

## REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE

Transamerica Building  
Pima Association of Governments' 5<sup>th</sup> Floor Conference Room  
177 North Church Avenue

Wednesday, December 22, 2010

### MEETING MINUTES

#### **Committee Members Present:**

Jeff Biggs	Barbee Hanson	Kendal Kroeson	Armando Membrila
Sheila Bowen	Bob Iannarino	Rob Kulakofsky	Mark Stratton
John Carlson	Bill Katzel	John Lynch	Mike Gritzuk

#### **Committee Members Absent:**

Ann Marie Wolf

**I. CALL TO ORDER.** Chair Sheila Bowen called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 7:50 a.m.

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

**III. APPROVAL OF MINUTES.** The minutes of the October 21 meeting were approved.

#### **IV. COMMITTEE/SUBCOMMITTEE REPORTS**

**Citizens' Water Advisory Committee (CWAC) Update.** Jeff Biggs gave the update. Mr. Biggs stated that the five-year financial plan was currently under development and the operating budget and the five-year capital program had been established. The revenues needed for the next five years to cover expenditures are currently under consideration. It is likely the plan will be going to the Mayor and Council in late January or early February for adoption of the preliminary plan. Mr. Biggs assured the committee that they would be informed of any further progress made.

#### **V. DISCUSSION**

##### **A. Old Items/Updates**

**1. New Director Update.** Mike Gritzuk announced that Jackson Jenkins had been appointed the new director for the Pima County Regional Wastewater Reclamation Department. Mr. Gritzuk also announced that his last day as director would be January 29th and during the interim both Mr. Gritzuk and Mr. Jenkins would work in conjunction on the transition. Mr. Gritzuk stated that it had been his pleasure to have been the director over the last five and a half years and to have worked with the members of the committee. Mr. Gritzuk added that it was his hope he would return in a part-time role.

On behalf of the committee, Sheila Bowen then presented Mr. Gritzuk with a certificate of recognition for his service to both the County, the Department and the Advisory Committee.

**2. Anonymous Communication.** Tom Burke gave a brief response to the anonymous communication. Mr. Burke said that he would not go over the letter point by point as Mr. Chuck Huckelberry's response had already done an adequate job. Instead, Mr. Burke explained how the debt that affects the County's wastewater projects occurs. The Finance Department is responsible for all debt that Pima County incurs. Each department determines what projects they need to build and once they get approval then Finance figures out how to pay for those projects. Timing and size of debt are key factors in determining the method of financing used. This could include Bonds, WIFA loans, Certificates of Participation or, as in the most recent case, Sewer Revenue Obligations. Finance then works out the time period in which the debt will be covered and what the debt service payments will be. The County usually pays back eighty percent of its debt in the first ten years of the debt issue.

One of the main issues in the letter addressed the fact that the County opted to issue Sewer Revenue Obligations. There are some key facts that should be considered in response to this issue. The Board of Supervisors (BOS) decided not to have a bond election and, without voter approval, it was impossible to issue any more Sewer Revenue Bonds. This put the County in a position where there would be no bonds available to finance any debt. This meant that Finance needed another way to finance the sewer debt. The pay-as-you-go method could not be considered because there was no way to raise rates high enough to cover the construction payments alone. Also, Arizona has a constitutional expenditure limitation provision that would make pay-as-you-go devastating to Pima County. For every dollar that RWRD spends on

expenditures, the County has to decrease that money from another department that is funded through tax dollars. In other words, RWRD currently spends between fifteen percent to twenty percent of the total County authorization. If the pay-as-you-go option had been used it would have more than doubled the expenditures for RWRD and another department would have had to cut back in order to make up the deficit.

The letter also suggested that the County's financial advisors were somehow involved in the decision to use Sewer Revenue Obligations. In fact, they knew nothing about this decision. Rather it was the County's bond lawyers and the County Attorneys Office who worked with the Finance Department to come up with a means of financing. Mr. Burke went on to briefly describe a Sewer Revenue Obligation.

