WASTEWATER MANAGEMENT ADVISORY COMMITTEE
October 18, 2007

Committee Members Present:

Sheila Bowen	John Carlson	Brad DeSpain
Steve Halverson	Barbee Hanson	Rob Kulakofsky
John Sawyer	Mark Stratton	Mike Gritzuk

Committee Members Absent:

Adam Bliven	John Carhuff	Marcelino Flores
Armando Membrila	Ann Marie Wolf	

Staff Present:

Mike Bunch	Diane Bracken	Ed Curley
Laura Fairbanks	Mary Hamilton	Suzy Hunt
Jackson Jenkins	Mike Kostrzewski	Jeff Nichols
Lorraine Simon		

Other County Staff Present:

Harlan Agnew	Chuck Wesselhoft
County Attorney's Office	

I. **CALL TO ORDER.** Vice Chair, Sheila Bowen, called the meeting of the Wastewater Management Advisory Committee (WMAC) to order at 7:57 A.M.

II. **APPROVAL OF MINUTES.** The Committee approved the minutes of the August 16 and September 20, 2007, WMAC meetings.

III. **COMMITTEE/SUBCOMMITTEE REPORTS.**

A. **Citizens' Water Advisory Committee (CWAC) Update.** A CWAC Report was not presented.

IV. **WASTEWATER MANAGEMENT DIRECTOR'S REPORT.** Mr. Mike Gritzuk combined the Director's Report with Agenda Item A.1., Regional Optimization Master Plan Update.

V. **DISCUSSION.**

A. **Old Items/Updates.**

1. **Regional Optimization Master Plan (ROMP) Update.** Mr. Gritzuk presented the ROMP Update as noted under Agenda Item III, Wastewater Management Director's Report. The overall cost of the ROMP is estimated at $536 million. The Ina Road Water Pollution Control Facility (WPCF) upgrade is the biggest single item in the Program with an estimated cost of $243 million. The Department is holding a pre-submittal meeting today for the design and engineering services. Of the $243 million (which includes the engineering services being procured at this time), the actual construction of the Ina Road expanded facility is valued at approximately $150 million. With the engineering services, which are estimated to cost in the range of $10 to $18 million, Mr. Gritzuk understood that this would be the largest professional services procurement contract the County will have let to-date.

   The Department let the design contract for the Roger Road to Ina Road Plant interconnect within the last few days to the consultant, Brown & Caldwell. Mr. Gritzuk anticipated the

Department would select the project management services for the Interconnect Project in the near future. In addition, the Department has selected the program manager for all of ROMP and is in negotiations with that consultant team for that activity. Discussion followed.

Mr. Mark Stratton asked if the Department had made any final decisions regarding ROMP delivery alternatives/methods. Mr. Gritzuk responded by reviewing the major components of the ROMP and the delivery methods associated with those components. The Construction-Manager-At-Risk (CMAR) Procurement process is being used for the Plant Interconnect project. In addition to the design consultant, which is selected based on qualifications with the CMAR method, the Department also selects the contractor based on qualifications. In the case of the Interconnect, the Department selected the firms of Sundt Corporation and Kewitt as the CMAR consultants. The Department will probably have potentially two to four projects within the overall Ina Road WPCF project (e.g., a solids handling components, a process component, etc.) At this time, there is a strong tendency for CMAR projects at Ina, primarily because you have the opportunity to select contractors based on qualification rather than a bidding process.

Mr. Carlson felt the greatest benefit of CMAR was that the contractor's experience is available at all times to the designer. As the design is being developed, the CMAR contractor also participates in the development of that design. Mr. Gritzuk added that there may be components of the Ina Road project that lend themselves to other delivery methods, such as the traditional design, bid build method. The Department has narrowed down to a design build procurement process for the Water Reclamation Campus at the Roger Road site. Under design build, a consortium of design engineers and contractors form their own partnerships and then bid the project, in this case a new greenfield setting water reclamation campus. The Department has received many recommendations, primarily from international firms, to do a design, build, operate for the Water Reclamation Campus. With this method, a consortium of design firms, contractors and operating firms can bid the entire project, design it and operate it for a specified number of years. This is still being evaluated. The financial entities are suggesting that perhaps the Department should consider private financing of this project, and also go to a design, build, finance operate type of procurement method. Sequencing wise, the Ina Road process has to be converted and on-line first by 2013 and the Roger Road facility converted and on-line by 2014.

