Pima County Regional Wastewater Reclamation Department

Fiscal Year 2008/2009 Financial Plan

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Prepared by

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Executive Summary

The Pima County Regional Wastewater Reclamation Department ("Department") continues to face an extraordinary challenge of investing more than a billion dollars in its wastewater system over the next ten years to meet regulatory requirements and ensure efficient, high quality service to customers. Failure to make this investment within the specified timeframe will place the Department in jeopardy of violating permit requirements and could result in the County being subject to fines and penalties for non-compliance with new effluent treatment standards. The Department is facing this challenge during a time of tremendous economic uncertainty, and it is imperative that the Department develop a clear, comprehensive financial plan that addresses its goals and objectives and provides a strong foundation for the future.

In order to meet this challenge, the Department engaged Raftelis Financial Consultants, Inc. ("RFC") to provide continuing consulting services and, in particular, to conduct a comprehensive rate and financial planning study to support the development of the Department's Fiscal Year ("FY") 2008/2009 Financial Plan ("Financial Plan"). The primary goals of the study were to develop a consolidated Financial Plan covering the Department's operating and maintenance ("O&M") expenses and capital improvement financing for its immediate needs in FY 2008/2009 and FY 2009/2010, as well as its longer term needs over a ten-year planning period. This report documents the results of the study and provides alternative recommendations for wastewater rates that the Department should charge its customers for the remainder of FY 2008/2009 and FY 2009/2010. For planning purposes, preliminary rate adjustments for future years are also shown.

The purpose of this report is to present a ten-year Financial Plan that will increase the financial stability of the wastewater enterprise while ensuring high quality service and meeting regulatory requirements. The Financial Plan for the wastewater enterprise will also provide a road-map for funding capital improvement projects and a basis for developing rates and charges that are fair and equitable.

Summary of Findings and Recommendations

The principal findings of the wastewater study are summarized in this section and are as follows:

1. The Department is estimated to currently be serving approximately 260,315 individual wastewater customer accounts within its service area. All accounts are charged based on water used including residential, commercial, institutional, and industrial customers.

2. 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.

3. The Department has developed a proposed wastewater enterprise Capital Improvement Program ("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 the Department's Regional Optimization Master Plan ("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.

4. The Department's capital program will be financed through a number of sources including 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 rate revenue and 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 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.

5. On average, total 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 revenue bonds issued in 2008 (2004 Bond Authorization).

6. 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. The Volume Rate varies by customer class and is based on a high strength factor that the Department has developed for each customer class using high strength components including chemical oxygen

demand ("COD") and total suspended solids ("TSS") as the basis for the calculation. 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. To the extent that growth in the service area does not occur at the rates on which the revenue projections are based, larger adjustments to the rates and charges would be required to ensure revenue sufficiency.

7. The significant contraction in the residential and commercial market for new construction has reduced Connection Fee revenue over the past several years, and it is anticipated that this trend will accelerate in FY 2008/2009. In an effort to stabilize its revenue stream, the Department should consider not increasing Connection Fees and begin shifting the allocation of its revenue generation to the charges assessed to existing customers. From a credit risk standpoint, an increased emphasis on revenue recovery from existing connections will improve revenue stability, which would be viewed favorably by both lenders and rating agencies, and could potentially lower the County's cost of borrowing. In the past, the Department has typically increased Connection Fees in manner consistent with user charge increases.

8. 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.

9. In order to meet its immediate needs, the Department should implement one of four rate increase scenarios: (1) increases in the Volume Rate assessed to all customers of 16.75% in January of 2009, 16.75% in July of 2009, and 16.75% in January of 2010; (2) increases in the Volume Rate assessed to all customers of 25.25% in January of 2009, 9.25% in July of 2009, and 9.25%in January of 2010; (3) increases in the Service Fee assessed to all customers of $1.50 in January of 2009 and $1.50 January of 2010, and increases in the Volume Rate assessed to all customers of 12.75% in January of 2009, 12.75% in July of 2009, and 12.75% in January of 2010; or (4) increases in the Service Fee assessed to all customers of $1.50 in January of 2009 and $1.50 in January of 2010, increases in the

Volume Rate assessed to all customers of 12.25% in January of 2009, 12.25% in July of 2009, and 12.25% in January of 2010, and increase in the Connection Fee of 4.0% in January of 2009.

10. The Department has developed a comprehensive CIP, but there are a number of external factors that may affect the capital program and, ultimately, future rate adjustments such as potential funding from a federal fiscal stimulus package that targets infrastructure reinvestment and improvement or decline of broader, regional macroeconomic conditions. As a result, it is inadvisable to make any definitive rate adjustments beyond those recommended through January of 2010. Although the potential events or circumstances described above may provide certain benefits to the Department, these events will not materially impact the rate increases required to meet the Department's immediate needs. For planning purposes, based on the current forecast, if either of the rate adjustment recommendations is implemented, future increases to customer bills would be low compared to increases that would be required without any rate adjustments to meet the Department's immediate needs.

11. In an effort to improve the Department's financial position and secure its appearance to lenders and rating agencies, the Board of Supervisors should determine an appropriate debt service coverage target and implement a policy that dictates that any time the electorate authorizes bonds and the Board of Supervisors approves the sale of bonds, rate adjustments are authorized with the sale of the bonds to ensure that the Department meets the predetermined debt service coverage target.

12. In addition to implementing the rate adjustments, the Department should continue to give further consideration to the following items:

    - Implementation of an environmental fee designed to recover the costs associated with meeting new regulatory requirements;
    - Securing authorized debt financing to minimize rate increases; and
    - Establishing financial policies that provide guidance with respect to such issues as reserve fund balances and capital structure.

Schedule ES-1 shows the proposed long-term Financial Plan in an abridged format. It is apparent that the significant increases in immediate cash needs to support the CIP are the primary driver of the proposed rate increases. Although these immediate needs will place considerable stress on rates in the short-term, future rate increases needed to support the Department's capital planning initiatives will be reduced if the recommended action is taken.

However, the exact amount and timing of these future increases are contingent on a variety of external factors that will play out over the next several years.

