REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Public 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 7:05 p.m. and led the audience in the Pledge of Allegiance.

Chair Bliven explained that the role of the Committee is to act as the public's voice on issues related to the Regional Wastewater Reclamation Department. He noted that the Committee reviews and makes recommendations on all aspects of the Department including the Fiscal Year (FY) 2008/09 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 2008/09 Financial Plan to the Board of Supervisors for their consideration. Committee members received copies of the Financial Plan prior to the meeting.

Chair Bliven explained that the RWRAC members were appointed by the Board of Supervisors and, represented various community organizations or individual Supervisors. Chair Bliven informed Committee members that Jeff Biggs, Director of Tucson Water, was now an ex officio member of the Committee. Chris Avery, Interim Deputy Director of Tucson Water, was present to represent Mr. Biggs at the meeting. Chair Bliven and Committee members then introduced themselves.

II. **PRESENTATION OF FY 2008/09 FINANCIAL PLAN.** Chair Bliven introduced Department Director, Mike Gritzuk. Mr. Gritzuk explained that staff will be making a presentation on the status of the Department's Capital Improvement Program (CIP), the Financial Plan needed to support the overall CIP and also some recommended rate increases needed to support this Financial Plan. He noted that much of the presentation would focus on the Regional Optimization Master Plan (ROMP) which represents the majority of the capital needs in the immediate future. (Committee members received copies of the Draft Financial Plan PowerPoint presentation.)

Comment [SH1]: Note: This 2/4/09 Draft of 1/13/09 RWRAC Minutes included in 2008/09 Financial Plan. Deminimis edits made to minutes approved by RWRAC on 2/19/09.

Mr. Gritzuk then presented background information on progress the Department made with the CIP, the ROMP as well as regulatory issues. He also informed Committee members that this same presentation will be presented to various other organizations.

The Department operates and manages 11 wastewater treatment facilities. The two major facilities are the Roger Wastewater Reclamation Facility (WRF) and the Ina Road WRF. Most of the ROMP improvements involve these two facilities. The Department's CIP covers all capital improvement needs of all 11 facilities and the conveyance system between the facilities.

The primary function of the ROMP is to upgrade the Ina Road WRF and the Roger Road WRF. This includes developing the optimal treatment process and plan to comply with regulatory requirements for effluent reduction of ammonia and nitrogen, master plan future regulatory requirements, determine the long-term treatment capacity needs of the County, develop a regional plan for the treatment, handling and reuse of system biosolids and bio-gas; develop a detailed implementation schedule to meet regulatory implementation deadlines; and develop a financial plan to support the systems' regulatory and other needs for the next fifteen years. Upgrades for regulatory requirements are to be operational and in compliance with Arizona Department of Environmental Quality (ADEQ) requirements at the Ina Road WRF by January 2014 and at the Roger Road WRF by January 2015.

Because of the current economic slowdown, Chuck Huckelberry, County Administrator, wrote to ADEQ requesting relief from the ROMP implementation schedule in order to give more time to implement the requirements. Mr. Huckelberry, John Bernal, Deputy County Administrator for Public Works, and Mr. Gritzuk, Department Director, met with ADEQ senior management on December 8, 2008 concerning Mr. Huckelberry's request to extend the ROMP regulatory deadlines by 5 years in light of the current economic conditions. Mr. Gritzuk felt that ADEQ officials thought the Department made a good case for a 5 year extension, but felt that was highly unlikely and also the procedure that the Department would have to follow would take over 1 year and there was no guarantee that the Department would be successful in that request. As a result, the Department is moving ahead with its original ROMP implementation schedule.

The ROMP Plan includes upgrading and expanding treatment capacity at the Ina Road WRF to 50 million gallons per day (mgd), centralizing all biosolids processing and handling at the Ina Road WRF, and bio-gas utilization to generate electricity. Ina Road's current capacity is 37.5 mgd. The ROMP Plan also includes decommissioning and demolition of the existing 41 mgd Roger Road WRF and construction of a new 32 mgd Water Reclamation Campus (Water Campus) in the vicinity of the current Roger Road site. Regional laboratory and staff facilities and probably other facilities from other County Departments will be included at the Water Campus.

Total treatment capacity will increase from 81.5 mgd to 85 mgd by the year 2030 with these upgrades.