Odor Control Plan Update. An Odor Control Plan Update was not provided.

2. **Use of Outside CIP Project Management Services.** The use of Outside CIP Project Management Services update was tabled until the next regularly scheduled WMAC meeting.

3. **2007 Financial Plan.** Mr. Jeff Nichols provided a PowerPoint presentation of the FY (Fiscal Year) 2007/08 Financial Plan. The firm, Raftelis Financial Consultants, developed the Financial Plan. Committee members received copies of the Financial Plan prior to the meeting. Staff also provided members with copies of the PowerPoint presentation.

   Mr. Nichols reviewed the Plan recommendations. These include:

   - A User Fee rate increase of 9.0 percent in January 2008 and another increase of 9.5 percent July 2008.
   - The Board of supervisors previously authorized implementation of a 6.0 percent increase to Connection Fees in January 2008. The Plan recommends implementation of an additional 9.0 percent increase to Connection Fees in July 2008.

- Lift the cap on the Service Fee. In FY 2005/06, the Board of Supervisors authorized a cap on the Fee at $5.72 for four years. The Service Fee is approximately 30 percent of the customer's monthly sewer bill.
- Support for the 2008 Bond Election of $565 million. The Department would prefer that the election be held in May 2008. This is a sewer revenue bond issue so it does not have to be held in a general election. The Financial Plan also recommends that the planning phase of the ROMP is nearing completion, but that is only half of the Department's CIP. The combined 10-year CIP is $1.2 billion of which $536 million is for the ROMP. Mr. Nichols noted that Raftelis, as a member of the ROMP Consultant Team, has a good knowledge of the Department and its programs. Currently, Raftelis is working with staff on the rate review. On September 17, 2007, Raftelis and Department staff met with County Administration to review the ROMP's status and financial options within the ROMP.
- Endorsement by the Board of Supervisors of a debt service coverage policy on bond issuance. When the Department sells sewer revenue bonds, it would like the Board to take action to increase the rates incrementally enough to service the debt on that issuance. Discussion followed.

  Mr. Carlson noted that there has been a dramatic shift in the rate of building new homes, and asked how much adjustment has been made in the Financial Plan to reflect this shift. Mr. Nichols responded the Plan provides somewhat of a "hedge" on the Capital side; however, the Department is not sure what it can do at this point in time. Less growth is being seen in outlying areas, including the Marana area. The Department has taken the four package plants off-line (200,000 gallons per day) at the Marana Wastewater Treatment Facility (WWTF), and is operating the 500,000 GPD BIOLAC® facility which is currently operating at 200,000 GPD of capacity. The Department has issued the contract to build the Avra Valley WWTF 4.0 million gallons per day (MGD) expansion. The outlying facilities probably represent one-half of the Department's $1.4 CIP. The ROMP represents the other half, which has to be completed regardless of growth in the outlying areas.

The Plan asks for further considerations. These include:

- Implementation of an environmental fee. Even though it does not decrease the customer's sewer bill, this fee is designed to demonstrate costs associated with new regulatory requirements. It would not reduce the overall rate impact. The cost of de-nitrification of effluent produced by the Ina Road and Roger Road facilities is directly related to the mandate from the Arizona Department of Environmental Quality (ADEQ) that the nitrogen be removed from the effluent. Discussion followed.

  Mr. Rob Kulakofsky said it could be said that the whole sewer bill is an environmental bill. He felt the Department would have to be really specific as to what the fee included. Mr. Nichols responded the term often used for environmental fees is "unfunded mandates."

- Extended term of debt issuances. Issuing debt for 20 to 30 years would soften the impact of rate increases. It gets to what is termed "intergenerational equity." Customers using the facilities will be paying for them.

- Utilization of short-term debt instruments - issue debt to fund a project immediately, thus reducing the need to rely on cash reserves. These include certificates of participation, bond anticipation notes and commercial paper. This would smooth the rate impacts in initial years, and allow for flexibility in the financial planning process. However, the overall cost would be greater.

- Establish some financial policies. These include a debt ratio coverage policy, rate adjustment policy and capital structure policy. The Department currently has a debt ratio coverage in its bond covenants of 1.2, and would like to raise it to maybe 1.25.

