REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Meeting Minutes
January 13, 2009

Committee Members Present:

Adam Bliven	Sheila Bowen	John Carhuff
John Carlson	Brad DeSpain	Marcelino Flores
Barbee Hanson	Armando Membrila	Corey Smith
Mark Stratton	Ann Marie Wolf	Michael Gritzuk
Chris Avery for Jeff Biggs		

Committee Members Absent:

Rob Kulakofsky	John Sawyer

Staff Present:

Ben Changkakoti	Ed Curley	Laura Fairbanks
Suzy Hunt	Jackson Jenkins	John Munden
Jeff Nichols	Melaney Seacat	Lilian Von Rago
Eric Wieduwilt		

Other County Staff Present:

Tom Burke, Director Finance and Risk Management	Harlan Agnew, Deputy County Attorney	Chuck Wesselhoft, Deputy County Attorney

I. CALL TO ORDER. Chair Adam Bliven called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 9:06 p.m.

II. APPROVAL OF MINUTES: The Committee approved the minutes of the November 20 and December 18, 2008 RWRAC meetings.

III. DISCUSSION

A. Old Items/Updates

1. **FY 2008/09 financial Plan.** Chair Bliven reminded Committee members that they had just received a presentation of the Draft FY 2008/09 Financial Plan and proposed rate increase scenarios from Department staff and Harold Smith of Raftelis Financial Consultants. Committee members also received copies of the Draft Plan prior to the meeting. Chair Bliven asked Committee members for their comments and discussion of the Draft Plan.

   - Scenario A – No increase in the base Service Fee and a sixteen and three quarter percent (16.75%) increase in the volume fee in March and July of 2009 and January 2010.

- Scenario B – No increase in the base Service Fee and a twenty-five and one quarter percent (25.25%) increase in the volume fee in March 2009 and a nine and one quarter percent (9.25%) increase in the volume fee in July 2009 and January 2010.
- Scenario C – An increase in the base Service Fee of one dollar and fifty cents ($1.50) in March 2009 and January 2010 as well as a twelve and three quarter percent (12.75%) increase in the volume fee in March and July 2009, and January 2010.
- Scenario D - An increase in the base service fee of one dollar and fifty cents ($1.50) in March 2009 and January 2010 as well as a twelve and one quarter percent (12.25%) increase in the volume fee in March and July 2009, and January 2010. Scenario D also includes an increase of four percent (4%) in Connection Fee rate.

Barbee Hanson expressed her support for Scenario C. One of the reasons she said she did not support Scenario D (which includes a 4 percent increase to Connection Fees) is because new construction is already getting blasted with increased fees.

John Carlson said to ignore increasing the Service Fee would be to ignore what is happening. He felt the County's Sewer Outreach Subsidy (SOS) Program could be adjusted if necessary and users should pay.

Sheila Bowen commented that given the uncertainty in those User Fees that we do not have the answers right now, the Service Fee is a known quantity that can be counted on. She felt the Sewer Outreach Subsidy should be applied to that fee as well if possible for some equity.

Chair Bliven said he favored Scenario B because it rewards customers for conservation. He said he would like to see that in the way the rates are structured. He felt it gives people some flexibility in their home finances.

Ms. Bowen commented that for Scenario C there is about a $13 difference in July 2009 going from 8 ccf down to 2 ccf – so basically that is reflecting a conservation element. The Service Fee is a constant.

John Carhuff said he favored Scenario C for the reasons cited and also the impact on construction. In terms of conservation, he felt the big driver is the inclined block system with Tucson Water. The other factor is that Scenario C will produce a little bit more money than some of the other alternatives. He felt the Department was way behind on getting the Service Fee up.

Marcelino Flores said he supported Scenario D. He noted that he has been participating as a member of the Oversight Committee for the City/County Water/Wastewater Infrastructure, Supply and Planning Study, and he expressed confidence that growth would continue in Pima County. Another position taken by the City and the County is that growth will pay for itself. He felt the proposed Connection Fee increase included in Scenario D is stepping toward that direction while also sharing the cost so the users are

not overly burdened. He liked the idea of the Service Fee and the denotation that it is an environmental fee.