The Plant Interconnect will connect the Roger Road WRF to the Ina Road WRF. The intent of the Plant Interconnect is to convey wastewater from the Roger Road service area to the Ina Road WRF where there is more treatment capacity available. The Interconnect will convey 36 mgd of average capacity and 81 mgd of peak flow capacity from the Roger Road Service area to the Ina Road WRF.

The ROMP includes state-of-the-art odor control at both the new Water Campus and Ina Road WRF facilities and architectural compatibility to the local surrounding areas. The County's solar energy project, which is not a part of the ROMP, will be constructed on County property immediately north of the Water Reclamation Campus. This project is being moved ahead by the County's Sustainability Program group. The County is in final negotiations for that project. The intent is that the energy from the Solar Energy Project will be fed back into the grid and the County will get credit for all of that energy based upon domestic rates and that credit will come to the Roger Road plant and eventually the Water Campus. There is also the potential for some environmental enhancements including adjacent parks, natural areas and economic development surrounding the Water Campus and along the frontage road that abuts the freeway.

Mr. Gritzuk then reviewed the ROMP contracts that have been awarded to-date. He observed that because of the regulatory schedule and the complexity of the ROMP Program, the Department moved ahead rapidly in implementing the overall program. In the area of project management and development of the ROMP Program, the Department retained the consultant, Greeley and Hansen, to conduct the ROMP Study which started in February 2006. The ROMP Study included many workshops with the involvement of many stakeholders. The Study resulted in the recommended ROMP Program. Greeley and Hansen then partnered with Parsons and they were retained to do the program management for the overall ROMP Program. In addition, the Department retained Raftelis Financial Consultants to be the Department's financial advisor to develop the Financial Plan and scenarios for bond programs and required rate increases. The Department also retained the law firm of Hawkins, Delafield and Wood, LLP, to help with project delivery methods and provide legal assistance primarily in the development of service agreements.

Mr. Gritzuk noted that design of the Plant Interconnect has been completed. The contractor under the construction-manager-at-risk (CMAR) project delivery method has been selected, and negotiations are underway with the contractor, Sundt/Kewit, for a guaranteed maximum price (GMP) to move ahead with construction of the Plant Interconnect. Mr. Gritzuk was hopeful that contract would be in place shortly. The budget for construction of the Interconnect Project is $27 million. The Department is using in-house staff to manage this project.

The Board of Supervisors awarded the design contract for the upgrade and expansion of the Ina Road WRF, including construction services and commissioning, to CH2M Hill. The contractor, MWH Constructors, Inc., is the CMAR for the Ina Road WRF upgrade and expansion project. The budget for the Ina Road project is $219 million. The Department has retained Jacobs Field Services of North America, Inc. as the project manager for this project,

The Department selected the contractor, EMA Services, Inc., for the Supervisory Control and Data Acquisition (SCADA). Negotiations are underway for the SCADA Master Plan. Discussion followed.

When the ROMP Study was completed and the ROMP Master Plan developed, the Department also had a consultant with expertise in project estimating estimate the cost of the Master Plan. This planning level estimate was $536 million in 2006. Following this, the Department started to lay out the ROMP Program into the various construction contracts that were needed to complete the Program and, in addition, the Department identified all of the professional and other services needed to move ahead with the ROMP Program. These include engineering and legal services, cultural resources work, etc. For each of the construction contracts identified, the Department inflated the cost of those contracts by 5 percent to the mid-point of construction of each of these improvements. This increased the ROMP budget to $720 million. It is the Department's goal to bring the ROMP Program in within this $720 million budget. In the past, the Department normally worked with an estimate for a project budget that could be exceeded if need be.

The Department will be borrowing the funds to implement the majority of the ROMP Program, which will bring the bonding and debt service for the Program to $1+ billion. The ROMP is the largest CIP in Pima County to-date. The Department feels it has gone to great lengths to come up with a program management/project management structure for the ROMP Program because of its huge size in both dollars and complexity.