The summary of findings of the Financial Plan include:

- The customer base currently is approximately 259,700.
- The Plan assumed 2.0 annual growth.
- Used the basis of the Department's FY 2007/08 $72.8 million Operations and Maintenance (O&M) budget and escalated costs during the study period approximately 4.0 percent.
- The $1.4 billion CIP is shown in escalated dollars over the next 15 years. Eighty percent of this construction takes place in FY 2007/08 through F2014/15 – the timeframe the Department has to complete and have the Ina Road and Roger Road facilities on-line. Of this amount, $717 million is ROMP related.

Mr. Nichols reminded Committee members that the "driver" for the recommended rate increases is the large amount of cash necessary to fund the CIP in FY 2007/08 and FY 2008/09. The only option to fund these CIP projects is with rate revenues or cash balances as funds are not available from the 1997 or 2004 Bond Programs. The other "driver" is the increase in debt service which is fairly large once the ROMP is complete. The Department is still working with Raftelis to determine which CIP projects can be delayed to lessen the impact of the debt service. The Financial Plan/Rate Study is assuming the long-term debt is issued for 15-years at 5.25 percent interest with 3.0 percent issuance costs. Fiscal Year 2007/08 this is about $26.8 million in debt service. By FY 2016/17 that grows to $116.3 million, which is greater than the current O&M Budget. The Plan is trying to work within arbitrage guidelines and only sell debt every other year to cut down on issuance costs.

Mr. Nichols noted that the Department's rate increases over the past 20 years have averaged between 5.0 and 6.0 percent. That has pretty much been the average nationwide for the water and wastewater industry. Over the 15-year time period, the Financial Plan is projecting rate increases of approximately 8 percent per year over the ten year forecast, except for projected higher increases of 12 percent in FY 2009, 16 percent in FY 2012 and 22 percent in FY 2014.

Currently, the average residential customer pays $19.78/month in Sewer User Fees. The recommended 9.0 percent User Fee increase in January 2008 would raise the average residential customer's sewer bill to $21.05/month. The recommended 9.5 percent User Fee increase in July 2008 would raise the average residential customer's sewer bill to $23.61. Mr. Nichols informed Committee members that he had seen recent information that the average sewer bill in Arizona currently is a little over $25/month. He said staff would provide copies of this information to Committee members. (Note: On November 7, 2007, staff forwarded electronic copies of this information to Committee members.) Discussion followed.

Mr. Carlson noted that in the past the Committee had recommended higher rate increases than the Board of Supervisors approved. He asked if the Department had made a list of projects that cannot and will not be funded until a later year and suggested that information be made available to the Board of Supervisors. Mr. Nichols responded currently staff are going through a process of creating a matrix and ranking all projects within the CIP. Staff are also working with the Finance Department on this project. The Department is going to start showing the Board projects that are unfunded. Then the Board can make a policy decision about which projects do not go forward for lack of funding.

Mr. Stratton observed that when a utility's rates are relatively low and the utility needs to increase rates, everyone (including the media) grasps onto the percentage increases even though the dollar amount may be relatively small. He asked if the Department had looked at publicizing the proposed rate increases without using percentage numbers. Mr. Nichols responded the Department would like to focus on the dollar increase because he felt it was more appropriate to do so.

Mr. Gritzuk informed Committee members that the Department does prioritize its projects and reviewed the Department's highest priority areas. The highest priority is regulatory compliance. Most of the $536 million ROMP is regulatory in nature. Of this amount, approximately $440 million is regulatory in nature – the process conversions at the Ina Road and Roger Road facilities. He expressed that the Department has no choice but to complete the ROMP. Even if the Department does not have a financial plan, it does not mean the ROMP does not get done. The Department feels the best way to comply with regulatory requirements is for that compliance program to be under the Department's control. If the Department does not meet ADEQ's compliance dates, ADEQ will begin litigation and negotiate a consent order/decree. Within a consent decree, agencies pay penalties and then are required to build on an implementation schedule imposed by the regulators. This is much more costly and the utility does not have the quality of project that it would have under its own control. In addition, the Department's over all 20-year program includes $100s of millions of dollars of rehabilitation projects. The County's sewerage system is aging and it needs to be rehabilitated. Mr. Gritzuk noted that some of the County's sewer lines are 100 years old. If rehabilitation is delayed there is the potential for sewer line collapse. Another priority is expansion of the sewer system to accommodate growth. The Department does not determine the growth in Pima County, but it has to plan for it. If growth is not planned for, there is the potential for moratoriums. Mr. Gritzuk felt with these priorities, the Department has no choice but to move forward with these programs and to do that a financial plan is needed.

