REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Transamerica Building
Pima Association of Governments' 5th Floor Conference Room
177 North Church Avenue
Thursday, January 14, 2010

Committee Members Present:

Jim Barry	Corey Smith	Rob Kulakofsky
Sheila Bowen	Barbee Hanson	Mike Gritzuk
John Carlson	Bill Katzel	

Committee Members Absent:

Brad DeSpain	Mark Stratton	
Armando Membrila	Ann Marie Wolf	Jeff Biggs

Staff Present:

Ed Curley	Eric Wieduwilt	Ron Meck
Diana St. John	Laura Fairbanks	Lillian Von Rago
Jeff Nichols	Mary Hamilton	Tom Burke
Jackson Jenkins	Gregg Hitt	Harlan Agnew
John Warner	Mike Kostrzewski	Charles Wesselhoft

Guests:
Keith Bagwell
Claire Zucker, Pima Association of Governments

I. **CALL TO ORDER.** Chair Sheila Bowen called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 5:07 p.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 December 17, 2009 RWRAC meeting.

Corey Smith asked if the Committee present could reach a consensus, then have a meeting next week to either move forward or reconsider. If a quorum is not reached next week, nothing will be accomplished. Charles Wesselhoft, Deputy Pima County Attorney, said that the question could be called tonight. Next week the question could be called again and ratified.

Mr. Smith asked if there was no quorum at the next meeting, would the decision reached tonight stand. Mr. Wesselhoft said yes. Mr. Smith said that he would be in favor of that. Ms. Bowen agreed.

Bill Katzel asked how the packet that was mailed out differed from the one received in the one-on-one meeting with Tom Burke. Mr. Burke said that some minor typographical errors were corrected. No substantive changes were made. There will need to be some corrections to the one that was mailed.

Mr. Katzel asked if a chart was included showing the decline in rates based on debt buyback with a caveat regarding new federal or state mandates. Mr. Burke said no new schedules were added. Mr. Katzel asked if the chart was going to be included. He is referring to the chart showing the rates declining, with the new mandates caveat. Mr. Burke said that as he goes through the charts, it will show that situation to be at least eight or ten years away. For the next five or six years it is not likely that the debt service will go down significantly.

IV. **DISCUSSION**

A. **Old Items/Updates.**

1. **Financial Update – Financial Plan**. Tom Burke, Director of Finance and Risk Management, gave a PowerPoint presentation on the FY 2009/10 Financial Plan. Essentially the reason for the Financial Plan is to be able to finance the ongoing operations of the department and to establish rates that will enable us to finance the Regional Optimization Master Plan (ROMP) and several hundred million dollars of other non-ROMP projects that are detailed in the Plan. A total of $812 million is needed in the next four fiscal years to fund the Capital Improvement Program that has been established by RWRD which is primarily driven by

the ROMP requirements. The Plan differs from prior plans in that he is asking for a recommendation to establish rate increases for the next four fiscal years so we can show the lending institutions and the rating agencies that Pima County can fund over $800 million needed in the next four to five years.

One of the driving forces behind this need is the rating agencies and for the debt service coverage and for the liquidity requirements. This is used to establish that the County has sufficient funds to support the debt the County will be borrowing. Pima County currently has $250 million in sewer debt. In seven years, Pima County will have $1 billion in sewer debt. The rates need to be structured so that Pima County can pay the increase in debt service. The debt service will be increased by a factor of five in order to borrow the level of debt necessary to complete construction. One thing rating agencies look for is debt service coverage ratio. That means Pima County has sufficient funds to pay all operating costs, all debt service and still have a buffer to cover emergencies and unexpected expenses. Rating agencies also look closely at liquidity, which is how much money is on hand to handle operations should something happen to prevent revenue from coming in. The Plan is proposing rates that Mr. Burke feels will satisfy both of those requirements.

The slide showing Historic Revenues and Expenditures indicates how Pima County has handled rates in the past. Rates charged have covered operating expenditures. The next slide indicates depreciation. Historically, instead of setting aside a reserve fund (a capital depreciation sinking fund), Pima County waits until there is a significant need then borrows the funds using bond election and issuance of bonds.

The next slide [Figure 2] shows that expenditures will be gradually increasing over the next four to five years by 2.8 or 2.9 percent. This excludes capital expenses. Pima County expenses capital expenditures that are less than $5,000. It is an operating expense but the analysis done by Raftalis did not include that as operating and maintenance expense. There is a $4 million expenditure in that area. If the slide and report are compared to the final numbers in the last schedule, there is a difference of $4 million. That is the capital expenses. Over the next five years RWRD's expectation of expenditures is to increase approximately three percent per year. Given the fact that compensation insurance benefits will grow at a much higher rate than three percent (a little less than half of the total cost of operating the system) and major increases are expected in electricity costs, holding the expenditures to three to four percent per year shows aggressive activity by RWRD.

