WASTEWATER MANAGEMENT ADVISORY COMMITTEE
PUBLIC MEETING MINUTES

June 7, 2006

Committee Members Present:

Adam Bliven	Sheila Bowen	John Carlson
Steve Halverson	Armando Membrila	Mark Stratton
Ann Marie Wolf	Michael Gritzuk	

Committee Members Absent:

John Carhuff	Brad DeSpain	Rob Kulakofsky
Les Wolf		

Staff Present:

Paul Bennett	Mike Bunch	Ed Curley
Laura Fairbanks	Suzy Hunt	Jackson Jenkins
Michael Kostrzewski	Steven Melendez	Jeff Nichols
Karen Ramage	Lorraine Simon	

Other County Staff Present:

John Bernal, County Administration	Pat Cavanaugh, Executive Aide District 1	Charles Wesselhoft, County Attorney's Office

I. CALL TO ORDER. Chair Mark Stratton, called the meeting of the Wastewater Management Advisory Committee (WMAC) to order at 7:07 P.M. and led the audience in the Pledge of Allegiance. Mr. Stratton explained that the WMAC Committee members were appointed by the Board of Supervisors, and represented various community organizations or individual Supervisors. Mr. Stratton and Committee members introduced themselves.

Mr. Stratton explained that the role of the Committee was to act as the public's voice on issues related to the Wastewater Management Department (PCWMD). He noted that the Committee reviews and makes recommendations on all aspects of the Department, including the 2006 Financial Plan and proposed rate increases. The Committee will forward a summary of all comments from the Public Meeting and a final recommendation on the Department's proposed 2006 Financial Plan to the Board of Supervisors for their consideration.

II. PRESENTATION OF 2006 FINANCIAL PLAN. Mr. Stratton introduced the PCWMD Director, Mr. Michael Gritzuk, and Department staff who presented an overview of the 2006 Financial Plan. (Committee members received copies of the 2006 Financial Plan prior to the meeting. In addition, copies of the 2006 Financial Plan PowerPoint presentation were provided to all meeting attendees.)

Mr. Gritzuk noted that the 2006 Financial Plan builds on the findings and recommendations of the FY2004/05 Black & Veatch Management Audit, the 2005 Black & Veatch Rate Study, the 2005 Financial Plan and the 2006 Metropolitan Facility Plan Update. Mr. Gritzuk informed the Committee members that the Department's conceptual framework for financial planning and the 2006 Financial Plan includes:

- Continuation of a multi-year approach to forecasting of the Capital Improvement Program (CIP) and Operations and Maintenance (O&M) revenue and expenditure requirements.

- Establishment of user fee and connection fee rates to support projected Department needs.

- Continued implementation of the 2004 Sewer Revenue Bond Authorization and CIP.

- Continued implementation of the Capacity, Management Operations and Maintenance (CMOM) regulatory program.

- Establishment of emergency reserve funding.

Mr. Gritzuk reminded the Committee that in July 2005, based on recommendations in the 2005 Financial Plan, the Board of Supervisors approved rate increases that produced a total annual revenue increase of 28%.

Mr. Gritzuk advised that the Department's Regional Optimization Study is now underway. One component of the Study will develop the optimal level of treatment to reduce nutrients in the effluent produced by the Metropolitan Treatment Facilities in order to meet Arizona Department of Environmental Quality (ADEQ) regulatory requirements as well as evaluating the flow management and locations/configurations of the Metropolitan Treatment Facilities.

Mr. Gritzuk reviewed the critical program and financial issues for the Department at this time. These are:

- Implement the effluent nutrient reduction program as required by ADEQ.

- Enhance the County's Odor Control Program.

- Continue to implement the regulatory-required CMOM program for the Department's treatment facilities and conveyance system.

- Continue – accelerate – rehabilitation of the wastewater system infrastructure.

- Complete the 2004 Sewer Revenue Bond Program.

- Establish Emergency Funding.

- Develop an optimization program for the future operation of the Ina Road and Roger Road Metropolitan Treatment Facilities.

- Improve biosolids treatment and utilization.

