

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE

Transamerica Building
Pima Association of Governments' 5th Floor Conference Room
177 North Church Avenue

Tuesday, February 9, 2010

PUBLIC HEARING

Committee Members Present:

Jim Barry	John Carlson	Bill Katzel	Mark Stratton
Sheila Bowen	Mike Gritzuk	Corey Smith	Ann Marie Wolf

Committee Members Absent:

Jeff Biggs	Barbee Hanson	Armando Membriila
Brad DeSpain	Rob Kulakofsky	

Staff Present:

Ed Curley	Eric Wieduwilt	Lorraine Simon
Diana St. John	Laura Fairbanks	Lillian Von Rago
Jeff Nichols	Mary Hamilton	Tom Burke
Jackson Jenkins	Rose Hylton	Harlan Agnew
John Warner	Mike Kostrzewski	Charles Wesselhoft

- I. **CALL TO ORDER.** Chair Sheila Bowen called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 7:00 p.m. and led the audience in the Pledge of Allegiance.
- II. **PRESENTATION OF THE FY 2009/10 FINANCIAL PLAN.** Tom Burke, Director of Finance and Risk Management, gave a PowerPoint presentation of the FY 2009/10 Financial Plan. This Plan calculates the fees necessary to fund the Regional Wastewater Reclamation Department's (RWRD) \$812 million Capital Improvement Program (CIP) over the next four years for the Regional Optimization Master Plan (ROMP) and for the conveyance and treatment system. In total, RWRD will need to expend \$974 million in the next 10 years. The Plan proposes that Pima County borrow \$797 million in five issues of debt, beginning later this fiscal year, then annually over the following four years.

Mark Stratton asked if there would be five separate debt issuances, not one that is set over a five year period. Mr. Burke said yes.

Mr. Burke said that the Plan proposes the debt be repaid over 15 years, as the County typically does. The County will need to have funds to make the debt service payments (the payment of principal and interest). For the first three years, the County will pay interest-only. This negates the need to raise the fees quickly. A review is done annually to evaluate the interest rates and the financial needs and actual expenditures of RWRD. Fees could be adjusted based on the annual reviews. The existing annual debt service remains relatively constant.

RWRD has limited its expenditures in previous years to limit its growth to three percent - five percent per year and is proposing to do the same in the future. The user fee increase is not related to RWRD as it is currently managed, but for \$812 million in additional construction. The fees need to be increased to produce a revenue stream sufficient to pay the operating expenses, the debt service and excess funds to satisfy the rating agencies and investors. Originally, proposed user fee increases were six and one half percent bi-annually through 2013. The RWRAC requested annual 10 percent increases through 2013. There is a slight impact on the reserves created, but there will still be sufficient funds to meet the operating expenses and debt service and have excess funds. This is what the rating agencies require when assessing a debt service ratio. The fees also allows for the emergency reserve to be increased to \$20 million over the next two years and the operating reserve to 90 days.

John Carlson asked if sufficient funds would be available for emergencies in addition to the operating reserve. Mr. Burke said that currently there is an emergency reserve of \$10 million. This would be increased to \$20 million. This is in addition to the operating reserve.

Mr. Burke said that impact of fee increases vary by usage. Average use is 8 ccf per month. The fees would increase \$2.00 to \$3.00 each year for the next few months. An average user would go from \$29.07 per month to \$40.81.

Mr. Carlson asked why the 12 ccf line [on the chart in the PowerPoint presentation] increases at a greater percentage rate than the 8 ccf line. Mr. Burke said that the total bill is a combination of the flat fee and the volume fee. The flat fee remains the same regardless of the volume fee. The greater the volume, the faster the rate will go up.

Mr. Burke said that financing options have been discussed at previous meetings. Historically, sewer revenue bonds were used, as well as loans from the Water Infrastructure Finance Agency (WIFA), and available cash on a pay-as-you-go basis. All authorized bonds have been sold and spent by the end of this fiscal year, thus the County is not eligible for WIFA loans. There has also been discussion of a bond election to enable the use of those two financing mechanisms. The differential interest between voter authorized sewer revenue bonds combined with WIFA loans and sewer revenue obligations is minimal. The County financial advisors estimate the difference between 10 and 15 basis points: that is 1/10th of one percent to 15/100th of one percent. The County's capital reserve, expected income and the current market will have a larger impact. Without a voter authorized bond election, the County cannot borrow from WIFA, unless the legislature changes this statute. Interest on WIFA loans is subsidized by the Federal government, and therefore the County would pay approximately 20 percent less.

