BOARD OF SUPERVISORS AGENDA ITEM SUMMARY

Requested Board Meeting Date: **February 17, 2009**

ITEM SUMMARY:

Attached please find the Department's proposed Fiscal Year (FY) 2008/09 Financial Plan, including recommended changes to the User Fee and Service Fee rates as codified in Pima County Code Title13, Chapter 24, Sanitary User Fees.

The FY 2008/09 Financial Plan was prepared with the assistance of Raftelis Financial Consultants, a financial consultant with extensive experience in the water/wastewater sector. The Financial Plan identifies the projected revenues and expenses of the Department for the upcoming 2009/10 Fiscal Year and describes the Department's operations and maintenance requirements as well as the continuing Capital Improvement Program (CIP) for the rehabilitation, regulatory compliance and capacity expansion needs of the existing regional system.

As was the case with the FY 2007/08 Financial Plan, the current Plan is in large part driven by the capital needs of the Regional Optimization Master Plan (ROMP) which involves significant modifications, improvements and replacement to the metropolitan wastewater treatment facilities required by the Arizona Department of Environmental Quality's (ADEQ) mandate for effluent nutrient reduction at these facilities.

Raftelis Financial Consultants advised the Department that, in order to meet its immediate needs, the Department must utilize approximately $44 million in cash reserves and should implement one of four rate increase scenarios:

- Scenario A - Increase the Volume Rate assessed to all customers by $0.281 (16.75%) as early as possible in 2009 (March), by $0.328 (16.75%) in July of 2009, and by $0.383 (16.75%) in January of 2010.

- Scenario B - Increase the Volume Rate assessed to all customers by $0.424 (25.25%) as early as possible in 2009 (March), by $0.195 (9.25%) in July of 2009, and by $0.213 (9.25%) in January of 2010.

- Scenario C - Increase the monthly fixed Service Fee assessed to all customers by $1.50 and increase the Volume Rate by $0.214 (12.75%) as early as possible in 2009 (March); increase the Volume Rate by $0.241 (12.75%) in July 2009; increase the fixed monthly Service Fee by $1.50 and increase the Volume Rate by $0.272 (12.75%) in January 2010.

- Scenario D - Increase the monthly fixed Service Fee assessed to all customers by $1.50, increase the Volume Rate by $0.206 (12.25%) and increase Connection Fees by 4% as early as possible in 2009 (March); increase the Volume Rate by $0.231

(12.25%) in July 2009; increase the fixed monthly Service Fee by $1.50 and increase the Volume Rate by $0.259 (12.25%) in January 2010.

It should be noted that the typical Pima County sewer bill is $20.25, which is comparable to the state average of $26.46, but significantly less than the national average for 62 major metropolitan areas surveyed of $26.46 (Raftelis Financial Consultants 2008).

Regional Wastewater Reclamation Advisory Committee

The Regional Wastewater Reclamation Advisory Committee (RWRAC) is charged with the responsibility of reviewing wastewater fee adjustments and ordinance changes. The RWRAC began its consideration of the Department's FY 2008/09 Financial Plan and proposed rate increases in October 2008. Since that time, the RWRAC has reviewed the Financial Plan and its assumptions/projections at each of the Committee's monthly meetings as well as participated in individual meetings to further analyze and discuss the Financial Plan with Department staff and Raftelis Financial Consultants.

The Advisory Committee held a public meeting on January 13, 2009 to solicit public input on the Department's FY 2008/09 Financial Plan narrative, and proposed rate increases.

The Department advertised the public meeting in the in the *Daily Territorial* on January 9, 2009 and in the *Arizona Daily Star* on January 10 through January 13, 2009. Staff mailed announcements to 333 homeowner/neighborhood associations and the Southern Arizona Home Builders Association, Southern Arizona Leadership Council, Tucson Utility Contractors Association, Tucson League of Women Voters, and Tucson Metropolitan Chamber of Commerce. In addition copies of the FY 2008/09 Financial Plan were available at all Tucson-Pima public libraries and at the Regional Wastewater Reclamation Department, Public Works Budding, 8th Floor. Committee members, members of the general public and Pima County and Department staff attended the meeting.

During the January 13, 2009 RWRAC Public Meeting, the Committee was presented with the four rate adjustment scenarios described above. Following the Public Meeting, the Committee held a meeting to discuss their recommendations on the FY 2008/09 Financial Plan, including the proposed user fee rate increases to the Board of Supervisors. The Committee recommended Scenario C by an 8 – 3 vote. Three Committee members voted no; however, they supported fee increases in general but felt that an increase of connection fees as in Scenario D should be a part of any recommendations.

