REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Transamerica Building
Pima Association of Governments' 5th Floor Conference Room
177 North Church Avenue
Thursday, December 17, 2009

Committee Members Present:

Jim Barry	Barbee Hanson	Corey Smith	Jeff Biggs
Sheila Bowen	Bill Katzel	Mark Stratton	Mike Gritzuk
John Carlson	Rob Kulakofsky	Ann Marie Wolf	

Committee Members Absent:

Brad DeSpain	Marcelino Flores	Armando Membrila

Staff Present:

Ed Curley	Eric Wieduwilt	Gregg Hitt	Lillian Von Rago
Diana Hofsdal	Kristin Borer	Mike Kostrzewski	Tom Burke
Jeff Nichols	Manabendra Changkakoti	Loy Neff	Harlan Agnew
Jackson Jenkins	Laura Fairbanks	Linda Mayro	Charles Wesselhoft
John Warner	Mary Hamilton	Lorraine Simon	

Guests:
Melodee Loyer, Engineering Manager, City of Tucson
Jim Vint, Project Director, Desert Archaeology, Inc.
Claire Zucker, Pima Association of Governments

I. **CALL TO ORDER.** Vice Chair Corey Smith called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 7:49 a.m.

II. **CALL TO THE AUDIENCE.** There were no comments from the audience.

III. **APPROVAL OF MINUTES.** The Committee unanimously approved the minutes of the November 19, 2009 RWRAC meeting.

IV. **COMMITTEE/SUBCOMMITTEE REPORTS**

A. **Citizens' Water Advisory Committee (CWAC) Update.** Jim Barry, CWAC Chair, reported that the CWAC is still in the financial planning process. The new City Chief Financial Officer was at their meeting and gave a grim picture. They are planning to approve a finical plan for recommendation to the City of Tucson Mayor and Council at their January meeting, with the realization that it could be revisited more than once in the future due to the economy.

Jeff Biggs agreed. He has met with the City Manager's Office. They are on board with the current financial plan, but will see how things progress over the next month.

Mark Stratton asked that, as an enterprise fund Department, will they be affected by the 25% cuts that other Departments face? Mr. Biggs said no. He has gone through the current year budget and identified some cuts that can be made.

V. **DISCUSSION**

A. **Old Items/Updates.**

Water Infrastructure, Supply and Planning Study. Ed Curley, Manager, Strategic Planning, reported that the Oversight Committee held their final meeting on December 3, 2009. The Phase 2 Report was finalized and they voted unanimously to disband. This was after 20 months, 36 meetings, and 14 technical papers. Most of the Phase 2 goals and recommendations were unanimously supported by the Committee. The Phase 2 Report will be presented to the Mayor and Council and the Board of Supervisors on January 12, 2010. There will be joint Resolutions to implement the recommendations in the Study.

Mr. Barry said that at the last meeting he thought there was little likelihood of the Committee agreeing on a report. He was wrong. There was one dissenting vote. The Committee's portion of the Study was opened up to members so they could make additional comments. Only three made comments. There was a strong sense of agreement. He feels that they produced a report that gives both a vision for direction and a set of immediate actions to get the process started. He hopes the Mayor and Council and the Board of Supervisors will adopt the Study. There is a lot of work to be done. The Oversight Committee is happy with the result.

John Carlson said that the report was an action plan but things that must be addressed at the appropriate time. They categorized where the problems are and where they appear to be. He got a stronger sense that, as a regional area, we could have a serious problem as far as water supply is concerned. It is an early warning call for people to spend time at the right time on this problem.

Mark Stratton said that this document should not be viewed as the one and only document. During the process they learned that things, such as policies and procedures, are dynamic and are ever changing. This document is the starting point, but there will be a continuing need for change.

Rob Kulakofsky aggress that this is a large first step. The cooperation between the City of Tucson and Pima County was fantastic. He hopes it continues, as well as cooperation between other municipalities, utilities and City and County. He spoke to the person who cast the one dissenting vote. The report was voted on as a package. The dissenting voter would have been happier if individual items were subjected to word-smithing and voted upon separately. There was more consensus than the one dissenting vote showed.

Ms. Bowen said that, on behalf of the Committee, she wanted to thank them all for their work on the Water Study because it was above and beyond their work on this Committee.

Mr. Biggs asked to clarify a question asked during the CWAC presentation. He was asked about a 15% reduction in City Departments. Even though they are an enterprise fund and were not asked to cut 15% from the overall budget, if there are policies and decisions that affect all City employees, such as benefit reduction, pay reduction and furlough, it would affect water staff.

1. **Regional Optimization Master Plan Update**. Mike Gritzuk, Director, provided an update on the current status of the ROMP.

- **Plant Interconnect**. This project is coming to a close. 22,800 feet of pipe have been installed with 650 feet left to be installed. The major elements of the project are the river and wash crossings, which are under construction now. This is deep construction: they are digging 30 feet below the riverbed. The contract completion date is October, 2010. The anticipated completion date is August 2010, weather permitting. This is a critical area. If it rains, that construction will stop until weather improves. The project is currently more than $1 million under budget.