The non-operating expenses - the capital expenses - are the reason for the rate increase: $87 million in this fiscal year, $171 million in FY 2010/11, $234 million in FY 2011/12, $211 million in FY 2012/13 and $109 million in FY 2013/14, totaling $812 million by the end of FY 2014 that needs to be funded. The only way to fund it is with rate increases. Expenditures for operation and maintenance will remain relatively flat. Expenditures for debt service to cover the capital expenses are driving the rates.

John Carlson asked if ROMP is treatment. Mr. Burke stated that ROMP has been separated [on the chart]. The driving forces for ROMP are the treatment permit requirements for environmental regulations. The other treatment improvements are routine and ongoing ones for expansions in the future that would happen even if there was no ROMP. ROMP has specific deadlines that cannot be delayed. RWRD has the ability to time-shift other treatment improvements if necessary.

Mike Gritzuk said that no part of ROMP should be delayed as there are regulatory schedules. Some other areas have components, such as rehabilitation, which also should not be delayed. This will prevent another sinkhole. Much of the other costs are rehabilitation needs and conveyance improvements. Mr. Carlson believes that the public will have to be convinced.

Mr. Smith stated that earlier, Mr. Burke said that the only way to pay for the improvements is with rate increases. The way to pay for this is though borrowing money. Rate increases pay that money back. Mr. Burke said the rate increases pay for the debt service. $812 million in the next four and one half years is only part of it. A couple years later it is $974 million: $694 million for ROMP, $165 million for conveyance and $114 million for treatment. In prior Financial Plans, it was anticipated to go to the voters twice: initially for $565 million, then $310 million four years later. That would get $875 million of the $974 million needed. The remaining $99 million was to be paid with system development funds (SDF funds) which were expected to accumulate over time. SDF funds are unrestricted cash balances in RWRD. All revenue is allocated to operating costs first, then debt costs. Whatever is left is unrestricted. It was used in 2002 during the sinkhole emergency. That cash cannot be used in the fashion originally planned. Instead of $875 million in bonding authority that prior Plans anticipated, we need $974 million of borrowed funds.

Mr. Smith said that the public is not voting on this debt authorization.

Mr. Burke said that that the debt service for operating costs will be $80 to $90 million in the next few years. Pima County will need to be able to pay that. The debt service is currently $24 million. Each year the County pays that to the bond holders for the bonds that have been issued over the course of the last 15 years. As soon as the County starts borrowing for the $812 million needed in the next few years, our debt service will ramp up. Figure 5 shows what will happen to the debt service after 2014. It will continue to rise to $125 million on average, which is five times what the County currently pays. The system needs to generate an extra $100 million per year to cover the debt service. Mr. Burke did an analysis, which he will distribute to the Committee, of what would happen if the debt was issued for 20 years (as opposed to the 15 year debt in the proposed Plan). It has no impact in the first three years and only $4 million in the last year as the County is issuing interest only to avoid a huge initial debt payment. For the first three years, the County would only pay interest. Spreading the debt over a longer period of time has no impact on the rates needed in the next four years.

What are the funding sources currently available? Historically the County has used sewer revenue bonds, but last spring the last of the authorized sewer revenue bonds from 2004 were issued. The County has no bonding authority left without an election. We have exhausted all the Water Infrastructure Finance Agency (WIFA) loans available as WIFA has a requirement for an election to borrow funds. The exception this year is that the County could qualify for federal stimulus money without an election. The County did borrow $10 million from WIFA in July of which $2 million are stimulus funds that do not have to be paid back. Mr. Burke spoke with the Director of WIFA today, who confirmed that all $82 million in stimulus funding has been allocated and they are not anticipating any more. The only way to use WIFA financing again would be with a bond election. The dilemma is that the earliest bond election possible is in November 2010. The County estimates that it needs $125 million. The County has $87 million that needs to be expended in FY 2009/10. We have funding for half of that from the bonds sold at the end of last year, from WIFA and from Certificates of Participation (COPs). Assuming $170 million spent evenly over the next 12 months of the next fiscal year, the County needs to come up with $85 million. The County needs $125 million before January 2011. If there is not a bond election until November 2011, we will not have cash to pay for projects underway.

