

# REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE

October 16, 2008

## Committee Members Present:

Adam Bliven	Sheila Bowen	John Carlson
Marcelino Flores	Barbee Hanson	Rob Kulakofsky
Mark Stratton	Corey Smith	Michael Gritzuk

## Committee Members Absent:

John Carhuff	Brad DeSpain	Armando Membriila
John Sawyer	Ann Marie Wolf	

## Staff Present:

Hale Burris	Ed Curley	Laura Fairbanks
Suzy Hunt	Jackson Jenkins	Tim McGarry
Jeff Nichols	Melaney Seacat	Lilian Von Rago

## Other County Staff Present:

Chuck Wesselhoft  
County Attorney's Office

- I. **CALL TO ORDER.** Chair Adam Bliven called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 7:55 a.m.
- II. **APPROVAL OF MINUTES.** Chair Bliven called on Suzy Hunt, RWRAC Coordinator, who informed Committee members of two corrections that were made to the minutes of the September 18, 2008 Committee meeting after their initial distribution in advance of the meeting. These corrections include: Agenda Item A.1, Water Infrastructure, Supply and Planning Study, page three, the first sentence of paragraph three, was corrected to read "Ms. Seacat will present an update on the Study to the annual meeting of the Arizona Society of Civil Engineers." Agenda Item B.1. FY 2008/09 Financial Plan, page seven, the third paragraph was corrected to read "Vice Chair Bowen suggested this could be a future agenda item." The Committee approved the minutes of the September 18, 2008 RWRAC meeting with these corrections.

At this point in the meeting, Ed Curley, Manager of Strategic Planning, referred Committee members to the handout, "Follow-up to Committee Questions from September 18, 2008 Meeting" which was distributed at the meeting. He also informed Committee member that the schedule for requested presentations was included in the handout.

## III. COMMITTEE/SUBCOMMITTEE REPORTS.

- A. **Citizens' Water Advisory Committee (CWAC) Update.** A CWAC Report was not presented. Ms. Hunt informed Committee members that at the last CWAC meeting, a CWAC member was recommended to serve on the RWRAC but no official notice had yet been received from CWAC.

## IV. DISCUSSION.

### A. Old Items/Updates.

1. **Water Infrastructure, Supply and Planning Study (Study).** Melaney Seacat, Co-coordinator for the Study, provided an update on the activities of the Study's Oversight Committee. The Oversight Committee has the responsibility of providing direction and

oversight on Phase I and Phase II of the Study. Phase I has included presentations on water/wastewater infrastructure by Tucson Water and the Wastewater Reclamation Department. Phase II includes development of a common set of water development and conservation goals.

Ms. Seacat informed Committee members that the Pima County and City of Tucson Water Department staff have completed the baseline series of "Water 101" presentations to the Oversight Committee. The Oversight Committee has received a total of 14 presentations. The most recent presentations (since the last RWRAC meeting) covered water conservation and water harvesting, as well as available water resources. All of this information is available on the Study's website in audio and video form, along with transcripts and summaries, background reading materials, as well as comments from the public. RWRAC members who serve on the Oversight Committee then gave their perspectives on the activities of the Oversight Committee.

Mark Stratton expressed that the information that has been provided to-date has really been a very solid background of material of all the water resource land use related issues, and has been quite informative. He commented further that it would have been nice if there would have been more public participation at the Oversight Committee meetings. Mr. Stratton felt the Oversight Committee now needs to assimilate all of the information that has been provided and put it on paper.

Rob Kulakofsky agreed with Mr. Stratton that the Oversight Committee has received really good presentations and good information. He congratulated staff on all of the information they provided in their presentations. He added that he was looking forward to hearing the five minute presentation from citizens so the Oversight Committee can put this information into their perspective as well.

John Carlson said there was so much information from disparate sources and expressed that it was amazing how many agencies are working on water issues. He noted that the Oversight Committee would be having some Saturday sessions.

Marcelino Flores agreed that it was a phenomenal amount of work and said he was very pleased that the Oversight Committee had a pretty specific charge. He added that there would be a public outreach process once these plans are brought together in a more cohesive manner. He informed Committee members that the RWRAC would receive the Phase I Report and would have the opportunity to make comments.

- **Joint Proposed CWAC/RWRAC Meeting to Receive Final Phase I Report.** Ms. Seacat informed the Committee members that the CWAC Committee had met on October 15, 2008 and Jim Barry, Chair of CWAC and the Oversight Committee, put forth a proposal that there be a joint meeting of the CWAC and RWRAC in January 2009 to be briefed on the Phase I Report.