- Enhance/increase system wide wastewater conveyance and treatment capacity.

- Increase Department staffing.

- Implement a County wide drought management plan and water conservation plan.

- Develop a 2008 Sewer Revenue Bond Authorization Proposal to support the Department's future CIP.

Mr. Gritzuk reviewed the 2006 Financial Plan Recommendations. These are:

- Establish a $10 million emergency reserve in FY2006/07. The 2005 Black & Veatch Rate Study recommended establishment of a reserve as much as 50% of the Department's O&M expenditures, which are regularly in excess of $60 million per year.

- Continue implementation of the CMOM Program to respond to ADEQ regulatory mandates.

- Increase O&M expenditures, including an additional 39 new full time equivalent (FTE) positions in FY2006/07 for the Department's planning, engineering, conveyance, treatment and administrative service areas.

- Fund a $46.3 million CIP in FY2006/07, which would more than double the Department's current CIP of approximately $22 million. The 2006 Financial Plan recommends funding the FY 2006/07 CIP with $31.7 million of 2004 Bonds and $14.6 million of System Development Funds.

- Develop a 2008 Bond Authorization Proposal in the range of $245 million to $355 million. The Department projects the CIP will double in FY2007/08 to $81.7 million and in FY2010/11 to $105.5 million for a total of $387.8 million over the next five years. Of the $387.8 million, the Department anticipates approximately $117 million will be System Development Funds with the remainder funded through sewer revenue bonds.

Mr. Gritzuk introduced Planning Division Manager, Mr. Ed Curley, who informed Committee members that the Department used Eller College, University of Arizona, housing permit projections to reflect residential and commercial growth on an annual basis. The Department gets approximately $40 million per year in revenue from new connections; therefore it is critical in multi-year forecasting to get a good feeling for the potential building activity. The Eller Growth Index projects that building permits will decrease by about 5% in FY2006/07, and 16% in FY2007/08. As a result, the Department is projecting significantly less in connection fee revenue going forward with the existing rates.

Mr. Gritzuk then introduced the Department Controller, Mr. Jeff Nichols, who explained the 2006 Financial Model that developed the rate increases. Mr. Nichols explained that the 2006 Financial Model was developed from the Black & Veatch Financial Model. There are two components to the user fee: the fixed $5.72 per month service fee which covers fixed costs, and the flow fee which is related to usage.

Mr. Nichols reviewed the <u>Department's O&M revenue and expenses</u> as projected by the 2006 Financial Model. The Department's projected total O&M revenue for FY2005/06 is $62.4 million, and projected O&M expenses are $57.6 million. In FY2006/07, the projected O&M revenue is $75.1 million and the projected O&M expenses are $71.1 million. The Department anticipates that it will expend 100% of its O&M budget in FY2006/07 because of new or increased costs in some programs. Revenue and expenses are based on the 2006 Financial

Plan's proposed series of two 10% user fee rate increases in July/August 2007 and January 2007. The four 10% user fee rate increases between FY2006/07 and FY2007/08 would get the Department to the point where the user fees are covering the O&M expenses plus the rehabilitation/regulatory portion of the debt service.

The Department's projected total CIP revenue for FY2005/06 is $62 million (of which $22 million is previous year System Development Funds) and projected expenses are $35.5 million. In FY2006/07, projected total CIP revenue is $96.3 million (of which $17 million is projected to be previous year System Development Funds) and the projected CIP expenses are $58.9 million. Revenue and expenses are based on the 2006 Financial Plan's proposed series of four 6% connection fee rate increases in July/August 2007, January 2007, July 2007 and January 2008. Mr. Nichols noted that the Department is required to have a 1.2 bond coverage ratio.

Mr. Gritzuk informed audience members that the 2006 Financial Plan proposes increasing user fees by 10% in six month increments over the next two years, and to increase connection fees by 6% in six month increments over the next two years. He explained that the proposed 10% user fee rate increases are based on the usage component that is charged the consumer, while the monthly service charge of $5.72 remains fixed. Therefore, the net overall increase, with the proposed 10% rate increase recommendation, is a little less than 7% each time. Currently, the average residential customer pays $17.52 month in sewer user fees. The 2006 Financial Plan proposes increasing the average residential customer's sewer user fees from $17.52 to $23.02 by January 2008.

