REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Transamerica Building
Pima Association of Governments' 5th Floor Conference Room
177 North Church Avenue
Tuesday, February 9, 2010

REGULAR MEETING

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 Membrila
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 8:02 p.m.

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

III. APPROVAL OF MINUTES

A. January 14, 2010. The minutes of the January 14, 2010 meeting were approved (5 YES, 0 NO, 2 ABSTAIN)

B. January 21, 2010. The minutes of the January 21, 2010 meeting were approved (6 YES, 0 NO, 1 ABSTAIN)

IV. DISCUSSION

A. Old Items/Updates

1. FY 2009/10 Financial Plan. Ms. Bowen thanked Tom Burke, Director of Finance and Risk Management, for giving the Committee a good, clear presentation. She then asked for further comments from the Committee after hearing public comments.

Mark Stratton asked if it was still a possibility to have the increase as a separate line item on the user bills so that it is identified as debt service for ROMP. Mr. Burke said that has been reviewed and it would significantly complicate the billing. Part of the increase is in the standard fee and part is in the flow fee. The County Administrator recommended against splitting the information on the bill, but did write to the Board of Supervisors that his intent was to have those rates decrease as soon as the debt service begins to decrease.

Ms. Bowen said the Plan proposes a rate structure for four years with an annual review. Given the economic climate, past year and forward projection, could the rates be re-evaluated annually or not until 2014? Mr. Burke said that they are proposing the Board of Supervisors adopt four years of rates, similarly to what was done two years ago when they adopted three increases at one meeting. They asked for a report back about the increases but did not need to take action. The recommendation is that, to satisfy rating agencies that funding will be available and the rates will be satisfactory, they adopt four years of rate increases now, and have an affirmative action to reverse that action in the future if they chose to do so. Each year this Committee and the Board would be given a status report. It would not be an agenda item asking for action, however, any Board member can put it on the agenda as an action item.

Corey Smith said that the next four year's debt will be done in four separate transactions. The covenants and restrictions associated with each of the issuances will have stipulated coverage ratios that will require specific rate amounts and revenues sufficient to meet the debt coverage. Given that is a legal obligation to the lender, why does this Committee and Board have to agree to a four year rate increase to show good faith to the lender? Mr. Burke said that it is to show good faith to the rating agencies. Mr. Smith said that rather than have this Committee agree to raise rates over a four year period close to 50 percent, instead say that the rates will be raised sufficient enough to meet the covenants associated with the borrowing instrument. Isn't it the same thing? Mr. Burke said it would be the same thing except the actual covenants are not likely to state that we want 175 to 200 percent coverage. The County would still commit legally to the 125 percent coverage so that, if something should happen, such as receiving no connection fees or an event where expenditures increase significantly, we are not in violation of a rate covenant. Mr. Smith asked what the definition of a rate covenant is. Mr. Burke said a covenant is that we have sufficient rates to meet the debt service plus an additional amount above and beyond that. Mr. Smith said that if all the assumptions in this Plan are off, either above or below, whatever rate increase recommended to the Board and the Board approves, is no longer sufficient to meet the covenants.

John Carlson said that we review an updated Financial Plan every year. Mr. Smith said that is why we could recommend a 10 percent rate increase the first year, and do it again next year. Mr. Carlson said that the longevity must be predictable so people can plan and hope that you are only wrong a little bit. Mr. Burke said that we are borrowing $797 million - $165 million in the next few months and $165 million in a year. Projects are being started that require $812 million in expenditures. The rating agencies and lenders need to be convinced that there will be sufficient funds without the need for additional action to cover the debt.

Mr. Smith said that the first issuance is $165 million. A rate increase and approval from the Board is necessary to do that. In the event that Water Infrastructure Finance Authority (WIFA) monies become available if voters approve a bond measure in 2011 or 2012, then the out-year monies can come from a different source. This may negate the need for these types of increases. Why commit to a 15-year borrowing process and debt program today when there are so many degrees of freedom going forward? Also, the issue going from a supermajority to a majority is a big issue with the Board. There are things that this Committee can do to make these rate increases more palatable by putting an extra level of oversight and governance to out year rate increases. Mr. Burke said the County does not need $165 million: the County needs $812 million. In order to borrow the first drawdown on that amount, the lenders need to be convinced that the County can afford to borrow all $797 million and pay it back. The dilemma is that if each year the rating agencies have to be convinced the County can afford to borrow each leg of it, there are a lot of uncertainties.