RWRAC members received copies of a press release about the next two meetings of the Oversight Committee, which are on October 22 and 29, 2009, and will be on the topic of sustainability. These meetings will include a series of invited five minute presentations from the public. Oversight Committee members will also deliberate on their idea of what sustainability means. Two facilitators will be present who will record these comments and synthesize that into a report back to the Oversight Committee. The deadline for submission is October 20, 2008 to get included in the five minute presentations.

Ms. Seacat informed RWRAC members that the Phase I Report is being prepared by Oversight Committee staff and the Report drafts are on the Study's website for review and comment. Discussion followed.

A motion was unanimously approved for the RWRAC to participate in a joint meeting with CWAC in January 2009 to receive the final Phase I Report. (YES – 8, NO – 0).

At this point in the meeting, Mr. Carlson noted that graywater was discussed at the October 15, 2008 Oversight Committee meeting. He said one and one-half years ago a resident of his development wanted to use graywater on his yard, but there was evidence that some graywater would spill over into the development's common ground. He said his question at the last Oversight Committee meeting was who has jurisdiction over the regulation of graywater – the Arizona Department of Environmental Quality (ADEQ)? He asked who was enforcing the graywater regulations in the Pima County area? He noted that once graywater gets into the common grounds and goes into the drainage, there is the possibility of contamination and also the possibilities of sealing of the earth so that it will not penetrate. Mr. Bliven responded that ADEQ provides guidelines for graywater use. Mr. Carlson said his home owners association wanted to make sure it was not violating these regulations or having an impact on association fees. Mr. Bliven said that the ADEQ requirements list several requirements and as soon as an individual meets those conditions they can have a permit, but if they violate those conditions the question is who enforces those – whether it is the Pima County Department of Environmental Quality or the County Development Services Department?

Mr. Gritzuk said the Department's involvement in the graywater program is basically to look at the County's sewer conveyance system to decide how it can accept these lower flows. The Department is in the process of looking at design standards and probably will change its design standards not to allow very flat conveyance lines. The Department may choose to require some minimum flow in the terminal ends of sewer lines. The Department may even recommend that graywater systems not be installed at the very ends of sewer lines because we need flow from that portion of the system. He said the flow is the issue, the increased strength is not an issue.

Mr. Carlson noted that it was previously reported that the Department uses trucks to flush some of these sewer lines. He asked if the lines were flushed with treated or potable water. Mr. Bliven commented that it was noted in the minutes of the last Committee meeting that the Department was working with Tucson Water to be able to use effluent for flushing the sewer lines.

At this point in the meeting, Melodee Loyer, Tucson Water staff, informed Committee members that Department and Tucson Water staff met the week of October 13, 2008 to determine where these reclaimed water filling stations could be located. The first location will probably be at Brandi Fenton Park. The second location might be at Randolph Park.

2. **Regional Optimization Master Plan (ROMP) Update.** Mike Gritzuk, Department Director, provided the ROMP Update. There are three major components of the ROMP Program. They are the upgrade and expansion of the Ina Road Water Reclamation Facility (WRF), the Roger Road to Ina Road Plant Interconnect and the new Water Reclamation Campus in the vicinity of the Roger Road site.

Mr. Gritzuk informed Committee members that the Department is on schedule in the overall implementation of the ROMP Program.

The Ina Road WRF upgrade and expansion project will increase the capacity of the WRF to 50 million gallons per day (mgd). Design of the expansion is underway. There will be an initial interim biosolids project to treat the biosolids and additional flows that will be going to the Ina Road WRF from the Plant Interconnect. Montgomery Watson/Harza (MWH) Constructors is the Construction-Manager-At-Risk (CMAR) for the Ina Road WRF project. Cultural resources site work is actively underway.

Jackson Jenkins, Treatment Deputy Director, informed Committee members that the cultural resources investigation found one issue at the beginning. As a result the previously located staging location for the CMAR had to be moved.

The Plant Interconnect will convey wastewater from the service area of the Roger Road WRF to the Ina Road WRF. The Department wants to move ahead as quickly as possible with this project because we need to relieve flows from the Roger Road WRF. Design of the Plant Interconnect is approaching 100 percent. The Department will be entering into negotiations with Sundt/Kewit, the CMAR for pre-construction services, for a guaranteed maximum price, very shortly. Additionally, the Department is pre-qualifying sub-contractors for the Plant Interconnect Project. This project is on schedule, and Mr. Gritzuk was hopeful construction would start in the very near future.

The Department will be decommissioning the Roger Road WRF and constructing a new water reclamation campus just north of the existing facility. The Department went through an extensive evaluation of procurement methods for the Water Reclamation Campus including design-build, design-build-operate, design-finance-operate, and compared all of the methods to the CMAR procurement method and design-bid-build. The recommendation from the Consultant, Greeley and Hansen, is the design-build-operate method. The Department performed an extensive internal review of the details of the Consultant's recommendation, including reviewing it with the County Administrator's office and other County Departments. As result, the decision has been made that the Department procure this project via the design-build-operate (DBO) procurement method. This means that the submitters on this project will be a team which consists of a design consultant, a contractor and an operating entity. Mr. Gritzuk was hopeful the Water Reclamation Campus Request for Qualifications would be advertised by January 2009.