The Department established stringent project management and budget management controls from the beginning of the ROMP. One tool the Department is using is the Exit Gate Project Implementation Process. Mr. Gritzuk informed Committee members that at major milestones in each contract – whether design or construction – as we achieve or get to a milestone and before we are allowed to move to the next step in the process, the Department goes through an "exit gate" conference. This includes addressing what has been accomplished, what is the status of the budget and the implementation schedule and what issues need to be resolved. All of these issues are reviewed and there has to be management sign-off on any remaining issues and management agreement to move to the next step on each of the contracts that have been awarded. Mr. Gritzuk re-emphasized that the established budget for the ROMP is $720 million – it is not an estimate and the Department is going to work to keep within the budget.

The Department initially entered into negotiations with a consultant for the Plant Interconnect Project and those negotiations failed because the Department could not agree to the scope of services with that consultant or the cost estimate that the consultant was providing with regard to those project management services. Therefore, the Department decided to move ahead with in-house project management. Mr. Gritzuk felt the Department had saved over $1 million in this process. The construction budget for the Plant Interconnect is $27 million. Some of the early cost models developed by the contractor were as high as $33 million – that was unacceptable to the Department. As a result the Department went through various rigorous value engineering and also required that the contractor bid-out all of the work on this contract via pre-qualified subcontractors. As a result of the bidding that came in, the Department feels that it will get to a GMP of approximately $24/$25 million. This contract is in negotiations. If it comes in at $24 million this will be $3 million under budget. This is the philosophy the Department is trying to instill in all of ROMP – the budget is viewed as a maximum and the Department is going to try to come in below budget in every instance.

The Board of Supervisors authorized the Department to proceed with negotiations for project management services for the upgrade and expansion of the Ina Road WRF with consultants at a not-to-exceed authorization of $14 million. These negotiations failed because the consultant's price exceeded the $14 million authorization. The Department ended negotiations with that consultant and entered into negotiations with the second consultant on the list and negotiated that contract for $12 million with Jacobs. This is another demonstration of the effectiveness of the Department's cost control efforts.

Mr. Gritzuk felt the best example of cost control is the Water Campus. If the Department were to proceed with the design and construction of this project in the traditional way of design-bid-build (DBB), the construction cost estimate for construction of the facility was $226 million. The Department had the consultants do a risk-adjusted cost estimate for this project – that is if everything went wrong with this contract. The risk-adjusted price for the Water Campus was $424 million. That risk assessment was completed by a consultant expert in cost and risk estimating. As was previously reported to the Committee, the Water Campus will be procured via a design-build-operate (DBO) project delivery method. On the life cycle cost estimate, if the Department were to take into consideration the design and construction costs and the operational costs for the Water Campus over 15 years, the life cost estimate would be $336 million (this includes the traditional DBB cost estimate of $226 million and the Department's estimate of what it would cost the Department to operate that facility with existing staff for 15 years). Under the DBO method, the capital cost estimate was $206 million, not $226 million, and the life cycle cost estimate for DBO was $302 million, not $336 million. Mr. Gritzuk said these are some of the major reasons why the Department selected the DBO project delivery method for the Water Campus – there is a significant savings in capital costs and also a significant savings over the life cycle of this project.

Discussion followed.

Corey Smith asked if the goal was to have the $720 million total cost of the three ROMP projects come in at close to $620 million. Mr. Gritzuk responded that was a goal. Mr. Membrila asked if there were any incentives for the contractors if these goals are met. Mr. Gritzuk said that is a consideration. We have seen projects where there are financial incentives given to a contractor up-front if they brought a contract in early; however, that will not work with the ROMP projects because if you bring the project in early you need to raise the funds faster, need to pay out the funds faster and the Department's financial model does not take that into consideration. It would mean much higher rate increases sooner than is currently planned. He added that there are penalties for coming in late because the Department cannot come in late on these projects due to the regulatory nature of the schedule.

Chair Bliven asked if under the CMAR construction method, there were incentives for the contractor to find cost savings and would they get to share some of that cost savings. Mr. Gritzuk responded in the affirmative. With CMAR, it is a GMP – if the contractor comes in under the GMP – there is a shared savings.