Mr. Burke continued by making a couple of comments about the letter itself. He stated that he had assisted in getting the information for Mr. Huckelberry's response to the letter. He also stated that the anonymous letter is full of inaccurate statements. It is the third anonymous letter that the County has received since the County implemented a consolidation of financial matters that was directed by the County Administrator and began last year. As with all of the letters, there were many misstatements and it is possible it was written by a disgruntled individual. Mr. Burke stated that there are only three people within the Finance Department who work on debt, those people being himself and the two deputy directors. Mr. Burke did not believe that either one of the deputy directors wrote the letter as they had helped Mr. Burke draft the response. Mr. Burke believes it is filled with information that no one in the County would have understanding and knowledge of except for the Deputy County Attorney who handles all of the bond issues. Mr. Burke suggested it might have been written by someone attempting to edge out the current financial advisors and underwriters in order to get some of the fees that are going to come out of the next \$700 million or \$800 million that the County issues in order to build the new wastewater projects.

Mr. Burke finished by offering to answer any questions the committee might have. John Carlson asked if the County was concerned that a bond election might fail. Mr. Burke stated that the Bond Advisory Committee had been recommending to the BOS to delay a bond election because they believe the current economy would cause the voters to vote down an election. This would put the County in the terrible position of asking voters for permission to sell sewer bonds only to be voted down and then have to go and borrow the money anyway. It really isn't a question of whether to borrow or not. In this case the sewer projects are geared toward compliance and must be funded.

Ms. Bowen asked for clarification on how long the Bond Advisory Committee had been looking into a future bond package. Mr. Burke stated that the original plan was to have a 2008 election so the discussion actually began in 2006. Each subsequent year the economy failed to improve so the Bond Advisory Committee continued to recommend a postponement. Currently, the recommendation stands at a 2012 election. The County has not had a bond election in six years.

Mark Stratton asked that with respect to the underwriter, the County hasn't really gone out for this type of lump sum for one department before so why didn't the County go out for bid on this issue? Mr. Burke said that this particular issue is a unique and complicated method of debt issue so it was important to utilize a knowledgeable firm of both the process and of the County. It is important for the County to maintain its rating and therefore the decision was made to go with an entity that could support this goal.

**3. Overall Financial Update.** Tom Burke gave a brief financial update. The Annual Financial Report is in the process of being updated. The next couple of years the financial report will be much simpler primarily because the department and the County addressed the biggest problems of how to finance the ROMP program. When the BOS approved the rate increase in March of this year that eliminated the need for the financial plan to be completed and reviewed by this advisory committee in January of each. In the past, the department could not do its annual budget until the revenues were calculated. This was done every November/December/January a plan was presented to this committee and then a recommendation was submitted to BOS. In February or March the BOS would approve those plans allowing the department to calculate its budget for the next year. This will not be necessary now that rates have been established over the next four years. The report this year should be somewhere between ten to fifteen pages that compares what was projected in the financial plan to what is actually being experienced. The department was able to control costs very effectively this last year and came in under budget. It is not foreseeable that another rate increase will be needed beyond the ten percent that is already scheduled. The BOS directed that any excess funds be used primarily to pay down debt. When available funds have reached somewhere in the neighborhood of \$40 million to \$50 million dollars, it will be used to pay down the older debt of the County that has higher interest rates.

Right now there is about \$220 million to \$240 million of Sewer Revenue Bonds and WIFA loans and another \$165 million have been issued in Sewer Revenue Obligations. Funds would first pay off the existing debt and any excess funds would pay off the Sewer Revenue Obligations. As the existing debt is paid off, the Sewer Revenue Obligations become the primary debt. In the next five to six years the Sewer Revenue Obligations will be treated as a first tier debt.

Mr. Stratton stated that with the costs of some of the projects coming in under budget this would have a direct impact on whether the rate increases that were approved are really necessary to meet the debt service. Mr. Stratton asked that, given this possibility, shouldn't the committee be involved in future financial planning in light of the fact that the committee made recommendations based on the previous financial plan and the projected costs that ultimately influenced the decision to ask for rate increases? It would seem that the committee should review what the new costs are and make an additional recommendation to the BOS if necessary.