Mr. Carlson asked if the County is actively lobbying the state legislature to change the statutes. He feels that this information needs to be circulated early for a greater chance of success. Mr. Burke said that he is not aware of lobbying activity this fiscal year.

WIFA currently structures debt differently: they ask for equal structuring over the term of the debt. If WIFA loans are utilized, the rates would have to increase as the debt service would increase more quickly than if the debt is structured in the Plan, which defers some of the debt for the first three years.

Mr. Smith asked [for example] if the interest rate is 20 percent less, what the difference is in the first three years of the debt service. Mr. Burke said that it depends on what the interest rate is assumed to be. For example, 20 percent less of a five percent interest rate is one percent. On \$500 million, that would be a \$5 million savings. He does not have a specific number. Mr. Smith said that the current prevailing rate is not five percent. Mr. Burke said that the County has been borrowing at a rate of 3.6 percent for the General Obligation (GO) debt and the County Certificates of Participation. RWRD debt has a lower rating than GO debt as GO bonds are secured by the full taxing authority of the County. RWRD debt is only secured by the revenue stream. As the revenue stream did not indicate sufficient funds for the \$812 million in upcoming expenditures, the rating agencies downgraded the County last year as our debt service ratio dropped significantly. The debt service coverage relied almost solely on connection fee revenue. The Plan anticipates paying for the debt service without connection fees. It is anticipated that by 2014 or 2015 there would be extra cash to pay down part of the existing debt.

Mr. Burke said there is pending legislation that would allow utility companies such as what the County operates to utilize pay-as-you-go with extra cash and not have it count against constitutional expenditure limitations. If that is approved, it would relieve the County of approximately \$100 million of future debt as cash on hand could be used. Essentially, the County would not have to borrow any funds in the last year.

Ms. Bowen said that actual rates and conditions would be evaluated closer to FY 2014/15. Mr. Burke confirmed. Pima County Code and Ordinances which establish rates requires for an annual review and report to determine if they are fair and equitable in distribution and amount.

Bill Katzel said that he would like to insert 2009 numbers on the chart [Figure 10] to reflect a truer trend over the last nine months regarding the 43.5 percent increase already approved by the Board of Supervisors for to provide historical perspective. He would like \$8.00 inserted on the blue line, \$17.00 inserted on the red line, and \$21.00 on the green line to show the trend from 2009 to 2014.

Mr. Carlson asked why make interest-only payments for the first three years. Mr. Burke said that in order to do that, the rates would have to be raised substantially in the first year. Mr. Stratton asked how much more would be added to the debt service. Mr. Burke said approximately \$10 million per year for each issue. By the end of the first issue, there would be an additional \$45 million of revenue that would have to be collected in addition to what is proposed in the Plan.

Mr. Smith said that in the first year of the \$165 million loan, at the end of the year the principal amount due, using straight amortization, is \$157 million. \$7.65 million would be retired. To pay principal and interest, an additional \$7.65 million would need to be financed. Mr. Burke said that the second year would be slightly more than double that amount, as there would be two debt issues.

Mr. Stratton said that in previous meetings the difference in debt service between a 15 and 20 year issuance have been discussed. Is there a benefit to the rate payers to extend the term as the capital projects being built have 50 to 100

year life span? Does it make sense to have a slightly longer term to reduce the overall rate impact? Mr. Burke said that if the term of the debt was extended, the annual payments would be reduced. It would increase the overall payment on the debt significantly. Mr. Burke submitted a report to the County Administrator today which indicates that increasing the term from 15 to 20 years would increase the debt by \$190 million. Increasing from a 15-year term to a 30-year term would increase the debt by \$620 million. It does decrease the annual payment for the first 15 years. However, with a 15-year term, it would be paid off at that time. The current proposal would have no benefit from an extended term as the principal is being deferred for the first four years. The initial benefit is not paying \$4 million in the first four years. After that, the cost increases to \$15 million to \$20 million per year. Historically the County pays its debt quickly for two reasons: first, so the County does not have debt for a long time, and second, the County expects that in the next 15 years there will be another requirement and additional capital projects that will have to be financed. There will most likely be additional regulations from the Environmental Protection Agency (EPA) that will result in additional construction costs. The County Administrator's preference is to fund the debt over a 15-year term.