Bonds are no longer available, WIFA loans are no longer available and the cash on hand cannot be used due to a constitutional expenditure limitation. For the last 18 months the County has been looking elsewhere to borrow funds. Several water utility companies in Arizona issue revenue obligations. This is what Mr. Burke is proposing the County issue. They are similar to COPs in that the County is pledging an asset: the accounts receivable, or revenue, of the system to a lender. It is similar to the way bonds work. The County is loaned money and we pay them back principle and interest over 15 years. This will be the first time Pima County has done this. There is a possibility that the interest rate will be one quarter of a percent higher than normal bonds, but that will not be known until the debt are issued. The issue will be the ratings the County receives based on the rating agencies belief that we will be able to repay the debt.

Mr. Katzel asked what the anticipated rating will be. Mr. Burke said that will be based on the rating agencies belief that the County has established sufficient rates to cover the debt service, operating costs and the debt service coverage ratio. The coverage ratio is basically a “comfort margin” or a percentage of revenues in excess of the requirements. It is the net revenues divided by debt service. So, if there was a debt service of $25 million and a $100 million in net revenues after all expenses are paid, there is a 4.0 debt ratio.

the County is required by the existing debt to WIFA and from existing bonds to have a 1.2coverage. That is considered about as low as you can go. Historically, the County has been more than 2.0. Three years ago we were up to 4.7, and then dropped to 1.5. The County would have dropped in the last fiscal year but, due to an accounting switch (transferring part of the debt service payment from June 30 to July 1 changed the obligations to the fiscal year) our rate went back up to 2.7.

Ms. Bowen asked if the connection fee was included in the net revenue. Mr. Burke said yes. The connection fees have been included in the debt coverage ratio. In the last two ratings the County has received, we have been relying on the connection fees to cover our debt service. The rating agency’s think that is risky as connection fees are not a stable form of revenue. In the analysis done historically, the connection fees were included. We have suggested excluding the connection fees in calculating the revenues and the ratios as we do not believe that the connection fees will exceed $20 million in the next few years. We need $200 million in revenues. Connection fees are less than ten percent of the total factor. Standards and Poor said that as long as there is no new debt, our rates will keep us in a very adequate position. Unfortunately we need over $900 million in debt over the next 10 years.

Mr. Katzel asked if the ratio was kept, what would the rating be. Mr. Burke said that we are currently down to an A-1 as of last April. The primary reason was the reduction in our debt service ratio. It went from 4.7 to 1.5. The Board of Supervisors made significant rate increases last year, at the Committee's recommendation. This kept the rating from going down further. If we cannot show that our revenues will pay for our debt service and operations, we will not only get lower rates, Mr. Burke feels that no one would loan us money.

Ms. Bowen asked if we were closer to 1.5 versus the 2 that is proposed, how that translates to rates. Mr. Burke said that if we had a ratio of 1.5 one of two things would happen. We would be downgraded in our rating, resulting in higher interest rates as we are a greater risk. The resulting bigger problem is we would be taken out of a bigger pool of who will bid for your debt. The larger bidding firms that will be buying the debt have certain standards for them to be able to market those bonds in the secondary market. Two years ago we had a sale and there were only two bidders.

One thing mentioned in the Plan is that in FY 2014 and FY 2015 the rates will begin to produce $40 to $60 million in excess cash. At that point, all reserves will be funded. We propose to use that cash to prepay the existing debt of $200 million. When the rates were proposed, they were not to pay the $125 million debt service expected in later years. Mr. Burke believes that by that time, we can lower it by paying down and eliminating the existing debt. Investors anticipate having a certain amount of time for earnings, so the new debt cannot be pre-paid too early. By FY 2017 or FY 2018 the County should be able to start paying down some of the new debt if there is additional cash.

Mr. Smith said that financing $812 million over a 15 year life at straight amortization at five percent versus six percent is [a difference of] $5.4 million in debt service per year.