Schedule ES-1: Financial Plan (Abridged)

	Fiscal Year Ending June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Revenue					
Operating Revenue	$ 97,570,189	$ 124,258,547	$ 134,956,465	$ 149,068,292	$ 168,423,846
Non-Operating Revenue	21,000,000	20,895,500	20,833,114	20,833,114	20,833,114
Interest Income (1)	2,411,626	2,283,822	1,038,118	4,048,903	4,463,884
Total Revenue	$ 120,981,815	$ 147,437,869	$ 156,827,697	$ 173,950,309	$ 193,720,844
Revenue Requirements (2)					
O&M Expenses	$ 79,820,438	$ 83,336,195	$ 86,433,978	$ 89,655,942	$ 93,007,277
Net Revenue Available for Debt Service	41,161,377	64,101,674	70,393,719	84,294,367	100,713,567
Debt Service (4)	$ 27,421,166	$ 29,506,940	$ 29,463,914	$ 62,977,681	$ 62,967,396
Total Transfers From Reserves	(36,600,000)	(7,700,000)	-	-	-
Annual Capital Outlay	50,238,761	42,239,846	33,347,261	5,472,095	4,412,711
Total Revenue Requirements	$ 120,880,365	$ 147,382,981	$ 149,245,154	$ 158,105,718	$ 160,387,384
Operating Fund Balance					
Net Annual Cash Balance	$ 101,450	$ 54,888	$ 7,582,542	$ 15,844,590	$ 33,333,459
Beginning Operating Fund Balance	-	101,450	156,339	7,738,881	23,583,471
Transfer To Capital Reserve	$ -	$ -	$ -	$ -	$ (15,000,000)
Ending Operating Fund Balance	$ 101,450	$ 156,339	$ 7,738,881	$ 23,583,471	$ 41,916,930
Minimum Desired Balance	$ 9,977,550	$ 10,417,020	$ 10,804,250	$ 11,206,990	$ 11,625,910
Debt Coverage 125%	150%	217%	239%	134%	160%

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Revenue					
Operating Revenue	$ 190,410,733	$ 198,632,189	$ 202,588,732	$ 206,620,519	$ 210,740,349
Non-Operating Revenue	21,040,445	21,249,849	21,461,348	21,674,961	21,890,711
Interest Income (1)	3,449,135	3,805,473	1,990,156	2,089,960	2,242,180
Total Revenue	$ 214,900,312	$ 223,687,512	$ 226,040,235	$ 230,385,440	$ 234,873,240
Revenue Requirements (2)					
O&M Expenses	$ 97,615,837	$ 103,188,917	$ 107,148,414	$ 110,684,131	$ 114,355,090
Net Revenue Available for Debt Service	117,284,475	120,498,595	118,891,821	119,701,310	120,518,149
Debt Service	$ 98,630,775	$ 98,602,184	$ 98,409,538	$ 92,527,461	$ 94,942,070
Total Transfers From Reserves	-	-	-	-	-
Annual Capital Outlay	4,088,249	4,117,867	4,251,698	4,389,878	4,532,549
Total Revenue Requirements	$ 200,334,863	$ 205,908,969	$ 209,809,650	$ 207,601,470	$ 213,829,710
Operating Fund Balance					
Net Annual Cash Balance	$ 14,565,450	$ 17,778,543	$ 16,230,586	$ 22,783,971	$ 21,043,530
Transfer To Capital Reserve	$ (15,000,000)	$ (15,000,000)	$ (15,000,000)	$ (15,000,000)	$ (1,000,000)
Beginning Operating Fund Balance	41,916,930	41,482,380	44,260,923	45,491,509	53,275,480
Ending Operating Fund Balance	$ 41,482,381	$ 44,260,924	$ 45,491,509	$ 53,275,480	$ 73,319,010
Minimum Desired Balance	$ 12,201,980	$ 12,898,610	$ 13,393,550	$ 13,835,520	$ 14,294,390
Debt Coverage 125%	119%	122%	121%	129%	127%

(1) Includes interest earnings from both restricted and unrestricted reserves.

(2) Based on CIP dated 9/29/08.

(3) FY 2008/2009 O&M expenses based on 97.5% of budgeted costs. O&M projections for FY 2009/2010 and beyond based on assumed esclation rates, defined in this Financial Plan, as of 11/19/08. The average annual compounded increase in O&M costs is approximately 4.0% over the forecast period.

(4) FY 2008/2009 debt service includes budgeted costs of $25,171,166 plus estimated interest of $2,250,000 on Certificates of Participation.

PIMA COUNTY REGIONAL WASTEWATER RECLAMATION DEPARTMENT
FY 2008/2009 FINANCIAL PLAN

Introduction

The Department is the primary provider of wastewater service throughout Pima County. The Department is directly responsible for the operation and maintenance of the wastewater system. The wastewater system is operated as a self-supporting enterprise with revenue and costs accounted for separately under the wastewater enterprise fund.

In providing wastewater services, the Department incurs expenses related to its ongoing operating and capital needs. Recognizing the importance of financial planning to meet capital costs associated with replacement, expansion, and improvements while meeting the annual O&M expenditures of the wastewater enterprise, the Department engaged RFC to conduct a comprehensive wastewater rate and financial planning study. The study includes an analysis of revenue requirements, reserve fund balances for the capital and operating funds, costs of service, and rates for the wastewater enterprise.

The Financial Plan presented in this report addresses the ten-year planning period from fiscal year ending June 30, 2009 (FY 2008/2009) through the fiscal year ending June 30, 2018 (FY 2017/2018). During this period the Department is expected to incur annual O&M expenses and capital costs associated with repairing, replacing and improving the facilities that comprise the wastewater system. Of particular importance is the necessity to improve a significant portion of the system in order to comply with more stringent effluent quality standards imposed by State and Federal regulators. The projects necessary to comply with these new regulatory requirements were identified during the development of the ROMP. The total cost of the ROMP projects in the FY 2008/2009 Financial Plan is currently estimated to be approximately $718.6 million in escalated dollars. It should be noted that the Department expended approximately $2.0 million in ROMP costs in FY 2007/2008, which brings the total estimated cost of ROMP to approximately $720 million. A description of the ROMP process and the results of the ROMP study are presented in the report titled "Pima County Regional Optimization Master Plan" that was prepared by the consultant team that assisted the Department with the development of the ROMP. These projects are in addition to the other treatment and conveyance projects throughout the remainder of the system associated with repairing, replacing, improving and/or expanding the wastewater facilities. The cost of the non-ROMP CIP projects during the course of the planning period is approximately $312.4 million, resulting in a total CIP of approximately $1.03 billion.

As a result of the significant deterioration in economic conditions over the past year, the County submitted a formal request to the Arizona Department of Environmental Quality ("ADEQ") for a 5-year extension to the regulatory deadlines associated with the ROMP. However, in a meeting with ADEQ officials that took place on December 8, 2008, ADEQ indicated that the formal process of requesting an extension of the ROMP regulatory requirements and deadlines would take at least twelve months without any indication of the County's success. ADEQ also indicated that the requested five year extension would be problematic and suggested a much shorter extension period would be viewed more favorably.