Mr. Gritzuk also informed Committee members that DBO means private sector operation of the Water Reclamation Campus. If the project is awarded as a DBO, the treatment portion of the new Water Reclamation Campus will be private sector operated for a long period of time (e.g. 25 to 30 years). No existing Roger Road WRF staff would lose their jobs as a result of this procurement method. This method also allows additional opportunities for existing staff if they want to go to work in the private sector. The Department is also going to allow a degree of design competition in this procurement method. For example, the Department will develop a 10 to 20 percent design of the treatment process and submitting DBO consortiums can take that design and "tweak" it to improve it – make it more cost-effective, more reliable. Mr. Gritzuk noted that he has seen this in other procurements and usually the selected consortium has improved the design to the point where there is a high degree of automation, minimal staff and a lot of cost savings. Discussion followed.

Mr. Stratton said that knowing that technology now is going toward more automation and it would require less staff, he thought with attrition you probably would not see much impact. Mr. Gritzuk responded that with the upgrade and expansion of the Ina Road WRF and the

new Water Reclamation Campus, the Department envisions that the staffing levels will be lower than we currently have primarily because of the introduction of automation and the introduction of materials that require less maintenance. He added that the Department envisions that in our Operations and Maintenance staffing, we will see a reduction. However, the Department has a lot of vacancies, and we are at times having difficulty filling these vacancies. He also said that the Department has normal attrition with individuals that are retiring or going to other utilities because of higher pay – we do not see that anyone will lose their job with the Department, but we will see an overall reduction in workforce.

Mr. Jenkins added that the Department has done some projections on the attrition side and determined that the Department has some potential pretty high turnovers with staff retirements. On a parallel path, the Department is still exploring a skills-based program which would further reduce the potential demand. He projected that the Department's staffing levels over the next approximately five years before ROMP starts up will start diminishing and automation will further enhance that.

Mr. Carlson asked for further clarification – he noted a couple of years ago, he got the strong impression that the Department could not hire highly skilled people because the pay scale was not attracting qualified people. He asked if that was starting to change. Mr. Gritzuk responded that one way it is changing is that the Department is in the early stages of implementing a multi-skilled program. Under this program, operators and maintenance staff will be meshed into “tech-type” positions and provided training. This program provides a career ladder for staff. Each time they gain additional skills, hopefully they can get additional pay.

Mr. Jenkins added part of the technical issue was in the engineering/project management side and the Department still struggles to hire qualified people in this area. County Human Resources performed a compensation study of the Operations and Maintenance staffing about one year ago. That review generated higher starting wages in all of the Operations and Maintenance categories. As result, the Department is attracting higher caliber applicants at some of the lower entry positions.

Mr. Stratton observed that the workforce is going to get tighter and tighter, and the public sector has generally always been at the lower end. He felt anytime you can promote to the powers that be that it is worthwhile to pay staff quality wages.

Mr. Gritzuk said when automation is brought in to a significant degree, it does reduce the workforce but it requires a more highly skilled workforce. The more skills that are required, the more demanding they are with salaries.

Mr. Carlson informed Committee members that at the October 15, 2008 Oversight Committee meeting, someone requested that staff provide information as to how much engineering and design work is done in-house and how much is contracted out and what is the rationale. He sensed that if the Department had additional qualified staff, it would do a little more in-house.

Mr. Gritzuk responded the Department does very little in-house design because it is not equipped to do that. Designs are very unique and the Department does not have the tools to design a large facility. The Department's engineering staff are project managers. Our staff does project management and they do the study work.

Mr. Flores said he would like to learn a little more about what private operation of the Water Reclamation Campus and Ina Road WRF would entail. He asked if it was

comparable to a contract that the County has with the vendor. He asked what the relation would be of this Department to a private entity's activities – does it have an effect on rate structure, do we get a say on their planning activities, what happens with odor control if there are some issues from a facility? The complaints would come directly to the Department – what would we do in that case?

Mr. Gritzuk responded all of that would be covered in the agreement with the DBO consortium, which is known as a service agreement. The service agreement spells out performance requirements, maximum requirements and then any violation of the performance requirements is followed with a penalty. He said there is very rigid control of performance, which also includes odor, noise and so forth.

Mr. Flores observed sometimes you get a slap on the wrist because there are extenuating circumstances – the unforeseeable does happen – so even though you may have these written performance requirements, is it plausible that some extenuating circumstances could cause something and thereby the Department would have no recourse?