Mr. Burke said that we are proposing to borrow $797 million: $165 million in FY 2009/10 and FY 2010/11, $200 million in FY 2011/12 and FY 2012/13, and $67 million in FY 2013/14, assuming that there are no other treatment or conveyance projects, and cash on hand from previous bond sales and WIFA loans. One of the complexities of the rate analysis that has not been dealt with in the past is that we are paying for all capital programs with borrowed funds as opposed to pay-as-you-go. Over the last 30 years, the Counties and other jurisdictions are subject to a constitutional expenditure limitation. This provides that the County cannot spend more than a set dollar amount from locally generated revenue: primary property taxes, any fees charged for services, and impact fees. The original calculation was done in 1979 and has increased each year by the amount of population growth in the jurisdiction and by an index with the growth of the national product. The last three years have averaged 2 ½ to 3 percent. The last year it was 1 ½ percent. We can expect next year to increase our expenditures by the amount of population growth. Recent changes in legislation have caused some people to move away from Arizona. We are looking at a possible 2 percent increase next year. Currently we can spend $506 million of local money. $300 million is spent on general fund departments (such as Sheriff, County Attorney, Public Defender, Assessor, Treasurer, Procurement, Finance, Human Resources). All the money spent by RWRD that is not borrowed is subject to restriction. The County has reached the expenditure limit as the expenses have increased at a greater rate than the consumer index used to guide the state legislature. There are several reasons for that: medical expenses have increases significantly, the cost of jail operation has increased significantly, and as regulations have impacted RWRD the cost of providing sewer services has increased at a rate greater than 3 percent per year. As the County's needs expand, we are limited as to what we can spend money on. Any dollar spent on RWRD activity is subject to restrictions. If excess cash is used to pay for a capital project and money is not borrowed, the County needs to cut cash expenditures elsewhere in the County.

Mr. Carlson asked if the County should borrow money for this project so this [expenditure limitation] is not a factor? Mr. Burke said that if we don't borrow the money we will have this problem.

Mr. Carlson said that the present RWRD management has caught up with identifying weak points in the system so that another sinkhole incident does not occur. Where is the money for emergencies like this? Mr. Burke said that RWRD currently has $10 million set aside as cash reserves from excess development funds. He is proposing to increase that by $5 million each year for two years, doubling it to $20 million. However, when an emergency happens, if RWRD suddenly has a $15 million expenditure, it does put pressure on the county in the expenditure limitations. There are certain exceptions, such as something out of your control or a judgment against the County.

Mr. Carlson asked if it would be a good idea to contact members of Congress to attempt to get more federal assistance with conforming to federal standards. Mr. Gritzuk said that we are working on them almost continuously. We pursued stimulus funding for the Plant Interconnect. We are pursuing stimulus funding through the Environmental Protection Agency for the central laboratory. There is also an effort to get funding for the power plant at Ina Road. Recently, Mr. Gritzuk was asked to testify in Washington, D.C. before a congressional committee on the need of funding in the water sector. To date, RWRD received a low-interest loan from WIFA and $2 million principle forgiveness. It does not go very far towards $700 million, but we are trying. Mr. Carlson asked that some succinct talking points be developed that could be used by Committee members, such as when they see members of the Chamber of Commerce to add pressure to the elected officials.

Ms. Bowen asked if the cash reserve and the operating reserve are cash on hand. Mr. Burke said that these are considered restricted funds. They are currently restricted by our agreement with WIFA and the bond holders to the 30-days of operating expenditures. The emergency fund is technically not restricted in the sense that there is no contractual or statutory obligation to have an emergency fund. RWRD has developed this in response to previous emergency situations, showing prudent management. It is technically unrestricted but is referred to as a designated fund. It was removed from the analysis of what is available for use. The operating reserve and the debt service reserve and the emergency reserve are considered restricted funds. The balance is unrestricted. That is what is available to use for capital projects.

Mr. Smith said that these are provisions that Mr. Burke is not looking to put in place, but they are provisions that a borrower would put in place as a contingent as a term of a loan. Mr. Burke said that, to a certain degree, yes. This is what a rating agency would look at to be able to say that is a healthy indication of good financial management.

Mr. Smith said that the thing that is being obscured is that Mr. Burke wants to borrow $800 million. The Committee is there to discuss a rate increase structure that would allow us to borrow the money and pay it off in the next four years. All the other discussions, such as getting money from WIFA or federal funds, ignore the “elephant in the room.” The sooner the Committee gets to the rate discussion, the better.

Mr. Smith asked if the County would be borrowing ahead six months. Mr. Burke said that we do borrow in advance. Mr. Smith asked if it was a line of credit so that the County is not paying interest on the full amount. Mr. Burke said no, we would be sitting on the cash. Mr. Smith asked what the borrowing rate versus the investment rate was. Mr. Burke said that the current investment rate is less than on half percent. Mr. Smith asked if an alternate structure was looked at, such as a line of credit. Mr. Burke said that we would not be able to go to the market to bid on that type of structure – it would have to be negotiated. Going out to bid reduces the interest rate. Historically, the County borrows after funding has been spent. There are reimbursement resolutions. For example, the day that we signed for the WIFA loan, we reimbursed $6 million in expenditures. We tend to spend the money in advance. It is covered by cash reserves in the general fund. The federal tax statutes allow for a three-year borrowing period. Historically, the County only borrows for twelve month periods.