Reconciliation with Prior Fiscal Year Financial Plan

This section of the report reconciles certain assumptions supporting revenue and expense projections identified in the FY 2007/2008 Financial Plan with actual events that have occurred over the past fiscal year. The goal is to identify some of the key factors that have materially affected the development of the FY 2008/2009 Financial Plan, and to provide a basis for comparing prior projections with the revised forecast of revenue, expenses, and rates.

The following summarizes the reconciliation with the FY 2007/2008 Financial Plan.

Actual Revenue

Actual revenue collected in FY 2007/2008 was approximately $4.9 million lower than budgeted. Volume Charge and Service Fee revenue of approximately $74.1 million was $3.0 million less than budgeted revenue of approximately $77.1 million. Since there was expansion in the customer base, it is likely that the decline in User Charge revenue is associated primarily with service area conservation initiatives such as inclining block pricing (water service), low-flow fixtures and other green building solutions that have been used to reduce consumption. Connection Fee revenue of approximately $31.0 million was $2.3 million less than budgeted revenue of $33.3 million. Although budgeted Connection Fee revenue assumed a significant decline in building starts, actual declines were more than expected as a result of a significant contraction in new residential construction within the County's service area. Actual other revenue from miscellaneous services, such as fines and general government fees, was approximately $0.8 million, which was $1.0 million lower than budgeted revenue of approximately $1.8 million. Finally, actual interest revenue of approximately $3.7 million was $1.4 million higher than budgeted revenue of approximately $2.3 million.

In order to be conservative, revenue projections in the FY 2008/2009 Financial Plan for the current fiscal year have been adjusted to provide consistency with actual revenue in FY 2007/2008, with a slight adjustment for growth. Figure 1, on the next page, summarizes actual versus budgeted revenue in FY 2007/2008.

Figure 1: Actual Versus Budgeted Revenue

	Budgeted FY 07/08 (in millions)	Actual FY 07/08 (in millions)	Surplus/(Deficit) (in millions)
Revenue Sources			
Volume Charge and Service Fee	$77.1	$74.1	($3.0)
Connection Fee	33.3	31.0	(2.3)
Other*	1.8	0.8	(1.0)
Interest	2.3	3.7	1.4
Total	114.5	109.6	(4.9)

* Includes revenue from licenses and permits, general government fees, sanitation fees, other fines, rents and royalties, federal revenue, and miscellaneous revenue.

Connection Fee Revenue Projections

The extraordinary events of the past year and, in particular, the dislocations in the credit and housing markets occurring in recent months have necessitated significant adjustments to budgeted 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 budgeted revenue of approximately $32.8 million.

The volatility of recent market conditions has increased the uncertainty in predicting the timing of an eventual rebound in the housing market. Although it's possible that macro-economic conditions that continue to pressure the new construction industry may dissipate over the next year, to be conservative, we have assumed that current conditions will persist, placing additional strain on user rates and charges. Figure 2 summarizes the budgeted and revised projection of Connection Fee revenue in FY 2008/2009.

Figure 2: Connection Fee Revenue Projections

	For FY 08/09 (in millions)
Revenue Projections for FY 08/09	
Budgeted in FY 08/09	$32.8
Projected in FY 08/09	20.9
Projected Revenue Decline	$11.9

Certificates of Participation

The County is in the process of issuing Certificates of Participation ("COPs") on behalf of the Department for capital cash needs in FY 2008/2009. 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 Department anticipates that $50.0 million in COPs will be issued by the County in FY 2008/2009 at an interest rate of 4.5%. The annual interest cost will be approximately $2.3 million. The forecast also assumes that the annual interest cost from additional COPs will be approximately $1.0 million in both FY 2009/2010 and FY 2010/2011. These additional cash needs were not included in prior model projections.

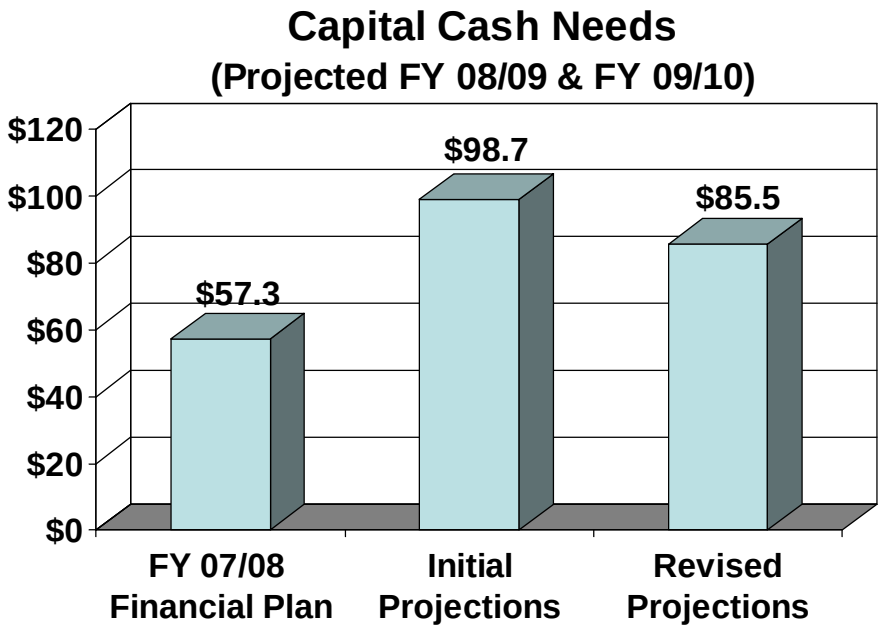
Additional Capital Cash Needs

The FY 2007/2008 Financial Plan projected a certain level of annual cash needs from rates and charges to support SDF funded capital projects over the immediate forecast period. Specifically, projected cash needs for SDF projects were approximately $48.1 million and $9.2 million in FY 2008/2009 and FY 2009/2010, respectively. The FY 2007/2008 Financial Plan also assumed a certain level of funding from revenue bond proceeds available from the 1997 and 2004 Bond Authorizations, as well as an anticipated bond authorization in 2008 ("2008 Bond Authorization"). A significant portion of the projects identified for funding with the 2008 Bond Authorization were ROMP projects, which are required to comply with more stringent effluent quality standards imposed by State and Federal regulators, and are subject to a strict timeline for completion.