  There is an effort on behalf of the County to utilize the easement of this project for part of a bikeway. RWRD is in discussions with the Parks and Recreation Department and Flood Control Department to promote the theme of a bikeway over a portion of the easement. As this becomes more definitive, Mr. Gritzuk will bring some maps to show the Committee.

  Bill Katzel said they might want to include Matt Zoll from the Transportation Department. He is the County planner for bike and pedestrian issues. Mr. Gritzuk said that the Department of Transportation is involved in this effort as well.

  In addition, Mr. Gritzuk said RWRD was successful in receiving $2 million in stimulus funding and an $8 million low interest loan from the Water Infrastructure and Financing Authority (WIFA), with an interest rate of 2.46%.

- **Ina Upgrade and Expansion**. The construction budget is $212 million and the Construction Manager at Risk (CMAR) project delivery process is being utilizing. This process involves retaining a contractor early in the process. The contractor participates in the development of the design, addresses construction issues, runs cost estimates continuously, and participates in value engineering. RWRD has also entered into several Guaranteed Maximum Price (GMP) contracts. For example, the digester complex portion has been awarded as a GMP for $19.8 million. Much of that was bid out by the CMAR so much of the work is being done by local contractors. $20.8 million was budgeted for that package. A $1 million savings was realized.

  Another GMP package involved all of the earth work. 328,000 cubic yards of earth will be moved. $7.3 million was budgeted. The contract was awarded for $4.3 million. A $3 million savings was realized. This is a reflection of the economy and the interest of local contractors.

A GMP package to provide 54,000 cubic yards of concrete was bid. The budget was $100 per cubic yard. The low bid was $66.75 per cubic yard. A savings of $1.8 million was realized.

Most of the remainder of the project will be packaged into one GMP. The budget is approximately $170 million. The contractor is now pricing that package. They anticipate many local contractors will bid. A GMP proposal from the contractor will be received in January 2010.

Mr. Carlson asked if a general contractor had already been chosen. Mr. Gritzuk said yes, the CMAR was chosen one and a half years ago. In each package, it is a guaranteed maximum price. In the CMAR procurement, an open book type of accounting is maintained, which will be the maximum price RWRD will pay for that package. RWRD will pay actual costs. RWRD anticipates that the actual price in all areas will be under budget. Mr. Carlson asked if the CMAR contractor is the general contractor that will direct the process. Mr. Gritzuk said yes, the CMAR has overall construction responsibility and liability of the project. Mr. Carlson asked if the CMAR gets a general bid or if the bidders are pre-determined. Mr. Gritzuk said that they are sub-contractors which have been pre-selected based on their capability of doing that particular work. Mr. Carlson asked if they have a minimum and maximum price. Mr. Gritzuk said they bid, to the CMAR, in a normal bidding process. Mr. Carlson asked if that had already happened. Mr. Gritzuk said that it has on the first GMP packages already awarded. There are packages out for various subcontractors that are in the process. Mr. Carlson asked if the subcontractors had been picked. Mr. Gritzuk said that the CMAR has been chosen. Mr. Carlson asked if subcontractors had been chosen for the $170 million GMP package. Mr. Gritzuk said no, it is open for bids. There are six to eight packages still out.

Mr. Gritzuk said that after the large GMP, there will be a final, smaller GMP that wraps up everything else in the project.

- **Ina Energy Recover Facility (ERF)**. This was bid as a Design-Build-Operate (DBO) procurement method with a not-to-exceed design and construction budget of $21.6 million. This was advertised with strong statements that if a bidder was not confident that the project could be completed within the $21.6 million budget, don't submit a bid. We did get three strong submittals that are currently under review by the selection committee.

One of the complications with this project is the air permit. This project includes combustion of the digester and natural gas, requiring complicated air permits. Another complication is the coordination of commercial power entering the plant by Tucson Electric Power (TEP). Some of the negotiations with TEP involve redundant power, guaranteed power TEP can provide, and power rates.

Mr. Katzel asked if one of the contractors goes under financially, what guarantee is in place to complete their project on budget. Mr. Gritzuk said there are performance bonds and bid bonds that are included within each contract. The bonds are in the amount of the contract. If a contractor declares bankruptcy, the surety company that holds the bonds will be required to complete the project within the contract price. That is typical on any construction process.

Mr. Katzel asked if there has been any failure of bid bond companies to perform. Mr. Gritzuk said none that he is aware of. It is not a comfortable situation dealing with a bonding company. They guarantee the completion of the project, but there can be a lot of finger-pointing. We are in that situation now with the old expansion project of Ina Road, which was a design-bid-build procurement. There have also been a lot of legal fees incurred.

- **Water Campus Facility**. This DBO project was advertized with a not-to-exceed budget for design and construction of $240 million. Five submittals were received with no reservations with the proposed budget. As per state law, the list was narrowed to three. That selection process is underway. In the next phase, the finalists will submit technical proposals and comments on the service contract. We then negotiate the technical proposals up to a level that is acceptable to us. There is a lot of design competition between the three finalists as the scoring will be based on the technical proposals and eventually the cost proposal. A recommendation to the Board of Supervisors is expected in December, 2010.

- **Compliance Laboratory.** The lab needs to be moved as the new operations center will be moving into one of the buildings now occupied by the lab. The new lab will be north of the new water campus.