Corey Smith expressed support for Scenario D. He said the only concern he had about the two User Fee rate increases is if in fact there is a decrease in water usage over the winter months or something happens all of a sudden, there is going to be a future revenue shortfall that is going to be felt in FY 2008/09 in the second half of the year. He wondered if it was more appropriate to have a $2 increase upfront to a $1 increase at the back end. Then the Department would have the opportunity with which to adjust the $1 increase at the backend two years out or a year out.

Ann Marie Wolf said she was also in favor of Scenario D for similar reasons. She said she would like to guarantee that we have that 75 percent decrease flexibility for the low-income families because she did not think it was nickels and dimes for them. She felt it was significant in that all of their utilities - water, etc. are going up.

Corey Smith asked if the 75 percent reduction for low-income families was a stipulated amount or guideline or can it be adjusted so that you do not get a decrease in what they pay. Mr. Nichols said that this is a stipulated amount.

Corey Smith asked if the rate could be changed so that the Department is not actually decreasing their rate.

Harold Smith responded the SOS portion of the User Fee Ordinance did not necessarily have to be changed such that the 75% reduction is applied to both the Service Fee and the volume component, but that the percentage reduction could be different for each component. Mr. Nichols added per the User Fee Ordinance, the Department has flexibility within the Ordinance. He said his recommendation was that it would apply to the whole Service Fee. He felt we have a large portion of the population that are eligible for this program but they are not wastewater customers. They live in rentals (e.g. apartments and mobile home parks) where they pay for water and sewer within their rent. Out of the 1,700 customers, the vast majority qualify for the 75 percent reduction so allowing them that reduction on their base Service Fee would not negatively impact revenue.

Armando Membrila said he would support Scenario C, but he would have preferred seeing one annual Service Fee increase upfront and a 2 percent increase to the Connection Fees in Scenario C. Mr. Membrila made a motion in support of Scenario C and Mr. Carlson seconded the motion. Discussion followed.

Mr. Carlson said he did not know if the 75 percent reduction for low-income customers and the SOS was the charge of the Committee to express itself on this issue. He thought that most of the Committee members had developed the philosophy that any increased capacity needed should be paid by the new arrivals and that is what the Connection Fee is for and all residents pay the usage fee for maintenance and operation. Chair Bliven

said he had always heard that Connection Fees should pay for system expansion – he did not know if that was a County policy or if it was just a general public policy concept.

Mr. Nichols responded that it was not just a County policy – it is good financial policy that one-time revenues pay for one-time costs. He noted that the Draft Financial Plan mentions that the rate model did not show that an increase in Connection Fees was necessary at this time. However, the Department did want to offer Scenario D as an alternative to be considered by Committee members.

Mr. Carhuff said one reason he supported Scenario C over Scenario D is that he does not have a lot of confidence today that a 4 percent increase in Connection Fees is going to produce any significant revenue. He noted that the Committee and the Board of Supervisors would have the opportunity to revise this Financial Plan in the future – so until we get more information about the current state of connections and whether current forecasts will hold up based on data from November and December 2008, he felt the Committee should consider voting for Scenario C and putting in a statement to the Board of Supervisors that there was strong interest in Scenario D, but given the level of economic activity there was not enough confidence to recommend that as a top priority to the Board of Supervisors.

Mr. Carlson said on the joint City/County Water Study, the Study's Oversight Committee talked about Connection Fees keeping up with the physical plant – he thought the idea was out there.

Chair Bliven said he liked the concept brought up by Mr. Nichols of "elastic" revenue and that the County's bonding capacity is looked at better if the revenue does not increase and decrease depending on housing starts. He added for that reason, he would not be in favor of Scenario D because it does put more of the operating costs onto the Connection Fees. Chair Bliven also expressed his support for Scenario C.

Corey Smith said Scenario D did not put more costs on – there is an upside to opportunity. The fixed costs increase – Scenario C and D are the same as it pertains to the fixed costs. It is only that in the event that there is increased building rates that you have a "kicker" on the backend.

Mr. Flores said he felt that Pima County is a very amenable place to live and the sun corridor presentation made to the Water Study's Oversight Committee brought out that growth is happening and is going to continue to come to Tucson. He added that one of the reasons is because of the utility rates that we pay are substantially lower than in other areas.

Mr. Carlson said the Connection Fee could be raised any time it can be justified and stand on its own.

Mr. Flores responded that the only challenge is then bringing multiple rate increases at multiple times of the year is problematic.