For a variety of reasons, the anticipated 2008 Bond Authorization was delayed. Currently, the Department does not expect these funds to be available until the middle of FY 2009/2010, and has subsequently changed the name of this potential funding source to the 2009 Bond Authorization. As a result, the projected capital project costs in FY 2008/2009 and a portion of the costs in FY 2009/2010 that were to be funded with the 2008 Bond Authorization were either transferred for funding from the SDF or, if possible, delayed. Since the majority of these projects are included in the ROMP, the Department conducted numerous iterations to its CIP in an attempt to delay certain non-ROMP projects to provide more flexibility to accommodate the additional annual cash needs. Although the Department significantly reduced the total CIP in both FY 2008/2009 and FY 2009/2010 from the currently adopted capital budget, because of contractual obligations on projects under construction and regulatory constraints associated with ROMP; the additional annual cash needs in the Financial Plan have increased by $28.9 million to approximately $85.5 million over the next two fiscal years. It should be noted that this increase assumes that the Department will need to fund approximately 1/3 of the 2009 Bond

funded projects in FY 2009/2010 up-front, and then, if allowed, be reimbursed by the 2009 Bonds when issued. It should be noted that the Financial Plan does not assume that the Department will be reimbursed for these upfront costs. Figure 3 summarizes the additional capital cash needs and CIP revisions for project costs anticipated to be incurred in FY 2008/2009 and FY 2009/2010.

Figure 3: Additional Capital Cash Needs[1]



[1] Revised projections as of 9/29/08.

Financial Plan

Schedule 1 in the Appendix shows a Financial Plan that projects revenue and expenses for the Department over a ten-year forecast period from FY 2008/2009 through FY 2017/2018.

As noted previously, while this report addresses the Financial Plan for a ten-year planning period and includes projected rate increases that may be necessary during that period, the report focuses only on rate alternatives for January and July of 2009 and January of 2010. Actual rate adjustments that will be necessary for the remainder of the forecast period may differ from those provided in this Financial Plan.

The following sections of this report provide further explanation of the components of the Financial Plan.

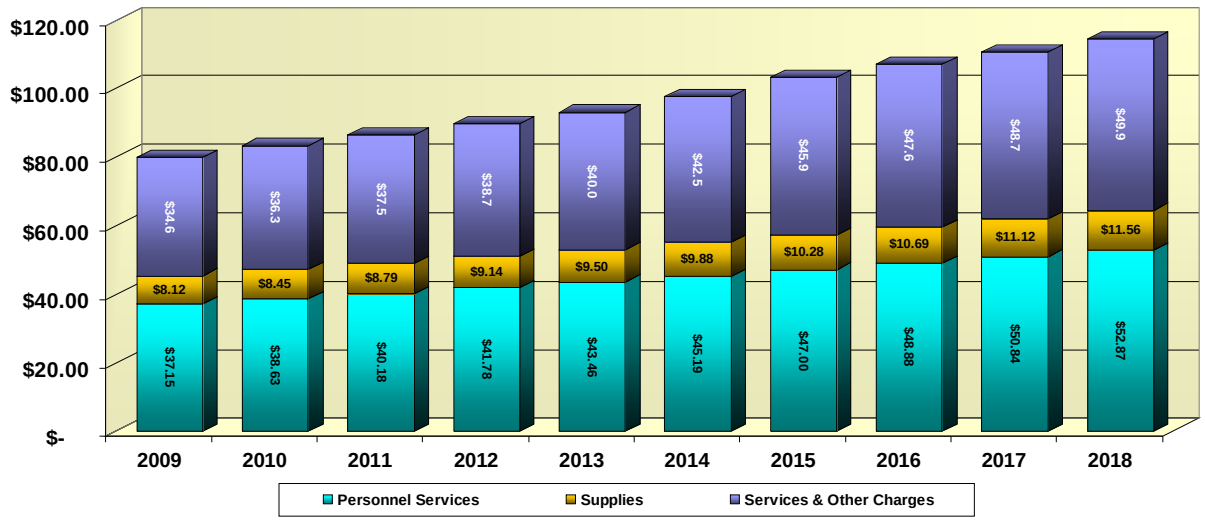
Expenses

The expenses that the County needs to recover through its rates and charges are categorized as either O&M or capital expenses. O&M expenses are listed in detail in the Department's FY 2008/2009 annual comprehensive financial budget ("budget"). Certain smaller capital outlays (less than $5,000) are included as O&M expenses. Capital expenses are also addressed in the budget and are represented by annual capital outlays (greater than $5,000) or cash funded capital for funding the CIP, both of which are addressed in the capital expense section of the Financial Plan.

Operations and Maintenance Expenses

The Department has separated the O&M expenses in its budget into five major categories: Personnel Services, Supplies, Services and Other Charges less depreciation expense, capital outlays (less than $5,000), and W6 wastewater system funds. As a result of the significant economic challenges facing the County, the Department has been asked to reduce its budget across the board by 2.5%. The Department has made these reductions, which subsequently reduced its total budget for FY 2008/2009 from $81.9 million to $79.8 million, or by approximately $2.1 million. The forecast assumes a proportionate level of reduction over the planning period. Figure 4 below summarizes the Department's budgeted O&M expenses over the forecast period. For illustration purposes, capital outlays and W6 wastewater system funds are included under Services and Other Charges.

Figure 4: Operations and Maintenance Expenses



Personnel Services

The Personnel Services category addresses personnel costs for the Department staff related to salaries, wages, and benefits. Included are line items such as salaries and wages, overtime,

benefits, and interdepartmental salaries totaling $37.1 million for FY 2008/2009. All of these line items are projected to escalate 4% annually over the forecast period. Salaries and budgeted benefits comprise approximately 70% and 22% of the budgeted Personnel Services expenses for FY 2008/2009, respectively. The non-Departmental staff line item addresses the time and effort expended on behalf of the Department by other County staff and comprises approximately 8% of the Personnel Services expenses.

As part of its continuing efforts to reduce the overall cost of providing service, the Department is pursuing several initiatives focused on maximizing staffing efficiency. These initiatives include the Multi-Skill Program and the exploration of opportunities offered by Design-Build-Operate (DBO) contracts.

Supplies

The Supplies category includes those items and supplies necessary for the Department to operate in a safe, reliable, and efficient manner on a daily basis. Included are line items such as office supplies, software, medical and lab supplies, chemicals, repair and maintenance supplies, and small tools and office equipment totaling approximately $8.1 million for FY 2008/2009. All of these line items are projected to escalate by 4% annually over the forecast period. The two most significant line items of the supplies category are chemicals and repair and maintenance supplies, which comprise approximately 50% and 33% of the budgeted supplies expenses for FY 2008/2009, respectively.