Mr. Gritzuk responded that it depends on how aggressive we are in managing the contract. We do not want to be lax in the management of the contract and there is always the incentive with a DBO consortium to comply because they face penalties if they do not.

Corey Smith asked if there are not more than likely acts of nature that would be beyond their control? Mr. Gritzuk responded in the affirmative and said there is always force majeure. The DBO consortium has it and the County has it.

Rob Kulakofsky asked when the operator (through whatever malfunction or lack of knowledge) causes a problem that gets the Department in trouble with ADEQ, who is then responsible? He felt the County would be on the line because it is the regulated entity. He asked how that was worked out in a contract?

Mr. Gritzuk responded the County is the owner – we never give up ownership of the facility. We are the owner throughout the operating contract and if there is a violation, ADEQ will look to the County as the owner, not the operator. The County would have its service agreement with the DBO consortium and, if the County is involved in any regulatory issues, so are they. If the County pays any fines, the operator will pay those fines, plus – that is the way these contracts are written.

Mr. Kulakofsky asked in the worst case scenario - what happens if the DBO consortium then files for bankruptcy and the County is left holding the bag – and we do not necessarily know how to operate the facility because we do not have the institutional memory. Mr. Gritzuk responded that in this procurement method we look to a guarantor, normally the guarantor has a balance sheet that should be very impressive. That is one safety factor, and the other safety factor is that if the DBO consortium goes astray, the County can cancel the agreement and take over the operation. An additional safety factor is that a small portion of the Department's staff will be trained to operate the facility. Plus, the Department may require that a certain percent of staff of the Water Reclamation Camus facility come from Department staff so that they have some institutional knowledge. Mr. Gritzuk felt there were a lot of safeguards, but he agreed that the selection has to be with an entity that has the balance sheet to guarantee operation over 25 to 30 years.

Mr. Smith felt there were still a lot of questions he wanted to ask but the contract – operational aspects - does not even exist. He felt the timing of these questions would be more appropriate during the oversight and review of that contract.

Ms. Hanson asked what caused the Department to make its decision to go with DBO. Mr. Gritzuk responded in the review of the various procurement methods, the Department had a group of consultants from engineering, financial and risk management sectors all look at this procurement method. The reason for their recommendation is that when we evaluated the various procurement methods, this was the most cost effective. Major factors were 1) lowest cost on a life cycle cost and 2) the maximum transfer of risk from the owner to the consortium. In this method, the DBO consortium assumes a lot of risk. There is a huge incentive for the entity to perform. Another option is, if the Department does not get the financing that we need for the ROMP in the 2009 Voter Bond Authorization election, we have an option to utilize private sector financing.

Chair Bliven felt when the County awards the contract, right then the Department would have a good picture of the financial cost of that facility for the term of the contract – whether it is 25 or 30 years. That helps out the accounting of the Department – basically you have fixed costs rather than variable costs throughout the next 20 years. What happens at the end of that contract? You have a facility and it has been maintained according to the service agreement, but it seems like that would be stepping off a cliff because the contract has ended and all of a sudden you have an old facility.

Mr. Gritzuk responded that, during that 30 years, the County writes in the replacement life of a whole series of different equipment. Maintenance for the general plant is also written into the contract.

Mr. Bliven observed that the County would then be left with an older facility that has been well maintained. Mr. Gritzuk responded in the affirmative that when the facility is turned over to the owner, except for some allowable wear and tear, the facility is like new. At the end of the operating period, the facility turns back to the owner for operation or the County advertises for another procurement for the operation of the facility. Another factor is what happens when the County has to expand the facility. If we see an expansion of the facility in 20 years, we may want to then have this contract go for only 20 years so while we work on the expansion we can go through the procurement process again.

Mr. Gritzuk also informed Committee members that while DBO is new to the County it is not new to the water sector. Seattle, Washington has two DBOs and Phoenix has the Lake Pleasant DBO.

Chuck Wesselhoft, Deputy County Attorney, noted that another option on the DBO is that at the end of the contract, there is an option to renew. The operator has the incentive to keep the facility in good condition so they have something they can continue to operate.

Mr. Smith asked what the approval process was of the DBO in Pima County? He asked if the Board of Supervisors approves the contract? Mr. Gritzuk responded that the Board of Supervisors has been informed of the recommended procurement method by the County Administrator. He added that the Board of Supervisors gives its approval (or disapproval) when the contract is presented to them for award. As example, the County advertises for a consultant and the Department goes through a selection process. The Department then has a selected consultant and that goes to the Board of Supervisors for approval to select that consultant to negotiate with within a price range and not to exceed amount. On a construction contract, using the Ina Road WRF as example, the Department selected the CMAR for pre-construction services. Once that selection is made and the contract amount was negotiated, the Department goes to the Board of Supervisors for their approval. In the CMAR process, when the Department comes up to construction and we negotiated a guaranteed maximum price (and we have a GMP for a small component of Ina already),

that GMP has to go to the Board of Supervisors for approval. Mr. Gritzuk added, every time we come up with a GMP, we have to go back to the Board of Supervisors for approval.