All compliance and regulatory staff will be moved to that location. It will also become the new RWRD training center. The training center is currently located at Roger Road. The procurement process is underway and consists of two contracts. One is for the site work. The other is for the vertical construction. Qualification statements have been received for both. To meet the schedule at Ina Road, the lab needs to be in place and functional by December, 2011.

2. **Voter Bond Authorization Update.** In the last few meetings of the Citizens Bond Advisory Committee, there has been extensive testimony from the public on increasing funding for specific projects they want included in the General Obligation (GO) Bond issue. There has been some discussion regarding limiting the General Obligation bond issue to approximately $600 million. These GO Bond discussions do not affect RWRD. There has been no mention of the Sewer Revenue Bond issue for RWRD. The concentration currently is on the General Obligation Bonds.

   Mr. Smith asked about the status of ROMP bonding. Mr. Gritzuk said that almost a year ago the Bond Advisory Committee did recommend a 2009 Sewer Revenue Bond issue for RWRD for $565 million based on the recommendation in the financial plan. At another meeting, the recommendation was modified to delay the voter referendum until 2010 due to the economy. The recommendation is out there, but dormant.

   Mr. Smith said that the Financial Plan presumes in the next two years there is $300 million in bonds. How much of the $660 million related to ROMP has already been let in terms of contracts and obligations entered into? Mr. Gritzuk said that the design contract for Ina Road, the program management for all of ROMP, the CMAR for Ina Road and the GMPs currently being developed, the plant interconnect, the design, construction and the inspection, have all been let. The water campus program management, but no other contracts related to the Water Reclamation Campus have been. They are still in the selection process. The contract on the lab will be let shortly.

   Mr. Smith asked if 60-70% has been let. Mr. Gritzuk said he will get a total. Mr. Smith said it would be interesting to see on a timeline basis by quarter what the expectations are. Is there a reverse obligation in the event that the Department is unable to comply? Mr. Gritzuk said that will be discussed today in the financial update.

   Mr. Barry asked how much authorization was left from the 2004 Bond election. Jeff Nichols said none. $60 million in contracts that have been let, but he will verify that figure. He will get the information on the contracts, what they have been let for and a list going forward of anticipated contracts. Mr. Gritzuk said that the CMAR at Ina Road contract for pre-construction services was let for just under $3 million. Overall, there is $212 million in that construction budget that is mostly yet to come.

   Mr. Katzel asked that, in the event the bond recommendation stays dormant, where is the deficit made up – in user charges and rate charges? Mr. Gritzuk said that Mr. Burke will make a presentation on that today.

   Mr. Barry asked if the information regarding costs could also state where the revenue for those costs is anticipated to come from. Mr. Nichols said yes.

3. **Financial Update**. Jeff Nichols, Administrative Services Support Manager, Pima County Finance and Risk Management Division, gave the financial update.

   - **<u>FY 2010/11 Budget.</u>** All RWRD budgets have been entered into the Financial Planning System. Now Finance Department analysis staff is going through each budget line item by line item to verify the justifications are appropriate and that things are consistent across RWRD Divisions. If the Finance staff has questions, they will contact the Division Manager or support staff. All capital requests and program requests have been submitted. New position requests will be recommended to the Director. The process will also ensure there are not current vacancies that can be reallocated. If there are currently approved positions that can be reallocated that will be done rather than requesting new positions. The budget is on schedule. The budget will be presented to John Bernal, Deputy County Administrator over Public Works, in the third week in January. He will review it before it is presented to the County Administrator.

   - **<u>Financial Plan</u>**. The Financial Plan that was recommended by the Committee in February, 2009 asked for following rate increases: within 30 days, a 12.75% increase in volume fees, $1.50 increase in administrative fees; in July, 2009 an additional 12.75% increase in the volume fee; and in January, 2010 a 12.75 % increase in the volume fee and an additional $1.50 increase in the administrative fee. The recommendation, with Committee support, was presented and approved by the Board of Supervisors in

February, 2009.

The Board did adopt it as presented, with a caveat that RWRD come back on December 1 [with an updated evaluation of the rate increase recommendations for January, 2010]. Finance prepared a memorandum for RWRD to Mr. Bernal. Mr. Bernal approached the County Administrator and sought direction on whether a board action on December 1 was necessary or if a memorandum from the County Administrator to the Board would suffice. The County Administrator chose to do a memorandum to the Board. That memorandum went to the Board on November 30. It covered all the points the Board wanted addressed and recommended that, as the financial picture had not changed, the County Administrator would direct staff to go forward with the January increase unless he heard differently from the Board. Currently, the Customer Service staff are working with the billing providers to update the data tables so the increase can take effect on January 1. That raises the administrative fee to $9.82 per month and the volume fee from $2.134 per ccf to $2.40 per ccf. An average wastewater bill for 8 ccf would be $29.07. When the Sewer Outreach Subsidy outreach program (SOS) was first started, only the volume fee was subject to the discount. Now, the volume fee and administrative fee are subject to the discount. After the March, July and January increases, the monthly bill for a person who qualifies for the SOS program at the 75 percent discount level will increase $1.06. The plan is working and helping the people who need it the most.

Also, Raftalis was provided with additional information for the 2009/10 Financial Plan, including how the debt would be structured, a finalization of the 5-year CIP and 10-year historical actual expenses for Operations and Maintenance (O&M). This allowed Raftalis to include actual historical data in the construction of the model. The result of the modeling was provided to the Committee.