Services and Other Charges

The Services and Other Charges category is divided into two subcategories. The first subcategory, for the most part, addresses costs for services required for the Department to operate on a daily basis that are provided by non-Department entities such as professional services, utilities and the O&M needs of the Department's machinery, equipment and other fixed assets. Included are line items such as non-medical professional services, electricity, natural gas, machinery and equipment, and buildings and grounds totaling approximately $27.3 million. These line items are escalated 3% annually over the forecast period with the exception of utility services such as electricity and natural gas which are escalated 5% annually. In FY 2013/2014 and FY 2014/2015, electricity expenses are projected to increase by 27% and 34%, respectively, as the improvements at the Ina Road Wastewater Reclamation Facility ("Ina Road WRF") and the new Water Reclamation Campus ("WRC") at the Roger Road site come on line during this time frame. Considering these increased power needs, the compounded rate of escalation in electricity expenses is approximately 6% over the forecast period. Non-medical professional services and utilities (including electricity, natural gas, telephone, solid waste, and water and sewer) are 25% and 33%, respectively, of the FY 2008/2009 costs in this subcategory.

The second Services and Other Charges subcategory includes costs related to other services that the Department requires and is comprised mostly of administrative expenses. Included are line items for administrative overhead, laundry and linen services, along with dues and memberships totaling approximately $3.4 million. These line items are escalated 3% annually over the forecast period. Administrative overhead paid to other County departments represents 70% of the costs in this subcategory.

Capital Outlays (Less than $5,000)

The Department's capital outlays that are less than $5,000 are included as an O&M expense. Specific line items include furniture, software, medical lab equipment, and other equipment that are not capitalized for accounting purposes. The Department's minor capital outlays total approximately $0.7 million in FY 2008/2009. These costs are escalated 3.25% annually over the forecast period.

W6 Wastewater System Development Funds

The Department categorizes specific expenditures related to planning, modeling, and feasibility studies that may result in future capital projects upon completion as W6 Wastewater System Funds. These studies typically take more than one year to complete but do not immediately result in the construction of a tangible asset; therefore, they are not capitalized. The Department's W6 Projects total approximately $3.07 million in FY 2008/2009. These costs are not escalated over the forecast period.

Capital Expenses

Capital expenses typically consist of expenses that do not occur on an annual basis and can be cash funded from rate revenue, SDF balances, or funded through the issuance of debt. The Department's capital expenses include non-operating costs in the FY 2008/2009 budget such as cash funded capital outlays for items that cost more than $5,000, but typically less than $100,000, cash funded (SDF) capital improvement projects, and debt service on existing debt obligations. An additional capital expense that is included in the Financial Plan is debt service related to the proposed issuance of debt used to cover a portion of the costs of the Department's CIP. Schedule 2 in the Appendix shows the portion of the budget attributed to capital and other non-operating expenses projected for the forecast period.

Capital Outlay (More than $5,000)

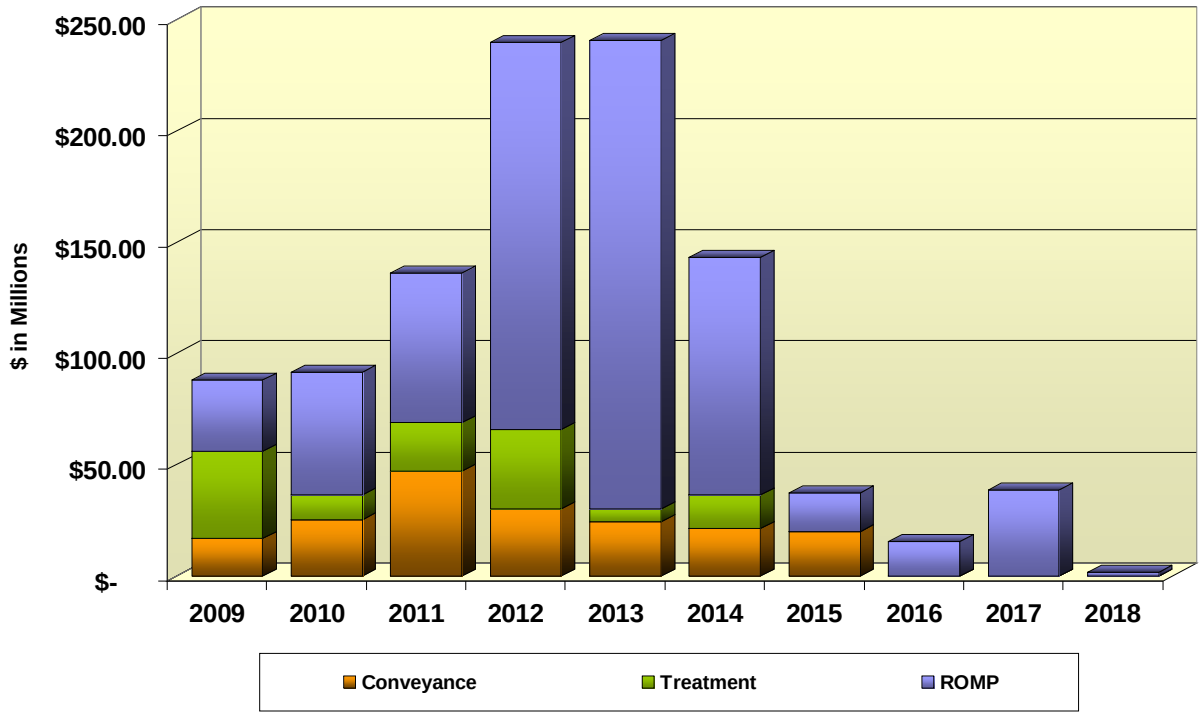
The Department's capital outlays address equipment related to maintenance, construction, fleet, and office and are often capitalized for accounting purposes. Included are line items for maintenance and construction equipment, medical lab equipment, software and office equipment, land, and motor vehicles totaling approximately $3.4 million in FY 2008/2009. These line items are escalated 3.25% annually over the forecast period.

Capital Projects (CIP)

The Department has developed a CIP that spans the period from FY 2008/2009 through FY 2017/2018. The projects have been separated into three categories: ROMP, Conveyance, and Treatment. ROMP projects include improvements at the Ina Road WRF, the new WRC at Roger Road and the Interconnect between the two facilities. Conveyance projects include all planned conveyance projects that are not included in ROMP and Treatment projects include additional treatment capacity and improvements to existing locations that are not included in ROMP.

The costs associated with these projects were developed in 2008 dollars and then escalated to the year in which project costs were expected to be incurred. The annual escalation rate applied to the project costs is 5%. This escalation factor is based on historical analysis of material and construction cost indices and recognizes inflation of material and labor costs. A summary of total project costs is provided in Figure 5.