Mr. Smith asked, since DBO is new to the County, has there been any concern voiced about letting this contract were the third party operator to make a profit? He felt it pointed to the issue that the County cannot do it as efficiently as a third party. Mr. Gritzuk responded the evaluation that was done indicated that this procurement method with 20 or 30 years of operation was the most cost effective. Those cost comparisons were made to public sector operations. Mr. Smith said the private sector operator would be making a profit where the County is not making a profit – it just shows that the County is not as efficient in operating the facility.

Mr. Gritzuk responded that if we were to compare just Operations and Maintenance costs, public sector versus private sector, he felt the Department was as competitive as they are – we have made that comparison recently with some inquiries for private operators.

3. **System-Wide Odor Control Program.** Mr. Gritzuk provided an update on the System-Wide Odor Control Program. He felt the Program was working very well and informed Committee members that the true test will be as we have the climatic changes that occur in the Fall and Winter. The Department is also preparing the next Odor Control Monitoring Report that will be presented to the Board of Supervisors and the RWRAC. The Odor Control Report will show odor levels in our monitoring program that are well below where we expected. Mr. Gritzuk informed Committee members that there have been some odor breakthroughs – staff is still learning how to optimize the operations and maintenance of all of the odor control devices, especially the carbon filters.

The next step will be to install an odor watch at the Roger Road WRF. This is a sophisticated package of instrumentation which will be computer controlled and we will have a series of sensors throughout the Roger Road WRF. Mr. Gritzuk said the sensors will not only detect hydrogen sulfide but can detect a family of different odors. These sensors will work 24 hours/day and be continuously recording so we have a continuous record of odors in real time.. With this type of information, the Department can see where there may be breakthroughs of odors, thus they can be fixed. Mr. Gritzuk hoped to have this equipment installed and operating by January 2009. Once the equipment is up and running, Mr. Gritzuk offered to provide the Committee with a tour. Discussion followed.

Mr. Carlson asked about the cost and operation of the system. Mr. Gritzuk responded the cost of the system was \$180,000, and operation will be by Department staff.

Mr. Smith asked if the Department had considered posting this data live on the internet. Mr. Gritzuk responded that could be done. He added that the Department has gone out into the neighborhoods with odor loggers. These again are continuous monitoring devices. One device was placed in the Flowing Wells area and one will be placed at a staff residence near the Roger Road WRF. Two more devices will be placed around the neighborhood.

Sheila Bowen asked if the Roger Road WRF odor watch is intended to provide the ability to react immediately to odors. Mr. Gritzuk responded odor watch will pinpoint where we may have odor breakthroughs and staff will be able to react. The Department will also be able to see trending throughout the seasons.

Laura Fairbanks, Manager of Community Relations, informed Committee members that she understood that if there is an odor breakthrough above a certain level, alarms go off

and staff can respond. Mr. Jenkins said there are still some areas that are still being evaluated that may need some additional capital projects.

Mr. Flores asked about the location of these odor monitoring devices and whether Interstate 10 was considered a potential location. Mr. Jenkins responded that monitors have been placed in the Flowing Wells neighborhood and another at Prince and I-10 which has been a hot area in the past.

Mr. Gritzuk reminded Committee members that when the Department first entered into development of the Odor Control Program, we said that our goal was for a noticeable reduction in the odors, not a complete reduction that was primarily because, here at Roger Road, the facility was going to be decommissioned so we were not going to spend millions of dollars to eliminate all of the odors. He felt that the Department has met and surpassed that goal - the Department was experiencing a substantial reduction in odors at this point in time. In the conveyance system, where odor controls are permanent, there are non-detectable odors. The permanent odor controls, both at the Ina Road WRF and the new Water Reclamation Campus, are included in the ROMP Program. Of the \$720 million budgeted for the ROMP, a total of \$40 million is for odor control at these two facilities.

#### 4. Financial

- **2008/09 Financial Plan Update.** Jeff Nichols, Deputy Director of Finance and Administration, presented an update on preparation of the 2008/09 Financial Plan. He informed Committee members that the Department is in the process of updating the FY 2007/08 Financial Plan. He reminded Committee members that the FY 2007/08 Financial Plan included substantial rate increases – averaging eight percent over a number of years. He noted that staff had previously informed the Committee of the “hump” in our Capital Improvement Program that we had to get over. The big cash need in the first years of the 2007/08 Financial Plan was really driving these rates.

Mr. Nichols informed Committee members that that these needs have not changed. He also informed the Committee that the Department has had several issues it has been dealing with since the 2007/08 Financial Plan.