Currently, the average new house (24 fixture units at $168.76 per fixture unit) pays $4,050.24 to connect to the County's sewer system. The 2006 Financial Plan proposes increasing connection fees from $4,050.24 to $5,113.24 by January 2008. Developers who build off-site sewer systems are eligible to receive qualifying discount connection fees of approximately $1,100. Currently, the average discounted fee is $2,950.24. The 2006 Financial Plan proposes increasing the average qualifying discounted connection fee to $3,724.44 by January 2008.

Mr. Gritzuk informed audience members that Pima County's sewer user fees rank in the lowest third when compared to the ten largest cities in the Southwest and the 20 largest cities in the United States.

Mr. Gritzuk also noted that the 2006 Financial Plan also proposes modifications to the User Fee and Connection Fee Ordinances for clarity and ease of use.

Mr. Gritzuk then turned the meeting back over to Mr. Stratton who requested comments on the 2006 Financial Plan from the WMAC members.

WMAC member, Mr. Armando Membrila, asked staff to explain what caused corrosion in a column at the Roger Road Treatment Facility that was shown in a slide early in Mr. Gritzuk's PowerPoint presentation and what could have been done differently to prevent the corrosion. Mr. Gritzuk responded the column was in a sludge thickening unit that was enclosed to control odors. There is a corrosive atmosphere within that unit because of the driving off of hydrogen sulfide gas, which when that gas mixes with the wet atmosphere in the unit creates an acid that caused corrosion of the concrete column. If the Department decided to rehabilitate the Roger Road Facility, including rehabilitation of structures like the sludge thickening unit (the correction would be to control the atmosphere in enclosed units, like these sludge thickening units), the cost would be in the multi-millions of dollars.

Mr. Membrila then asked if it would be more expensive to build a new Roger Road Facility. Mr. Gritzuk responded that the Department's Regional Optimization Study currently underway will evaluate the options of building a new facility versus rehabilitation of the existing facility. In addition, the Study will evaluate whether there are more cost effective and efficient ways of managing effluent reuse in Pima County and will look at various alternatives for the Roger Road Wastewater Treatment Plant.

Mr. Membrila asked about Department staffing and whether the decrease of 52 FTE positions in FY2004/05 was due to attrition. Mr. Gritzuk responded some of the positions were lost to attrition and some were actually cut.

WMAC member, Mr. John Carlson, asked staff for clarification regarding the 2006 Financial Plan recommendations regarding Department staffing and treatment capacity. He noted that the Plan projects sewer capacity increasing from the current 75 million gallons per day (MGD) to 87 MGD by FY2006/07 and the Plan recommends increasing staff by 39 FTEs. He noted that the recent staffing data indicate an average annual five year growth rate of 1.7% and cumulative increase of 7.7%. Mr. Gritzuk responded that good management practice is to have capacity ahead of flow.

WMAC member, Mr. Steve Halverson, noted that the Department's FTE positions will increase by 25 in FY2005/06, and the 2006 Financial Plan proposes increasing FTE position by 39 in FY2006/07. He asked whether the Department would have difficulty attracting qualified individuals to fill these positions because of the competitive market.

Mr. Gritzuk responded that the competition will continue and may even become more severe to hire qualified staff. The trend is that the Department is going to be required to incorporate more sophisticated facilities (e.g., nutrient removal processes) that requires very highly trained O&M staff which means the Department will need to pay higher salaries in order to attract qualified individuals. He added this trend for more sophisticated treatment processes is nationwide. The Department wants to incorporate a career development program within the Department, and is trying to incorporate a multi-skills program where staff will receive training/skills in various areas. Another factor affecting the Department (and is also seen nation wide) is that it has a large portion of its staff that is retirement eligible. The Department needs to develop a way to retain this staff's knowledge within the remaining staff through a program of succession planning.

