



REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE

Water & Energy Sustainability Center
2955 W. Calle Agua Nueva
Radon Conference Room

MEETING MINUTES

Thursday, November 20, 2014

COMMITTEE MEMBERS PRESENT:

Ann Marie Wolf	Armando Membrila	Mark Stratton	Bill Katzel (by phone)
Mark Taylor	Kendall Kroesen	Jackson Jenkins	
Sheila Bowen	Rob Kulakofsky	Barbee Hanson	
Bob Iannarino	Matt Matthewson	John Lynch	

COMMITTEE MEMBERS ABSENT:

Amber Smith

A. CALL TO ORDER. Ann Marie Wolf, Chair, called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 8:01 a.m. Veronica Lopez took the roll call and a quorum was present.

B. PLEDGE OF ALLEGIANCE.

C. CALL TO THE AUDIENCE. Matt Matthewson briefed the Committee about his recent trip to Wichita Falls, TX where they are adding recycled wastewater directly to their water supply.

D. SAFETY SHARE. Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD) reminded the members of the Committee to be conscious of electrical cords. These can be a trip hazard even in venues like offices and conference rooms.

E. APPROVAL OF MINUTES.

Meeting Minutes of October 16, 2014.

ACTION: Rob Kulakofsky made a motion to approve the minutes of the October 16, 2014 meeting. Barbee Hanson seconded the motion. Motion passed unanimously.

F. COMMITTEE/SUBCOMMITTEE REPORTS.

1. CITIZENS' WATER ADVISORY COMMITTEE (CWAC) UPDATE. Mark Taylor stated that year-to-date Tucson Water (TW) is down 3.7% in water sales. Mr. Taylor gave a brief summary of the Long Range Recycled Water Program. Mr. Taylor also gave a brief update on the Five-Year Capital Improvement Program (CIP).

2. **RWRAC FINANCIAL SUB-COMMITTEE UPDATE – MEETING REPORT.** John Lynch gave an update on the November 5, 2014 Financial Sub-Committee Meeting. Mr. Lynch stated that the Sub-Committee had spent significant time looking at the RWRD Capital Improvement Program (CIP) and what its effect would be on the potential for user fee rate increases. Mr. Lynch said that there may potentially be a couple of upcoming minor rate increases as the Department pays down the indebtedness incurred from the Regional Optimization Master Plan (ROMP) Program. Mr. Lynch stated that the Sub-Committee is looking at how to mitigate those potential rate increases.

G. DISCUSSION/ACTION.

1. DIRECTOR'S UPDATE.

- a. **RANDOLPH PARK WATER RECLAMATION FACILITY OPERATIONAL SUSPENSION.** Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD), stated that it was the intention of the Department to temporarily cease operations at Randolph Park in January 2015. Mr. Jenkins indicated that there is on-going collaboration between the Department and Tucson Water to finalize the details of the temporary cessation of operations. Mr. Jackson then discussed options related to handling differences in flow patterns between RWRD and TW. Mr. Taylor asked if there would need to be upgrades made to the TW distribution system because of the temporary shutdown of Randolph Park. Alan Forrest stated that it would not be necessary to upgrade any pipelines. Ms. Wolf asked if the potential savings due to the temporary cessation of operations would be reflected in the current budget. Mr. Jenkins stated that these savings would be reflected in the budget that is being prepared currently (the Fiscal Year 2015-2016 budget).

- b. **RWRD OPERATIONAL UPDATES.** Mr. Jenkins gave a brief update on the solids handling system complications/issues. RWRD and CH2MHill are working together to try to resolve these issues. Mr. Jenkins stated that there has been a physical change in the biosolids characteristics and this change is causing pumping issues. This change is being investigated by staff. Mr. Jenkins stated that at Agua Nueva the project is being closed out and final retainages are being released. Mr. Jenkins stated that process optimization continues at the Agua Nueva facility. Mr. Taylor asked if the biosolids were still able to be used on the fields as in the past. Mr. Jenkins stated that the biosolids are still being used.

2. FINANCIAL UPDATE.

- a. **RWRD FISCAL YEAR (FY) 2014/2015 BUDGET.** Patrick McGee, Division Manager, Finance and Risk Management Department (FRMD), discussed the Period 3 Projections. Mr. McGee noted that the depreciation expense was coming in higher than expected, and that interest earnings were also coming in higher than expected. Mr. McGee stated that Operations & Maintenance expenses were coming in almost right on budget at this point in the fiscal year.