Tom Burke, Director, Finance and Risk Management, said that Finance is responsible for the issuance of all debt for the County. Finance is involved with the Financial Plan as it essentially doubles the County's overall debt. Currently the County's debt is approximately $700 million. The RWRD projects will require $845 million of debt to be sold in the next five years. The debt service that the County has been facing for sewer bonds is currently $28 million per year. In four years it will be $107 million. The amount of money needed each year will be quadrupled. Currently the 27% of the cash outlay for RWRD is for debt service, the remainder is to cover operating costs, excluding capital projects. In 2015, 53 percent will be for debt service and 47 percent for operating costs. The debt service will be driving the rates. Whether there is bond election or other type of financing, the rates will have to be raised to cover the rapid increase in debt service.

The information given to the Committee is a basic summary of the financial plan. There have been several iterations, trying to create a relatively stable rate increase while meeting the needs of bond issuance. Some of the earlier versions had 20 percent rate jumps in the early years. They have found a way to structure the model so as to have a gradual rate increase.

The primary driver is the rate covenants with bond holders. Currently, there is a 1.2 rate covenant. This means that RWRD has to have net revenues of 120 percent greater than the debt service. As the debt service increases, the net revenues will need to increase. The 1.2 rate covenant is unrealistic for the ability to sell bonds. Highway bonds are sold with more than 3.0 coverage. Historically, sewer revenue debt has been sold with a 3.0 – 4.0 rate coverage as the County was issuing small amounts of debt - $20 million to $75 million. Currently the County is forecasting the need to sell $200 million in one fiscal year alone. In order to have sufficient excess net revenue over the operating cost and debt service the rates will need to be raised. The primary reason the rates have to increase is to have a sufficient coverage of the debt service so that someone will invest in the bonds.

As to the bond election status, the Bond Advisory Committee has postponed a recommendation as to the timing of it for several reasons. The GO Bond election and the sewer revenue bond election issue are working in tandem. There was no bond election in 2008 or 2009. As the timing of the capital projects cannot wait until a bond election, they have developed an alternative form of financing. During the last two years, the County borrowed Certificates of Participation (COPS). This was done by leasing two county-owned buildings – the Legal Services building and Public Works building and parking garage - and borrowing $83 million back. Those funds were used as bridge funding until more permanent funding is obtained. There are no more assets to collateralize, and the County is not allowed to sell the sewer system. The County currently working with bond council and financial consultants. It is similar to the COPS. The County will sell long term debt and use the sewerage system to generate revenues – the long term debt being sewer revenue obligations. They are similar to bonds in the sense that an outside agency will loan us $175 – 200 million and we will pay it back over time with interest.

Referring to the schedule given to the Committee, the CIP projects show cash needs of RWRD as $150 million in FY2010, followed by $200 million, $200 million and $100 million, in order to raise $845 million in the next four to five years. The debt needed in the first year is less than in subsequent years, but the debt can not be structured to have sufficient cash on hand to satisfy the rating agencies and the investors if we only sell $70 million the first year and $180 million in the next year. Our plan is to level out the sales in order to level out the rates.

Also to level the rates, we are calling for interest only payments for the first three years of the debt. That has been done with highway user funds so the debt service pushes back to later years when the rates have accumulated sufficient funds to handle the debt. If we try to do it in normal, equal debt service over the 15 year term, we would have to raise rates quickly in the first two years and then lower them.

Mr. Stratton asked the term of the revenue obligations. Mr. Burke said they were a 15-year term. Mr. Stratton asked if a longer term had been looked at to reduce the debt service requirements. Mr. Burke said yes. 20-year terms were evaluated. Like a mortgage, changing from a 15-year mortgage to a 30-year mortgage does realize a significant savings. A 20-year term does not realize a significant savings.

Mr. Smith said it would be a $13 million reduction per year in debt service. It is $80 million versus $67 million, with a flat depreciation of $800 million. Several months ago, that question was specifically asked, but the Committee did not get an answer. The asset being built has a useful life well beyond 15-years. He feels it would be prudent to look at a 20-year amortization schedule. Mr. Burke said that the Committee could be provided with what they did with a 20-year amortization schedule. The concern of the County Administrator is that 15 years ago we didn't expect to spend $840 million now. So 15 years from now, RWRD will be facing additional capacity issues. As Mr. Burke understands it, approximately 3,000 additional customers per year are being added to the system and it is at 70 percent capacity. As RWRD gets closer to 80 percent in 10 years, we will have to start expanding the sewer system. In 15 years there will probably be another major expansion project or new environmental requirements to meet. Last year's model was used in the proposed plan to split [the revenue needed] between administrative fees, the volume fee and the connection fee. The intent is to break the user fee into two components: one for operating costs and one for debt service. As the debt service demands drop six to seven years from now, the rates would stat dropping as well.