Figure 5: Summary of Capital Project Costs by Fiscal Year

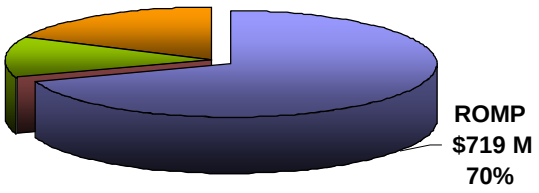


The following sections provide a more detailed summary of the components of the CIP.

Regional Optimization Master Plan (ROMP) Projects

The ROMP projects are those projects that address the environmental needs and requirements of the Department in order to meet new State and Federal effluent regulations and guidelines. The ROMP projects are listed on Schedule 3 in the Appendix for the period from FY 2008/2009 through FY 2017/2018. A more detailed description of these projects and an implementation plan can be found in the previously referenced ROMP report.

Figure 6A: Summary of Costs by Project Type-ROMP



As shown in Figure 6A, the total cost for the ROMP projects is approximately $718.6 million, or slightly over 70% of the Department's capital budget for the capital planning period. Again, it should be noted that the Department expended approximately $2.0 million in ROMP related costs during the FY 2007/2008 fiscal year, which places to the total projected cost of ROMP at approximately $720 million. This amount represents the estimated cost of these projects escalated to the year in which costs for the different projects are expected to be incurred.

Timely implementation of ROMP projects is critical. The schedule of ROMP projects that drives the costs shown in Schedule 3 was developed during the ROMP study such that the Department could meet the regulatory deadlines imposed by ADEQ. Failure to meet these deadlines could result in fines against the Department or potentially in moratoriums on sewer connections. Such moratoriums would have a significant adverse effect on development within the service area. As such, from a financial perspective, it is critical that sources of funding for these projects are identified and that the process of accessing these funding sources begins immediately.

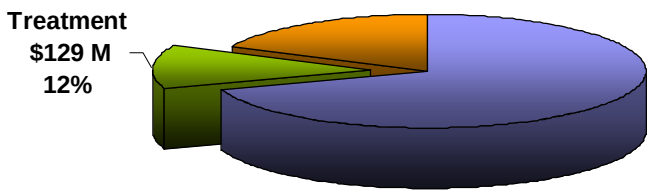
Treatment

The projects listed in Schedule 4 in the Appendix address the repair, replacement, improvement and expansion of the Department's non-ROMP wastewater treatment facilities, as well as other ancillary projects not related to ROMP that are projected to occur at both the Ina Road WRF and the Roger Road WRC. In some respects, these projects, coupled with the Conveyance projects discussed below, represent the "baseline" CIP in that most of these projects would be required

even if the regulatory requirements that are being addressed by the ROMP projects were not being imposed. These projects will allow the Department to continue to provide high quality, reliable service to its existing customers and meet the wastewater treatment needs of a growing community. Therefore, the funding and implementation of these projects is every bit as critical as the delivery of the ROMP projects.

As shown in Figure 6B, the escalated cost of the Treatment projects in the CIP is approximately $128.5 million or 12%of the total CIP.

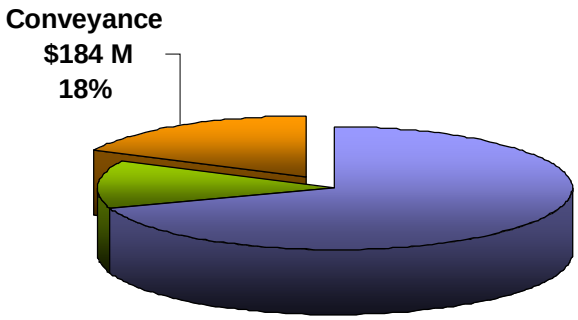
Figure 6B: Summary of Costs by Project Type-Treatment



Conveyance

The projects listed in Schedule 5 in the Appendix address the repair, replacement, improvement and expansion needs of the Department's wastewater conveyance facilities.

Figure 6C: Summary of Costs by Project Type-Conveyance



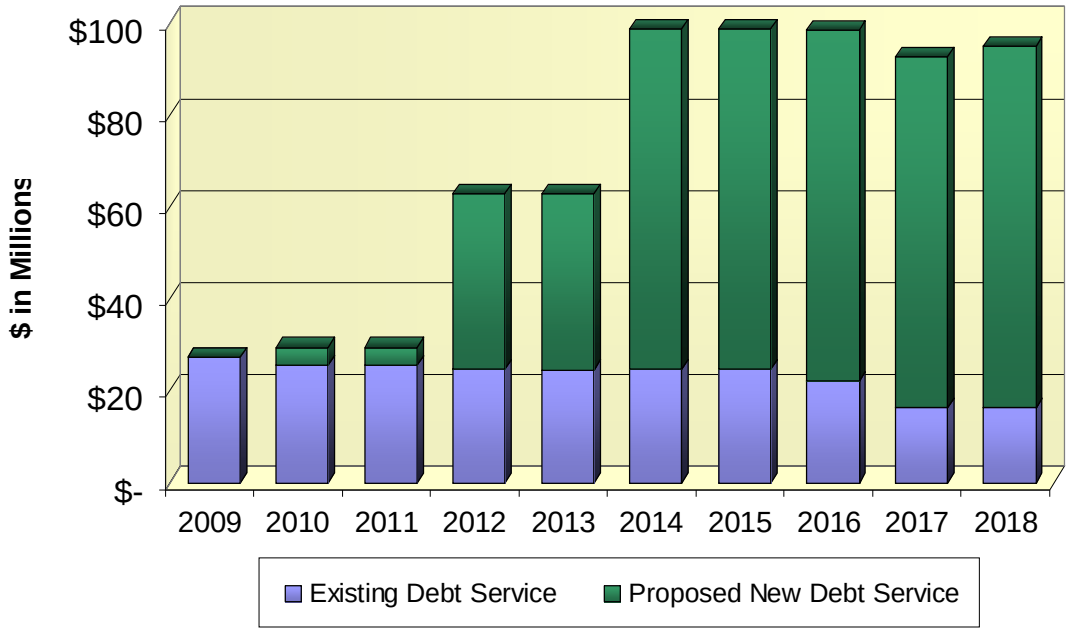
As shown in Figure 6C on the previous page, Conveyance projects account for 18% of the total capital costs or approximately $183.9 million. These projects have been identified as being necessary to ensure the safe and reliable transport of wastewater from individual customers to the Department's treatment facilities. Similar to the treatment projects discussed earlier, these projects represent the "baseline" capital needs of the Department's conveyance system such that the Department can provide safe and reliable service. Failure to fund the appropriate investment in the repair, replacement, improvement and expansion of the series of pipes and pumping facilities that comprise the conveyance system can result in an increased number of sanitary sewer overflows, main breaks and releases of untreated wastewater into the environment; all of which could lead to significant fines and penalties.