Ms. Wolf said the ROMP does increase capacity – she noted that the Draft Financial Plan PowerPoint presentation states that ROMP addresses growth needs to 2030. It is increasing capacity from 81.5 mgd to 85 mgd. She said what is being proposed is that the users are going to pay for that increased capacity.

Corey Smith asked about the amount of the Service Fee increase – whether it be a $1.50, $1.65 or $2.00 – he expressed concern that if there is any weakness in usage levels – that the Department would have a shortfall in revenue and the Department would be in the position where you have already had a rate increase approved and then you are still short. He added that the Department currently has a $40 million surplus that it is going to exhaust – he did not feel that was a prudent thing to do. He felt it was better to have a slightly higher level of funding because you do not know what the future is going to hold.

Chris Avery pointed out that he just received information that participation in the City's Low-Income Program is up 30 percent from what it was one year ago. So if the Committee is considering an increase that is based on the Service Fee, he felt that it would also be prudent to expect increases in the number of participants who avail themselves of the County's SOS Program. He added that Tucson Water has not gotten to the stage where they are making recommendations about what it will do next fiscal year, but the Utility realizes the problem of a much more price elastic structure on the water side and is trying to take some steps to move away from that and an increase in the Service Fee is one way to do that in a prudent manner.

Mr. Membrila called for the question.

Ms. Bowen asked if the goal of the Scenario C proposal was to keep the first rate increase in line with the median or the mean with the 60 largest cities? Mr. Nichols responded regarding the $1.50 proposed increase – the Department looked what utilities are currently charging and wanted to be in-line with those. However, if we look at this as an environmental fee, by the time we get to the end of the ROMP Program, it could be a dramatic fee. He also pointed out that some of the increases in the FY 2008/09 Financial Plan will be related to the operations and maintenance of those facilities – in many places they have fixed environmental fees, but they also have volume environmental fees based on water usage.

Mr. Nichols said the goal within the four rate increase scenarios was to produce the amount of revenue required in order to deliver the ROMP Program. The Department is required by the regulatory schedule to meet these improvements by 2014 and 2015. He reminded Committee members that the Department will be preparing financial plans each fiscal year. He said he would not be averse to any discussion regarding whether the proposed Service Fee increases be they the two $1.50 increases suggested by the Department or increases of $2 in January 2009 and $1 in January 2010 as suggested by Corey Smith. Mr. Nichols felt the more revenue we can generate quicker, the more dependable it is - the better it is for the program.

Mr. Carlson suggested that the Committee could vote on the existing motion and Corey Smith could introduce a motion that we consider sending a supplemental page for the Board of Supervisors to think about that.

Corey Smith suggested that an alternative would be to withdraw the existing motion and the Committee could vote on a $1.75 increase.

Mr. Membrila said he could withdraw his motion – he would prefer to have the increase be $3 upfront and be done with it. However, he supported Scenario C because it would be best thing that would help the Department at this point.

Mr. Carlson also suggested that the Committee could vote at the next meeting.

Chair Bliven asked for a show of hands in support of Scenario C.

8 members voted YES and 3 voted NO. Mr. Flores, Mr. Smith and Ms. Wolf voted no – these Committee members felt that an increase of Connection Fees as in Scenario D should be a part of any recommendation of fee increases.

There was further discussion of the Financial Plan.

A motion was unanimously approved to accept the Financial Plan and forward it to the Board of Supervisors (11 members voted YES, none vote NO).

2. **Approval of 2009 Work Plan.** The 2009 Work Plan was unanimously approved (11 members voted YES, none vote NO).

B. New Items.

1. **Committee Member Terms – Upcoming Expirations.** Suzy Hunt, RWRAC Coordinator, referred Committee members to information they received prior to the meeting and noted those members whose terms were expiring. She asked those members interested in continuing to serve on the RWRAC contact their appointing Supervisors. Ms. Hunt also informed Committee members that the Department would be sending letters to the Supervisors in this regard.

IV. FUTURE AGENDA ITEMS. Chair Bliven reminded Committee members that the next scheduled Committee meeting was the January 21, 2009 joint CWAC/RWRAC meeting on the Water/Wastewater Infrastructure, Supply and Planning Study, Draft Phase I Report. This meeting will be held at 7:30 a.m. in the Pima Associations 5th floor conference room.

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

VI. ADJOURNMENT. The meeting adjourned at 7:36 p.m.