JUSTIFICATION:

In an effort to address these challenges and ensure adequate funding for the Department's operating and capital costs, the Department developed the FY 2008/09 Financial Plan. A summary of the key aspects of the FY 2008/09 Financial Plan is provided below.

Budgeted operations and maintenance (O&M) expenses in FY 2008/2009 are approximately $79.8 million, which is an increase of approximately 3.8% over actual costs in the prior year period. Projections of O&M costs over the ten-year forecast period are based on the FY 2008/2009 budget and assumptions regarding escalation of specific line items. On average, O&M costs increase at a rate of 4% per year.

The Department has developed a proposed wastewater enterprise CIP that will allow for continued compliance with regulatory requirements and meet the needs of its current and future customers. The estimated cost associated with implementing the CIP is approximately $1.03 billion in escalated dollars for the ten-year period from 2008 to 2018. Approximately $938.3 million, or slightly more than 90 percent, of the total planned CIP, is to take place in the period from FY 2008/2009 to FY 2013/2014. To meet federal and state effluent requirements, approximately $718.6 million (escalated) in projects have been identified through ROMP. It should be noted that the Department expended approximately $2.0 million in ROMP costs in FY 2007/2008, which brings the estimated total cost of ROMP to approximately $720 million.

The Department's Capital Program will be financed through a number of sources including the transfer of funds from the Department's System Development Fund (SDF), current year revenue and long-term revenue bonds. It is projected that the Department will be required to use current revenue and the SDF balance to fund approximately $86 million in projects in the period from FY 2008/2009 through FY 2009/2010. Approximately $28 million of these anticipated cash needs are related to the delay in the authorization of bonds in 2008. The Department must seek authorization in November 2009 to issue approximately $565 million in long-term debt along with the need to seek further authorization for approximately $310 million in long-term debt in 2012.

On average, total costs, or revenue requirements, are projected to increase by approximately 3.5% per year over the ten-year forecast period; however, revenue requirements over the immediate forecast period represent a significant increase over the prior year period as a result of additional cash needs to support the CIP and debt service requirements on sewer revenue bonds issued in 2008 (2004 Bond Authorization).

Wastewater enterprise revenue is derived principally from Connection Fees assessed to new customers, a monthly flat Service Fee for all customers, and a Volume Charge based on the volume of water used multiplied by the Volume Rate. Other revenue sources include sanitation fees and other miscellaneous sources such as interest earned on fund balances, permits, and general government fees. Future revenue from these sources is predicated on anticipated system growth in terms of number of customers and wastewater flows.

The significant contraction in the residential and commercial market for new construction has reduced Connection Fee revenue over the past two years, and it is anticipated that this trend will accelerate in FY 2008/2009.

The current Service Fee appears to be at a level sufficient to recover allocated costs over the immediate term. However, due to increased revenue volatility associated with current economic conditions, the Department may want to consider allocating a larger portion of its revenue requirements, including fixed costs associated with debt service, for recovery from the Service Fee. This will increase revenue stability and enhance the credit profile of the utility. Regardless, over the medium to longer-term planning period (since the costs associated with the Service Fee, including measuring and billing for service, are projected to increase as a result of both inflationary pressures and increase in demand), the Department should continue to examine and adjust, if necessary, the fee on an annual basis.

SPECIAL CONSIDERATIONS:

Request for Extension of Regulatory Deadlines

On November 4, 2008, Pima County Administrator Chuck Huckelberry sent a letter to ADEQ requesting a five-year extension on the ROMP regulatory schedule to ease the financial burden of compliance on the ratepayers due to the current adverse economic conditions and .

On December 8, 2008, Pima County management met with ADEQ to discuss this request. At this meeting, while acknowledging the merits of the request, ADEQ officials outlined a process of how the County could formally apply for relief which could take at least a year without any guarantee of success.

ADEQ also indicated that they could not support an extension of five years, but would perhaps support a period much shorter.

Given ADEQ's response Pima County must move forward with the implementation of the ROMP Program as originally intended in order to maintain regulatory compliance.