First the 2007/08 Financial Plan assumed the issuance of Sewer Revenue Bonds being authorized by the voters in November 2008. The County Bond Advisory Committee this summer recommended that the County not go forward with a bond election in November 2008. The Board of Supervisors accepted the Bond Advisory Committee’s recommendation and postponed the bond authorization election until November 2009. Pushing the bond election back to 2009, everything this fiscal year planned to be funded with 2008 Sewer Revenue Bonds now would need to be funded with System Development Funds (cash). The Department has two choices – delay the projects past the bond election (which is not an option with some projects because the Department has these regulatory mandates in 2014 and 2015); or the Department goes forward and uses pay-as-you-go financing.

Second, Mr. Nichols estimated that, if the bonds are authorized in November 2009, the soonest the Department could sell those bonds would be in December 2009 or January 2010 so everything that was to be bond funded in the first half of FY 2009/10 would now need to be cash funded.

Third, Mr. Nichols also informed Committee members that as previously noted the Department is going to see a decrease in connection fees. He added that the Department has for the last two fiscal years budgeted a decrease in connection

fees. The Department shows negative growth in connection fees. Even though the Department has significantly increased the connection fees on a per unit basis, we are seeing reduced revenues from those connection fees. This fiscal year, the Department budgeted approximately \$32 million in connection fees. Projections from the first three months of data indicate the Department will collect approximately \$22 million.

Finally, he reminded Committee members that the 2007/08 Financial Plan talked about bridging the gap between the time the Department got the 2008 Bond Authorization and when they could be sold with some Certificates of Participation (COPs). Now, the COPs are being used for another financial purpose and that is the expenditure limitation of the County. The County is required by state law to cap expenses from local revenue sources; the one exclusion is bonds because you are going back out to the voters and asking for permission to sell the bonds. The COPs currently are bridging that gap to stay under the expenditure limitation, and the Department is paying an interest cost of approximately \$2.25 million that was not included in the 2007/08 Financial Plan. If you put all of these things together and the fact that the Department has this "brick wall" of the regulatory compliance date at the end, it is creating a "bow" in the Department's rates and they need to go up substantially.

Mr. Nichols informed the Committee members that Department staff are working with Raftelis and developing some "what if" scenarios. Staff currently is reviewing the prior spending history of the Department, because the financial model assumes the Department spends 100 percent of its Operations and Maintenance (O&M) budget.

The current financial model seems to indicate that the Department can keep rate increases to single digits and remain on track. The Department has twice reviewed/adjusted its FY 2008/09 Capital Improvement Program (CIP) and only continued projects already under construction (e.g. the Avra Valley WRF and Santa Cruz Interceptor projects). The Department assigned priority to projects under construction and those driven by regulatory requirements, and pushed back the remaining projects. As an example, the Department still has a significant source of 2004 Bond funding this year (approaching \$5 million) for the rehabilitation of the large conveyance lines, but we also had System Development Funds (SDF) allocated. The Department removed the SDF and decided to go strictly with the bond funds for these projects. The original CIP budget was \$117 million for FY 2008/09 and the Department has now reduced the CIP down to approximately \$90 million to conserve all cash possible.

Mr. Nichols informed Committee members that the Department will be fine this fiscal year - where it will really hit the Department is when the needs for cash pick up in FY 2009/10. He added if the Department stays on track with its spending and we do not get the rate increases, the Department would show a cash deficit at the end of FY 2009/10.

- **FY 2009/10 Zero-Based Budget.** Mr. Nichols informed Committee members that every four years, the County requires a certain number of Departments to go through a zero-based budget process. This requires departments to justify every line item and every program within a budget and tie every one of those into the Department's performance goals and objectives and show how we are delivering products and services. The Department begins this budget process on October 20, 2008.

Mr. Nichols referred to the previously distributed "Follow-up to Committee Questions from September 18, 2008 Meeting" handout, which asked how the Department projects - estimates - connection fees. He also referred Committee members to additional information distributed at the meeting, which lists approximately 16 different types of connection fees (e.g. commercial addition, commercial alternation, multi-family addition etc.). Each time a home is remodeled, the number of fixture units is recalculated and the individual applying for the permit pays the difference in connection fees. Mr. Nichols referred Committee members to some additional information provided which shows what type of permits, what jurisdiction, and how much was collected.

Mr. Nichols also informed Committee members that he felt that with the Department's current per unit connection fee, we are collecting the amount of revenue necessary to provide increased capacity both within conveyance and treatment. He added that this is a very volatile revenue source and the Department's user fees are much more consistent. But, even within the user fees, the administrative - flat - fee is a fixed amount for every account that is being served. What the Department is seeing is decreased revenues on the flow side. Mr. Nichols informed Committee members that as the Department moves forward, we are going to look at our O&M budget to determine where the Department might be able to save money.