Mr. Smith said that it will be five separate transactions with the potential for five different lenders. If the language says that the County will provide rate increases sufficient to meet the underlying covenants and requirements of this debt, he does not understand the difference. Mr. Burke said the difference is the Plan anticipates having at least 175 percent debt service coverage. Finance would never recommend the County enter into an agreement (in the covenants) to say that we would have 175 percent debt coverage. We would contractually agree to 125 percent. That level of coverage would not get sufficient debt ratings from the rating agencies to be able to borrow the funds except at extremely high interest rates. We need rates that are higher than the absolute minimum. In sewer revenue bond covenants the County has been at 120 percent since 1991. We were at an actual debt coverage ratio of 440 percent three years ago. We were collecting far more revenue than was mandated by the covenants. If we only raised rates to meet the absolute minimum of the covenants, it is probable that no one would loan us the money. We could covenant to meet sufficient levels to borrow, but that would put us in a bind should we have an unanticipated expenditure. If there was a $10 million expenditure that threw us off of the covenant rate, we would be in violation of the covenant. Under the Securities and Exchange Commission, we would be required each year for five years to report annual disclosure for tax purposes that we violated the covenants. That affects our ratings and our ability to borrow.

Mr. Smith said alternatively, we need more of a cushion than we currently have. Why not, instead of a 10 percent rate increase the first year, have a 15 percent increase and lower increases going forward, building up a sufficient reserve to cover the unforeseen costs. He does not like to see us obligate ourselves, potentially unnecessarily.

Jim Barry asked if he is suggesting a motion. Mr. Smith said that the current recommendation to the Board is four years at 10 percent per year, plus increases in connection fees. He questions why we need to make such a long term commitment in our recommendation. Instead, do it for the first two years. He feels that we are obligated for the first two years for the $330 million in debt as we do not have the ability to do bonds between now and the end of 2012. Mr. Barry said that there is not an action item on the agenda to accomplish that. Mr. Smith said that there is a quorum and they can make an alternate recommendation. Ms. Bowen said that we can and should take action on what was heard after public comments and on how the Committee wants to move the Plan forward. Mr. Barry said that he is mistaking the agenda with the Citizens' Water Advisory Committee (CWAC). The CWAC agenda clearly delineates actions items. If it is not an action item it cannot be voted on. Mr. Barry asked if Mr. Smith was making a motion. Mr. Smith said yes.

Mr. Smith made a motion to increase rates on an annual basis sufficient to meet debt service and associated ratios, reviewed annually. If that means for the first year or the first two years, he is open for the first two years. John Carlson asked how often the Board could change the rate. Mr. Stratton seconded the motion for discussion purposes. Mr. Stratton said that the problem he has with that is that, based on where they are right now, the Finance Department will need to go back and look at what the first year or two truly needs to be. It may not be 10 percent as they were looking at four years. Does that delay getting a formal recommendation to the Board of Supervisors and continue to delay the whole process?

Mr. Smith said he would answer rhetorically. Contracts are to be let in June and they are making a recommendation to the Board for their action in March. Having more granular review given the discrepancy between the projections of five, five and one half and six percent verses the 3.7 percent, which Mr. Burke said was the prevailing rates for these types of instruments. That is a big difference. A 1.3 percent difference in the interest rate over 15 years is a big number. His concern is that if today the Committee approves recommending to the Board, and the Board approves a 50 percent rate increase over the next four years it is carte blanche. It is going to be what it is but in fact it could have been a 35 percent rate increase, or a 38 percent rate increase. He would prefer to see a motion that all five Supervisors could support as opposed to seeing a 3-2 vote, given that a supermajority vote is no longer required.

Mr. Carlson asked once a rate is set, how often can the Board change it? Mike Gritzuk, RWRD Director, said that the last increase was three six-month increases. He thinks they can do it more or less frequently, at their discretion. Mr. Carlson said that, if the Board sets rates, then something comes up, can they change it? Ann Marie Wolf said they can if they file a public notice. Ms. Bowen said they can change this recommendation as well. Mr. Carlson said that he has to go against Mr. Smith because the recommendation of staff is a reasonable thing over an estimated time period. If something is wrong with it, it can be changed.

Mr. Barry said that the Committee had a vote some time back and approved this. Are we reconsidering it? Mr. Smith said that the thing that gave rise to his comments was that in the last three weeks there have been several articles in the paper. In reading the people's comments on those articles about the responsibility of governance for this issue, he feels that there should be tighter control.

Ed Curley said that at the evening meeting [January 14, 2010], staff made suggestions and the Committee made recommendations to the Finance Department as to how to change the Plan. The Plan has been brought back to the Committee incorporating the changes. The Committee could recommend what they discussed at the last meeting, or could do something different.