Mr. Gritzuk summarized the advocacy and lobbying work the Department has done to seek funding for the ROMP. He noted that various stimulus programs are coming out of the U.S. Congress and being advocated for by the President and President-elect. He added that there has been an effort in the water sector for a number of years to create a Water Trust Fund. This would be a fund similar to the Highway Trust Fund that funds highways. Department staff have made presentations advocating the Water Trust Fund to the Arizona Congressional delegation (both locally and in Washington DC), and met several times with the Environmental Protection Agency (EPA). Mr. Gritzuk informed Committee members that the EPA is well aware of the ROMP Program and has used it as an example of the water infrastructure needs of today. The Department has also made presentations to the U.S. Government Accountability Office and to various water sector associations advocating the Water Trust Fund.

Mr. Gritzuk informed Committee members that when the Department found out about the stimulus programs that are coming out of the U.S. government, the Department moved into advocacy and lobbying efforts for stimulus funding. Department staff made presentations and had meetings with the Arizona Congressional delegation and the Arizona Water Infrastructure Finance Authority (WIFA), which is the agency that provides low-interest loans to the water sector for construction of capital projects. Mr. Gritzuk felt the Department was on top of and very aggressive in these efforts. The Department has submitted applications to WIFA and submitted project descriptions to the various associations and congressional delegations. Any grants received by the Department will bring the budget down, as it will fund part of that $720 million and hopefully it will help in dampening rate increases. Discussion followed.

Barbee Hanson asked if the Department had any idea of how much money it might receive. Mr. Gritzuk responded the Department submitted a list of projects that totaled $97.5 million. In addition to that, the County Administrator submitted projects Countywide. That list included 10 projects – three of the Department's and 7 elsewhere in the County system.

John Carlson asked if these projects were all "shovel ready." Mr. Gritzuk responded in the affirmative and said that being defined as ready to go into construction in 90 to 120 days. Mr. Carlson also asked about the Water Trust Fund. Mr. Gritzuk responded the Water Trust Fund is an attempt to fund water, wastewater and water reclamation projects – water sector projects in the broad sense.

Mr. Gritzuk reviewed the ROMP funding needs. The Department is advocating for a November 2009 Bond Authorization and the request in that authorization is $565 million. This bond issue is vitally important to the ROMP funding program. The Department is currently using all of its 2004 Bond Authorization and wishes to top-off this overall ROMP funding program with another bond authorization in 2012. The bulk of funding for the ROMP Program would come in the Department's requested $565 million 2009 Bond Authorization.

Mr. Carlson asked what would happen if the Bond Authorization was not approved by the voters. Mr. Gritzuk responded that the Department would look at other options. One fallback would be private sector funding. The Department has met with bankers and other entities that have private sector funds that they are willing to invest in the public sector. This financing would cost more because private sector financing is more expensive than public debt financing.

In addition to the ROMP Program, the $565 million requested in the 2009 Bond Authorization would cover projects like the completion of the expansion of the Avra Valley WRF and the expansion of the Green Valley WRF, continued rehabilitation work at the Roger Road WRF until the new Water Campus is in place, miscellaneous conveyance system work primarily in the area of rehabilitation (nearly $42 million), and some major interceptor work and sewer modifications. These are projects that need to move ahead within the next 10 years. By FY 2011/12 and FY 2012/13, the Department will have funding needs of about $225 million for each of those fiscal years.

At this point in the meeting, Mr. Gritzuk introduced Harold Smith, Vice President, Raftelis Financial Consultants, who reviewed the FY 2008/09 Financial Plan and the rate increase scenarios developed to support the operations and maintenance of the Department and the delivery of the Department's CIP.

The FY 2008/09 Financial Plan has been revised since the December 2008 Committee meeting because the Department has been actively working to minimize rate impacts while still ensuring the Department has adequate funding. Harold Smith indicated that his presentation would cover some of the immediate financial challenges the Department is facing, the reason for those challenges, key assumptions Raftelis used in forecasting the costs and revenue that make up the FY 2008/09 Financial Plan. In addition, he laid out some scenarios in terms of rate adjustments that need to be made to address these immediate needs, and longer-term planning.

Harold Smith then reviewed the challenges currently facing the Department. Actual revenue collected from FY 2007/08 was $4.9 million lower than budgeted. The Department is incurring some additional costs to pay for interest on Certificates of Participation (COPs) that will be used to fund some projects that were not anticipated in the FY 2007/08 Financial Plan. The Department also has additional cash capital needs that were originally to be funded with proceeds from bonds authorized by a 2008 Voter Bond Authorization. However, the bond authorization did not take place in 2008 and now has been pushed back to 2009. Unfortunately, not all of these projects could wait until 2009 and are having to be funded with cash.