He reminded Committee members that in FY 2002/03, the Department finished the year in a deficit cash position and a loan had to be made from the County's General Fund to the Department. The Department drastically cut its budget in order to pay the loan back the following year. Mr. Nichols added that the Department has worked very hard to get to its current financial position and he felt the Department did not want to take a step back.

Mr. Nichols informed Committee members that the Department's FY 2007/08 Financial Plan anticipates paying five percent interest fee on its bonds. The last bonds sold by the Department paid approximately 4.2 percent interest. Anything above five percent would hurt the Department. Discussion followed.

Mr. Smith asked what the expected cash overrun the Department expected given that it cannot get funding from sewer revenue bonds in FY 2008/09? Mr. Nichols responded he would not call it a cash overrun, , it is a cash demand of approximately \$19.5 million.

Mr. Smith then asked in FY 2008/09 with the \$19.5 million plus \$10 million less in connection fees what is the total amount of budget deficit we can expect in FY 2008/09? Mr. Nichols replied the Department does not expect a budget deficit in FY 2008/09 because the Department started this year with approximately \$44 million in the bank; however, the Department is going to burn through that cash rather quickly.

Mr. Jenkins noted that Mr. Nichols had previously mentioned that the Department reduced its FY 2008/09 CIP budget from \$117 to \$90 million.

Mr. Smith asked if the Department is burning through a \$44 million cash balance, the Department does not believe it is going to have a deficit this year? Mr. Nichols responded, the Department does not believe at this point in time, it will have a cash deficit at the end of this fiscal year which ends on June 30, 2009.

Mr. Smith asked how much of a cash deficit the Department anticipated at the end of FY 2009/10. Mr. Nichols responded that depends on the assumptions in the financial model. He offered to meet with Mr. Smith and walk through the financial model. He added the best case scenario, assuming that we tried to keep rates under 10 percent, that deficit would approach \$20 million in FY 2009/10.

Mr. Smith asked which percent increase in rates chips away at that amount? Mr. Nichols responded that is a question that staff just asked Raftelis Financial Consultants and he anticipated an answer today (October 16, 2008).

Mr. Nichols also informed Committee members that the Department is facing "ROMP II." The Department has been informed by ADEQ that it does not want the Department to let its effluent discharge reach the Ak-Chin Reservation. The Department is estimating that cost could be anywhere from \$300 million to \$1 billion.

In regard to the percent increase in rates, Mr. Nichols said he has asked Raftelis to give him a percentage figure for every \$1 million.

He added the Department's revenues from user fees were approximately \$75 million. A certain portion of these fees comes from the fixed Administrative fee, so it has to be assumed that fee would be raised as well as the flow charge by the same percentage. The increases currently being considered by the Department are sufficient to get over the hump. Mr. Nichols said the good thing is if the Department "bites the bullet" now and we increase the fees to what the Department needs to get through this cash crunch, on the back side of the hump, the Department will only need minimal increases – assuming the voters approve the bond authorization in November 2009, we can use the cash generated by those rate increases for the debt service of the new bonds.

Mr. Carlson asked if the Department was offering individual sessions with Committee members to review the financial model for those that want them. Mr. Nichols responded in the affirmative.

Mr. Gritzuk said the Department is preparing the 2008/09 Financial Plan with all of these factors plugged into it. The week of October 20, 2008, staff will be making a presentation to County Administration. He suggested that staff make the same presentation at the next scheduled Committee meeting.

Mr. Nichols said the Department could also have Raftelis attend the meeting and walk through the financial model. He added that Raftelis noticed the fluctuation in the revenues from the user fee side. The Department did not capture quite as much revenue as we projected in FY 2007/08. That is when staff looked at the water demand and said there was less water demand than predicted.

Mr. Smith asked when this presentation was being made to County Administration. Mr. Nichols responded the presentation would be made the week of October 20, 2008. Mr. Smith then said he was appointed by Supervisor Day who will probably attend that meeting and one of the things that she will probably ask me is my opinion. I have no idea what to say to her. Mr. Smith asked, from an oversight committee function, why that presentation would not first be made to the RWRAC in order to prepare their appointing supervisors?

Mr. Gritzuk responded that the rate model presentation is being made to the County Administrator and Finance Department Director and then they will bring it forward to the Board of Supervisors.

Mr. Gritzuk said the Department could stage the presentation of the rate model in such a way as to bring it to the highest level of County management/staff and then bring it to the Committee before it goes to the Board of Supervisors. He added the Department has no control over how and when the County Administrator brings the proposed rate increases to the Board of Supervisors. Mr. Nichols added that staff could arrange meetings for individual Committee members to walk them through the rate model. Mr. Curley requested that Committee members contact Ms. Hunt if they would like a presentation.