Revenue Shortfalls
Actual revenue collected in FY 2007/2008 was approximately $4.9 million lower than budgeted. User Fee and Service Fee revenue was $3.0 million less than budgeted and Connection Fee revenue was $2.3 million less than budgeted. Additionally, revenue from miscellaneous services, such as fines and general government fees, was approximately $1.0 million lower than anticipated. Conversely, actual interest revenue was $1.4 million higher than budgeted. These deviations resulted in a total revenue shortfall of approximately $4.9 million.

Decline in Connection Fee Revenue
The extraordinary events of the past year and, in particular, the downturn in the credit and housing markets occurring in recent months have resulted in a significant decline in Connection Fee revenue in FY 2008/2009. Based on an annualized forecast of revenue collected during the first two months of FY 2008/2009, Connection Fee revenue is projected to be approximately $20.9 million for the full fiscal year. This is $11.9 million less than the budgeted revenue of approximately $32.8 million.

Debt Service on COPs
In an effort to avoid expenditure limitation issues, the County has or will issue COPs to fund some of the Department's capital program. Although COPs are long-term debt instruments, from the Department's perspective, they are treated the same as a cash need funded annually from rates and charges with the additional requirement of paying interest. The COPs interest cost of approximately $2.3 million was not anticipated in the 2007/08 Financial Plan and represents additional revenue that must be generated from rates and charges. Additionally, it is estimated that rates must also support approximately $1 million in COPs interest in both FY 2009/10 and FY 2010/11.

Additional Cash Capital Needs
The FY 2007/08 Financial Plan assumed that a significant portion of the Department's capital program for FY 2008/09 and FY 2009/10 would be funded with proceeds from bonds issued under an anticipated November 2008 Bond Authorization. However, for a variety of reasons, the anticipated November 2008 Bond Authorization was delayed, thereby forcing the Department to fund (with cash) a number of projects that were to be funded with bonds. This change in funding results in an additional $28.9 million in cash capital needs during FY 2008/09 and FY 2009/10 despite significant reductions in the Department's Capital Program during these two years.

STAFF RECOMMENDATION(S):

FY 2008/09 Financial Plan - RWRAC and Department Recommendations

1) The Department requests your endorsement of rate adjustment Scenario C as recommended by the RWRAC and this Department.

   For March 2009:
   - Increase the Service Fee by $1.50 from $6.82 to $8.32
   - Increase the Volume Rate for a residential customer from $1.679/ccf to $1.893/ccf (12.75%).
   - This would increase the typical monthly bill for 8 ccf by $3.21 to $23.46.

For July 2009:

- Increase the Volume Rate for a residential customer increasing from $1.893/ccf to $2.134/ccf (12.75%)
- This would increase the typical monthly bill for 8 ccf by $1.93 to $25.39.

For January 2010:

- Increase the Service Fee by $1.50 from $8.32 to $9.82
- Increase the Volume Rate for a residential customer increasing from $2.134/ccf to $2.406/ccf (12.75)
- This would increase the typical monthly bill for 8 ccf by $3.68 to $29.07.

2) Recognizing that an increase in the Service Fee could place an undue burden on low income customers, the Committee and the Department also recommend that the Sewer Outreach Subsidy (SOS) Program and enabling ordinance be modified such that the discounts available to qualified customers are also applied to the Service Fee.

CONTRACT NUMBER (If applicable): **N/A**

CORPORATE HEADQUARTERS: **N/A**

CLERK OF BOARD USE ONLY: BOS MTG. ____________

ITEM NO. ____________

PIMA COUNTY COST: N/A and/or REVENUE TO PIMA COUNTY:$ N/A

FUNDING SOURCE(S): N/A

(i.e. General Fund, State Grant Fund, Federal Fund, Stadium D. Fund, etc.)

Advertised Public Hearing:

X	***YES***		***NO***

Board of Supervisors District:

1		*2*		*3*		*4*		*5*		*All*	X

IMPACT:

IF APPROVED:

Fee increases will be implemented to fund the required mandates of the ROMP Program as well as the Department's Operations, Maintenance, and core Capital Improvement Programs.

IF DENIED:

Fee increases will not be implemented to fund the required mandates of the ROMP Program as well as the Department's Operations, Maintenance, and core Capital Improvement Programs and risk regulatory non-compliance.