Raftelis and the Department believe that some of the User Fee revenue shortfalls are due to water conservation efforts on the part of the community. However, since sewer bills are based on average winter water consumption, the impact of these presumed conservation efforts on sewer revenues is not as dramatic as the impact on water revenues. Raftelis believes the decline in Connection Fee revenue is probably attributable to the current economic situation. The number of permits being applied for has declined, as a result the connection revenue that follows along with those housing starts has shown a significant decline. The Department was originally projecting about $32.8 million in Connection Fee revenue in the current fiscal year. Based on collections over the first two months of this fiscal year, we are projecting $20.9 million in Connection Fee revenue representing a $12 million decline. Discussion followed.

Chris Avery asked if Raftelis has updated that figure in response to the recent couple of months. Harold Smith responded we have been keeping track of that; however, the FY 2008/09 Financial

Plan is based on the first 2 months in this fiscal year. There is some chance that Connection Fee revenue will be even lower than $20.9 million.

Mr. Avery asked if the Department had numbers from October and November 2008 yet. Harold Smith responded we do have those numbers. Jeff Nichols, Deputy Director of Administration and Finance, responded that as of the end of December 2008, the Department is still projecting approximately $20 million in Connection Fee revenue.

Mr. Avery asked if the Department was anticipating any User Fee or Service Fee decline. Harold Smith responded we are not anticipating any significant User Fee decline in FY 2008/09. Mr. Avery responded Tucson Water is seeing a decline in water bills. Mark Stratton added pretty much across Arizona there has been a decline in water consumption. Mr. Avery noted that Tucson Water is seeing a decline of approximately 5 percent this year. He said Tucson Water ran a weather model that does not compute, and the utility also ran a model that tries to move from older to newer housing stock that does not compute. So the Utility's best guess is that it is the economy and they are trying to control costs any way they can. He added these factors may have less of an effect on wastewater because the Department is not using high block summer rates. He felt it would be prudent to assume that the Department would see a User Fee downturn as well. Harold Smith said that the Department and Raftelis would monitor billed consumption during the course of the year.

Harold Smith informed Committee members that using COPs instead of cash to fund certain projects results in about $3.25 million in additional cash outlay over FY 2008/09 and FY 2009/10 that was not originally anticipated in the FY 2007/08 Financial Plan.

Additionally, the Department's cash capital needs have increased for a number of reasons. There were some significant reductions in the CIP in FY 2008/09 and 2009/10. Some of this was the result of projects coming in under budget, some was the Department going through each and every one of those projects and assessing its necessity and determining that some projects could be done away with or could be delayed. This did result in a reduction in the CIP, but then there were a number of projects anticipated to be funded with the proceeds from the proposed 2008 Voter Bond Authorization that did not happen and the Bond Authorization has been pushed out to the 2009 timeframe. Those projects that could not be delayed or eliminated required funding them with cash reserves or from revenue generated through the current year's rates.

Assuming that the proposed 2009 Bond Authorization is approved by the voters, the Department is not going to be able to use that money until after the authorization in November 2009. Raftelis has estimated that approximately one-third of the FY 2009/10 projects originally scheduled to be funded with those proceeds will have to be funded with cash. Because of these necessary changes in funding the cash capital needs total $46.8 million in FY 2008/09 and $38.7 million in FY 2009/10. In the FY 2007/08 Financial Plan the Department projected cash needs of $57.3 million – the initial projections as Raftelis started this financial planning process were at $98.7 million, and the Department has been able to make cuts and bring it down to $85.5 million that spans FY 2008/09 and FY 2009/10. Harold Smith said for every $1 million in revenue loss or additional cash needed, this results in approximately a 1 percent increase in rates when you consider both the User Fee and Service Fee.

Harold Smith next reviewed some of the key assumptions that Raftelis used in developing the financial forecast. Raftelis looked at operations and maintenance cost escalators, housing starts and growth escalators. While energy-related costs were escalated at five percent (5%) annually, costs related to personal services and supplies as well as capital expenditures (not the large scale projects discussed in the CIP) were escalated at four percent (4%) and three and one quarter percent (3.25%) annually, respectively. For the short-term, no growth in housing starts was assumed; however, an assumption of a two percent (2%) increase in billable flows was assumed.