Ms. Wolf asked what the possibility of bonds being sold in two years was. Mr. Burke said that if a bond election is approved by the voters, bonds could be issued. The issue of whether sewer revenue obligations, sewer revenue bonds or WIFA loans are utilized will have very little impact on the proposed rates as there are a lot of different factors being proposed. That is one of them. There have been assumptions made on flows, expenditure increases and other things. Even if we assumed sewer revenue bonds, which were planned when this Plan was first being drafted, they were actually recommending a higher rate. The primary reason is that interest rates are expected to increase over the next 18 to 24 months. Not knowing how high they will go, this is the best estimate of what they think the rating agencies will need to give us a good rating to get a good interest rate.

Ms. Bowen called the question. The motion failed (2 YES, 5 NO).

Bill Katzel said that he would like to see an amendment to the rate chart [Figure 10]. The first change is to add the 2009 and the corresponding rates with the 43.5 percent increase so it shows a five year trend. The second change is to have an annotation that 2015 forward we show some sort of rate stabilization or reduction, providing there are no more unfunded mandates or other requirements.

Ms. Bowen said that she would be concerned with doing that. Mr. Katzel said that the public is going to have an almost 100 percent rate increase in five years. They need some sort of "carrot" at the end of that period that this will not be a continual process: it will level off or be minimal. Perhaps some sort of informational note could be inserted. There are no guarantees that any of this will hold. Ms. Bowen said that there were numerous years in the past when there were no rate increases that were requested and recommended by this Committee. It is a little misleading using 43.5 percent in FY 2008/09 as that was a "catch up" rate increase. She hesitates to do something that would ultimately mislead the public. Mr. Katzel said the 2009 increase is fact. It shows the public a more realistic trend. Mr. Carlson said that was not a bad idea, but does it need a formal vote. They know the Committee feels that what is expected to happen be expressed after 2014. Show a minimal increase, which is not in the charts.

Ms. Wolf said that this gets back to the question of a line item on the bills. If these increases are for debt service, once the debt is gone and there are no additional items, then the rates should stabilize or go down.

Mr. Stratton said that the majority of customers are residential. Their bill is calculated once per year. He does not see that as being much of a problem. Mr. Stratton made a motion that the recommended increases be shown as a separate line item on the user utility bill showing that it is to fund debt service for the ROMP program. Mr. Katzel seconded the motion.

Mr. Barry asked what is meant by the bill is calculated once a year. Mr. Stratton said that a users' three month winter average is what is paid for 12 months. Mr. Burke said that is the maximum amount paid. A user pays actual flow up to that amount. It is possible that the winter average is higher than the summer. Mr. Stratton said that for the residential customer, that is very seldom the case as the winter months are the low months for the year. After that, outdoor irrigation is used more.

Jeff Nichols said that RWRD would have to meet with each of the billing providers – Metropolitan Water, Town of Oro Valley, Town of Marana and Tucson Water – to determine if their software would allow billing in that manner. It is two separate fees: the administrative fee and the flow fee. The administrative fee might show up twice on the bill, one portion related to operations and maintenance and one portion related to debt service. Mr. Stratton said that it could be done as a lump sum annually. Mr. Nichols said that could be done for the service fee. The ordinance states that lower of actual use or the winter average shall be billed. There are other things involved in the billing, such as the vacant/vacation rate. People notify RWRD that they are on vacation and they are billed at zero flow. He is not sure how the billing providers will respond to this request.

Ms. Bowen said that the website shows the current average of 8 ccf per residential user. Is it possible to show what the debt service portion is on the website as well? Mr. Nichols said that they could show the portion of the debt service and the fees for it as a portion of the bill. This would show in the future as debt service is retired, the fee goes away. When this debt is retired in significant amounts, and we are required to go back to the Board, we would go through the same process but say that we need a reduction in fees based on operations and maintenance and debt service projections. Ms. Wolf said that at this time, there is no way to know how difficult it would be but the Committee can make a recommendation. Mr. Nichols agreed.

Mr. Barry said that getting the information out is a good idea. How you get it out is in question. He feels that it is important to be up-front in the first years as people see their bills increase to be able to show that 25 percent or 50 percent of that is due to this debt. Mr. Nichols said that an annual update is very feasible. The easiest way is to show a flat fee as the debt is retired. This can be calculated based on the number of users and what that fee would have to be to raise the required revenue. The only problem is that a fixed rate has a disproportionate impact on people in lower socioeconomic classes because it would be a flat fee. Right now the people paying the largest portion of the debt are the big water users, not the low water users. Mr. Gritzuk said that dividing the information on the bill between ROMP and debt service would require two additional line items, which would be even more difficult.

Mr. Stratton said he likes the idea of showing a percentage of the bill goes to debt service. It is good for people to understand what all the increases are for.