DEPARTMENT NAME: Regional Wastewater Reclamation Department

CONTACT PERSON: Suzy Hunt *TELEPHONE NO.:* 740-6552

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
201 NORTH STONE AVENUE
TUCSON, ARIZONA 85701-1207

February 4, 2009

The Honorable Chairman and Members
Pima County Board of Supervisors
130 West Congress Street, 11th Floor
Tucson, Arizona 85701

RE: Pima County Regional Wastewater Reclamation Department 2008/09 Financial Plan

Dear Chairman and Members of the Board:

The Regional Wastewater Reclamation Advisory Committee (RWRAC) has the responsibility of reviewing Wastewater fee adjustments and ordinance changes. The RWRAC began its consideration of the Department's FY 2008/09 Financial Plan and current proposal for rate increases in October 2008. The Committee then held a Public Meeting on January 13, 2009 to solicit input on the Department's FY 2008/09 Financial Plan assumptions, findings and proposed rate increases.

The Public Meeting was advertised in the *Daily Territorial* on January 9, 2009 and in the *Arizona Daily Star* on January 10 through January 13, 2009. A total of 333 announcements were mailed to homeowner/neighborhood associations and the Southern Arizona Home Builders Association, Southern Arizona Leadership Council, Tucson Utility Contractors Association, Tucson League of Women Voters, and Tucson Metropolitan Chamber of Commerce. Copies of the FY 2008/09 Financial Plan were available at all Pima County public libraries and at the Regional Wastewater Reclamation Department, Public Works Building, 8th Floor.

At the Public Meeting, Michael Gritzuk, the Department Director, made the initial presentation with an overview of the status of the Regional Optimization Master Plan (ROMP) and the balance of the Capital Improvement Program. Mr. Gritzuk reviewed the Arizona Department of Environmental Quality (ADEQ) mandate for effluent nitrogen reduction at the Ina and Roger Road Wastewater Reclamation Facilities (WRF) and the 2014 and 2015 regulatory deadlines to meet these requirements. Mr. Gritzuk presented the rapidly growing list of ROMP contracts and commitments to accomplish the ROMP Program which includes the Roger Road WRF to Ina Road WRF Plant Interconnect Gravity Sewer Design Project, the Construction-Manager-at-Risk (CMAR) Contract for the Plant Interconnect, the Ina Road WRF Upgrade and Expansion Design

Contract, the CMAR contract for the Ina Road WRF Upgrade and Expansion Project, the Management Services for the Ina Road WRF Upgrade and Expansion, and the Supervisory Control and Data Acquisition (SCADA) Master Plan.

The Committee was reminded that, on November 4, 2008, Pima County Administrator Chuck Huckelberry sent a letter to ADEQ requesting a five-year extension on the ROMP regulatory schedule so as to allow time to ease the financial burden of compliance on the sewer ratepayers due to the current adverse economic conditions.

On December 8, 2008, Pima County management met with ADEQ to discuss this request. At this meeting, while acknowledging the merits of the request, ADEQ officials outlined a process of how the County could formally apply for relief which could take at least a year without any guarantee of success. ADEQ also indicated that they could not support an extension of five years.

Given ADEQ's response, Pima County must move forward with the implementation of the ROMP Program as originally intended in order to maintain regulatory compliance.

The second presentation for the Public Meeting was by Harold Smith of Raftelis Financial Consultants who gave an overview of the issues, assumptions and findings for the FY 2008/09 Financial Plan. The primary financial issue is acquiring the revenue required to construct the ROMP components while continuing to meet the Department's base Capital Improvement needs. This issue is further complicated by the existing economic conditions including decreases in connection fee revenues and the immediate capital cash needs for projects prior to the proposed $565 November 2009 Sewer Revenue Bond Authorization Election. Mr. Smith then provided a detailed series of assumptions for determining the impact of these issues and presented four alternatives for consideration by the Committee.

- Scenario A – No increase in the Service Fee and a sixteen and three quarter percent (16.75%) increase in the Volume Rate in March and July of 2009 and January 2010.
- Scenario B – No increase in the Service Fee and a twenty-five and one quarter percent (25.25%) increase in the Volume Rate in March 2009 and a nine and one quarter percent (9.25%) increase in the volume fee in July 2009 and January 2010.
- Scenario C – An increase in the Service Fee of one dollar and fifty cents ($1.50) in March 2009 and January 2010 as well as a twelve and three quarter percent (12.75%) increase in the Volume Rate in March and July 2009, and January 2010.
- Scenario D - An increase in the Service Fee of one dollar and fifty cents ($1.50) in March 2009 and January 2010 as well as a twelve and one quarter percent (12.25%) increase in the Volume Rate in March and July 2009, and January 2010. Scenario D also includes an increase of four percent (4%) in the connection fee rate.

