

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE

Transamerica Building
Pima Association of Governments' 5th Floor Conference Room
177 North Church Avenue
Thursday, April 21, 2011

MEETING MINUTES

Committee Members Present:

Sheila Bowen	Bill Katzel	John Lynch	Amy McCoy
John Carlson	Kendal Kroeson	Bob Iannarino	Mark Stratton
Barbee Hanson	Rob Kulakofsky	Armando Membrila	Jackson Jenkins
Ann Marie Wolf			

Committee Members Absent:

Brad DeSpain Jeff Biggs

- I. CALL TO ORDER.** Chair Sheila Bowen called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 7:45 a.m.
- II. CALL TO THE AUDIENCE.** There were no comments from the audience.
- III. APPROVAL OF MINUTES.** The minutes of the March 22 meeting were approved. Barbee Hanson abstained from the vote as she was not in attendance at the March 22, 2011 meeting.
- IV. Citizens' Water Advisory Committee (CWAC) Update.** Amy McCoy reported that at the last two CWAC meetings rate increases had been discussed. There are two proposals for rate increases and both include a base rate increase while the proposals vary on the block increases. One of the proposals involves a heavy increase in the first tier with minimal increases in the remaining tiers and the other proposal spreads the increases equally across all tiers.

V. DISCUSSION

A. Old Items/Updates

1.Regional Optimization Master Plan (ROMP) Update. Jackson Jenkins gave a presentation and overview of the Regional Optimization Master Plan. The project is 10% through the construction phase. One of the highlights so far has been the Plant Interconnect, one of the three ROMP projects budgeted at \$41 million with five miles of 62 to 72 inch pipeline. This project was finished ahead of schedule and nearly \$7 million under budget. Work has begun at the Water Reclamation Campus including construction of the new laboratory complex.

Bill Katzel asked that once the ROMP projects have been completed, how far down the road does that take Pima County as far as having to consider reinvestment. Mr. Jenkins said that when the study was conducted in 2006 the parameters were set at 25 years taking ROMP to the year 2030. These parameters included known regulatory compliance issues. A lot could change between now and then but, going with what we know, ROMP will take us out at least that far.

Mark Stratton asked if Mr. Jenkins was referring to the regional system rather than the outlying facilities and Mr. Jenkins said that he was indicating the regional system.

Mr. Katzel asked if everything would be paid for by the projected 2030 date. Mr. Jenkins said that with fifteen-year obligations this should be the case. In addition to the scheduled debt, there have been significant current savings and some substantial estimated savings on other RWRD projects which will be beneficial in the future.

2.Budget Update and 2010/11 Financial Plan Discussion. Tom Burke, Finance Director, began with a budget presentation. The County Administrator's office is preparing the recommended budget which should be submitted to the Board of Supervisors (BOS) within the next two weeks. The budget that was submitted by RWRD has been included so that as of today there are no changes in regards to what the RWRD budget proposed. The bigger issue for the County is the general fund and the decrease in the tax base and the state shared revenues as well as the fact that the State of Arizona recently adopted a budget shift of about \$8 million of additional costs to the County's general fund and a few other funds as well. There is no impact to RWRD primarily because its funding source is independent of all the state and county funding.

Mr. Burke continued with a Financial Plan presentation. What the County is facing in the next five years is \$700 million in capital projects that have been submitted in the capital improvement program for funding. \$122 million is currently what

is in the proposed budget for this year. Next year that doubles to \$238 million of construction costs. In total, it is expected there will be almost \$700 million of costs between now and 2015. In order to fund that \$700 million, the County will need to borrow an additional \$547 million. The reason it's less is because we didn't issue any money this fiscal year because construction costs were down somewhat and the payment schedule started later than had been anticipated a year ago. No debt was sold this year but we increased the amount of debt over the next two years. Once ROMP is complete, most of the borrowing will be for the routine conveyance and treatment upgrades. The critical aspect of this is that when money is borrowed it must be repaid. As the County goes forward, it is anticipated that by the year 2017 the debt service will average \$111 million per year. Currently there are net revenues of \$75 million per year so clearly between now and then more revenue must be generated in order to be able to meet the \$111 million that will be coming in the next five to six years. It is important to remember that the County must maintain a favorable rating in order to reduce interest costs and this means the timely repayment of all debt while maintaining a reliable revenue stream. Once the series of rate increases is completed the County can fund the debt service.

Sheila Bowen asked if Mr. Burke presented the debt service with the rate increases. Mr. Burke indicated that the debt service as calculated by Finance included the cash reserves. Two years from now we will have a very good handle on what our long term obligations are. At that point it will be easier to assess whether we maintain the rates or decrease them.

Mr. Stratton asked that when the debt begins to drop had the County looked beyond 2015 to see if there will need to be another rate increase. Mr. Burke said that once you get four years ahead it becomes pure guess work as to what the rates should be. The \$111 million is based on the assumption that there would need to be a debt issuance this year of five percent and the next three series of debt at six percent. The County is conservative in its estimate of future interest because there are too many unpredictable variables that could have an effect.

Mr. Stratton continued by asking for an explanation as to why the projected revenues are lower in the future. Mr. Burke stated that there were two reasons for that. The primary reason is because last year there were \$20 million in projected connection fees. The fact is that the actual figure is closer to \$16 million or \$17 million. The other reason is that the County was also very optimistic a year and a half ago as to what interest rates would be and what the County would be collecting on funds deposited. The County projected three quarters percent but only received a quarter percent interest.

John Carlson asked for clarification as to who pays the connection fees. Mr. Burke explained that a developer or any home owner who either builds a home or expands one must pay a fee for the additional connections into the system.

