WASTEWATER MANAGEMENT ADVISORY COMMITTEE
PUBLIC MEETING MINUTES
November 8, 2007

Committee Members Present:

Adam Bliven	Brad DeSpain	John Carlson
Marcelino Flores	Barbee Hanson	Mark Stratton
Michael Gritzuk		

Committee Members Absent:

John Carhuff	Sheila Bowen	Steve Halverson
Rob Kulakofsky	Armando Membrila	John Sawyer
Ann Marie Wolf		

Staff Present:

Mike Bunch	Ed Curley	Laura Fairbanks
Mary Hamilton	Suzy Hunt	Rose Hylton
Jeff Nichols	Patsy Ronquillo	Cecilia Vindiola

Other County Staff Present:

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

I. **CALL TO ORDER.** Chair Adam Bliven, called the meeting of the Wastewater Management Advisory Committee (WMAC) to order at 7:09 P.M. and led the audience in the Pledge of Allegiance. Mr. Bliven explained that the WMAC Committee members were appointed by the Board of Supervisors, and represented various community organizations or individual Supervisors. Mr. Bliven and Committee members introduced themselves.

Mr. Bliven explained that the role of the Committee is to act as the public's voice on issues related to the Regional Wastewater Management Reclamation Department.. He noted that the Committee reviews and makes recommendations on all aspects of the Department, including the FY 2007/08 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 FY 2007/08 Financial Plan to the Board of Supervisors for their consideration.

II. **PRESENTATION OF FY 2007/08 FINANCIAL PLAN (Financial Plan).** Mr. Bliven introduced the Department Director, Mr. Michael Gritzuk. Mr. Gritzuk explained that the Department was in a formal process of presenting the FY 2007/08 Financial Plan. The Financial Plan explains all of the Department's financial needs over the next 10 to 15 years and the rate increases the Department needs to support this plan. (Committee members received copies of the FY 2007/08 Financial Plan prior to the meeting. In addition, copies of the FY 2007/08 Financial Plan PowerPoint presentation were provided to all meeting attendees.)

Mr. Gritzuk introduced Mr. Jeff Nichols, Deputy Director and Controller. Mr. Gritzuk noted that the FY 2007/08 Financial Plan builds on the findings and recommendations of the Regional Optimization Master Plan (ROMP).

Mr. Nichols introduced Harold Smith of Raftelis Financial Consultants (RFC), who then presented the 2007/08 Financial Plan. Mr. Smith explained that RFC developed the Financial Plan in cooperation with Department staff, the County Administrator's Office and the

Department of Finance and Risk Management. RFC had been working with the Department on the ROMP for the past 18 months to figure out the financial implementation of ROMP.

Mr. Smith presented some of the key assumptions associated with the Department's FY 2007/08 Financial Plan, including operations and maintenance (O&M) expenses, Capital Improvement Program (CIP) costs, projection of overall revenue requirements, and immediate recommended actions to address those immediate needs.

Mr. Smith reminded Committee members that the Arizona Department of Environmental Quality (ADEQ) has imposed more stringent standards, on the effluent that is discharged from the Department’s wastewater treatment facilities. In order to determine the best way to address these enhanced standards, the Department conducted the ROMP over the past two years. The goal of the ROMP was to try to identify the most effective, efficient way of addressing these enhanced standards, but also included a verification of the rest of the Department’s Capital Improvement Program needs. Based on this analysis, a $1.4 billion Capital Improvement Program was identified between now and 2030, including the ROMP Program and other Department CIP needs, with the majority of the program occurring within the next 10-15 years. With this in mind, the Department also decided it needed to develop a financial plan that addressed the long-term financial needs of the Department.

Mr. Smith then reviewed the ROMP Recommended Plan which includes: the Plant Interconnect; the significant process changes and expansion at the Ina Road facility; a new water reclamation campus adjacent to the existing Roger Road facility, all at a cost of $536 million in 2006 dollars. It should be noted, however, that due to anticipated inflation the actual total cost of these projects will be closer to $717 million.

Mr. Smith then pointed out that, in addition to the ROMP projects, the Department has additional capital needs to rehabilitate, meet regulatory compliance, improve and/or expand its treatment and conveyance facilities.