Committee Review and Recommendation

Immediately after the Public Meeting, the Committee then held its own meeting to discuss the Financial Plan findings and recommendations. Committee members agreed that the ROMP Program needed to be implemented as rapidly as possible so as to comply with the regulatory schedule in the Arizona Pollutant Discharge Elimination System (AZPDES) permits for the Ina Road and Roger Road WRFs and to avoid more prescriptive regulatory requirements and/or actual fines and penalties. Concern was also expressed that the low-income assistance Sewer Outreach Subsidy (SOS) Program should be modified to include the base service fee.

The Committee recommended Scenario C by an 8 – 3 vote. Committee members Ms. Wolf, Mr. Smith and Mr. Flores voted no; however, they supported fee increases in general but felt that an increase of connection fees as in Scenario D should be a part of any recommendation. (See discussion on Scenarios C and D in the attached Committee meeting minutes.) The Committee continued to discuss the FY 2008/09 Financial Plan. The Committee then voted unanimously to accept the Financial Plan and forward the Plan and the Committee recommendations to the Board of Supervisors for consideration.

Scenario C Recommendation

For March 2009:

- Increase the Service Fee by $1.50 from $6.82 to $8.32
- Increase the Volume Rate for a residential customer from $1.679/ccf to $1.893/ccf (12.75%).
- This would increase the typical monthly bill for 8 ccf by $3.21 to $23.46.

For July 2009:

- Increase the Volume Rate for a residential customer from $1.893/ccf to $2.134/ccf (12.75%)
- This would increase the typical monthly bill for 8 ccf by $1.93 to $25.39.

For January 2010:

- Increase the Service Fee by $1.50 from $8.32 to $9.82
- Increase the Volume Rate for a residential customer by $12.75%. This would result in the Volume Rate from $2.134/ccf to $2.406/ccf (12.75%)
- This would increase the typical monthly bill for 8 ccf by $3.68 to $29.07.

The impact of these adjustments on a residential customer's monthly sewer bill at other consumption levels is shown in the table below.

	Monthly Sewer Bill			
Consumption	**Current Rates**	**1st Increase**	**2nd Increase**	**3rd Increase**
2 ccf	$10.18	$12.11	$12.59	$14.63
8 ccf	$20.25	$23.46	$25.39	$29.07
10 ccf	$23.61	$27.25	$29.66	$33.88
12 ccf	$26.97	$31.04	$33.93	$38.69

The Committee members and I are available at your convenience for questions or further discussion of our recommendations on the FY 2008/09 Financial Plan. Your consideration of our recommendations is appreciated.

Sincerely,

Adam R. Bliven, P.E., Chairman
Regional Wastewater Reclamation Advisory Committee

Attachments

cc: Members, Regional Wastewater Reclamation Advisory Committee
C.H. Huckelberry, County Administrator
Lori Godoshian, Clerk of the Board of Supervisors
John M. Bernal, P.E., Deputy County Administrator — Public Works
Michael Gritzuk, P.E., Director, Pima County Regional Wastewater Reclamation Department

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Draft Public Meeting Minutes
January 13, 2009

Committee Members Present:

Adam Bliven	Sheila Bowen	John Carhuff
John Carlson	Brad DeSpain	Marcelino Flores
Barbee Hanson	Armando Membrila	Corey Smith
Mark Stratton	Ann Marie Wolf	Michael Gritzuk
Chris Avery for Jeff Biggs		

Committee Members Absent:

Rob Kulakofsky	John Sawyer

Staff Present:

Ben Changkakoti	Ed Curley	Laura Fairbanks
Suzy Hunt	Jackson Jenkins	John Munden
Jeff Nichols	Melaney Seacat	Lilian Von Rago
Eric Wieduwilt		

Other County Staff Present:

Tom Burke, Director Finance and Risk Management	Harlan Agnew, Deputy County Attorney	Chuck Wesselhoft, Deputy County Attorney

I. **CALL TO ORDER.** Chair Adam Bliven called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 7:05 p.m. and led the audience in the Pledge of Allegiance.