Mr. Barry asked what the difference between $812 million in Figure 3 and $797 million in Figure 6 represented. Mr. Burke said that there is already cash on hand, so additional funds will not have to be borrowed. Figure 6 shows what will be borrowed, Figure 3 shows what will be actually be spent.

Mr. Burke said that Mr. Huckelberry wanted rates that were fairly even throughout the years. Our debt service increases quickly, so we could conceivably do six percent in the first year, but would have to follow with eight percent. They are proposing a six and one half percent increase in the standard service fee and connection fees once per year. Neither will produce large amounts of money. Currently the connection fee generates $19 million. They are projecting it to be $23 million in four years. The standard service fee is increasing $.06.

The two fee rates proposed for the volume of six and one half percent in July and January of each year has created some confusion. It appears that they are asking for a 13 percent rate increase. In actuality it is just less than 10 percent per year. In the fifth year, not shown on the slide, there is a three and thee quarter percent increase that will go into effect in January. The impact of two six and a half percent increases is 10 percent increase. That seems to have caused some confusion. People think that it is a 13 percent increase. If a 10 percent increase were adopted in July of each year, it would produce more money.

Ms. Bowen asked if there was any thought of doing just one [rate increase per year]. Mr. Burke said that based on the overwhelming comments from people who have looked at it and have been confused; looking at it now two rate increases will continue to cause confusion.

Mr. Burke said that Schedule ES-1 summarizes the impact to the tenth of a million. It shows that our revenues will increase by $79 million and Operations and Maintenance is increasing by $12 million over this period. But our debt service is going up from $24 million to $90 million.

The next chart shows the total increase between FY 2009/10 and FY 2013/14. In 2014 the operating expenses will be $12 million more than current expenses. The debt service will be $67 million more. This totals $79 million. Using these rate increases, the revenue will be $79 million more. The rates are designed to cover the small three percent increases in operating costs and the significant increase in debt service. The two six and a half percent increases equal 9.9613 percent. A 10 percent increase creates an extra $300 for every million dollars of revenue.

The last slide shows the effect per person. The scale in the report that was distributed has an error. Mr. Burke will be distributing an updated report. The scale goes up to 200. This slide does not have the scale. The middle bar is the bill assuming 8 ccf during the winter months. That is the average bill that this is based on. If you compare last year's report, this year's report and the actual rates on your sewer bill, there is a few pennies error due to the formulas that were used. One takes the calculation out to three decimal points and the other took the calculation to four decimal points. This caused the one to be $29.08 and the other to be $29.07. The average bill today is approximately $29. One year from now after two increases, the bill would be approximately $32, roughly an 11 percent increase. The next year it would be $36, another 11 percent increase. Between the standard fee and the volume fee, the impact is 11 percent each year, cumulative it becomes 50 percent.

Mr. Smith said it is 56 percent on the top line, 52 percent on the middle line and 41 percent on the bottom line.

Mr. Burke said that the difference is that the volume fee is going up faster and therefore the more volume you use the faster your rates go up.

Mr. Katzel asked what happens to the rates if the COPs are not saleable. Mr. Burke said that if we cannot borrow the funds it creates a completely new issue. If there is no money the projects would stop. We would be in non-compliance with our permit obligations. The Arizona Department of Environmental Quality (ADEQ) would step in and it would probably cost us more. There is no way out of paying the construction costs. It is a matter of how it is financed and funded: the length of time and the structure.

Mr. Carlson said that Mr. Gritzuk mentioned at the last meeting another municipality that became non-compliant. Mr. Gritzuk said that there is not an option to not do the regulated portion of the program because there is no money. The program will be done. It might be delayed if there is enforcement action with the regulatory agencies. We will most likely be taken to court. There will be a very detailed consent decree that gives line items of what must be done by certain dates. If you miss any of the dates you pay a stipulated penalty. Before getting to that point, if you are out of compliance with existing permits, there will be stiff penalties. In the long run the program would be delayed and it will cost more as you will be paying substantial fines.

Mr. Katzel asked what would happen to the rates if the financial instruments cannot be sold. Mr. Burke said that RWRD has a good history of selling bonds. We are obligated to have at least 1.2 coverage, so we would be able to sell the bonds. The issue would then be what the interest rates would be. Mr. Burke believes that we can borrow the money. It would just be at higher rates and paying more debt service over the course of time.