Treatment projects in the CIP include expansions to the Avra Valley, Green Valley and Marana treatment facilities as well as upgrades to other treatment facilities and interim rehabilitation to the Roger Road and Ina Road facilities. The total cost in escalated dollars for current treatment plant CIP projects is $286.5 million.

In addition, projects associated with the rehabilitation, improvement and expansion of the conveyance system will cost an additional $400 million. Finally, the total cost of several projects that include components of treatment and conveyance as well as detailed capital planning studies for sub-regions of the system is $14.0 million.

As an outcome of the ROMP planning, RFC and Department staff developed a baseline financing plan and rate model. The baseline financing plan includes funding sources from the remaining 1997 Bonds of $4 million, the $150 million in 2004 Bonds ($36 million of which would be for the ROMP) and System Development Funds (SDF) of $144.5 million). Looking into the future, the FY 2007/08 Financial Plan includes three separate voter bond authorizations that will be required to implement the proposed financing plan. This includes voter bond authorization needs of approximately $565 million in FY 2008/09 - of which $445 million is for ROMP projects. The Department also will require authorization in 2012 to issue $400 million in bonds and authorization in 2016 for $153 million in bonds.

Mr. Smith indicated that as a result of relying more heavily on debt to fund the CIP, the Department's debt service would also increase from approximately $16 million currently to approximately $116 million in FY 2016/17.

The FY 2007/08 Financial Plan focuses on the Department's immediate needs because those needs are known with a relatively high level of certainty. The Plan also provides a preliminary indication of the types of rate adjustments that would potentially be required in future years, but since the actual costs in future years are uncertain, RFC has not developed definite recommendations for future rate adjustments

Mr. Smith reviewed the FY 2007/08 Financial Plan's immediate recommendations. These include:

- Increase Sewer User Fee (Volume Charge) rates 9.0 percent in January 2008 and 9.5 percent in July 2008.
- Revise the User Fee Ordinance to allow for annual review and adjustment of the Service Fee. The current ordinance that limits increases to every four years places an undue burden on the volume charge
- Increase the Service Fee by 9.0 percent in January 2008 and 9.5 percent in July 2008.
- The Board of Supervisors previously authorized implementation of a 6.0 percent increase to Connection Fees in January 2008. The Financial Plan recommends implementation of an additional 9.5 percent increase to Connection Fees in July 2008.
- Support for the 2008/09 Bond Election of $565 million.
- 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.

Mr. Smith pointed out that although typical customer bills will increase as a result of the recommended rate increases, a typical residential customer in Pima County will still pay less than the national (and Arizona) average for wastewater service.

Mr. Smith then presented the preliminary rate increases that will be required in the future. At this time it appears that additional semi-annual increases ranging from 3% to 9.5% will be required.

Mr. Smith also presented the Committee with significant financial policy issues that the Department, the Committee and the County need to consider over the coming year. These issues include:

- Extending the term on revenue bonds from 15 year to 20 or 30 years;
- The use of short term debt instruments;
- The development of an environmental fee that better communicates to customers the costs associated with regulatory compliance; and
- The establishment of reserve fund policies

In closing, Mr. Smith reiterated the importance of implementing a financial plan that will allow for the timely completion of the projects in the CIP. Failure to do so could result in fines or new housing construction moratoriums associated with non-compliance as well as a possible decline in service.

Mr. Nichols noted that RFC, as a member of the ROMP Consultant Team, has a good knowledge of the Department and its programs. RFC will continue to work with the Department on the financial planning for the ROMP over the next year. Most recently, on September 17, 2007, RFC and Department staff met with County Administration to review financing alternatives and options for the ROMP.

Discussion followed.

Mr. Carlson noted that Mr. Smith said that the County's bond covenants require it to maintain a 1.20 revenue-to-debt ratio. He asked if that ensured that the Department had a lesser interest rate on the bonds. Mr. Smith responded in the affirmative and said that a good revenue-to-debt ratio helps get better bond terms. Mr. Carlson asked if that lower bond rate was reflected in the Financial Plan. Mr. Smith responded that the Financial Plan assumes 5.25 percent interest which reflects a good revenue-to-debt ratio. Mr. Smith noted that due to the debt service coverage ratio requirement in the bond covenants, the Department will generate significant System Development Funds in the latter years of the Financial Plan. Mr. Carlson asked what is done with excess funds when they are generated by the 1.20 revenue-to-debt ratio requirement. Mr. Smith responded the money goes into reserve and it can be used as it builds up. Some of the projects earmarked for the 2012 and 2016 bond authorizations could be funded with those reserves that were being built up to meet the bond ratio coverage requirements.