Ms. Bowen added that a condition to the endorsement given by the committee was that the committee would have the option of reviewing the plan.

Mr. Burke stated that the plan was to come to the committee and present the report. The BOS has asked that the report come to them as part of the County budget. This budget is presented during the last week of March or the first week of April so the committee would need to provide comments on the financial plan by February or early March. In the past it went forward as a separate agenda item for the BOS to discuss and vote on but, for the foreseeable future, it will go as part of the budget package along with forty-five other departments. It will not have a stand alone discussion but will be included in an overall financial discussion.

Mr. Carlson reiterated that adjustments may need to be made and that a yearly review was necessary.

Mr. Burke agreed that the plan might require adjustments. Debt service would rely on the plan review as costs may go down or come back up.

Bill Katzel stated that one of the primary reasons for this committee was to represent the rate payers. It would be important for the committee to review the financial plan whether it needs adjustment or not.

Mr. Stratton said that all water utilities are continuing to see a reduction in revenues based upon lower usage. From Metro Water's standpoint, since 2006 there has been a steady decline every month from the previous year. Tucson, Oro Valley and Marana may be seeing a similar trend. This means less revenue for the wastewater department having a counter effect to the reduction of capital costs.

**4. Regional Optimization Master Plan (ROMP) Update.** Mike Gritzuk gave a PowerPoint presentation and overview of the Water Reclamation Campus DBO (Design-Build-Operate) Facility.

- **Water Reclamation Campus Project (DBO).** A recap was given on the history of this procurement method which began in 2009. Based on a standard scoring system, CH2M Hill was ultimately selected for this project.

Armando Membrilla asked what would happen if CH2M Hill found they had underbid themselves. Mr. Gritzuk stated that CH2M Hill would be required to absorb any costs above the contracted amount for the duration of the project. The only way the operation and maintenance costs can increase is against inflationary factors contained in the service contract and this stands for every year during the fifteen year life of the contract.

Ms. Bowen pointed out that both firms bidding for this project would have been working within very specific directions and therefore were both well below the County estimate.

John Lynch asked what type of penalty clause is in the contract to prevent the selected firm from walking away if they found it economically unfeasible to continue with the project. Mr. Gritzuk stated that the County could terminate the contract and then the firm would be required to pay a large penalty.

Bob Iannarino asked where the operation and maintenance costs differed between the selected firm and the County criteria. Mr. Gritzuk pointed out that there were a couple of major areas that caused this differential. One being that the Roger Road Facility is almost totally manually operated. The CH2M Hill proposal included an almost entirely automated system. This creates a big difference in staffing. Also, the electrical and chemical innovations they have included in their proposal are dramatically different than the current system.

Mr. Katzel asked who would take over operation of the facility if, in fact, the firm was forced to walk away from the project. Mr. Gritzuk said that the County would take over immediately. If the firm was unable to pay the penalty then the County would be forced to enter into litigation.

Mr. Lynch asked if only the costs and scoring totals were taken into account when selecting the firm and not technical superiority. Mr. Gritzuk said that scoring of the technical proposals was a major component of the entire score. The technical proposals included some redundancy and in some cases this redundancy went above and beyond the requirements.

Mr. Iannarino asked if the equipment and manufacturers' warranties of the two bids were essentially the same. Mr. Gritzuk stated that the specifications for the proposals indicated a minimum and this minimum was met by both firms.

Mr. Katzel asked if CH2M Hill had any historical projects as large as the one here in Pima County. Mr. Gritzuk said that the firm had been involved in projects that were even larger than the Water Reclamation Facility DBO.

Mr. Carlson asked about the status of the retirement plans in place for existing employees. Mr. Gritzuk said that the County had required that any employee that begins employment with the DBO firm would get an equivalent of their salary and benefits or better and this includes seniority. Mr. Gritzuk did point out that retirement benefits and plans are different between the public and private sectors and that is why the word "equivalent" is used.

Mr. Membrilla asked about staff reductions and whether vacated positions will be refilled. Mr. Gritzuk said that the operations and maintenance staff at Roger Road would eventually be reduced to zero and those positions would be eliminated. The plan is that those employees would leave by attrition or be placed in other operations within the County. There are eleven treatment facilities and the Ina Road Facility has an increasing staffing need.