Mr. Smith asked if there was no debt service coverage and there were no reserves in place, the rates would go up more than 10 percent. He has spoken to people on the Bond Advisory Committee and they believe that this is doable with the rates described. This corresponds with the bankers and financial consultants. Mr. Burke said yes. In order to sell, there needs to be debt coverage and liquidity to ask for a loan of $800 million.

Mr. Smith said that this presumes five percent in year one, five and a half percent, and two years at six percent. Mr. Burke said yes. That is because currently we are borrowing at 4.2 percent, but we do not know what will happen to interest rates in the next three to four years. We will be borrowing for the next four or five years. We typically anticipate one to one and a half percent above what we are currently borrowing at.

Mr. Smith asked if the Board of Supervisors will be voting on a four-year rate increase. Mr. Burke said that our recommendation will be for them to adopt four years worth of rate increases so that every year we do not have to see if we can borrow money for that year's debt.

Mr. Smith asked if the proviso would be that if, in fact, the funds come in, or if the rate is not five and half percent but rather five and one quarter percent, the rates could be adjusted downward to reflect that savings. Mr. Burke said that there is a potential that the rates could be adjusted down if the rates were less or if the construction costs are significantly less. The Pima County Code does require that the rates be analyzed every year to make sure that they are still appropriate and fair. What Mr. Burke is recommending is that, in order to convince lenders to lend this amount of money, we have sufficient rate increases to cover the required capital improvements that we currently have and the improvements that we have to comply with by 2014.

Ms. Bowen asked if revenues fall short, this four year recommended rate increase allows for some flexibility to adjust upward. Mr. Burke said that the decision of the rates rests with the Board of Supervisors, subject to the fact that there is a requirement that the rates are raised to the level of providing a debt service coverage ration of 1.2. At that level we cannot borrow, which creates a different problem. In 2009, the Board of Supervisors asked that we come back in December to report how things were looking, especially with the connection fees. It did not require that the Board of Supervisors take further action, but it did require a report be given to them as to status. RWRD reports status quarterly to the Board of Supervisors, so the topic could come up at any time. The concern is that going out to the market to borrow initially $165 million and another $165 million next year, is convincing lenders not only we can pay the debt we are assuming but that we can finish the project. To do this we have to show sufficient rates to pay for what we are borrowing.

Rob Kulakofsky asked if people began to aggressively conserve, less revenue will be produced than projected. Mr. Burke said that the assumptions accounted for recent change in flows, most likely due to population shifts than conservation. These rates are for December through February. There are conservation items being placed in the home to reduce flow, but Raftalis indicates that will not be significant enough to have much of an impact. There is a buffer built in as they are hoping for less than five percent interest rates. Currently they are getting 4.2 percent. If rates sufficient to pay the debt are shown, utilities are still a good investment in the market place.

Mr. Gritzuk referred back to Mr. Katzel's question regarding selling COPs. We are not selling COPs: we are selling sewer revenue bonds. Mr. Burke said that COPs are when a government sells an asset and then buys it back over time; usually it is a building or land. It has to be something so essential that lenders believe that the government will not walk away from it. To date, there are liens on the jail, the Legal Services building, the Public Works building and the Bank of America building. All are owned by someone else. We are paying them debt service in the form of rent payments. At the end of a certain number of years, the County will own the property again. It is almost always done in the setting of a general fund borrowing. It is the general funds obligation to repay COPs. The general fund is currently obligated to pay back on the jail, even though the money was used for the Stadium District. The Stadium District funds a portion of the debt, but as their revenues are not sufficient, the general fund covers the balance of the debt. In this situation, there would be no funds from the general fund. It is not subject to a tax levy. Generally, when bond are issued, general obligation bond holders have the right to force you to raise sufficient taxes to pay the debt. In this situation, it would be a pledge of the receivable revenues. It is similar to COPs in that the asset that the County is pledging is the accounts receivables of the system. It is different as we are not giving ownership of any property and buying it back. We actually continue to own and operate the facility. It is a hybrid between a bond and COPs.

Mr. Smith asked what happens in the event of default. Do we hand over the receivable? Mr. Burke said that the bond holders have the right to get an order demanding that we raise rates sufficient to pay the debt. We do not assign the receivables. We just borrow and pay back on schedule.

Mr. Katzel asked if the County is borrowing on a rated ratio. Mr. Burke said yes. Mr. Katzel said if that ratio is not sufficient to sell the bonds, then the rates must be raised to entice buyers. Mr. Burke said that there are two ways to entice people: have a solid financial basis and pay a higher interest rate. The higher the risk, the higher the rate. The County is trying to maintain a low interest rate. Mr. Katzel said that a higher interest rate will also increase the rates. Mr. Burke said yes, it would.