Mr. Burke continued by explaining the way in which the County is rated in order to maintain the most favorable debt structure. He also stated that any additional revenue that the County may acquire was specifically outlined for use in three ways. The first being the operation of the system, the second is to pay debt and the third is to be used for future expansion. There would be no way for the County to use any of the additional funds for non-sewer related purposes.

Mr. Carlson asked if interest rates could be adjusted based on economic climate. Mr. Burke said that the debt was issued with fixed rates meaning the County was not subject to any future increases. Mr. Burke added that it was advantageous for the County to issue debt on a shorter time frame because the interest rates would be lower. At a fifteen-year term the County pays a relatively low interest rate but if it were twenty or thirty years the interest rate would be higher.

Bob Iannarino asked if it was worth it to look at an exercise of the effect on rate increases if you keep the ratio at 1.2. Mr. Burke stated that the problem with maintaining the 1.2 was that it left very little room for error. If there was an unexpected drop in revenue such as an emergency of some kind, then the County would be in default of the bond covenants. When you know you are going to sell \$500 million in debt it is important to carry a better debt service ratio. Chris Avery confirmed this argument by stating it was wise to keep the debt service ratio in the 1.5 range or above due to unforeseen circumstances.

Mr. Stratton asked how much of the rate increase is attributable to the increased debt service that is funding the ROMP program. Mr. Burke believed that one hundred percent of the rate increases were attributable. This is why, as soon as the debt service curve begins to drop, we should be dropping rates.

John Lynch asked that in an environment where you might start seeing an escalation in interest rates, how quickly can the County respond to selling bonds quicker thereby locking in rates. Mr. Burke said that the fastest the County could do a sale is roughly three to four months but they have done a sale in two months though it can be difficult. Mr. Lynch asked what sort of process the County used to track interest rates. Mr. Burke indicated that RBC Capital Markets has been contracted by the County to provide this information.

Mr. Carlson asked how investors can count on Pima County bonds. Mr. Burke explained that the County has a favorable rating which makes the County a stable investment and that connection fees, though volatile, are a consistent source of revenue for the County which also makes for a stable investment.

3. State Legislative/Regulatory Update. Ed Curley gave a brief legislative update. The House passed SB1171 which was then signed by the governor on April 18th.

Mr. Stratton said that SB1171 stated the population for the County should be one to two million while the census that came out states 980,000. Does that have any impact on any jurisdiction's ability to implement that until the population numbers do get to 1 million? The County Attorney stated that he could not comment on that at this time. Mr. Stratton continued by saying that conversely the authority that the County has to be in the wastewater business is the same number so there is kind of a Catch-22.

Claire Zucker gave a brief update on the PAG process. The PAG management committee met yesterday and discussed the amendment and chose to forward the amendment on to Regional Counsel. It was not forwarded with recommendation for approval but was decided that this was the responsibility of Regional Counsel. It will go to Regional Counsel on April 28th. Both the Town of Marana and Pima County will be allowed to give a brief presentation at this meeting.

Mr. Katzel asked how the PAG process interfaced with what had already become law. Ms. Zucker responded that SB1171 would facilitate a change of ownership and PAG is required to review any change of ownership.

5. System Wide Odor Control Program Update. John Sherlock gave the quarterly Odor Control update on behalf of John Warner. During this quarter there were more public complaints than private complaints meaning that private property complaints were fewer. Nearly \$9 million has been spent on odor control at the Roger Road Facility including an interim fix on damaged duct work which is currently being conducted. Another aspect of the Odor Control program is the monitoring of the system through CCTV in order to recognize and stabilize issues as soon as possible. There is also extensive fence line monitoring. There are portable vapor treatments in place and chemical feeds as well as plans to research a covered solar drying technology.

6. Further Budget Discussion. Ron Meck said that RWRD had a target in the current year of \$72,280,000 million with projections through period nine based on actual expenditures at that target or below the target through June. The target for next year meets the targets set by the BOS and the County Administrator. Ms. Bowen asked Mr. Jenkins what cuts were needed in order to meet that target. Mr. Jenkins stated that fifty percent of the budget included salaries and that portion of the budget has been reduced substantially. This has been accomplished through attrition, process automation and efficiencies, and use of the multi-skilled program. There was also a restructuring of capital projects to create a program approach for sewer rehabilitation.

Ann Marie Wolf asked for clarification on the County's decision to reduce the funding provided to the Household Hazardous Waste (HHW) program. Mr. Jenkins said that the current HHW contract ends on June 30th. Pima County has sent a letter to the City of Tucson stating that Pima County did not want to participate in the contract with HHW as is currently written and suggested that other incorporated areas should also contribute to that program. At this point there has been no official commitment from these areas to participate financially. The County has offered to continue in the program but would only provide funding based on what would be needed had other jurisdictions participated. Ms. Wolf asked what this reduction in funding would be. Mr. Jenkins stated that he believed it would go from \$320,000 or \$350,000 a year to around \$250,000 a year. Ms. Wolf asked what services would be eliminated. Mr. Jenkins said that Pima County was still focused on the unincorporated portions of Pima County. Ms. Wolf said that some of the areas that would not be serviced by Pima County had actually funded the program. Mr. Jenkins said that it was his understanding that the details were still being worked out regarding Pima County's participation at the \$250,000 dollar level. Mr. Jenkins also said that there was some discussion as to what department should actually fund this program and that Solid Waste was another department being considered for this funding.

B. New Items. Ed Curley announced that a tour of the Ina Road Facility would be available directly following the May RWRAC meeting and that there would be more information available shortly.

VI. FUTURE AGENDA ITEMS. Update on Pima County's public outreach program, CCTV update of conveyance system (August meeting), RWRAC Nominating committee, Marana 208, and the Household Hazardous Waste program.

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

VIII. ADJOURNMENT. The meeting was adjourned at 9:19 a.m.