Mr. Carlson asked whether the Department's mix of staff was changing -- shifting from O&M to a heavier construction program. Mr. Gritzuk responded in the affirmative, and said the Department needs more staff in engineering and construction management areas.

Mr. Halverson asked if the Department would have the ability and flexibility to increase salaries in order to attract qualified people to fill critical positions within the Department. Mr. Gritzuk responded the Department's salaries in some disciplines are lower than other utilities; however, the Department does have the flexibility of presenting a justification to hire staff at a higher salary within the salary range with sufficient justification.

Mr. Carlson asked about the rationale for the series of four 6% connection fee rate increases -- hard to grasp the need to increase so much every year. Mr. Carlson suggested picking a higher number initially and hold it true for two or three years because construction costs are not jumping that fast every year.

Mr. Stratton asked what the impact would be if the proposed rate increases and the proposed 2008 Bond Authorization are not approved by the Board of Supervisors. Mr. Gritzuk responded that the Department is on a regulatory timeframe with ADEQ. It just renewed its discharge permits for the Ina Road and Roger Road Treatment Facilities. These permits require the Department to remove nutrients from the effluent produced by the Ina Road Facility in eight years and by the Roger Road Facility in nine years. The Department must meet this timeframe to avoid an enforcement action that would probably result in a consent decree, a compliance schedule and penalties from ADEQ.

WMAC member, Mr. Adam Bliven, commented on the 2006 Financial Model's Alternative Five (bonded) and Alternative Six (non-bonded) for proposed revenue increases. He felt the Alternative Five, bonded approach, would spread out larger expenditures and be easier on the rate payers. Under the Alternative Six non-bonded approach, the rates at the end of the five year period would be a lot higher than they would be with the bonded approach. Mr. Bliven asked, if Alternative Six were approved, at the end of five years would the Department have to lower rates? Mr. Gritzuk responded these alternatives were just applied to the five year planning period. Rates would need to continue to increase to address other system needs. Mr. Bliven then asked if the Department would rerun the five year Financial Model every year. Mr. Gritzuk responded in the affirmative. He commented further that the Department runs a twenty year model in its Metropolitan Facility Plan and a five year CIP financial model and then an annual financial model. He informed audience members that the 20 Year Facility Plan projected $1.4 billion of needs based on 2005 dollars.

Mr. Membrila asked how the Department can justify the proposed series of 10% rate increases in user fees and 6% rate increases in connection fees, if as the University of Arizona, Eller College of Management, Growth Index indicates, growth in Pima County is going to decrease through FY2010/11. In addition, he noted that new residential construction is increasing just north of Pima County. Mr. Curley responded that the connection fees have to cover the debt service for growth, plus all the growth-related CIP projects. In addition, the Department cannot delay the building of infrastructure to the very moment when it is needed – it must be built in advance.

Mr. Nichols also responded that the Eller Growth Index indicates that the hyper growth previously seen in housing starts will level off to a normal growth period; therefore, there will still be increased pressure on the capacity side to provide treatment and conveyance.

III. PUBLIC QUESTIONS AND COMMENTS. At this point in the meeting, Mr. Stratton asked for comments/questions from the audience; only one member of the public offered comments:

- Steven Melendez, 760 West Las Lomitas Boulevard, identified himself as a public citizen and long time Wastewater Management Department employee. He addressed an issue brought up in Committee comments regarding the Department's ability and flexibility to increase salaries in order to attract qualified people to fill critical positions within the Department. Mr. Melendez felt the Department did not have the flexibility to offer competitive salaries. In addition, Mr. Melendez expressed the view that the Department, without the ability offer better salaries, was going to experience a “brain drain” and loss of experienced staff at or near retirement eligibility.

At this point in the meeting, Mr. Membrila, while expressing support for the proposed four 10% user fee rate increases, indicated concern about their impact on individuals living on fixed or low incomes. He felt the Committee should make a recommendation that the Board of Supervisors find a way to subsidize those individuals that cannot afford these rate increases.

Mr. Stratton thanked the members of the audience for their comments and participation in the public meeting.

IV. ADJOURNMENT. The meeting adjourned at 8:33 P.M.