Mr. Lynch asked if the same level of automation has gone into the Ina Road Facility as is planned for the DBO Facility to allow for comparable savings in operation and maintenance staff. Mr. Gritzuk stated that it was comparable but not the same.

Mr. Iannarino asked for clarification as to whether the decommissioning of the current Roger Road Facility was included in this DBO proposal. Mr. Gritzuk stated that there is a separate budget of \$33 million for the decommissioning of Roger Road. The decommissioning will also be a major undertaking and members of the current staff will be involved in that project as well.

## **B. New Items**

**1. Proposed Marana 208 Plan Amendment.** Presentations were given by Claire Zucker, PAG, representatives of the Town of Marana and Ed Curley, Pima County.

- **Overview of 208 Plan Process.** Claire Zucker gave a brief presentation of the 208 Plan Process and gave examples of how this process has worked locally in the past discussing the role PAG plays in this process. Ms. Zucker also gave a brief history of the Proposed Marana 208 Plan Amendment process.

Mr. Stratton said that under section 208, it is fairly specific as to the description of what is required under the 208 Process. Mr. Stratton asked what additional issues the Scope of Work Task Force was looking into that were not covered by Section 208. Ms. Zucker said that the Task Force is looking to see if the Plan Amendment met the 208 Plan criteria.

Mr. Stratton continued by asking whether the technical criteria is all that is required by the 208 Plan. Ms. Zucker stated that the PAG process was a method of evaluating the various issues involved in 208 Planning.

Mr. Stratton wanted to make sure that it was understood that there was a difference between what was required by the 208 Plan process and how PAG expands on that to ensure that the plan is being met. Ms. Zucker said she was not sure it was a matter of expanding on the requirements so much as trying to fulfill the goals and intentions of the process.

Mr. Stratton said he had past experience with this process and that it seemed pretty cut and dry. Ms. Zucker felt that experience might not have involved the type of controversy about the management agency and that this document is not addressing specific facilities but rather management boundaries.

Ms. Zucker ended by stating that it was a possibility this process would be taken out of the Task Force soon and on to the committees.

Mr. Katzel asked if anyone could comment on the current litigation between the Town of Marana and Pima County. Chuck Wesselhoft said it would not be prudent to get into that discussion at this time but that the current debate continues to revolve around who has management authority.

Mr. Katzel asked how the litigation process affects the 208 Process. Ms. Bowen suggested that this question be answered after the presentations as more information will likely be given by both the Town of Marana and Pima

County.

- **Town of Marana.** Dorothy O'Brien from the Town of Marana gave a presentation along with Mike Caporaso and Frank Cassidy. Ms. O'Brien gave a brief overview of where the process currently stands. The Town is currently seeking a DMA (Designated Management Agency) and has prepared a 208 Plan Amendment. Ms. O'Brien said that the Town had gone through the entire process including the Scope of Work Task Force meetings. The Town is looking to provide wastewater services to the area where the Town is the water provider. The Town has recently amended the Plan Amendment to include language provided by Tucson Water in regards to effluent. The Town has also amended several of the tables within the document in regards to total flows. Information has also been provided by Oro Valley, Sahuarita and Metro Water.

Mike Caporaso said that specific information had been provided in the Plan Amendment about the alternatives for wastewater treatment but he would not be discussing those today. The Plan Amendment does not include site-specific information for an exact facility because that will be provided later in a consistency report. The intent of the 208 Plan Amendment is to establish Designated Management Agency status which will give them an opportunity to get into site planning. Once the DMA is approved, the Town will go into the planning and design stage for a wastewater treatment facility. Mr. Caporaso directed anyone interested in reading the Area Wide Water Quality Management Plan requirements to look at page 179 of the plan where there is specific language that outlines what is required to establish a DMA. The Town has provided revisions based on comments received during the Task Force meetings. Though the Town has made many revisions based on comments from Pima County, the Town acknowledges areas where the two jurisdictions continue to disagree. Mr. Caporaso then gave a slide presentation of the Proposed Marana 208 Plan Amendment.