Mr. Carlson asked Mr. Gritzuk if he felt the Department now had a good idea of what/when sewer lines needed to be rehabilitated. Mr. Gritzuk responded in the affirmative. The Department has an aggressive Closed Circuit Television (CCTV) inspection program. It is inspecting from the larger diameter lines to the smaller diameter lines. Those lines that are older are also a priority for CCTV inspection. As the Department assesses its system, it develops a priority of those rehabilitation projects.

Mr. Sawyer felt the Department needed to "package" the Financial Plan and compare the recommended rate increases with things that the public can understand and stress how the increases impacts them on a day-to-day basis. He used the example of the Interstate 10 rehabilitation work and how it impacts people's lives (e.g., what do you pay in gas sitting at stop lights an extra 10 minutes).

Ms. Bowen asked, what opportunities exist for federal/state financing, since staff have indicated that approximately 80 percent of the Department's financial need is based on mandated regulatory compliance. Mr. Gritzuk responded that there is a federal loan program for water and wastewater infrastructure. The Arizona program is administered by an arm of ADEQ. Because of the under-funding of the loan program, most of those loans go to small municipalities. The Department does pursue these loans; however, the amounts of loans that Pima County might get are minuscule when compared to the Department's overall CIP Program need.

Mr. Gritzuk informed the Committee members that there has been an effort underway for years to create a trust fund for the water industry, similar to the highway trust fund. Basically, for now the industry is on its own – the Department has to go to the users of its facilities to fund its program.

Mr. Nichols informed Committee members that when the Department received the ROMP expressions of interest, the EPA (U.S. Environmental Protection Agency) was very interested in the Department's private/public partnerships and the avenues it was taking, but the Agency was not willing to participate.

Ms. Bowen (commenting on the "packaging" of the Financial Plan) asked whether the Department had considered an approach similar to the citizen-based effort that was used to evaluate the successfully approved Regional Transportation Authority (RTA). Mr. Nichols responded that the RTA had a citizen-based committee that was at arms length from the RTA itself. The Department has to be very careful how it promotes anything that is going to a vote of the public.

Mr. Carlson asked about the proposed downtown development and whether the Department had done a thorough analysis of whether it is feasible to service downtown from a wastewater standpoint. Mr. Gritzuk responded the Department's program is made up of two components: a condition assessment and a capacity assessment. It has an aggressive program underway to prioritize the evaluation of the existing condition of the sewer lines. Because the downtown area is the older component of the sewer system, it gets priority as far as the evaluation process. Another component of the downtown area is the capacity of the sewer lines. As there are more new businesses, the Department will have to provide additional capacity in this area. In many cases, instead of rehabbing lines that may be too small for current and future needs, the Department is in a replacement program. Mr. Bunch reminded Committee members that the Department participated with the City of Tucson in the Downtown Infrastructure Study. As a result, the Department has a good analysis of what the area looks like. Most of the downtown sewers are not major interceptors.

Mr. Halverson asked about the contingency planning the Department is doing in case it does not meet revenues and whether the Department could do special assessments to rate payers for one year to get the short-fall gap that it will probably have because of the downturn in economy? Is the Department looking at alternatives like this to keep the revenue stream at the level it needs to complete projects? Mr. Nichols responded the Department has not looked at alternatives like special assessments or a special improvement district within the sewer service area. The Department had a meeting to review cash flows with the County Finance Department and Risk Management Department on October 17, 2007. Finance shares the Department's concerns and they are looking at alternatives right now to what the County's likely response would be if the voters should not approve the Department's 2008 bond package. He said the Department could evaluate the special assessment idea and see if it is a viable option for the Department to raise additional revenue.

Mr. Halverson said his biggest concern was that the Department will not hit revenue projections. He noted that the County has delayed rate increases so much in past. He felt that, going forward regardless of whether the economy improves, if we do not make necessary infrastructure improvements, the Department will be in a mess no matter what economy does. He encouraged the Department to come up with other ways to fill the revenue shortfall and not necessarily borrowing money. He felt the Department needed to infuse more capital and that capital has to come from rate payers.