Chair Bliven explained that the role of the Committee is to act as the public's voice on issues related to the Regional Wastewater Reclamation Department. He noted that the Committee reviews and makes recommendations on all aspects of the Department including the Fiscal Year (FY) 2008/09 Financial Plan and proposed rate increases. The Committee will forward a summary of all comments from the Public Meeting and a final recommendation on the Department's proposed FY 2008/09 Financial Plan to the Board of Supervisors for their consideration. Committee members received copies of the Financial Plan prior to the meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Discussion followed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
Draft Meeting Minutes
January 13, 2009

Committee Members Present:

Adam Bliven	Sheila Bowen	John Carhuff
John Carlson	Brad DeSpain	Marcelino Flores
Barbee Hanson	Armando Membrila	Corey Smith
Mark Stratton	Ann Marie Wolf	Michael Gritzuk
Chris Avery for Jeff Biggs		

Committee Members Absent:

Rob Kulakofsky	John Sawyer

Staff Present:

Ben Changkakoti	Ed Curley	Laura Fairbanks
Suzy Hunt	Jackson Jenkins	John Munden
Jeff Nichols	Melaney Seacat	Lilian Von Rago
Eric Wieduwilt		

Other County Staff Present:

Tom Burke, Director Finance and Risk Management	Harlan Agnew, Deputy County Attorney	Chuck Wesselhoft, Deputy County Attorney

I. **CALL TO ORDER.** Chair Adam Bliven called the meeting of the Regional Wastewater Reclamation Advisory Committee (RWRAC) to order at 9:06 p.m.

II. **APPROVAL OF MINUTES:** The Committee approved the minutes of the November 20 and December 18, 2008 RWRAC meetings.

III. **DISCUSSION**

A. **Old Items/Updates**

1. **FY 2008/09 financial Plan.** Chair Bliven reminded Committee members that they had just received a presentation of the Draft FY 2008/09 Financial Plan and proposed rate increase scenarios from Department staff and Harold Smith of Raftelis Financial Consultants. Committee members also received copies of the Draft Plan prior to the meeting. Chair Bliven asked Committee members for their comments and discussion of the Draft Plan.

- Scenario A – No increase in the base Service Fee and a sixteen and three quarter percent (16.75%) increase in the volume fee in March and July of 2009 and January 2010.

- Scenario B – No increase in the base Service Fee and a twenty-five and one quarter percent (25.25%) increase in the volume fee in March 2009 and a nine and one quarter percent (9.25%) increase in the volume fee in July 2009 and January 2010.
- Scenario C – An increase in the base Service Fee of one dollar and fifty cents ($1.50) in March 2009 and January 2010 as well as a twelve and three quarter percent (12.75%) increase in the volume fee in March and July 2009, and January 2010.
- Scenario D - An increase in the base service fee of one dollar and fifty cents ($1.50) in March 2009 and January 2010 as well as a twelve and one quarter percent (12.25%) increase in the volume fee in March and July 2009, and January 2010. Scenario D also includes an increase of four percent (4%) in Connection Fee rate.

Barbee Hanson expressed her support for Scenario C. One of the reasons she said she did not support Scenario D (which includes a 4 percent increase to Connection Fees) is because new construction is already getting blasted with increased fees.

John Carlson said to ignore increasing the Service Fee would be to ignore what is happening. He felt the County's Sewer Outreach Subsidy (SOS) Program could be adjusted if necessary and users should pay.

Sheila Bowen commented that given the uncertainty in those User Fees that we do not have the answers right now, the Service Fee is a known quantity that can be counted on. She felt the Sewer Outreach Subsidy should be applied to that fee as well if possible for some equity.

Chair Bliven said he favored Scenario B because it rewards customers for conservation. He said he would like to see that in the way the rates are structured. He felt it gives people some flexibility in their home finances.

Ms. Bowen commented that for Scenario C there is about a $13 difference in July 2009 going from 8 ccf down to 2 ccf – so basically that is reflecting a conservation element. The Service Fee is a constant.

John Carhuff said he favored Scenario C for the reasons cited and also the impact on construction. In terms of conservation, he felt the big driver is the inclined block system with Tucson Water. The other factor is that Scenario C will produce a little bit more money than some of the other alternatives. He felt the Department was way behind on getting the Service Fee up.

Marcelino Flores said he supported Scenario D. He noted that he has been participating as a member of the Oversight Committee for the City/County Water/Wastewater Infrastructure, Supply and Planning Study, and he expressed confidence that growth would continue in Pima County. Another position taken by the City and the County is that growth will pay for itself. He felt the proposed Connection Fee increase included in Scenario D is stepping toward that direction while also sharing the cost so the users are not overly burdened. He liked the idea of the Service Fee and the denotation that it is an environmental fee.