Another major assumption of the FY 2008/09 Financial Plan is a November 2009 sewer revenue bond authorization. The financial model assumes that long-term debt (bonds) is issued for a term of fifteen years (15) at an interest rate of five and one quarter percent (5.25%) and that the cost of issuance is approximately three percent (3.0%). Finally, capital projects are inflated at five percent (5%) annually.

It was also noted that a sensitivity analysis was performed for key variables noted above such as operations and maintenance cost inflation, capital cost inflation and bond interest rate assumptions and the sensitivity analysis shows that changes in the assumptions for these variables did not have a material impact on the rate adjustments required for FY 2008/09 and FY 2009/10. Discussion followed.

Mr. Stratton asked if, in Harold Smith's experience, a 15 year term is still a term that other municipalities are using or have they gone to longer term bonding? Harold Smith responded that a lot of municipalities use a 15 year term, but that Raftelis has seen more and more municipalities and utilities moving to 20-year and 30-year bonds. Over the past six months, they have not seen a lot of activity on the bond market – the current economic conditions could have an impact on how entities look at the terms they are borrowing for.

Corey Smith said one of the things he felt was useful to point out is the rate increases that are going to be proposed in the FY 2008/09 Financial Plan span multiple years, not one year. He added the fact of the matter is, a rate increase is needed now.

Harold Smith responded that what the rate model allows us to do is to look out into the future and make sure that what we are recommending today is not going to be detrimental to the future of the Department – we build on this such that the utility will be in good financial condition long-term.

Harold Smith then reviewed the revenue requirements. Raftelis sees a steady increase based on the assumptions used to project these costs of the Department's operating costs (including personnel services, supplies and services and other charges for the day-to-day operation of the Department) and the Department's actual CIP costs in the year in which they occur (which includes costs for conveyance, other treatment non-Ina Road or Roger Road treatment costs, and costs for the ROMP). The ROMP costs are having a major impact on the Department's cost structure. The Department's actual cash needs plus the debt service the Department is paying on existing bonds or bonds anticipated to fund the ROMP – as ROMP comes into play, the Department's debt service costs increase dramatically as a result of the $565 million in bonds in the proposed 2009 Bond Authorization and there is another authorization in 2012. By adding the operating costs and capital costs together we get the Department's total projected revenue requirements. They remain fairly steady until the year 2013, and increase dramatically in FY 2013/14 as all of the ROMP debt service hits and the Department starts feeling the full ROMP burden.

Harold Smith reviewed the rate increase scenarios developed by Raftelis and Department staff to address the challenges for immediate needs and the revenue requirements to meet the operations and maintenance and capital costs. These were as follows:

- Scenario A – Includes no increase in the base Service Fee and sixteen and three quarter percent (16.75%) increases in the volumetric fee in March and July 2009, and in January 2010. Harold Smith informed Committee members that each increase would have a similar impact on a typical customer bill – anywhere from $2.25 for the first increase to $3.07 for the last increase. By typical customer bill, we are looking at a customer that consumes 8 ccf (100 cubic feet) of water during a billing period. In order to fund a lot of the Department's cash capital needs, we are going to have to draw from the System Development Fund (cash reserve) about $44.3 million over the two year period – almost $36 million in FY 2008/09 and another $7.6 million in FY 2009/10. Without having those reserves in place, the rate increases would be significantly larger.

Customers at various different consumption levels would see increases in their monthly bills under this Scenario as follows: an 8 ccf customer increasing from $20.25 per month to $28.20 after the proposed January 2010 increase. Under this Scenario, the fact that there is no increase in the Service Fee, results in the impact on the low volume customer being relatively small compared to a higher volume customer.

- Scenario B – Includes no increase in the base Service Fee and a twenty-five and one quarter percent (25.25%) increase in the volumetric fee in March 2009 followed by nine and one quarter percent (9.25%) increases in the volumetric fee in July 2009 and January 2010. This Scenario provides a much larger increase in March 2009, such that the following increases can be significantly lower. The typical customer bill would increase by $3.36 in March 2009 followed by two smaller increases in the $1.60 to $1.75 range, following the second and third increases. Under this Scenario we are assuming $44.4 million SDF contributions - $33.9 million in FY 2008/09 and $10.5 million in FY 2009/10.