Ms. Bowen asked if Red Rock was included in the proposed DMA. Mr. Caporaso said it was not included.

Frank Cassidy continued the presentation by summarizing the effects the Proposed Plan Amendment would have on Pima County. One of the major points made was that it made more fiscal sense for the Town of Marana to purchase the Marana Facility from Pima County and that the Town had, in fact, offered to do just that. Mr. Cassidy said that so far the County has not shown an interest in doing that. This puts the Town in an interesting spot as the Town does not want that to interfere with the water resource goals of the Town. The Town was prepared to do whatever was needed to either purchase the plant or build other plants. Mr. Cassidy said that, according to County cost information, the Marana Facility is one of the most expensive systems to operate due to its small size. If the County were to sell the facility it would remove those expenses from the Pima County budget. In regards to the sunk costs in the facility, the Town has been willing to discuss paying the County its burden in the facility which is approaching about \$17 million beyond the funds recouped in connection fees. As far as the flows currently directed to the Ina Road Facility, those flows would continue to Ina and only be diverted if the water provider requested that such action be taken. The economic reality is that the water that currently flows to Ina will continue to do so. The Town seeks to serve with wastewater management the areas that the Town serves water to. The Town hopes that by achieving a DMA they will have control over the water cycle because they do not currently receive any water from the Central Arizona Project. The wastewater effort that the Town is going through is really directed toward looking at the Town's future water resource needs and the recognition that if done correctly the Town can get a significant return from the wastewater system. The only overwhelming factor that might affect the County is the timing of this proposal in that if undeveloped areas of Marana experience a growth surge, Pima County would not receive those connection fees. The Town does not believe that moving forward with the Proposed Marana 208 Plan Amendment will have an adverse impact on Pima County.

Ms. Bowen asked for clarification regarding the return of effluent versus water deliveries and whether the Town currently plans to recharge or some other such method to offset deliveries. Mr. Cassidy stated that under Arizona law, it must be demonstrated that there is as much recharge as there is delivery.

Mr. Carlson asked if any of the recharge would be used for agriculture. Mr. Cassidy said that the farmer's water rights predate the existing water laws so they are able to withdraw water without adhering to the current water laws.

Mr. Membrilla asked who the Town anticipated paying for this plan and how. Mr. Cassidy explained that the Town would pay for this and that the Town views this as more than wastewater service but also as a water resource.

Mr. Lynch said, given the relatively small population of Marana and the cost of a new facility, the Town would be paying more than they currently pay the County for the same services. If this was viewed as a business decision, does it make more sense to put in this kind of investment when there a system currently in place in the same area? Mr. Cassidy stated that the Town had considered this but it was worth the cost to gain control of the water resource. In other words, the front end may be expensive but further down the road it will become more beneficial

for the Town.

Mr. Lynch felt that the rate payers hadn't been given enough information regarding both sides of the argument but have only seen the political aspect of the issue. Mr. Cassidy said that the decision makers for the Town were the Town Council and they had agreed to pursue this course of action. Mr. Cassidy added that the information had been made available to the public in the past.

Mr. Carlson said that the most important thing to consider is what is best for the community when looking toward a future of uncertain water resources.

Rob Kulakofsky asked where the aquifer was rising in Marana. Mr. Cassidy said that it was rising upstream of the Rillito Narrows. Mr. Kulakofsky suggested that the aquifer was not rising but only for the recharge supply. Mike Caporaso said the aquifer rise had been documented.

Ms. O'Brien added that the proposed system is a distributed system and the Town will have more recharge basins closer to the areas where the Town will also do the pumping so there won't be large draw downs in outside areas because there will be a more distributed system.

Mr. Katzel asked how the litigation affects the 208 Process and vice versa. Mr. Wesselhoft said that if the court rules against the Town of Marana and does not give them the authority then they could not pursue the 208 Process. Mr. Katzel added that regional cooperation should be considered in order to avoid a duplication of services.

Mr. Lynch said it was frustrating to see that Marana was being put into the position of trying to find allocations of a resource that they are basically shut out of. The original agreements regarding ownership of effluent should be revised rather than duplicating a utility.

