



REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE

Transamerica Building
Pima Association of Governments'
177 N. Church Avenue, 5th Floor Conference Room

MEETING MINUTES

Public Meeting for Proposed Sewer Connection Fee Structure

Thursday, April 12, 2012

Committee Members Present:

Ann Marie Wolf	Bob Iannarino	Jackson Jenkins
Sheila Bowen	Kendall Kroesen	
John Carlson	Rob Kulakofsky	
Barbee Hanson	Mark Stratton	

Committee Members Absent:

Bill Katzel	Armando Membrila
John Lynch	
Amy McCoy	

A. CALL TO ORDER. Ann Marie Wolf, Chair, called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 6:09 p.m. for public comment on the proposed sewer connection fee schedule. Veronica Lopez took the roll call and a quorum was present.

B. PLEDGE OF ALLEGIANCE.

Ms. Wolf asked that all persons in attendance state their names for the record. Ms. Wolf briefly explained the process in which the meeting will be held.

C. DISCUSSION/ACTION.

1. PROPOSED SEWER CONNECTION FEE STRUCTURE. Jackson Jenkins, Director, Regional Wastewater Reclamation Department (RWRD) introduced Eric Wieduwilt, Deputy Director, RWRD and stated that Mr. Wieduwilt will be presenting a PowerPoint presentation on the Proposed Sewer Connection Fee Structure.

Mr. Wieduwilt introduced Harold Smith, Vice President, Raftelis Financial Consultants, who is representing the consultant firm that assisted RWRD in developing the sewer connection fee structure changes. Mr. Wieduwilt stated RWRD began an evaluation of the sewer connection fee process in 2009, as it was felt that the current methodology of using Fixture Unit Equivalents (FUE) was challenging and that there were better methods being utilized in the industry. In September 2011, the department advanced to the next level of the evaluation process by defining a different methodology for RWRD to use in assessing sewer connection fees. Mr. Wieduwilt stated RWRD is proposing a change in the way sewer connection fees are calculated from the FUE method to one

based on water meter size. Mr. Wieduwilt added that it is expected that the end result of the proposed change will be positive for the community; by reducing the time in the preparation of the sewer connection application and by reducing the connection fees to be paid by most applicants. Mr. Wieduwilt provided an overview of the main points of his presentation.

Mr. Wieduwilt described the current calculation method based on the number of FUE and the reason for changing to water meter size. Mr. Wieduwilt stated that the FUE method is labor intensive for staff and also difficult for developers to estimate the connection fees. Since each FUE has monetary value this method often led to arguments between staff and applicants over small details and consumed a lot of time for all parties in the planning process. Mr. Wieduwilt stated that different methods used in the industry were evaluated and the water meter size method was selected as it is widely used and accepted throughout the industry, it is simple to understand and implement, and developers would be able to make better estimates on their connection fees.

Mr. Wieduwilt explained the process on how the proposed water meter size method would work and how the cost of capacity formula was developed. Mr. Wieduwilt stated that 2015 was used as the benchmark date in the calculations as that is when the current construction for the treatment plant expansions will be completed. In 2015 there will be a total treatment capacity of 96.8 million gallons per day (MGD); currently the system treats 63.4 MGD, which leaves 33.4 MGD for new customers (34.5% is allocated for new customers). Mr. Wieduwilt discussed that the value of existing assets for new customers was calculated by using the Replacement Cost New Less Depreciation (RCNLD) method; under this method, the total value of existing assets for new customers equals \$210 million. Mr. Wieduwilt stated that they looked at the 5-year Capital Improvement Projects (CIP) and divided them into two sections of Treatment and Conveyance. If new capacity was being added, then 100% of those CIP expenditures are contributing to the cost of capacity. If the CIP was enhancing the treatment or operational ability (i.e. "Better Treatment"), then both new connections and existing users would gain value from those expenditures. Therefore, the total value of new assets for new customers is \$325 million. Sheila Bowen asked if "Better Treatment" included the Regional Optimization Master Plan (ROMP). Mr. Wieduwilt stated that yes; these CIP costs are primarily related to ROMP, which is why the \$252 million is so high for Treatment. Mr. Wieduwilt defined and briefly described what ROMP entails.

Mr. Wieduwilt explained the formula used to calculate the cost of capacity for new customers, which equals \$16.02 cost per gallon. Mr. Wieduwilt also explained how the new base rate for sewer connection fees is calculated.