Mr. Barry asked if the revenue bond obligations require voter authorization. Mr. Burke said no, they do not. Mr. Barry asked if the Internal Revenue Service (IRS) arbitrage rules still applied. Mr. Burke said they would still apply as it is still public debt. There have been very little problems with the arbitrage rules, which say that the money has to be spent within a certain period of time, or share the interest earnings with the IRS. This is not a terrible thing to do as it means that the County earned a lot of money. Historically, the debt has been structured so the debt is sold each year as needed rather than sell it for an entire project and then holding the money over the three or four years it takes to do the project. The County has gone to the market for over $200 million for the last three years for GO projects, highway projects and sewer projects. We will try to go to the market for only the needs for the next 12-18 months for any given time.

Mr. Katzel said that next month he would like to take some of the abstract out and reduce the presentation to three levels: a low user, a medium user, and a high user using the assumptions that the bonds do and do not go through. He would like to see this projected through FY 2014/15. He would like to see what the total user charges to the customers would be in those three categories.

Mr. Nichols said that he understands why Mr. Katzel would like to see bonds verses no bonds, but RWRD does not have the ability to finance ROMP with cash. State law prohibits it due to the expenditure limitations that the County faces. Mr. Katzel said that he understands that, but instead of percentages, he would like to see what consequences will be [in dollars] for the three levels of users, with the two bond assumptions.

Mr. Barry said that there are two options: the voter approved revenue bonds or the sewer bond obligations. Raising rates to pay year-by-year is not an option.

Mr. Burke said that there is no choice for this year as there are no bond authorizations. Either all projects are stopped or funded through the alternative method.

Mr. Smith said that if you look at $87 million in FY 2009/10, $171 million in FY 2010/11 and $233 million in FY 2011/12, he presumes that large amount of that has already been let in terms of contracts. What happens if the County is unable to fulfill payment obligation on these contracts. When these contracts are let, where does the County's exposure exist? Also, in reading the Board of Supervisors memorandum to the State Legislature regarding receiving some relief from obligations, was there discussion regarding the ROMP? Mr. Curley said that the Committee received the legislative agenda for the Board of Supervisors, which discussed an attempt to get relief from the State's attempt to drain funds. Mr. Gritzuk said he does not believe that the ROMP was discussed in that submittal.

Mr. Katzel said that there is going to be a saturation point for the consumer in this economy. There will be intolerance in tax and rate increases.

Mr. Carlson said that last month he was told that the projected increase would be 8 percent per year for a certain number of years. Mr. Nichols said that is correct, based on the 2008 Financial Plan. In that Plan, they assumed that there would be a 2009 bond authorization. Mr. Burke said that the major assumption that changes it is not whether or not there is a bond authorization, but the fact that the Financial Plan indicated a ratio rate covenant of debt to revenue of 1.25, which is unrealistic. They cannot sell $800 million at a 1.25 ratio. Everything else is a ratio of 3-4. They are discussing graduating the sewer debt from 1.3 or 1.4 to 1.75, then gradually over the next five years, from 1.75 to 1.8, then 1.85 and so on, so they are closer to a 2.0 ratio. A 2.0 ratio is minimal. Without a substantial coverage increase, they cannot sell the bonds. Historically, when debt was a small portion of the overall sewer operations, the ratio was able to be low, but the ratio has never been at 1.25. The assumption in the Plan is too low to be able to sell bonds.

Mr. Carlson said that bills are received from the Water Department. His particular subdivision pays the water bill. They are scrambling to figure out how to pay the bill. As the rates go up, they need to be equated to the water bill.

Mr. Stratton said that he appreciates the need to build up the debt coverage. When it is being built up three or four times the debt, there is significant revenues that go to a reserve fund that, over time, will accumulate a substantial amount of money at the expense of the user. What is the repercussion in the future when the user's question why the rates are high when there is that much cash in reserve? He sees a potential backlash if things are not structured correctly and whether or not it is a necessity to go to 3.0 -4.0 debt ratio coverage. He understands that, when selling the bonds, it makes them attractive to a buyer, but long term there is a significant impact on the user paying for that, yet all it does is create a large reserve fund. Mr. Burke said he is correct. Originally they calculated much higher rates, but it created $314 million in excess cash in five years while they were trying to borrow $200 million. It did not make sense. Some will be used for debt service reserve, which builds up over a period of time to $80-90 million, they are increasing the emergency reserve from $10 million to $20 million, and they are increasing the operating fund reserve from one month to three months.

Even with these increases, there will be over $100 million in excess cash being generated. They are looking at potentially refunding the $248 million in existing debt, which will decrease the debt service, which will decrease the rates. They cannot accelerate the debt service payment in the future, as that would require the debt service ratio to be increased. They are not looking at a 3.0 – 4.0 debt service ratio; they are using 1.75 and 1.8. The excess cash would be used to reduce the overall debt service, which would reduce the cost in the future.

The dilemma is that the County is subject to Constitutional expenditure limitations. Even if the County had $200 million in cash in the wastewater enterprise fund, it can't use the money. As of this fiscal year, they are limited to $503 million of expenditures County wide, that are spent from local revenues, which is money the Board of Supervisors raise by charging taxes and fees, such as real property taxes of $290 million, $100 million of wastewater connection and user fees, $20-30 million in impact fees collected for the Department of Transportation. Any rate that the Board of Supervisor sets and collects money from is local revenue. No matter how much we collect, we can only spend $503 million this year. It goes up 2 percent per year. The expenditures for RWRD are increasing at a much higher rate than 2 percent per year, so as the expenditures increase, the expenditures in other funds has to shrink. This means that cuts have to be made in the Sheriff's Department, as they spend over $100 million of the $503 million, Superior Court, the County Attorney's Office, the Public Defender's Officer, and all the elected officials:

the Treasurer, the Assessor, etc. All of the other Department's expenditures are subject to this limitation. Unless the Constitution is changed, or the County were to have an over-ride election that will authorize the County to spend more, we have to find a way to fold the money back into uses such as paying off old debt.