Mr. Nichols said the rate model would be presented at the next scheduled Committee meeting and that he would ask Raftelis to attend as well and walk through all of the assumptions included in the rate model. He added that he looked forward to going through the zero-based budget process because it presents the Department with opportunities to look at operations and where we might be able to save money.

Mr. Bliven asked about forecasting the future. He thought the rate increases usually went to the Board of Supervisors for their consideration the first of the calendar year or fiscal year. He felt the Department would be looking at making those rate increases and the Committee would probably want to give their appointing supervisors a recommendation before the rates go to the Board of Supervisors. He said what was troubling to him is that it sounds like the rate increases that the Department had projected are actually going to be too small for what the Department needs because of the bonding issue. He added that he felt it would be difficult for the Board of Supervisors to grant those increases with the current economic conditions.

Mr. Nichols responded that he felt ADEQ would not allow the Department to fail to meet the Agency's regulatory deadlines of 2014 and 2015 even under the current economic situation.

He noted that last year was the first time the Board of Supervisors authorized rate increases as recommended by the Department and the Committee.

Mr. Curley noted for the new Committee members that the Financial Plan and rate increase process is a fairly elaborate one which involves a RWRAC public meeting and presentations to get community feedback.

Mr. Smith asked if you are \$40 million plus \$10 million shortfall plus another \$20 million so you are \$70 million short? Mr. Nichols responded he felt that this year the Department will need approximately \$42 million of that money and the following year, the Department will need almost the same amount of cash until the 2009 Bond Authorization was hopefully approved by the voters. After the bond authorization, the Department could reimburse itself. He added that there is also the option of a municipal property corporation issuance which would not have to go before the voters and there is also the possibility of private financing.

Mr. Nichols suggested while Committee members are touring the Roger Road WRF, that they look at the infrastructure. He informed Committee members that the

two Roger Road bio-towers are the two oldest working bio-towers in the world – they have lasted longer than any other bio-towers still currently being used.

Mr. Gritzuk reminded Committee members that the Department went through the process of evaluating rehabilitation of the Roger Road WRF and determined it would be much more costly to rehabilitate the facility than to decommission it and build a new facility.

**B. New Items.**

1. **RWRAC Proposed Ordinance Amendment – Tucson Water Director as Ex Officio Member.** Mr. Curley presented the proposed Ordinance Amendment on behalf of Chuck Wesselhoft, Deputy County Attorney,. He referred Committee members to the most recent version of the Amendment which was distributed at the meeting. Under the proposed Amendment the Director of Tucson Water would be a sitting ex officio (non-voting) member of the RWRAC and the Department Director would be a sitting ex officio (non-voting) member of the CWAC. It would also allow the directors to have an appointed representative if they could not attend a meeting.

A motion was unanimously accepted to approve and submit the proposed Ordinance Amendment to the Board of Supervisors. (YES – 8, NO – 0)

2. **Tour of Roger Road Wastewater Reclamation Facility.** Committee members toured the Roger Road WRF immediately following adjournment of the Committee meeting.

- V. FUTURE AGENDA ITEMS.** 2008/09 Financial Plan; Water Infrastructure, Supply and Planning Study; Federal/State Legislative Update; Regional Optimization Master Plan Update; Odor Control Plan Update; Capital Improvement Program Update; Voter Bond Authorization Update; Houghton Area Master Plan Update; and Industrial Wastewater Control Update.

At this point in the meeting, Mr. Gritzuk expanded on Mr. Nichols previous mention of what the Department is now calling “ROMP II.” ADEQ is conducting the current Triennial Review which is coming up with new proposed regulations and very shortly these proposed regulations will become law. These new regulations will have a very significant impact on the Department. He suggested that staff provide a presentation on the Triennial Review and the impact and cost implications that it has on the Department. There is a prohibition of effluent discharge on the Ak-Chin Reservation and there is also a potential phosphorous requirement plus others.

Mr. Gritzuk also suggested a presentation on the Department’s solar energy projects by Mr. Jenkins.

Mr. Smith asked whether there was a need to have a standing presentation on Odor Control as the odor control issue has been greatly diminished. Ms. Hanson responded the reason for these updates is specifically because the RWRAC took on the responsibility to monitor the Department’s Odor Control Program after the Citizens Involvement Committee was dissolved. Mr. Smith suggested that odor control information could be posted on the Department’s website, possibly even on a daily basis. Mr. Bliven added that the Committee made a commitment to the public that it would monitor the this program, and suggested that staff provide a shortened Odor Control Update at the next scheduled Committee meeting including a list of odor complaints and really brief update.

- VI. CALL TO THE AUDIENCE.** There being no response from the audience Chair Bliven adjourned the meeting.

- VII. ADJOURNMENT.** The meeting adjourned at 9:43 a.m.