Corey Smith expressed support for Scenario D. He said the only concern he had about the two User Fee rate increases is if in fact there is a decrease in water usage over the winter months or something happens all of a sudden, there is going to be a future revenue shortfall that is going to be felt in FY 2008/09 in the second half of the year. He wondered if it was more appropriate to have a $2 increase upfront to a $1 increase at the back end. Then the Department would have the opportunity with which to adjust the $1 increase at the backend two years out or a year out.

Ann Marie Wolf said she was also in favor of Scenario D for similar reasons. She said she would like to guarantee that we have that 75 percent decrease flexibility for the low-income families because she did not think it was nickels and dimes for them. She felt it was significant in that all of their utilities - water, etc. are going up.

Corey Smith asked if the 75 percent reduction for low-income families was a stipulated amount or guideline or can it be adjusted so that you do not get a decrease in what they pay. Mr. Nichols said that this is a stipulated amount.

Corey Smith asked if the rate could be changed so that the Department is not actually decreasing their rate.

Harold Smith responded the SOS portion of the User Fee Ordinance did not necessarily have to be changed such that the 75% reduction is applied to both the Service Fee and the volume component, but that the percentage reduction could be different for each component. Mr. Nichols added per the User Fee Ordinance, the Department has flexibility within the Ordinance. He said his recommendation was that it would apply to the whole Service Fee. He felt we have a large portion of the population that are eligible for this program but they are not wastewater customers. They live in rentals (e.g. apartments and mobile home parks) where they pay for water and sewer within their rent. Out of the 1,700 customers, the vast majority qualify for the 75 percent reduction so allowing them that reduction on their base Service Fee would not negatively impact revenue.

Armando Membrila said he would support Scenario C, but he would have preferred seeing one annual Service Fee increase upfront and a 2 percent increase to the Connection Fees in Scenario C. Mr. Membrila made a motion in support of Scenario C and Mr. Carlson seconded the motion. Discussion followed.

Mr. Carlson said he did not know if the 75 percent reduction for low-income customers and the SOS was the charge of the Committee to express itself on this issue. He thought that most of the Committee members had developed the philosophy that any increased capacity needed should be paid by the new arrivals and that is what the Connection Fee is for and all residents pay the usage fee for maintenance and operation. Chair Bliven said he had always heard that Connection Fees should pay for system expansion – he did not know if that was a County policy or if it was just a general public policy concept.

Mr. Nichols responded that it was not just a County policy – it is good financial policy that one-time revenues pay for one-time costs. He noted that the Draft Financial Plan mentions that the rate model did not show that an increase in Connection Fees was necessary at this time. However, the Department did want to offer Scenario D as an alternative to be considered by Committee members.

Mr. Carhuff said one reason he supported Scenario C over Scenario D is that he does not have a lot of confidence today that a 4 percent increase in Connection Fees is going to produce any significant revenue. He noted that the Committee and the Board of Supervisors would have the opportunity to revise this Financial Plan in the future – so until we get more information about the current state of connections and whether current forecasts will hold up based on data from November and December 2008, he felt the Committee should consider voting for Scenario C and putting in a statement to the Board of Supervisors that there was strong interest in Scenario D, but given the level of economic activity there was not enough confidence to recommend that as a top priority to the Board of Supervisors.

Mr. Carlson said on the joint City/County Water Study, the Study's Oversight Committee talked about Connection Fees keeping up with the physical plant – he thought the idea was out there.

Chair Bliven said he liked the concept brought up by Mr. Nichols of "elastic" revenue and that the County's bonding capacity is looked at better if the revenue does not increase and decrease depending on housing starts. He added for that reason, he would not be in favor of Scenario D because it does put more of the operating costs onto the Connection Fees. Chair Bliven also expressed his support for Scenario C.

Corey Smith said Scenario D did not put more costs on – there is an upside to opportunity. The fixed costs increase – Scenario C and D are the same as it pertains to the fixed costs. It is only that in the event that there is increased building rates that you have a "kicker" on the backend.

Mr. Flores said he felt that Pima County is a very amenable place to live and the sun corridor presentation made to the Water Study's Oversight Committee brought out that growth is happening and is going to continue to come to Tucson. He added that one of the reasons is because of the utility rates that we pay are substantially lower than in other areas.

Mr. Carlson said the Connection Fee could be raised any time it can be justified and stand on its own.

Mr. Flores responded that the only challenge is then bringing multiple rate increases at multiple times of the year is problematic.