Debt Service

Debt service is the principal and interest payments that the Department makes to the holders of the bonds issued to fund a portion of the Department's capital program. Currently, the Department's budgeted debt service obligations are approximately $25.2 million per year, with an additional approximately $2.3 million in interest expense anticipated to be incurred associated with the planned issuance of $50.0 million in COPs. This will increase the Departments total debt service obligations in FY 2008/2009 to approximately $27.5 million. As mentioned previously, although the COPs are being issued by the County as a long-term debt instrument, from the Department's perspective, the COPs have the same financial impact as funding capital projects with cash generated through rates with the additional requirement of paying interest.

As discussed in the following section of this report, the Department will be required to rely much more heavily on long-term debt to fund the CIP over the planning period. As a result, the Department's debt service obligations will increase significantly over the next ten years to approximately $98.6 million in FY 2013/2014. Projected annual debt service is shown in Figure 7 on the following page.

Figure 7: Annual Debt Service



Calculation of projected debt service on proposed debt assumes a 5.25% interest rate and equal annual payments. It is likely that the actual interest rate on revenue bonds will vary from this assumption depending on market conditions at the time the debt is issued and the way in which the repayment schedules are structured. Additionally, the Department will have some flexibility with respect to the timing and size of its annual debt service payments. Additional commentary on the current market conditions is provided below in the section on bond funding.

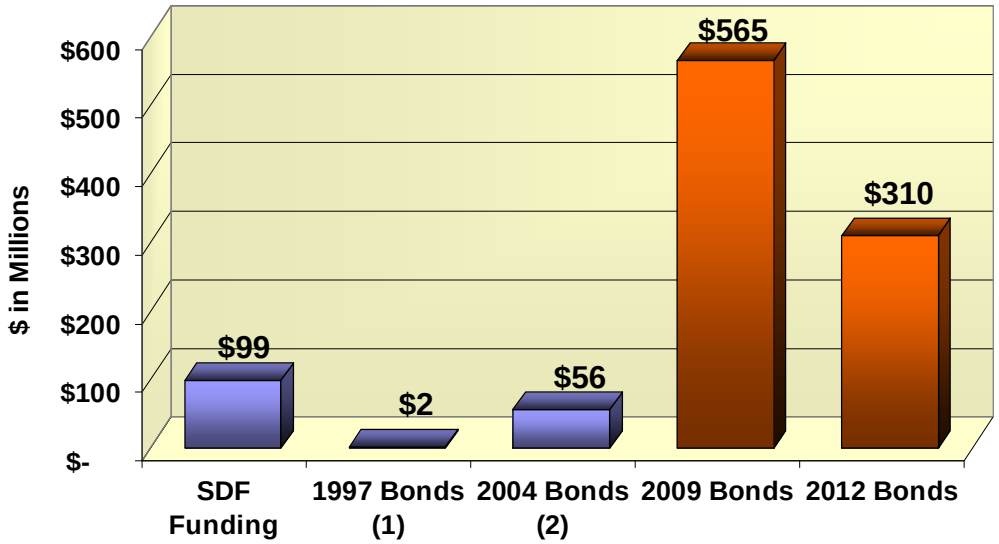
Capital Funding Plan

As discussed earlier, the Department's cost structure is comprised of both O&M and capital costs. Ensuring that the Department can cover both of these components of cost is the goal of the Financial Plan. However, ensuring the timely funding of the Department's $1.03 billion capital program, and particularly the ROMP projects, is still the primary driver of the Financial Plan. As a result, RFC continued to analyze a variety of options for funding the ROMP program specifically and the Department's entire CIP in general. Although both traditional and non-traditional funding sources were evaluated, the issuance of long-term debt, for the most part, still represents the most viable alternative to fund the bulk of the projects in the CIP. Other sources of funding, including revenue financed capital and cash reserves, will also be needed to supplement the remaining funding requirements of the CIP. However, the Department should continue to evaluate other public financing sources including loans from the State of Arizona's

Water Infrastructure Finance Authority ("WIFA") as well as more innovative charges such as environmental fees. Although in the past the level of WIFA funds available for the Department has been limited, in light of the potential of an additional economic stimulus package that includes funds for infrastructure investment, the Department should closely monitor the availability of WIFA funds as it is likely that any additional federal assistance would be deployed through existing state lending agencies. Department staff is carefully monitoring activities of the Federal government and has started to develop plans that would allow the Department to benefit from any funding that may be available as part of an economic stimulus package.

Figure 8, on the next page, shows the current proposed sources of funding for the Department's CIP. The following sections of this report provide additional discussion related to each funding source.

Figure 8: Proposed CIP Funding Plan

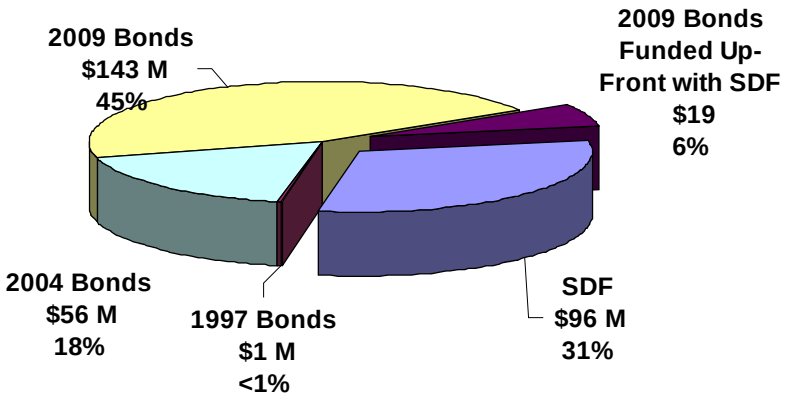


(1) Represents the minimal funding remaining from the 1997 revenue bond authorization.
(2) Represents the funding remaining from the 2004 revenue bond authorization of $150.0 million. It is anticipated that approximately $40.7 million of the remaining funds will be expended in FY 2008/2009, with the balance being expended in FY 2009/2010 and FY 2010/2011.

SDF Funding

As shown in Figure 9, it is the Department's intent to fund almost one-third of the capital costs in the period from FY 2008/2009 through FY 2010/2011 with cash from the Department's SDF. As mentioned previously, since the proceeds required from the 2009 Bonds are not anticipated to be available until December of 2009, in order to ensure these projects, which are primarily ROMP projects, are not delayed, the forecast assumes that the Department will need to fund approximately $19.1 million with cash. Schedule 7 in the Appendix shows those projects that the Department anticipates funding with cash from the Department's SDF.

