issues. Many of the current RWRAC members were not around for those discussions at that time.

Mr. Stratton also clarified that the increase in fees was to cover the debt service and not to increase revenues.

Mr. Lynch stated this difference needs to be clarified with the BOS members.

Mr. Jenkins replied user fees are 90% of the Department's revenues. The Department's costs are mostly fixed, volume impact should be targeted. O&M costs are going up due to inflation.

Ms. Wolf added if O&M costs are going up. If volume drops significantly, we should see costs go down.

Mr. Taylor said we are using less water, but the solids are increasing. Treatment costs will go up to treat the solids. Fixed and variable components, raise fixed base up to reflect true costs.

Mr. Lynch stated it would be good to look at rate study. The fixed and variable costs begs a rate study. Right now no time. Ultimately, a rate study should be conducted. This could be brought up to the BOS as part of a rate increase proposal.

Rob Kulakofsky, said as a community, the infrastructure should be maintained and in good shape. The CIP must be maintained.

Mr. Iannarino stated it is important to understand water rates, the reduction of Colorado River water, and how outside factors will continue to drop water use volume. This will add to a continuing drop in water usage. This argument needs to be presented to the BOS as well.

Mr. Stratton said to look at fixed costs, revenue stability is needed to avoid drastic reductions in revenue streams. The Department still needs to pay for something even though you're not using as much of it.

Mr. Taylor added costs are tied to amount of solids. However, water use is tied to revenues. Changes need to be made.

Mr. Membrilla said the Department is not doing a good job of keeping customers apprised. A suggestion was made the Committee members could work with neighborhood associations. Community relations staff could attend these meetings and speak.

Ms. Coyle responded that Lilian von Rago, RWRD Special Staff Assistant, and Ricky did participate at Home Owner's Association (HOA) Fair. Many HOA members from District 3 did attend.

Mr. Dommer continued his discussion pertaining to revenues. The water flow has been consistent in the past. The revenue summary has the assumption if rates do not increase. The O&M expenses are shown. A 1.3% bond service ratio is an indicator of the Department's financial health in meeting its debt service. Mr. Dommer explained that in the current Fiscal Year, the bond ratios are sufficient and do not depict an immediate need for a rate increase.

Mr. Jenkins inquired if there was a threshold percentage cushion from a bond rating agencies perspective.

Mr. Dommer said the bond covenants is 1.2%, and 1.3% is preferred. He explained that the five-year trend shows that rate increases are needed in the following years to keep up to meet bond requirements. There was discussion on ways to manipulate revenues on different customer bases.

Mr. Taylor replied that charging various rates to different customer bases needs to be done equitably and with justification. It is key to maintain the debt service ratio and a certain amount of cash reserves at the end of the year. The equation is net revenues (total revenues – O&M expenses) / debt service.



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A question was raised if revenues are flat for five years, why is the debt service also not flat and running parallel to revenues.

Mr. Dommer explained that most of the ROMP debt, a 15-year payback period, will taper down eventually. Much of the debt service is reflected during the current projection period.

Matt Matthewson stated that work needs to be done on the debt service payments. He suggested that the payment term period could be stretched out or interest only for a few years. This amount is 50% of the Department's revenues.

Mr. Dommer explained that debt service plummets after 2022. The Department is paying for the CIP with short-term (three year) Certificates of Participation (COPs). He recently met with the Fitch bond rating agency. Verbally the Department will receive a positive rating, due to the short payback period (15 years) of the bonds to pay for the ROMP.

Ms. Wolfe stated the rate payers now are paying a disproportionate share of debt from the ROMP due to the 15-year payback period.

Mr. Lynch said the Sub-committee is looking at a debt repayment schedule. The Financial Sub-Committee will be meeting to discuss this topic more. Staff has been exceptional in providing the Committee with this information.

Mr. Jenkins inquired on the last year of issuance for sewer revenue bonds and what has been paid off so far.

Mr. McGee stated there are currently bonds outstanding for 2004 and 2007. There is \$38 million outstanding in FY 2016/17.

Ms. Bowen suggested to have this topic added as a future agenda item.

Mr. Membrilla inquired what is the time frame when the request for a rate increase has to be presented to the BOS.

For a January meeting, there is a 60-day notice period requirement for public meetings.

Mr. Taylor asked Mr. Dommer to provide a window on dates to present this information to the BOS.

4. MOUNT LEMMON WASTEWATER TREATMENT PLANT STUDY UPDATE. Deferred for next meeting.

H. FUTURE AGENDA ITEMS – Mount Lemmon Wastewater Treatment Plant Study Update, update on new CIP Sub-Committee meeting on November 20, update on next Finance Sub-Committee meeting on December 2, status of RWRD bonds, strategic communications,

I. CALL TO THE AUDIENCE: There were no comments from the audience.

K. ADJOURNMENT:

ACTION: Bill Katzel made a motion to adjourn the meeting. Ann Marie seconded. Meeting was adjourned at 10:06 a.m.

NEXT REGULAR MEETING DATE:

Wednesday, December 9, 2015