- Scenario C – Includes one dollar and fifty ($1.50) increases in the base Service Fee (which is currently $6.82 per month) in March 2009 and January 2010 as well as twelve and three quarter percent (12.75%) increases in the volumetric fee in March and July 2009, and January 2010. This Scenario would increase the typical customer's bill by $3.21 with the first increase, almost $2.00 in July 2009 and $3.68 in January 2010. Under this Scenario we are assuming $44 million of SDF contributions - $36.5 million in FY 2008/09 and $7.9 million in FY 2009/10. Under this Scenario, customers end up with a higher bill than the previous scenarios.

  This Scenario decreases some of the volatility in revenue that the Department might experience from lower consumption because the Department would be getting a little more of its revenue from the fixed component of its fee regardless of consumption. Harold Smith referred to a January 7, 2009 memo Committee members received from Mr. Nichols, that mentioned the concept of an environmental fee – while this is not in anyway a precise calculation of what that environmental fee would be – it does recognize that the Department is having to incur a significant amount of fixed costs associated with the ROMP that should be recovered regardless of what consumption is. Under Scenario C, the low volume customer's bill is impacted more than the scenarios that do not include a Service Fee increase. To alleviate this concern the County should consider changing the low-income assistance Sewer Outreach Subsidy (SOS) Program provided to the economically disadvantaged customer which is currently targeted at the volumetric component of a customer's bill..

  Mr. Membrila asked how much of an impact that would have on the SOS Program. Mr. Nichols responded the majority of customers that are in the SOS Program qualify for the 75 percent discount so the Department is hitting the target audience. Currently the $6.82 Service Fee is not subject to the discount. If the Service Fee was increased, those low-income customers that qualified would actually pay less per month. Harold Smith added this should not have a dramatic impact on revenue.

- Scenario D – Includes one dollar and fifty ($1.50) increases in the base Service Fee in March 2009 and January 2010 as well as a twelve and one quarter percent (12.25%) increase in the volumetric fee in March and July 2009, and January 2010. In addition, an increase of four percent (4%) in Connection Fees was offered. The draft FY 2008/09 Financial Plan does not include a Connection Fee increase. The impacts on the typical bill are very similar to Scenario C just a little bit smaller because of the additional revenue potentially generated from the 4% increase in Connection Fees. The impacts with this Scenario are very similar to Scenario C.

  Harold Smith showed as reference for Committee members what the Service Fee for other utilities within the region are compared to the Department's Service Fee, which is significantly lower than other utilities, demonstrating that there is room to increase the Service Fee. Discussion followed.

Mr. Stratton pointed out that for Oro Valley, Marana and Metro Water the size of their service areas are substantially smaller and that the base rate is a significant component to ensure that revenues are stable. Mr. Gritzuk noted that when County representatives met with ADEQ and reviewed the Department's rate structure, ADEQ used the example of Lake Havasu City, Arizona. There the base fee is $30 per month and the average User Fee is an additional $30 per month. The reason for that very high base fee is that the system is there whether you use it or not and a lot of the homeowners are there seasonally – so they had to collect the revenue somehow.

In summary, Harold Smith said the Department needs to generate $38 million in additional revenue from rate adjustments over the FY 2008/09 and FY 2009/10. These four rate increase scenarios will result in a typical 8 ccf customer bill increasing anywhere from $6.71 per month to $8.83 per month by January 2010, depending on which scenario is chosen. In addition, $44 million of capital reserve funds would be used in FY 2008/09 and FY 2009/10. This would not totally deplete the Department's cash reserves, but gets them quite low. The Department's $10 million emergency reserve fund would remain intact.

Harold Smith reviewed how the Department compares with a number of sewer utilities of similar size across the United States. This information was derived from information that Raftelis collected from the 2008 Water and Wastewater Rate Survey prepared by the American Water Works Association (AWWA) and Raftelis. He also showed a comparison of sewer bills for Arizona sewer utilities based on data collected by the City of Phoenix. Discussion followed.