Ms. Bowen asked if the motion has been modified. Mr. Stratton modified the motion to show a percentage of the bill going towards the debt service fee. The intent is to have rate payers understand what their money is being spent on. Mr. Barry asked if that was an option. Mr. Nichols said we can check with our billing providers. The other option available is that we get space in a pamphlet that goes out with the bills. We could use that to show what the costs are and showing by line item what those increases are related to. Mr. Stratton said that information would also be valuable on the web page. Ms. Bowen said that it is important to have flexibility. Mr. Stratton said that the intent is to allow people to understand what they are paying for. Mr. Barry said that the motion could ask staff to come back with suggestions or just go ahead with it. Mr. Stratton had no problem with letting staff go ahead.

Ms. Bowen restated the amended motion: the County provide information to the rate payer as far as what portion of the bill goes where using an appropriate mechanism [pamphlet insert, website or utility bill] and that staff comes back [to the Committee] with alternatives and recommendations. The critical point is to make the information understandable to the rate payer. Motion carried unanimously. (7 YES, 0 NO)

Mr. Barry made a motion to recommend to the Board of Supervisors that they adopt the Financial Plan as recommended by staff. Mr. Barry asked if this would be reviewed annually. He understands Mr. Smith's point but is accepting staff recommendations. He wants to clarify if the rates will be revisited and perhaps put that language in the Committee's recommendation to the Board. Mr. Barry amended the motion to say that they recommend that the Board of Supervisors adopt the Financial Plan as recommended by staff and that this be revisited and modified, as necessary, in the future. Mr. Stratton seconded the motion.

Mr. Smith said that the reason for his desire to have that language is that if the [interest] rates turn out to be four percent and not five percent, then the rate increase required in the second year is not 10 percent - it is less. However, given that the Board has already set the rate, the likelihood that they would go back and reduce the rate is low. His concern is that the Committee is giving carte blanche approval for the Board to approve that without the oversight on an annual basis. He feels that is the fundamental function of the Committee. He wants the ability to review this on an annual basis as long as it was not disruptive to the process of selling the bonds.

Ms. Bowen said that there is an annual report and asked for clarification if it would be an abbreviated report or complete Financial Plan? Mr. Burke said the Pima County Code and Ordinance requires annual review of the rates to assure they are equitable in their amount and distribution. It is not a full financial plan with a recommendation unless there is an indication that a change is needed. Ms. Bowen said that the Committee would have an opportunity to make changes annually. Mr. Carlson said that the Committee can recommend any change they want at any time.

Ms. Bowen said that there is a motion to recommend to the Board of Supervisors that they adopt the Financial Plan as recommended by staff, including an annual review. Mr. Smith said that the Financial Plan that is being reviewed is for FY 2009/10. It is not FY 20013/14. The rate increases that they are taking action on are for four years; not for a financial plan of the first year of this plan.

Ms. Wolf asked what the motion was now. Mr. Barry said that the Committee has the understanding that this will be revisited.

Mr. Katzel said that he would like to add the 2009 rates as discussed earlier.

Ms. Bowen tabled Mr. Barry's motion to consider Mr. Katzel's motion as Mr. Barry's motion recommended approval of the Plan and one recommended changing the plan.

Mr. Katzel made motion to show the 2009 rate increases* in the chart [Figure 10] in the Financial Plan. Ms. Wolf seconded the motion. Mr. Carlson asked staff opinion. Mr. Burke said that it is historical information and does not impact the proposed rates. He could add the information to the chart. Ms. Bowen restated the motion: to show the 2009 rate increases in the chart in the Financial Plan to show historical reference. Motion passed unanimously. (7 YES, 0 NO)

Ms. Bowen restated Mr. Barry's motion: this Committee recommends approval of the Financial Plan with the understanding that this Committee would conduct an annual review of the rates and actual conditions. Mr. Smith said FY 2009/10 rate increase required to support this plan in the fiscal year discussed is 10 percent. He supports that and the ability of this Committee to review subsequent years on an annual basis necessary to meet the financial obligations of the County to service these obligations.

Ms. Bowen restated Mr. Barry's motion: this Committee recommends approval of the Financial Plan [as recommended by staff with rate increases for the next four years] to the Board of Supervisors with the understanding that this Committee will conduct an annual review of the rates and actual conditions. (5 YES, 2 NO)

V. **FUTURE AGENDA ITEMS.** The next regular meeting will be Thursday, March 18, 2010 at 7:45 a.m. The 2010 budget, ROMP and the state legislative update will be discussed. Mr. Katzel asked if it was too early to have the drug take-back presentation. Ms. Bowen said that Jeff [Prevatt] is still compiling information.

VI. **CALL TO THE AUDIENCE.** There were no comments from the audience.

VII. **ADJOURNMENT**. The meeting was adjourned at 8:49 p.m.

*Staff understood this to mean rate increases during fiscal year 2008/09.