The problem with the over-ride election is that we are the only County that has a utility. The Constitution allows Cities to have an over-ride election in a much easier fashion. The County can do it each year in May for the following fiscal year. Just prior to adopting the budget, we can go to the voters, at a cost of $2 million, and ask for authorization to spend more than $503 million in the following fiscal year. That has to be done each year. In the year that the Board of Supervisors is elected, which will be 2012, the County could ask for a permanent over-ride. Between now and 2012, we cannot spend the excess money. There is also the question of voter approval of a several hundred million dollar over-ride election. We do not believe the voters would approve an over-ride this coming May. The ROMP has created a "giant bubble in the middle of the snake." Once we have the Financial Plan and can demonstrate the impact, we propose to talk to the Legislature next year to find a way to carve out capital expenditures. It would be great to spend $200 million in cash to build projects. The Constitutional restriction was voted right after Prop 13 went into California in 1979. It is to restrict governments from raising excessive taxes and fees. No one anticipated a utility company that would have to meet Environmental Protection Agency (EPA) rules that would cost $1 billion over the course of a couple of years. There is no way to exclude the expenditures, except to pay with borrowed funds. Debt service is not counted as a restricted use. We are trying to structure it to get through until an over-ride election.

Mr. Smith said the "elephant in the room" is whether $700 million can be borrowed over the next three and a half years with this financial plan. Mr. Burke said yes. The financial consultants say yes we can. They have been intimately involved and working with Raftalis to develop a plan that would be sufficient to sell bonds.

Mr. Carlson said that the best way for contractors to make money is to get the job done in less time than allotted. That increases the demand for money. Is that transferrable to an accelerated construction schedule? Mr. Gritzuk said that is being looked at right now. We had to move up completion of the lab complex, which requires additional cash flow, as do the GMPs. This has caused a serious look at the cash flow.

Mr. Burke said that one of the reasons that this Financial Plan shows unanticipated increases is that $40 million of projects have been accelerated in the 5-Year Plan, primarily because we feel that it will be cheaper to do them now as opposed to two years from now.

Mr. Barry asked if the argument is that we have no choice but to do ROMP, regardless of price. Mr. Burke said that was right. Mr. Gritzuk said that he, Mr. Huckelberry and Mr. Bernal went to the Arizona Department of Environmental Quality (ADEQ) and asked for time relief for the ROMP Program. Mr. Huckelberry asked for a five year relief of the ROMP regulatory schedule. The ADEQ said that was not possible, but we could possibly get one year relief, if we participated in a very complicated process. There was no guarantee that the relief would be granted. Mr. Barry asked whose responsibility it would be if the deadline was missed. Mr. Gritzuk said he primarily was, with some company.

Ms. Bowen asked about the next step. Mr. Nichols said that the Financial Plan was being presented to the Committee this morning, and then they have to give Raftalis the recommendation so they can complete the Financial Plan. Ms. Bowen said following that, a public meeting would be set January 18, 20 or 21, and then the Committee's meeting would immediately follow. Mr. Curley said that the usual meeting would be Thursday, January 21, so the public meeting would be January 18, 20 or 21 in the evening.

Mr. Katzel asked if the worst case scenario takes place - ROMP is not completed and ADEQ penalizes the County, and the bonds can not be sold - is there a chance that Pima County could go bankrupt due to this enormous expansion and unsellable debt? Mr. Katzel said that the advisors say that this debt is sellable, but from an individual perspective, things are tight. He is not optimistic that governmental entities can raise revenues. Mr. Burke said that he believes that is why the Bond Advisory Committee did not go forward with a bond election. The request for the sewer revenue bonds would not be sufficient to cover the debt that RWRD needs in the next four to five years. Even if there was a bond election for $565 million, it would not be sufficient to cover - two elections would be necessary. The other option is to raise the authorization to over $800 million. The County would only go bankrupt if it did not charge for its services and collect the taxes and revenues needed. The County is nowhere near having that kind of problem. If we incurred half a billion dollars of expenses and didn't collect revenue, then the County would have that problem.

Mr. Stratton said that his comfort level is not positive at this point. The Committee got an e-mail last evening and this brief discussion today. To go forward with a public meeting in January without more time to digest the information and to discuss it is rushing it. Knowing the letter sent to the Board of Supervisors regarding the January rate increase associated with last year's Financial Plan keeps things moving, as long as the Board of Supervisors agrees with it. The next recommendation for another increase is not until July. He feels there is room for some time to discuss the financial plan. He would recommend that the public meeting be postponed until after the Committee has had time to look at what Raftalis and RWRD has put forth as a recommendation in the Financial Plan.

Ms. Bowen said that individual meetings with staff to go over the Plan have been offered.