Mr. Burke said that unfortunately there are not many ways around what has to be done. It is not a discretionary expenditure on the part of RWRD. The rates would have to be raised substantially to meet existing debt covenants of 1.2, and there would still be difficulty selling bonds.

Mr. Smith asked that, based on guidance from others and the Financial Plan in place, Mr. Burke felt that the bonds could be sold with the proposed rate increase structure. Mr. Burke said yes. RBC Capital Markets (RBC) are their financial advisors. RBC reviewed the initial Plan that Raftalis prepared. RBC, Raftalis and the County met to decide what the minimum requirements to market the debt should be.

Mr. Katzel asked at what point in time will he know that the assumptions are valid. Mr. Burke said three or four weeks after the Board of Supervisors sets the rates as that is when the first sale will be done. Hopefully by March so the obligations currently being incurred can be paid in April.

Mr. Barry said that he gets the impression that, after a lot of thought, this Plan is the best plan at the least cost for the rate payers. It gets the job done and meets our requirements at a rate increase that is the best that can be done. The rate payers are getting the best possible deal that the County can do. Mr. Burke said yes.

Mr. Barry asked about the recommended rate increases and the user fee volume rate. He accepts that six and a half times two does not equal 13. Why confuse it – why not go with 10 percent instead of two six and a half percent increases? Mr. Burke said that unfortunately accountants did it and did not realize how confusing it would be. If an additional three and a half percent can be collected in the first six months, then the rate does not have to be raised six and one half percent in the second half of the year. If fact, if four 10 percent increases were recommended, it would yield the same amount of revenue in the same time period by FY 2014/15. By that time the decision can be made to either buy down some of the existing debt or to not buy the debt down and live with the lower rates. The original draft of the Plan was for 10 years. Past FY 2014/15, there are too many variables to recommend any type of rate increase. They wanted to restrict the recommendation to the four years that they know exactly how much is expected to be spent and how much they believe the rates will raise.

Mr. Barry said that, no matter what recommendation is made, he would like to suggest that they include four 10 percent increases per year instead of bi-annual six and one half percent increases.

Mr. Katzel said that one is for a full year; one is for a part of a year. When combined it is an equivalent annual rate. Mr. Burke said that the equivalent annual rate is 9.96 percent. Mr. Katzel said that if a 10 percent rate is proposed, it would eliminate the two six and one half increases. Mr. Burke said yes, assuming that it occurs at the beginning of the fiscal year on July 1.

Ms. Bowen said that the standard service fee is on a January schedule. She assumes that the user fee would start in July. Mr. Burke said the user fee would have to start in July or be greater than 10 percent at the first of the year.

Mr. Barry made a motion that the Committee recommends to the Board of Supervisors that the Financial Plan be adopted, with the user fee volume rate to be changed to one 10 percent increase annually for four years.

Mr. Smith asked for discussion on how this will be implemented without citizen approval as it will be the largest debt that Pima County has even undertaken. His understanding is that the Board of Supervisors must have a super majority: four out of five must vote for it. Mr. Burke said that it does require a super majority, but for a different reason. Any competitive bond sale that is done that requires a super majority in order to adopt an emergency provision. Under Arizona law, any action that is adopted by the Board of Supervisors has a 30 day period before it can take effect, unless there is an emergency clause. All issuance of debt in the state have an emergency clause if it requires the borrowing to occur at that time. When we go out to bid on the open market, we cannot ask that the bids be held for 30 days, so we declare an emergency. That is what requires a super majority.

Mr. Smith said that the reason he wanted people to be aware of this, is that the Supervisors must be on board with this Plan. Mr. Burke said that it also would require a super majority if there was a bond election and bond debt was issued as the bidders cannot be asked to hold bids for 30 days.

Mr. Barry said that it is a first for Pima County, but is not unprecedented in the State. Mr. Burke said that was correct. Unfortunately, if an election was held and the voters said no, we would still need to borrow the debt. We cannot issue bonds and have the additional benefits that bond holders have. It might be a quarter percent difference. To do a bond election will cost $2 million. This expense would have to be added to RWRD's expenditures.

Mr. Barry said that it would be part of the general election, so the ballot question would cost less. Mr. Burke said that unless the Board of Supervisors put something else on the ballot, the entire county portion of the election would be borne by RWRD.

Mr. Barry said that November will be a general election; the County pays for that now. Mr. Burke said that the County charges other groups that add things to the ballot.