Mr. Stratton said that his concern is that the amount of this debt is substantially more than a combination of a number of bond issuances in the past and this is a very unique situation: the County is looking at \$800 million in capital projects and cumulatively over the last 15 years, RWRD's indebtedness has not come close to that. His concern is the level of impact on existing rate payers in a very short period of time and if there is a way to lessen the impact. It is a shock to the rate payers after a 43% increase recently.

Mr. Burke said that currently the County is limited in using a pay-as-you-go approach by statutory expenditure limitations. RWRD may have \$100 million over the next seven or eight years that would be available to spend but for this limitation. There is a bill before the state House of Representatives which permits utilities to use cash for capital projects and not count that against the expenditure limitation. That would remove the need for additional borrowing in four or five years.

Mr. Stratton [referring to Figure 4] said that the annual debt service chart goes to FY 2018/19. The Plan indicates net revenues of \$108 million [Schedule ES-1] in FY2013/14. The debt service in FY 2013/14 is \$90 million increasing to \$109 million in FY 2014/15. Assuming revenues will not change appreciably, as there are no projections after FY 2013/14, this indicates that there will be a significant need to increase rates to cover the increase from \$90 million to \$128 million [in FY 2018/19]. Mr. Burke said that there is a possibility that will happen. It's too early to anticipate what it will be in FY 2014/15. The projected interest rates are the same as for GO bond sales. Low interest rates will not stay low, so high interest rates are used in the calculations. If we successfully sell the debt at lower than projected interest rates, it will be a substantial savings. If cash on hand can be used, with the legislative amendment, that would also result in the issuance of less debt. There are many different factors: now the projected expenditures are \$812 million. If there are savings of \$10 or \$20 million, that would result in savings. The Plan assumes borrowing all \$797 million. There will be a completely different set of facts in four years.

Mr. Stratton said that, realistically, based on the numbers in the Plan, the four year recommendation is just that: a recommendation. There may need to be additional increases depending on the market conditions and construction costs. Mr. Burke agreed.

Mr. Smith asked for a description of the approval process of the Plan. Mr. Burke said that after the RWRAC makes a recommendation, the information will be made to the Board of Supervisors along with the proposed plan. The Board of Supervisors will consider this on March 9 as there are public notice requirements before a rate change can be made. There will be another public hearing at the Board of Supervisors meeting. The Plan is presented by staff. The Committee members will have an opportunity to speak to the Board of Supervisors. Approval of the Plan will require a majority vote by the Board of Supervisors. Three of five Board members will need to approve the rate increase. It does not require a supermajority.

Mr. Smith asked if a supermajority is necessary to approve the issuance of debt. Mr. Burke said that only requires a majority as well. Mr. Smith asked if that had changed [from information at previous meetings]. Mr. Burke said that a supermajority is needed if the debt is closed immediately after the Board of Supervisors approves it. Every Board of Supervisors action has a 30-day delay, during which time concerned citizens can bring an initiative to challenge the action of the Board. There is a 30-day delay period. The anticipation is that this debt would be issued more than 30 days after Board authorizes the debt. It will only require a majority vote of the Board. Mr. Smith asked if the plan is to purposely wait beyond 30 days. Mr. Burke said no, it was not. As he explained in earlier meetings, he thought it would require a majority vote. The financial advisors and attorneys retained to assist with the underwriting advised that this type of transaction generally takes more than 30 days to complete. It is not intentional to avoid a supermajority.

Mr. Carlson said that it was his understanding that there would not be bonds. In this approval process, does it go through the Bond Advisory Committee for approval? Mr. Burke said that, at their last meeting, the Board of Supervisors

gave direction to the Bond Advisory Committee to continue working on the projects they are currently looking at. This Financial Plan, as presented, does not require bond authorization or electoral approval.