Mr. Stratton said that he doesn't feel that allows for good dialog among the Committee. He understands the need to get a Financial Plan approved, but feels that having a discussion for half an hour then going to a public meeting next month is not what the process should be.

Mr. Barry asked what the County's schedule was. Mr. Burke said in order to cover the obligations this year, there must be a sale in March. That means that the Board of Supervisors would have to approve rates in February. There is only 4-5 weeks of wiggle room. If bond buyers are not informed of rate increases, we will be unable to sell any debt at all. Mr. Barry asked if the January increase is dependent on approval of this Financial Plan. Mr. Burke said no. The January increase was approved by the Board of Supervisors more than a year ago.

Mr. Barry asked if the public meeting being discussed was for this Financial Plan currently before them. Mr. Burke said yes. Mr. Barry asked if the is a need to have a public hearing in January to be able to sell in March. Mr. Burke said there is a need. In order to sell in March, we have to know the rates in the future. They will be telling the Board of Supervisors that they need to commit to rates for the next three or four year period. Historically, the Board has revisited rates each year. They cannot sell $175 and $200 million in bonds with the plan to raise rates unless there has already been a commitment made by the Board to increase them. Mr. Barry asked if this Financial Plan will go to the Board of Supervisors before they try to sell the bonds. Mr. Burke said yes, they have to.

Ms. Bowen said that, assuming there is a delay, what does that do to the ability to sell bonds. Mr. Burke said that they are working backwards through their cash needs. We need to sell bonds in March. It takes five to 6 week after receiving final numbers from the Board of Supervisors to put the official statements together and market the bonds. If the Board of Supervisors votes in February for rates, we can sell bonds in March, and close at the end of March or beginning of April and start paying the bills they expect to incur this year. In the mean time, we will be using other funds available, but they are not authorized to be used permanently for those uses. Excess cash in operating accounts will cover the bills until they can be replenished with borrowed funds.

Ms. Bowen asked what the impact of a delay of the Financial Plan is. Mr. Burke said RWRD would have to slow down all projects.

Mr. Gritzuk said there is an impact for non-compliance. At this point, we have a compliance schedule contained in our discharge permits. We are the last utility in the state to comply with the effluent quality requirement. If we enter into a non-compliance situation, for example if we miss the award of a contract by a certain date or the completion of the facilities, the immediate action by ADEQ is to enter into compliance negotiations with us. This can result in a consent order. However, with a project this large, it would most likely be a consent decree. As soon as you are non-compliant, the first thing discussed is penalties. If we are non-compliant, we will pay an up-front large penalty, and continue to pay continuing penalties. We will also be given a compliance schedule that is extremely detailed. Each will be locked into a date. If any of these dates are missed, there is an additional stipulated penalty. The easiest way to comply is the route currently being taken. The harder way is to complete the project under a consent decree. You do not want to pay penalties or to be subject to the oversight of ADEQ. There are some utilities that got to that point, such as the Cities of Atlanta and San Diego. They are both still under consent decrees and paying penalties after years of becoming non-compliant.

Mr. Katzel said that there is a saturation point where the consumer cannot pay any more.

Mr. Stratton said he appreciates the regulatory requirements, but for two years this Committee has asked what "Plan B" was if there was no bond election. This is the Plan B. To have it pushed through the Committee so quickly after the Committee has asked for some time is unfair to the Committee. He does not believe it is a problem if it is delayed a month. It does slow the projects down, but he assumes that within a five-year period, the month can be made up. These bonds will not all be sold on day one; they will be sold over a series of years. He does not see the rush to have it done next month when the Committee has asked for this for quite some time.

Mr. Gritzuk said that Mr. Burke has said that there can be a month's delay. Mr. Burke agreed.

Mr. Barry asked if the bonds would be sold in April. Mr. Burke said the original schedule was to go before the Board of Supervisors at the end of January or the beginning of February. If it is pushed back so they go before the Board of Supervisors at the last meeting in February or the first meeting in March, they would still be able to sell the debt. If they can anticipate the direction of the Financial Plan, Finance can draft the necessary documentation in advance. The problem will be with the rating agencies. We can not get ratings for the debt until we can commit to what the revenues will be. We can talk about what is anticipated, but until the Board of Supervisors actually approves the rates, we will not get a rating, or they will downgrade us and say that we are a financial high risk.

Mr. Barry made a motion to meet a week earlier in January and devote substantial time to this discussion, meet earlier in February to complete discussions, and then have the public hearing in February.

Ms. Bowen said this is an action item. The original intent was to schedule [the public meeting] in January. She asked him to restate his motion.

Mr. Barry said his motion is to move the regular January RWRAC meeting a week earlier and the regular February RWRAC meeting be moved a week earlier. We schedule enough time at both the January and February meetings to make sure the Committee is comfortable with the discussions they have had. Then, shortly after the RWRAC February meeting, schedule the obligatory public hearing.

The motion was seconded.

Mr. Carlson said that several years ago the Committee had an evening meeting on a specific subject, if that helps from a scheduling and staff standpoint.

Mr. Stratton said that several of them were used to four-hour evening meetings. Staff mentioned that the Financial Plan needs to be compiled by Raftalis. Does moving the meeting up a week in January allow them enough time to get a document to the Committee? He would ask that the Committee get the document prior to the meeting so they have some time to digest it and prepare questions.