- b. **RWRD 2015 FINANCIAL PLAN.** Tom Burke, Director, Finance and Risk Management Department (FRMD) discussed the Summary Graphs of the Financial Plan related to expenses and revenue. Mr. Burke stated that user fees have been driving the Department's revenue over the last five years. Mr. Burke presented the Department's debt service schedule for the next 15 years noting that in 2023 the debt service will drop significantly. Mr. Burke stated that the Department currently has approximately \$650 million in outstanding debt and that the plan is to issue another approximately \$200 million in debt over the next few years.

Mr. Burke discussed revenue and debt service coverage and the impact they have on the possibility of the need for a future rate increase. Mr. Burke then discussed the Appendix A (Assumptions) used in the Financial Plan. Bob Iannarino asked whether deferring payments on some of the outstanding loans would benefit the debt coverage ratio in the short term. Mr. Burke stated that it would make a single year better, but then the following years would be worse. Sheila Bowen asked

if the connection fee revenue projection of \$13 million also included the payment from the Pascua Yaquis and if the growth factor should be applied to the \$13 million in projected revenue. Mr. Burke stated that in the current year, the payment from the Pascua Yaquis was not budgeted so that it was legitimate to apply the growth factor to the \$13 million in projected revenue.

Ms. Wolf asked about restructuring the debt. Mr. Burke then discussed a scenario in which no new debt is issued, and stated that even then, the Department would not be able to meet the debt coverage ratio within a few years. Mr. Burke stated that restructuring the debt would not make financial sense because the original debt was sold at such a low interest rate.

Mr. Burke reviewed several scenarios with respect to rate increases over the next few years. Mr. Burke stated that his recommendation was going to be a series of recurring lower rate increases rather than a couple larger increases. Ms. Bowen asked if the no-new-debt scenario would jeopardize system maintenance. Mr. Burke stated that it would, and that some of this debt was issued to catch up on maintenance that had been deferred for years. Mr. Taylor stated that from the Finance Sub-Committee point of view, they would never recommend a “stop all Capital Projects” scenario. Mr. Burke then discussed an “optimistic” scenario and even then, the Department would not be able to meet the debt coverage ratio without rate increases.

Mr. Lynch asked if the large rate increases for the Regional Optimization Master Plan (ROMP) were intended to eliminate the need for future rate increases. Mr. Burke stated that they were not intended for that purpose. Mr. Lynch stated that when the proposed rate increases are brought before the public that it needs to be made clear to the general public that the large increases due to ROMP were never intended to eliminate the need for future rate increases, and that in actuality, the rate increases were smaller than was originally anticipated.

Mr. Iannarino asked what the Department’s debt coverage ratio was pre-ROMP. Mr. Burke stated that it was over 200%. Mr. Iannarino asked what our rating was pre-ROMP. Mr. Burke stated that it had been AA, but that it was downgraded a few years ago. Mr. Jenkins stated that the Department’s switch to a greater percentage of revenue from user fees as opposed to connection fees helped restore the rating. Armando Membrilia stated that he thought that the rate increases were implemented to catch up for the 20 years of no rate increases. Mark Stratton stated that he believed the initial rate increase was for that purpose.

Mr. Burke stated that it was his desire that the Board of Supervisors vote one time on a series of rate increases rather than voting on a rate increase year after year. Mr. Taylor asked about the need for major capital improvements in 10 – 12 years. Mr. Jenkins stated that in the future regulations will be the major driver of what is needed for capital improvements, but that from an infrastructure point of view (quality and capacity); the Department is in good shape right now. Matt Matthewson asked about sewer connection fee revenue and if the economy is in better shape now, would it be possible to project future revenues at a higher amount. Mr. Burke stated that the Sub-Committee could examine that scenario, but that connection fee revenue is a relatively small part of overall revenue, and as such, even a large increase in connection fee revenue would not have a major impact on the debt coverage ratio.

Mr. Matthewson asked if the 4% rate of increase for expenses was for all County departments. Mr. Burke stated that it was not, and that over the last few years, all the County departments except RWRD cut their budgets at some point. Bill Katzel requested a presentation of a chart of rates and rate increases over time. Mr. Jenkins requested that the analysis also show both a percentage increase as well as a dollar value increase.

3. PRELIMINARY CAPITAL IMPROVEMENT PROGRAM 5-YEAR PLAN PRESENTATION.

John Warner Deputy Director of Conveyance, RWRD, presented a slide to the Committee detailing the proposed Capital Improvement Program (CIP) over the next five years. Mr. Warner also presented a more detailed spreadsheet of projects for the next five years. Ms. Wolf noted that the projections for the current fiscal year had dropped and she asked if the Department was risking anything by lowering the projections. Mr. Warner stated that the Department was comfortable with those numbers. Ms. Wolf asked the Committee if the summary chart was sufficient or if they wanted the full detail. Mr. Stratton stated that he did not think it was necessary for the full Committee to review the full detail of every project. Mr. Jenkins stated that most of the work post-ROMP is in the Conveyance area, and that the listing of projects is very specific. Mr. Jenkins then discussed augmentation and the Aerospace Corridor and its effect on the overall CIP planning.