Ms. Bowen asked that Mr. Burke wrap up his presentation to allow time for public comment.

Mr. Burke said that Plan proposes to borrow the debt and structure the debt in such a way as to gradually increase the rates, rather than a sudden rate increase as was recommended in the last few years to catch up. It is slightly more than a 10 percent increase per year. The net effect is sewer rate increases of \$3 to \$4 per month over the next four years. The Plan also recommends that the Board of Supervisors adopt rates for all four fiscal years so that the investors and rating agencies know that the County can repay the \$797 million debt. If the pending legislation is approved, the County can pay that down with existing cash and borrow less over time.

Mr. Carlson asked how long will the rates hold. Mr. Burke said that the rate increases would last through the end of FY 2013/14. Mr. Carlson asked what happens to the rates after FY 2013/14. Mr. Burke said the intention is to maintain the rates to cover the debt service until such time as the expenditures for debt service begin to decline: approximately five or six years after FY 2013/14. By year eight or nine a substantial portion of the debt will have been paid down. Mr. Carlson asked that, after 2014, would the rates remain the same for the next four or five years or will they go up or down slightly. Mr. Burke said that there is a possibility that the rates will go up slightly, but it is hard to determine right now. The intent is to try to have the rates remain as close as possible.

III. PUBLIC QUESTIONS AND COMMENTS. At this time, Ms. Bowen requested public comments. Mr. Dick Basye, 2649 E. Exeter Street, Tucson AZ, requested to speak. Mr. Basye said that he has several questions and the premise of having a treatment plant at all. He understands that there will be an increase in the water quality that goes to the golf courses, which he understands has not been necessary up until now. This is not a part of the EPA requirement. What is not put in the river does not need to meet the higher standard. He understands that all of it [effluent] will be treated. He asked why not just treat what goes into the river.

He does not believe that EPA requires that the water going to golf courses should be treated to an "A" level. This would cut costs.

He said he talked to people a year ago about piping water to Avra Valley cotton farms. He estimates that it would cost less than six foot diameter pipes at Aviation Parkway. He suggests running them parallel to the river or Silverbell Road to the cotton farms and sell it to them for less than what it costs them to pump water. That would pay for the pipe over time. The farmers put phosphorous in ground water to make the plants grow. The effluent has phosphorous in it. That's why golf courses grow better. He was told that has not even been studied. Why?

There is a large gravel pit at the confluence of Canada del Oro, Rillito and Santa Cruz. His best estimate was that it could hold, at the minimum, 15,000 acre/feet up to 25,000 acre/feet of effluent. It is contained so he doesn't think that Environmental Protection Agency requirements would apply there. Let it discharge into the aquifer, as it has done for years in the river. Why hasn't that been looked at?

He heard someone say today that it is a consideration of taking the grade 1 water, which is pretty close to drinkable but not quite, pipe it to the Avra Valley recharge farm for the Central Arizona Project. The lady outside said that she hadn't heard that. If there is a pipe that goes that far you could run one less far to the Avra Valley farms and he estimates \$100 million for the pipe, and a payback a less than the cost of what the farmers pay to pump up that water.

Mr. Gritzuk said that Mr. Basye said that very little of the effluent discharged actually goes into the river and that most is reused: that is not correct. Mr. Basye said that he did not mean that. Mr. Gritzuk said that most of the effluent discharged goes to the Santa Cruz River. The Santa Cruz River has an effluent quality requirement from the regulatory agencies. The current requirement is to significantly reduce the concentration of ammonia and nitrogen in the effluent. There are reclaimed water programs. The City of Tucson has a program. The amount that they reclaim and use in their reclaimed water system is variable and at times is minor compared to the total volume that is discharged. Mr. Basye said that he remembers that 10 years ago 55,000 acre/feet was effluent and 40,000 to 50,000 acre/feet was actual water consumed that didn't get into the sewer lines: it goes on yards and grass at homes.

Mr. Gritzuk said that even with the reclaimed water programs, during wet weather, very little water is reclaimed and reused. RWRD has to treat everything discharged to meet the requirements. During wet weather or winter when very little is reclaimed, it has to be treated to the regulatory requirements. Treating part of the effluent to one quality and part of the effluent to another quality is not a viable option. Mr. Basye said that in the winter there are water and sewer flows that combined has better quality water between the two. Let the EPA take a reading at that time. Doesn't it even out somewhat. Mr. Gritzuk said that you cannot average test results.