Mr. Carlson asked that the document be mailed, not e-mailed.

Mr. Nichols said that he will contact Raftalis and advise them that a draft Financial is needed before the end of the year.

Mr. Smith said that he would also like to have an evaluation of a 15-year bond term versus a 20-year bond term. Also, what Mr. Katzel asked for, seeing the three levels of absolute user rates over a five-year period, would be helpful. The last time the Board of Supervisors voted on rate increases it was a 3-2 vote. He feels that the Committee members need to go to their Supervisor and go through this with them well in advance of their meeting.

Mr. Carlson asked if staff needed the option of an evening meeting.

Mr. Curley said that there are certain notices by law that have to be given regarding the public meeting. If the intent is to have two earlier meetings devoted to this subject, plus the public meeting, staff can come back to the Committee with a schedule.

Mr. Carlson amended Mr. Barry's motion to allow staff authority to do so.

Ann Marie Wolf asked if it is critical in the motion that it is tied to a regularly scheduled meeting being moved or if there is an option to have an extra meeting.

Mr. Barry said that his motion is intended to give the Committee enough time to discuss this in detail. He assumed it would take two meetings. If it doesn't, so be it. If the Committee has two meetings, and they get the documents a week in advance, and there are complaints that a week in advance is not enough time, the Committee can discuss it with out having to vote. If necessary, they can decide to schedule the second meeting after the first meeting. But the Committee has to get it done in enough time to have the public meeting and allow staff the time to do what is necessary to sell the debt in March.

Mr. Curley said perhaps not replacing a meeting, but scheduling a meeting in between would work best.

Mr. Barry said that was fine with him.

Mr. Carlson said that is what his amendment was for: to give staff some time.

Mr. Barry said that he doesn't feel that a motion on this is necessary and withdrew the motion.

Mr. Curley said that staff will work out a schedule between Ms. Bowen, Mr. Burke and RWRD, and then let the Committee know what staff needs to accomplish the goal.

Ms. Wolf said that she supports what Mr. Stratton and Mr. Barry said. It is difficult for her, as she does not deal with financial issues, to get the documents the night before. She can not come prepared with questions. She would be uncomfortable with an accelerated schedule. She needs to have another meeting and have a lengthy discussion to hear what the other Committee members have to say.

Ms. Bowen said that she would like staff to offer sessions to Committee members to help them assimilate the information prior to the meeting. Mr. Burke said that they would make themselves available. Ms. Bowen asked anyone interested to contact Diana St. John to schedule it.

Mr. Barry said that the January meeting should dispense with other items and concentrate on the financial discussion.

Mr. Carlson said that when the Speedway [sinkhole] issue arose, there was no flexibility in RWRD to find funds. RWRD had to take from other jobs and move staff. It was a mess. This Committee fought to give RWRD more stability and predictability for income. The Committee took it upon themselves to educate themselves and others. Several of the Committee spoke before the Board of Supervisors. Mr. Smith suggested that they get in touch with their Supervisor and he agrees. It is also incumbent on RWRD to have public information early in the process. There is a saturation point but it has to be done.

Ms. Bowen clarified the motion was withdrawn. Next is the archeological presentation and tour of the Plant Interconnect. She asked the Committee if they wanted to reschedule. After discussion it was decided that the presentation would be given, followed by the tour.

B. New Items

1. **Archeological Presentation.** Linda Mayro, Director, Cultural Resources, introduced Loy Neff, Cultural Resources Program Manager and Jim Vint, Archeological Supervisor for the Ina Road site. She congratulated the RWRD for sponsoring the archeological investigation of that site. The discoveries have been named by Archeology Magazine as one of the top ten discoveries in the world.

   Mr. Neff and Mr. Vint then gave a PowerPoint presentation of the Ina Road site. Mr. Carlson asked at what depths the discoveries were made. Mr. Vint said five to 15 feet.

   Mr. Katzel asked if the sites were abandoned and then reoccupied. Mr. Vint said yes.

   Mr. Carlson asked how much dirt was moved and what was done with it. Mr. Vint said that 166 thousand yards of earth was moved. Much was given to the landfill and used on-site. There was also some stockpiled for future use.

Mr. Carlson asked how much money was spent on the project. Mr. Neff said the total budget was $6.68 million. The field work took 13 months and there generated two and a half years of analysis.

Ms. Bowen asked if the site was buried when they were done. Mr. Vint said that where the facility will be built, all the archeology has been removed. It is now preserved in photos, notes, maps and collections. Where there is no construction planned, it is left in place.

VI. FUTURE AGENDA ITEMS. FY 2009/10 Financial Plan; Regional Optimization Master Plan Update; Approval of 2010 RWRAC Work Plan.

Mr. Katzel said that after the financial issues, he would like to see a presentation on the drug take-back program. He would like to see invitations extended to Oro Valley and Green Valley for the presentation.

Ms. Bowen said that she believes all jurisdictions have been invited to the stakeholder meetings, so it would be appropriate to extend an invitation to them as well.

VII. CALL TO THE AUDIENCE. There were no comments from the audience.

VIII. ADJOURNMENT. The meeting was adjourned at 10:01 a.m. Committee members were then invited to attend the tour of the Plant Interconnect.