- **Pima County.** Ed Curley gave a presentation explaining the County's current responsibilities to serve the citizens of Pima County and concerns regarding the Proposed Marana 208 Plan Amendment. The County feels there needs to be more discussion in the Plan Amendment about the economic impacts of the plan on the residents of Pima County. The Town has an obligation to prove the plan is cost effective for rate payers and that it is financially supportable. At this point, very few financial details have been provided. It has been difficult to pinpoint the true costs of the plan. The Town has asked only for the authority without providing any long term data for how future facilities will be financed.

Another concern that the County has regarding the plan is that the proposed DMA area goes beyond the Town limits into unincorporated Pima County where Pima County is currently ready and willing to serve. There is also no discussion as to the Town's obligation to provide its share of the Indian Water Rights Settlement as the rest of the region is doing. There is also no discussion of an agreement with Pima County to provide service during a transition.

The County would like to see a detailed comparison of the existing structure with the proposed structure and this comparison would have a feasibility study and a cost benefit analysis. Then the community could make an accurate and informed decision. Under the current DMA, the County has offered the Town of Marana all of the effluent from the Marana Wastewater Facility free of charge with the exception of the SWARSA obligation deduction.

Mr. Katzel asked if other jurisdictions had the right to establish their own DMA. Mr. Cassidy stated that this was true. Mr. Katzel reiterated his opinion that to fragment the services further would only be detrimental to the region. Mr. Cassidy said that the system is already complicated for the residents of Marana and that the proposed DMA would, in fact, simplify things for these residents.

Mr. Membrilla asked whether the Town of Marana planned to annex in order to expand their boundaries. He also said that the lack of financial figures was disconcerting in that citizens of both the Town of Marana and Pima County have no real idea of the financial impact of this plan. Mr. Cassidy stated that County wastewater customers would not be affected because the County would essentially be unloading an expensive area. He added that there are plans to expand boundaries but those are only plans and cannot be considered final. As far as the financial aspect of Mr. Membrilla's question, Mr. Cassidy suggested that it was really the problem of the residents of the Town of Marana as to what the costs will be and not of the residents of Pima County.

Mr. Membrilla continued by asking why the Town would consider taking on an obsolete, high cost facility and put the burden on the residents of the Town. Why is it okay for the County to be relieved of the cost only to have the cost transferred to the residents of the Town of Marana? Mr. Cassidy said that analysis has shown that it is less

fiscally responsible to decommission the old plant than to take the facility as it is now with its current capacity.

Mr. Gritzuk said that Mr. Cassidy suggested the Town had offered to buy the facility for the current outstanding indebtedness of \$17 million. Mr. Gritzuk did not believe that this was the offer but rather that the Town had wished to acquire the plant free of charge leaving the debt with the County. Mr. Gritzuk asked if it was the Town's proposal that they purchase the Marana facility for \$17 million. Mr. Cassidy said that the Town had always been willing to pay the outstanding indebtedness but the Town believed the agreement with the County covered the plant and said nothing about the indebtedness. In that respect the Town did have an inconsistent position in which the court ruled against the Town.

Mr. Gritzuk said that what he heard today was that there was the desire by the Town of Marana to purchase the facility for \$17 million. Mr. Gritzuk added that if the Town acquired the facility, Mr. Cassidy had indicated that the County would be relieved of the high operating and maintenance costs thus benefiting the County. The County rates are developed on a County-wide basis. The regional rate is far lower than the individual costs of operating any of the facilities in the system. The Town would not have the benefit of a regional rate but would have to put the burden of the entire debt and operations and maintenance on their citizens and it seems unlikely that this would be of benefit to them.

Mr. Lynch suggested that there might be a way to provide the Town of Marana with the same level of water resources given to the jurisdictions present at the time these initial agreements were made without going through the 208 Process.

The committee discussed the timeline given for the PAG process and whether this issue would merit further discussion.

**VI. FUTURE AGENDA ITEMS.** Household Hazardous Waste.

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

**VIII. ADJOURNMENT.** The meeting was adjourned at 10:54 a.m.