Mr. Sawyer asked, with the Plan's recommended overall $4.00 User Fee increase by July 2008, whether the Department had determined the percentage of potential sewer bill delinquencies. Mr. Nichols responded the Department's percentage of delinquencies is less than one percent. Mr. Sawyer asked whether the recommended increased User Fee rates would drive an increase in the Department's Low Income Assistance Program. Mr. Nichols responded that the Department has seen a good response to the Low-Income Program, but not to the level we had anticipated and planned for.

Mr. Sawyer, referring to the "packaging" of the rate increases suggested the Department increase fees across the board in January 2008 the total amount needed for the year rather than having another increase in July 2008.

Ms. Barbee Hanson felt that the Financial Plan was presented in a very clear, concise manner, and stressed that the ROMP needs to happen because of federal mandates. She asked if there was any feeling that the Board of Supervisors had about the Department that might be keeping them from supporting the rate increase. Mr. Nichols responded the 2005 Black & Veatch Management Audit had been very critical of the Department. He felt the Department was in the process of regaining the Board's trust through the work of the ROMP and regular quarterly reports to the Board.

Ms. Hanson and Mr. Carlson both expressed that the members can also, as individuals, express their opinions to the Board and individual Board members on the Financial Plan.

Mr. Kulakofsky felt the Financial Plan was very thorough; however, he felt more emphasis needed to be placed on the fact that the Department is being required to invest a total of $1.4 billion in the wastewater system over the next 15 years.

Mr. Stratton stressed that there are substantial and severe costs if the Department does not meet the mandated regulatory requirements. He felt there should be mention of the fact that there are liability issues to not meeting these requirements for the Board of Supervisors as the governing body.

Mr. Kulakofsky requested that a 30-year bond be included in the Table, "Comparison of Volume Charge Increases Under Different Bond Terms" and that the Plan language be strengthened and clarified in several places. Mr. Nichols said staff would request that Raftelis address these items in the Financial Plan.

Mr. Nichols requested that WMAC members forward any additional recommended changes to him. The Committee will receive another draft of the Financial Plan prior to the November 8, 2007 public meeting.

4. **Use of Outside CIP Project Management Services.** This item will be discussed at the next regular scheduled WMAC meeting.

5. **State/Federal Legislative Update.** Mr. Ed Curley presented the State/Federal Legislative Update and reviewed material that was distributed at the meeting. Discussion followed.

   Ms. Bowen requested that WMAC members receive copies of the Public Works Legislative Updates. Mr. Curley suggested that during the next legislative session staff would forward copies of these updates to Committee members on a monthly basis.

VI. New Items. No new items were presented.

VII. FUTURE AGENDA ITEMS. Use of Outside CIP Project Management Services; FY 2007/08 Financial Plan Update; Capital Improvement Program Update; Regional Optimization Master Plan and Odor Control Plan Update; Avra Valley WWTF Tour; and Wastewater Management Strategic Plan.

At this point in the meeting, Mr. Stratton said that at the September 2007 WMAC meeting, he had requested an update on the County's Low-Flow Conservation Plan. Mr. Curley responded that staff would present the final report on the Low-Flow Conservation Plan when it is completed and that Mr. Gritzuk would give an interim status report at the next regularly scheduled meeting.

In addition, WMAC Coordinator, Ms. Suzy Hunt, reminded Committee members that they received an electronic message scheduling the Committee's Public Meeting on the FY 2007-08 Financial Plan for 7:00 PM to approximately 9:00 PM on Thursday, November 8, 2007. In addition, a regular WMAC Committee meeting has been scheduled immediately following the Public Meeting in order for the Committee to make its recommendation on the Financial Plan to the Board of Supervisors. Ms. Hunt said she would notify the Committee if a quorum of the membership could be achieved for this meeting date. (Note: On October 19, 2007, Ms. Hunt notified the WMAC members that a quorum was achieved for the November 8, 2007, WMAC Public Meeting and Regular Monthly Meeting.)

VIII. CALL TO THE AUDIENCE. There being no response from the audience, Ms. Bowen adjourned the meeting.

IX. ADJOURNMENT. The meeting adjourned at 9:22 A.M.