Mr. Wieduwilt stated that under this proposal residential connections would pay the same connection fee of \$4,066.00 regardless of water meter size. Mr. Wieduwilt stated that for commercial developments, the connection fees are broken down by water meter size and presented a table showing the fees. Mr. Wieduwilt stated that for new connections where the construction plans require a water meter larger than 4-inches, the connection fee would be negotiated specifically for that particular project. Barbee Hanson asked what a typical 4-inch water meter size commercial project would be. Mr. Wieduwilt stated an example would be a medium to large size apartment building.

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Mr. Wieduwilt provided a list of other various cities/counties in the southwest that are using the water meter size method to calculate wastewater connection fees. Mr. Wieduwilt added that the majority of cities/counties in the southwest use this methodology. Mr. Wieduwilt also provided a list of cities/counties that use other methods to assess sewer connection fees, such as square foot of lot or equivalent residence unit methods.

John Carlson asked if there were complaints regarding the current connection fees. Mr. Wieduwilt replied that complaints are usually about the dollar amount of the fees. Discussion ensued regarding the flow meter data from 2010 that was used to determine the multiplier in calculating the cost of capacity.

Mark Stratton asked Mr. Wieduwilt to provide some background on the process taken to involve the public and other entities with this matter. Mr. Wieduwilt stated that 3-4 stakeholder meetings were held to discuss converting to a water meter methodology and the benefits that could be realized by the developers/builders in the community. Mr. Wieduwilt stated there was dialogue with the stakeholders regarding the rate structure, and that the water providers also participated in this dialogue. Bob Iannarino asked for clarification on the 17½% inflow and infiltration rate listed in the footnote in the draft Connection Fee Structure Review. The report stated that this average was taken from 2010 and 2011 data; therefore was it a 2-year measurement. Mr. Wieduwilt stated this was correct. Mr. Carlson asked what the feedback from new builders was. Mr. Wieduwilt replied that the feedback was very positive and it looks like once this change is implemented, most new development may see upwards of a 30% reduction in their sewer connection costs.

Ms. Wolf asked what the impact will be on the RWRD 2012-13 Financial Plan. Tom Burke, Director, Finance and Risk Management Department, stated that the projected revenue from this proposal for next year is \$16.5 million, which is a 1.7% decrease. Ms. Bowen asked for clarification that only the connection fee revenue is being reduced. Mr. Burke replied that is correct; there is no impact on the user fees. Mr. Iannarino asked Mr. Wieduwilt to elaborate on what initiated the request to review this issue back in 2009. Mr. Wieduwilt stated that the 2009 effort started as an internal review to look at ways to improve the process since the department had been struggling with the FUE methodology. In 2011, the department was given the opportunity to move forward with a more detailed analysis. Mr. Wieduwilt responded to a question by Mr. Carlson regarding existing septic systems and how capacity costs and treatment costs are balanced. Mr. Wieduwilt stated that since we are a regional system, all costs are spread out equally to all users regardless of where they are located. Ms. Bowen stated that she received a similar comment from a rate payer who asked if residents and businesses' could be given a choice to pay lower fees if they developed or lived in the metro area. Has the County considered this type of rate structure in their analysis? Mr. Wieduwilt stated that as the wastewater provider, the department has not evaluated rate structure based on where the customer is located in relation to wastewater facilities. This is something that may be appropriate to consider from an overall planning perspective in the County. Wastewater rates and fees are based on a regional system and regional costs for all users.

Ms. Wolf asked that the two questions received during the public comment period be addressed at this time. Mr. Wieduwilt stated that one of the questions has already been

addressed, which dealt with whether the proposed change in connection fees impact the user fees. Mr. Wieduwilt read the question: "Pima County has \$560 million in outstanding wastewater reclamation debt, 46% of the County's total indebtedness and presumably more to come before the ROMP work is completed. What impact would the proposed connection fee reduction have on user fees over the course of the payback period for all the existing and anticipated through 2015 wastewater reclamation and ROMP bonds. Please be specific." Mr. Jenkins stated that because connection fees are such a small percentage of the overall revenue for the department, the impact is 1.7% of the connection fees; connection fees are less than 10% of the total revenue. Mr. Burke noted that this is two-tenths of one percent impact of the revenue to the department. Mr. Jenkins stated that the financial plan being prepared for this year shows no additional changes to the user fees, other than the user fees that were previously adopted by the Board of Supervisors (BOS) in 2010. Mr. Burke added that the user fees that were adopted in 2010 would continue to take effect through 2013. By 2015 the user fees would need to be evaluated to determine if additional changes are needed; any changes in fees at that time would depend a lot on what the growth is between now and then. At this time, the County is using very conservative growth projections over the next several planning years. Ms. Wolf asked Mr. Burke to again clarify that through 2015 there will not be any impact to the user fees. Mr. Burke stated there should be no changes.