Ms. Wolf asked the Committee members their preference in reviewing the spreadsheet. Ms. Wolf asked if the members would like to review the spreadsheet and then have an agenda item at the next meeting to take questions; there would not be a formal presentation, just a time for questions and answers. Mr. Taylor stated that the Sub-Committee had looked at these projects in detail. Mr. Iannarino asked if there was a strategy to have RWRD items placed as line items in the Aerospace Corridor bond issuance. The members of the Committee agreed that the detailed spreadsheet should be sent to each member for review, and that there be an agenda item at the next meeting for questions and answers.

4. ANNUAL EFFLUENT UTILIZATION REPORT. Jim DuBois, RWRD Hydrologist, made a PowerPoint presentation to the Committee entitled, "RWRD's 2013 Effluent Generation and Utilization Report." In the presentation Mr. DuBois stated that the Department's 2013 total effluent produced was 64,354 acre-feet (AF), and that there has been a slight downward trend in the Metropolitan Effluent produced over the last few years. Mr. DuBois stated this might be partly the effect of drought, but it is primarily due to water conservation. Mr. DuBois then discussed the Randolph Park production and Wheeling costs.

Mr. DuBois reviewed the County's effluent allocation and how the County uses its share of the Metropolitan effluent. The County reused 1149 AF wheeled through the City's reclaimed water system. Mr. DuBois stated that approximately 129 AF had been used by the County for environmental restoration purposes. Mr. DuBois discussed the County's recharge credits that totaled 963 AF in 2013, bringing our cumulative total to 8,542 AF. Mr. DuBois described how recharge rates in 2013 had been particularly low and that infiltration improved significantly in 2014. Mr. DuBois stated that the higher recharge rates this year in the Santa Cruz Managed Projects were due to higher quality effluent and storm events in the 2014 monsoon season. Mr. Iannarino noted that the recharge credits for Avra Valley were not on the summary chart, and Mr. DuBois stated that the Department had put in for an application for a permit in October 2014.

Kendall Kroesen asked if there might be anything that would change the future possible uses of the effluent. Mr. DuBois stated that the Department is partnering with TW on a constructed recharge project (SHARP) on the southeast side of the City. Mr. Kroesen asked if there was a discussion of a minimum flow to the Santa Cruz River. Mr. DuBois stated that if the City-County Water Study identified that if were possible to get 100% credit for Southern Arizona Water Rights Settlement Act (SAWRSA) effluent, it would then be an incentive to leave flow in the river. Mr. Taylor asked what the County is doing with, or plans to do with its recharge credits. Mr. DuBois stated that although the County has identified several options, they have not made a decision at this point. There was a discussion about cleaning the river and the difficulty and cost-prohibitive nature of manually cleaning the river.

5. SYSTEM-WIDE ODOR CONTROL UPDATE. In the interest of time, the Committee decided to move this item to a future meeting.

6. RAFTELIS FEE STUDY PRESENTATION. Mary Allen, Program Manager, RWRD, made a PowerPoint presentation to the Committee regarding the “Service Fee Review and Evaluation” study. Ms. Allen stated that the study is evaluating 18 service fees as well as the high-strength factor classifications. Ms. Allen noted that most of these fees had not been reviewed in at least 10 years. Ms. Allen stated that the approach for this study is to use a “bottom up” approach looking at the level of effort for each fee. The study also looked at other jurisdictions to see what they charge for these same types of fees for purposes of comparison. The expectation is to have a final report sometime in January 2015, and that the high-strength fee consolidation will occur sometime later in 2015. Ms. Allen stated that the plan is to take this report to outside stakeholder groups for input as well.

H. FUTURE AGENDA ITEMS. Ms. Wolf stated that future agenda items are: System-Wide Odor Control Update, and a question and answer item related to the 5-Year CIP Plan.

I. CALL TO THE AUDIENCE. Mr. Jenkins presented Mr. Matthewson an award in appreciation for his work on the Committee. No other members of the public addressed the Committee.

ACTION: Kendall Kroesen made a motion to adjourn the meeting. Rob Kulakofsky seconded the motion. Motion passed unanimously.

J. ADJOURNMENT. The meeting was adjourned at 10:15 a.m.