Harold Smith, responding to questions in the difference of Tucson's relative placement in the two surveys, said Phoenix has an environmental fee on the wastewater side. He said Pima County pays below average compared to 62 utilities on the AWWA/Raftelis chart and below the median. However, Pima County would be above the current average after January 2010 although you have to consider that other utilities are dealing with some of the same challenges and their rates are likely to increase as well.

Harold Smith reviewed what we anticipate the cost versus revenue situation to look like under any one of the four proposed scenarios. Under any one of the scenarios, Raftelis anticipates that the Department would generate the revenues it requires – it is a matter of how you want to go about generating those revenues.

Mr. Nichols said all of these scenarios had to fit the FY 2008/09 Financial Plan and give the Department the ability to deliver the ROMP and its other projects – that was a given after the meeting with ADEQ. Mr. Nichols acknowledged Tom Burke, Director of County Finance and Risk Management, and informed Committee members that Mr. Burke informed the Department that we are on a "ratings watch" by the rating agencies that evaluate the credit worthiness of entities that issue bonds. These agencies have indicated that they do not like "elastic" revenues that go up and down with the tide of the economy – e.g. Connection Fees. If the Department does not take what these agencies consider positive action, it is very possible that they could down-grade the Department's bond rating which means that we would pay a higher interest cost in order to sell bonds.

In addition, the ROMP cost – if we do not add one more customer to the system and no increased flows – the Department has to deliver the ROMP – those are fixed costs. The Department bills its fees through Tucson Water, Town of Marana, Town of Oro Valley and

Metro Water, so we do not have total control of what can be added to the customer's bill. In each of those areas we have a Service Fee – if we want to add a component to that fee and refer to it as an environmental fee, Mr. Nichols felt that would be the base increase of $1.50 per month.

Mr. Nichols informed Committee members that today he asked Raftelis to calculate what an environmental fee would be if it was designed to recover the capital costs associated with delivering the ROMP projects. Raftelis' preliminary rough estimate is that it would start out just a little less than the $1.50 but when you get out to FY 2017/18 it would be upwards of $15 – if just delivering ROMP and it was paid for with a fixed fee. That is the type of impact he felt customers would see on their monthly bills.

Mr. Nichols informed the Committee that the Department's preferred scenario is Scenario C. This is with the caveat that the Sewer Outreach Subsidy Program does include the Service Fee. Connection Fee revenue is currently included when the Department calculates it debt ratio coverage – rating agencies would prefer that we not do that. Their point is that if all construction stopped, those go away. Anything the Department can do to ensure that we are going to collect revenues will help the Department's rating. Discussion followed.

Mr. Nichols addressing a question from Mr. Avery said what hurts the Department's business the most is a very wet winter because our rates are based on the average winter use (December, January and February). When those months are down, the Department bills at the lesser of the winter average or the actual use. A dry winter is a good thing for the next year's revenue.

Corey Smith pointed out that in the FY 2007/08 Financial Plan and the one the previous year that rate increases were approved, that the Department had also projected rate increases for FY 2009/10; therefore, the need for increases is not unexpected. Mr. Nichols responded in the affirmative and said the Department shows rate increases almost every year in the financial plan. He said he would like to get to where we have rate increases one time a year because of the programmatic changes that have to be made in the billing systems.

Mr. Gritzuk informed Committee members that all of these scenarios were presented to the County Administrator and he is supportive of the Department moving forward. The Board of Supervisors will make a final determination.

Mr. Nichols pointed out to Committee members that Scenario D is a modest increase in Connection Fees, but again this is an "elastic" revenue source – if permits are not coming in – increasing the fees will not matter as it will not increase revenues.

Sheila Bowen said based on the January 7, 2009 memo from Mr. Nichols that was mentioned earlier, she talked with some individuals in the community to get their thoughts. She said their responses were more favorable to have an environmental fee that would segregate ROMP costs. Mr. Nichols responded that the Department would approach its billing providers and see if it is possible to get a line item that would say "environmental fee." This would explain to the consumer what the drivers are for their cost increases.

III. PUBLIC QUESTIONS AND COMMENTS. There being no questions or comments from the audience, Chair Bliven adjourned the meeting.

IV. ADJOURNMENT. The meeting adjourned at 9:05 p.m.