Ms. Bowen confirmed that there was a formal motion on the table to recommend to the Board of Supervisors approval of the full Financial Plan. Mr. Smith seconded the motion.

Ms. Bowen said that there was some discussion of ratifying the outcome at the next Committee meeting on January 21. Ms. Bowen asked if something particular needed to be added to the motion.

Mr. Wesselhoft said that if the Committee members here tonight vote, they do not have to vote again at the next meeting. Those that are not here can listen to the presentation and then ratify the vote.

Mr. Smith asked if a Committee member voting tonight could retract their vote at the next meeting.

Mr. Barry asked if anyone who votes in the majority can ask to open the question again. Mr. Wesselhoft said no. There is a quorum here tonight who will vote and make a decision. A distinction can be made next week between what happened tonight and what happens next week. They can ratify what was done tonight.

Ms. Bowen said that there was a motion and a second. She asked for further discussion.

Mr. Carlson said that he thought that having a meeting next week would give them some flexibility to make minor changes.

Ms. Bowen said that initially the concern from Committee members that could not attend tonight was that they could not be a part of the discussion. To resolve that, there was discussion, at the pleasure of the Committee, to move on the item tonight, then ratify with the remaining Committee members at the next meeting.

Mr. Wesselhoft said that if something does happen between now and next week and they want to make a change, it would require a new vote.

Mr. Smith said that if someone comes to the next meeting with brilliant ideas that have not been considered here, then the ideas would be considered and a vote could be recast.

Mr. Barry asked that the Committee vote tonight and see what happens next week.

Ms. Bowen asked for further questions and discussion. Hearing none, Ms. Bowen called for the vote. The motion passed: 6 YES, 1 NO (Katzel).

Ms. Hanson said that she has attended the last two Board of Supervisors presentations. She would like to make some suggestions, based on her opinion. Depending on when the item is placed on the agenda is very important to the attention span of the Board of Supervisors. She recommended last year that it be placed on the agenda earlier. The first year she went it was the last item on the agenda. By then the Supervisors were rolling their eyes. It was effective last year to get it on the agenda sooner.

Also, based on her observations, the presenter needs to speak quickly or the presenter loses the Board of Supervisors attention. Her suggest is that when it is decided who will make the presentation, that person prepare a very concise presentation, leaving a lot of the superfluous, repetitive information out. The Board of Supervisors knows that ROMP is mandated. Leave all that out and just come in with bullet points. She feels that they hit on some very significant points today, particularly the four years and the effect of that. She suggests that, as a team, put the presentation together and present it to each other. Have it critiqued in terms of significant content and done quickly. She sits as a third party observer and watches. She already knows who will and will not vote for this Plan. There is one on the bubble that hopefully they got to last year.

Mr. Smith said that was the point he was making. Let's focus on the big picture. The consequences of not doing this are severe. This is the most efficient way to do it.

Ms. Hanson said that there is so much complicated information. She read the entire Plan. The answer to every question that was asked today was in the document. She feels for the Supervisors, just hit on the significant bullet points and it will make a much more powerful presentation.

Mr. Smith suggested that the other Committee members find out who their counterpart on the Bond Advisory Committee is and talk to them. Make certain that they also talk to their Supervisor. That is typically where the big financial numbers come from. If the Supervisors get support from both sides it will go a long way towards getting their support.

B. New Items.

1. **Approval of Annual Work Plan.** Ms. Bowen asked for a motion on the work plan. Mr. Barry moved to approve the 2010 Work Plan. A second was received. The motion passed unanimously.

V. FUTURE AGENDA ITEMS. Ms. Bowen asked for additional items. Mr. Kulakofsky said that he has mentioned that he would like a presentation on biosolids, what current and future needs and issues there are for regulatory compliance. Basically a heads up on what is going on now and what is perceived for the future.

Mr. Katzel said that he has mentioned a drug-take back program presentation. Ms. Bowen said that there was a stakeholder meeting scheduled next week at the University of Arizona, College of Pharmacy at 1:30 p.m. on January 20, 2010 in room A-326, Drachman Hall.

Mr. Barry said that the Committee should be briefed on the Water/Wastewater Study.

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

VII. ADJOURNMENT. The meeting was adjourned at 6:37 p.m.

Ms. Bowen re-opened the meeting to discuss the public meeting. No action is required, just agreement on potential public hearing dates of February 9 and February 10. The meeting will be in the evening.

Mr. Barry asked what would happen if a quorum was not met. Mr. Curley said that was why we will canvass.

Ms. Bowen asked that members respond to a canvass e-mail that will be sent.

The meeting was re-adjourned at 6:30 p.m.