Ms. Wolf said the ROMP does increase capacity – she noted that the Draft Financial Plan PowerPoint presentation states that ROMP addresses growth needs to 2030. It is increasing capacity from 81.5 mgd to 85 mgd. She said what is being proposed is that the users are going to pay for that increased capacity.

Corey Smith asked about the amount of the Service Fee increase – whether it be a $1.50, $1.65 or $2.00 – he expressed concern that if there is any weakness in usage levels – that the Department would have a shortfall in revenue and the Department would be in the position where you have already had a rate increase approved and then you are still short. He added that the Department currently has a $40 million surplus that it is going to exhaust – he did not feel that was a prudent thing to do. He felt it was better to have a slightly higher level of funding because you do not know what the future is going to hold.

Chris Avery pointed out that he just received information that participation in the City's Low-Income Program is up 30 percent from what it was one year ago. So if the Committee is considering an increase that is based on the Service Fee, he felt that it would also be prudent to expect increases in the number of participants who avail themselves of the County's SOS Program. He added that Tucson Water has not gotten to the stage where they are making recommendations about what it will do next fiscal year, but the Utility realizes the problem of a much more price elastic structure on the water side and is trying to take some steps to move away from that and an increase in the Service Fee is one way to do that in a prudent manner.

Mr. Membrila called for the question.

Ms. Bowen asked if the goal of the Scenario C proposal was to keep the first rate increase in line with the median or the mean with the 60 largest cities? Mr. Nichols responded regarding the $1.50 proposed increase – the Department looked what utilities are currently charging and wanted to be in-line with those. However, if we look at this as an environmental fee, by the time we get to the end of the ROMP Program, it could be a dramatic fee. He also pointed out that some of the increases in the FY 2008/09 Financial Plan will be related to the operations and maintenance of those facilities – in many places they have fixed environmental fees, but they also have volume environmental fees based on water usage.

Mr. Nichols said the goal within the four rate increase scenarios was to produce the amount of revenue required in order to deliver the ROMP Program. The Department is required by the regulatory schedule to meet these improvements by 2014 and 2015. He reminded Committee members that the Department will be preparing financial plans each fiscal year. He said he would not be averse to any discussion regarding whether the proposed Service Fee increases be they the two $1.50 increases suggested by the Department or increases of $2 in January 2009 and $1 in January 2010 as suggested by Corey Smith. Mr. Nichols felt the more revenue we can generate quicker, the more dependable it is - the better it is for the program.

Mr. Carlson suggested that the Committee could vote on the existing motion and Corey Smith could introduce a motion that we consider sending a supplemental page for the Board of Supervisors to think about that.

Corey Smith suggested that an alternative would be to withdraw the existing motion and the Committee could vote on a $1.75 increase.

Mr. Membrila said he could withdraw his motion – he would prefer to have the increase be $3 upfront and be done with it. However, he supported Scenario C because it would be best thing that would help the Department at this point.

Mr. Carlson also suggested that the Committee could vote at the next meeting.

Chair Bliven asked for a show of hands in support of Scenario C.

8 members voted YES and 3 voted NO. Mr. Flores, Mr. Smith and Ms. Wolf voted no – these Committee members felt that an increase of Connection Fees as in Scenario D should be a part of any recommendation of fee increases.

There was further discussion of the Financial Plan.

A motion was unanimously approved to accept the Financial Plan and forward it to the Board of Supervisors (11 members voted YES, none vote NO).

2. **Approval of 2009 Work Plan.** The 2009 Work Plan was unanimously approved (11 members voted YES, none vote NO).

B. New Items.

1. **Committee Member Terms – Upcoming Expirations.** Suzy Hunt, RWRAC Coordinator, referred Committee members to information they received prior to the meeting and noted those members whose terms were expiring. She asked those members interested in continuing to serve on the RWRAC contact their appointing Supervisors. Ms. Hunt also informed Committee members that the Department would be sending letters to the Supervisors in this regard.

IV. FUTURE AGENDA ITEMS. Chair Bliven reminded Committee members that the next scheduled Committee meeting was the January 21, 2009 joint CWAC/RWRAC meeting on the Water/Wastewater Infrastructure, Supply and Planning Study, Draft Phase I Report. This meeting will be held at 7:30 a.m. in the Pima Associations 5th floor conference room.

V. CALL TO THE AUDIENCE. There being no response from the audience Chair Bliven adjourned the meeting.

VI. ADJOURNMENT. The meeting adjourned at 7:36 p.m.