Mr. Bayse asked why sending a pipe to the Avra Valley farms has not been studied. Mr. Gritzuk said that he is not aware of an option like the one Mr. Bayse is proposing. Mr. Bayse asked if it sounded like it made any sense to save the farmers from having to pump ground water out and giving them water that already has nitrogen in it that the farmers have to add when they fertilize their crops. It makes golf courses greener because of the nitrogen. It is what is in fertilizer. Mr. Gritzuk said that if it is being used for irrigation purposes it would have to be treated to reclaimed water quality. That is where the new program will bring us to. He does not see where that results in savings. What is added is the cost of the pipeline. Mr. Bayse said that the farmers would repay the cost through a repayment plan that would be less than what it costs them to pump groundwater out of the ground. You have a repayment on the project which you don't hear except through the taxpayers for a \$1 billion project.

Jackson Jenkins, RWRD, said that RWRD is required by Arizona Department of Environmental Quality to treat the water to Clean Water Act quality, the removal of nutrients and ammonia, at the point of discharge from the plant. At that point the owners of that water, which is not necessarily Pima County, determine what they want to do with that water. Mr. Bayse said that if the EPA requires that water to be at that high quality that goes back to the City pipes, to our farms and to our golf courses, then he is correct. EPA is requiring that the water going to golf courses has to be that high quality? Mr. Jackson said that there are various classifications of water. Right now for the reuse of the water that the City of Tucson manages, RWRD has to treat to class "A," one of the highest qualities of water for them to be able to do that due to personal contact. Mr. Bayse said that is already being done for the reclaimed water that goes back to parks and golf courses. That is 20 or 30 percent of the total water. Mr. Jackson said that approximately 12 million of 70 million. Mr. Bayse asked if the treatment plants are going to be upgraded to match that treatment quality that has already been achieved for the City of Tucson.

Mr. Gritzuk said that is not entirely correct. The City of Tucson currently takes RWRD effluent and passes it through an additional treatment facility to get it to the higher quality. That facility is adjacent to the Roger Road facility. Mr. Bayse asked if it was capable of taking on more water then dumping it into the river. Mr. Gritzuk said that currently the effluent discharged by RWRD is class "B." City of Tucson passes it through filter and additional treatment to get to reclaimed water quality, which is class "A", and then it is delivered to their customers, like golf courses.

Mr. Carlson asked if the City of Tucson actually owns it. Mr. Gritzuk said yes: they own 90 percent of the effluent discharged into the Santa Cruz River. That is owned by the City and the County, but much of the effluent is owned by the Department of the Interior.

Mr. Bayse asked if the City plant has enough capacity to treat the rest of it not at the huge cost of \$1 billion. Mr. Gritzuk said no, their capacity is very small. As we move ahead with our program and improve the quality of our discharge to the equivalent of "A+," they could probably discontinue the use of that facility as RWRD is providing higher quality water that is reclaimed water quality. Mr. Bayse said that should be figured into the financial summery reducing the cost of the project for the County to some degree, since the City no longer has to pay that price because RWRD is doing it for them instead. That should be a payment by the City to the County to take care of the cost to some degree. Mr. Gritzuk said that is a negotiating factor that is talked about often.

Mr. Bayse said that he still doesn't think that the assertion that water going to farms cannot be negotiated with the EPA so the water is no higher or worse quality than what they create when they add fertilizer to ground water and add nitrogen. It seems to him that should be negotiated with the EPA. Mr. Barry said that the effluent is not owned by Pima County. Thus, the County cannot say where it goes. There is 28,000 acre/feet that goes to the Indians according to the Secretary's decision. The County does not control the use of the effluent. The County is responsible for cleaning it. Mr. Bayse may be right that a really great solution is to pipe the water to the farm, but the Tohono O'Odham, Metro Water, the City of Tucson and many others would need to approach EPA. RWRD should not be asked to do that because they cannot do it.

There were no other speakers.

IV. ADJOURNMENT. The meeting was adjourned at 7:54 p.m.