Mr. Stratton asked if the Financial Plan took into account debt service that is being retired from previous bond sales in the 1990s that are reaching their 15-year life span. Mr. Smith responded in the affirmative.

Mr. Stratton said there is an ADEQ regulatory requirement that the Department has to meet, and that the bonds need to be authorized. He asked if the bonds are not authorized by the voters or if the Board of Supervisors does not approve the Financial Plan's recommended rate increases (knowing that the Department has a regulatory "flag" hitting it in 2014 and 2015), what is the alternative? Mr. Smith responded that, if the Department is going to meet its regulatory deadline and the voters do not approve the bonds, the Department will have to fund these projects with cash which will mean even greater rate increases then currently being recommended. If the voters issue the authorization to fund the bonds, but the Board of Supervisors does not authorize the increase in rates, then the Department will not have enough money to both implement the Financial Plan and cover its cash funding requirements.

Mr. Gritzuk said it was important to stress that the ROMP is a regulatory-driven program. The Department is required by ADEQ mandate to improve the quality of the effluent discharged into the Santa Cruz River within a specified period of time. If the Department went back to the ADEQ and said that it could not meet these requirements because it could not raise the revenue, the Agency would likely initiate enforcement – most likely a consent decree – against the Department.

Mr. Carlson asked if the bond holder's income from bonds is tax exempt. Mr. Smith responded in the affirmative – bonds are exempt from federal and state taxes. Mr. Carlson asked further whether the alternative short-term financing is tax exempt. Mr. Smith responded certificates of participation and bond anticipation notes would all be tax exempt debt instruments. Private financing would not be tax exempt.

Mr. Bliven said when Pima County issued the ROMP "Expressions of Interest," one of the options discussed was build-own-operate-finance. He asked if an outside firm is financing some of this construction, what that would do to the Financial Plan recommendations? Mr. Smith said that would depend on how that transaction would be structured. He felt the County would not pursue this type of option if it made costs increase. He said, overall, the private financing costs are significantly more, but the private firms believe some of the efficiencies they bring to the design, build, and operate components can counteract the additional financing costs. Mr. Bliven asked if the Department would still need the User Fee Volume Charge, Service Fee and Connection Fees to pay that private entity. Mr. Smith responded in the affirmative.

Ms. Barbee Hanson asked for further clarification on how detrimental it would be to the Department if it did not meet ADEQ's mandated compliance schedule. Mr. Gritzuk responded that if the Department got in the position of non-compliance there would be litigation costs that the Department would have to fund and there would be penalties it would have to pay. As an example, he informed Committee members that when the City of Atlanta did not move ahead with rehabilitation/repair of its wastewater system, the City got into non-compliance and initially paid a fine in the millions of dollars, and then was forced to enter into a consent decree which required construction of the system improvements subject to stipulated penalties. He noted that this resulted in millions of dollars per year in additional costs.

Mr. Smith added that just raising rates to meet the ROMP and ADEQ's regulatory requirements is not enough. The Department still has to maintain, rehabilitate, and expand the capacity of the existing sewer system where/when necessary.

Mr. Carlson asked about the status of the Department's Emergency Reserve Fund which was implemented as a result of a WMAC recommendation. Mr. Smith responded that the Department has a $10 million emergency reserve in its budget that it holds for emergencies. In addition, Mr. Carlson asked if the emergency reserve gets used - how would the Department replenish it. Mr. Smith said the Financial Plan recommends that the Board of Supervisors develop policies regarding the establishment and funding of reserve funds. These could include an operating reserve fund, a capital improvement fund, a repair and replacement fund, and rate stabilization fund policies. Establishing these types of policies adds predictability to the financial planning process and helps stabilize rates.

III. PUBLIC QUESTIONS AND COMMENTS. At this point in the meeting, Mr. Bliven asked for comments/questions from the audience. There being no comments/questions from the audience, Mr. Bliven adjourned the meeting.

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