Mr. Wieduwilt read the second question received during the comment period, "The debt associated with current capacity available for new development, as well as the debt associated with the water quality upgrades that correspond to existing and future construction capacity were not included in the cost of capacity, can you please explain why not?" Mr. Smith, Raftelis, responded that the debt service was included in the cost since the debt service includes both principle and interest payments. The principle cost component is reflected as an asset (fixed asset) on the books. The cost of capacity included a calculation of replacing the existing assets new, less depreciation. Mr. Burke pointed out that it would be a small amount, around 1% of the cost of the debt.

Kendall Kroesen stated in the future there may be developments that are hyper conservative in the use of water and may discharge little or no wastewater, yet they will have a potable water hook-up and would need a small water meter. Mr. Kroesen asked Mr. Wieduwilt if in the future he foresees a waiver on the connection fees for these types of enclosed water developments. Mr. Wieduwilt stated they have had some discussions on that issue. If a development is on an entirely enclosed system and there is enough certainty that the water would not enter the public wastewater system it could be treated as an irrigation only meter and not have a wastewater fee. If there is discharge to the wastewater system, the connection fee will not change.

Ms. Bowen asked for further clarification regarding the lack or no impact to user fees. Mr. Burke stated that there is revenue coming in and the County is borrowing debt to improve the existing facilities and meet Environmental Protection Agency (EPA) requirements, and 5% expansion of the facilities. In order for investors to loan money to the County, the County has to be prepared to pay it back and there is potential to impact user fees if certain economic conditions occur, such as growth stopping altogether, but currently that is not what is being projected. Mr. Jenkins stated that if growth increases at a higher rate than what is being projected, then money could be generated to pay down debt and look at reducing the cost to users. Ms. Wolf noted that the report received by Raftelis stated that there could be an impact to user fees and what was this

statement based on. Mr. Jenkins replied the Raftelis report the Committee received was a draft report and noted it is not the final report and not the perspective the County shares on that issue. Ms. Bowen stated that she has spoken to users and their concern is that there could be an impact to user fees. Ms. Bowen expressed her concerns that the potential impact to user fees may not have been properly addressed to the public. Mr. Burke stated the financial plan contains answers to these questions and he will send it to RWRD tomorrow for distribution to the Committee.

- D. CALL TO THE AUDIENCE – PUBLIC QUESTIONS AND COMMENTS.** David Godlewski, President, Southern Arizona Home Builders Association (SAHBA), stated that SAHBA appreciates the efforts made by RWRD staff on this project and the willingness to reach out to industry stakeholders and giving the public the opportunity to comment to the RWRAC this evening. Mr. Godlewski stated that SAHBA is in full support of the proposed change and that they like the simplicity of the new methodology, as well as the assurance that it provides developers and builders.

Josh Robinson, Director of Operations, Pulte Homes, stated Pulte Homes is also in support of this proposed change. Mr. Robinson stated that this new methodology will make it easier to conduct day-to-day business, and explained how it will assist them.

Al LeCoco, Chair, SAHBA, stated that he is in favor of the new fees and feels it will help increase home sales.

Roger Karber, Alta Vista Communities, provided background regarding his experiences with the downfall of the housing community and how the recession has impacted his business. Ms. Bowen stated that Mr. Karber mentioned 16% of all costs are associated with government extractions and asked what would the savings be should this proposed change go into effect. Mr. Karber replied there would be a 10% reduction. Mr. Karber stated this is a significant reduction and will have an impact immediately on jobs and ask the RWRAC's support in approving this plan.

Becky Gordon, Government Relations Director, Metropolitan Pima Alliance, stated that she feels this is going to be a much improved process and thanked the RWRD staff for their work.

Christina O'Callaghan, Arizona Multi-Housing Association (AMA), stated that the AMA has memberships that represent over 35,000 rental units in the Tucson area. Ms. O'Callaghan added that she would also like to thank RWRD for including AMA and other stakeholders in this process. Ms. O'Callaghan stated that they are in support of this proposed change and are hopeful that this will result in a significant decrease in connection fees for developers. Ms. O'Callaghan also expressed concerns that AMA has in regards to the connection fee structure and feels it needs further analysis. Ms. O'Callaghan stated that the fees should be structured in a way that ensures equitability and fairness across all customer classes and based on the cost of service. Ms. O'Callaghan continued to discuss the various reasons for AMA's concerns. Discussion ensued regarding the concerns that Ms. O'Callaghan presented.

- E. ADJOURNMENT.** The meeting was adjourned at 7:21 p.m.