Figure 9: Proposed CIP Funding Plan-FY 2008/2009 – FY 2010/2011



The SDF is funded with surplus revenue that has been generated in the past or will be generated in the future. The purpose of the SDF is to fund capital projects or meet other expenses on an as needed basis. Of the approximately $115 million ($19 million may be reimbursed with 2009 Bonds) in cash and cash balance funding identified from FY 2008/2009 through FY 2010/2011, $46.8 million will be expended in FY 2008/2009. Of this amount, approximately $36.6 million is from existing SDF cash balance and the remainder is cash that will be generated primarily from rates and charges. While the use of cash to fund these projects is a low cost means of funding in that the Department will not incur any of the costs of borrowing associated with debt financing; the use of these funds significantly reduces the Department's cash balances, leaving only $8.0 million in the SDF for projects in FY 2009/2010. The forecast assumes that this remaining balance will be needed to funded capital projects in FY 2009/2010, and the only remaining reserve funds available to address any unforeseen events will be $10 million in an emergency reserve. However, since as described in the following section, all of the remaining balance from the 2004 Bond Authorization will be used to fund designated projects and proceeds from the proposed 2009 Bond Authorization will not be available until December of 2009, the Department must use this cash unless another funding source is identified.

It should be noted that the preliminary forecast of rates for FY 2011/2012 through FY 2017/2018 generates surplus revenue that are currently used to fund a capital reserve, but these surpluses could be used to fund capital projects that may be designated currently as bond funded projects. As such, the CIP financing plan, like the CIP itself, is subject to change as the Department identifies opportunities that will allow it to deliver the CIP in the most cost effective manner.

Bond Funding

Recent economic turmoil and, in particular, dislocations in the credit markets related originally to sub-prime mortgages have caused significant volatility in both interests rates and the availability of capital. Both individual and institutional investor aversion to risk has increased, and there has been a flight by investors to the safety of debt issued directly or backed explicitly by the Federal government. As a result, over the past several months the cost of borrowing for credit-worthy issuers in the municipal market, such as the County, has increased significantly. The higher interest rates have been required to attract investors exceeding, at times, historical spreads by more than 250 basis points (2.5%) above treasury securities with comparable maturities.

However, it appears that the extraordinary actions taken by the Federal government are beginning to increase confidence in the financial system and thaw the frozen credit markets. Over the past several weeks, demand for municipal debt has increased and interest rates have declined. Although interest rates spreads for municipal debt have yet to return to historical norms, we are hopeful that this trend will continue and the Department will be able to issue debt on favorable terms in the future.

As discussed above, a significant portion of the proposed $1.03 billion CIP is assumed to be funded with future sewer revenue bonds. A portion of this funding, as discussed below, will come from proceeds remaining from bonds already issued as part of the 2004 Bond Authorization, while the remaining will be secured from bonds issued over the forecast period. The recent interest rate volatility has highlighted the difficulty in predicting the direction of interest rates and the importance of being conservative when developing assumptions for the Department's future cost of funds. Although the Financial Plan does not assume that the Department will issue bonds until December of 2009, and it is likely that the credit markets will be functioning under more normal conditions respective to market rates at that time, we have assumed a cost of borrowing of 5.25%, which is above the interest rate on recent County revenue bond issuances.

2004 Sewer Revenue Bonds

The Department was authorized by the voters to issue up to $150 million in 2004 sewer revenue bonds. The full $150 million in bonds were issued and the remaining balance available for projects identified in the CIP is approximately $55.8 million. It should be noted that as of September 29, 2008, approximately $40.7 million of the remaining proceeds available from the 2004 Sewer Revenue Bonds are assumed to be expended in FY 2008/2009. Schedule 8, in the Appendix, identifies the projects that will be funded from the proceeds remaining in the 2004 Bonds. The projects cover the period from FY 2008/2009 through FY 2010/2011.

2009 Sewer Revenue Bonds

Schedule 9, in the Appendix, shows those projects that will be funded through the 2009 Sewer Revenue Bond Authorization. Bonds authorized in 2009 will be issued during the period from FY 2009/2010 through FY 2013/2014.

In order to make this component of the Financial Plan possible, the Department must seek authorization from both the Board of Supervisors and the voters to issue approximately $565 million in long-term debt. As shown in Schedule 9, most of the $565 million in the proposed 2009 Sewer Revenue Bond Authorization will be used to fund ROMP projects. Since meeting a regulatory compliance deadline is dependent upon completion of the ROMP projects, it is imperative that this authorization be forthcoming such that funds will be available to support construction of the ROMP projects in a timely manner. As discussed earlier, the delay in authorization of these funds has already required the Department to incur additional cash funding needs in both FY 2008/2009 and FY 2009/2010 to ensure these projects are completed by the regulated deadlines. The consequences of failing to implement the ROMP projects, and thereby failing to comply with the compliance deadlines, are dire. Therefore, if the 2009 Sewer Revenue Bond Authorization is not approved, funding for ROMP projects would need to be diverted from other projects for which regulatory deadlines are not the primary driver. While this scenario would help ensure that the ROMP projects are implemented, it would do so at the expense of other projects that are necessary to provide safe, reliable service to existing and future customers.

As mentioned above, it is assumed that the cost of debt issued under the 2009 Bonds will have an interest rate of 5.25% with 3% issuance costs. The issuance costs include fees paid to financial advisors, bond counsel and underwriters as well as other costs associated with the sale of bonds.

2012 Sewer Revenue Bonds

The Financial Plan also anticipates the need for a bond authorization of approximately $310 million dollars in 2012. Of the $310 million, approximately $232 million will be used to fund the completion of the ROMP projects that were started with the proceeds from bonds issued under the proposed 2009 authorization. The remainder of the bonds made available by the proposed 2012 authorization would be used to fund various other treatment and conveyance projects to be constructed between FY 2012/2013 and FY 2017/2018 as shown in Schedule 10 in the Appendix.

As is the case with any exercise that attempts to predict future events, the level of certainty of the anticipated project needs and cost estimates for the period in which the proceeds from the bonds authorized in 2012 are planned to be used is less than the level of certainty associated with projects to be funded with the 2009 bonds. Therefore, it is likely that the exact amount of the authorization requested in 2012 will be different from the current expectation; particularly, if as mentioned earlier, SDF cash balance generated from rates are available to fund some of the projects identified to be funded through the 2012 authorization. Regardless, the authorization requested in 2012 represents a reasonable approximation of the Department's anticipated needs for the 2012 Sewer Revenue Bonds.

Sensitivity Analysis

RFC conducted a sensitivity analysis of key variables affecting the forecast of revenue requirements. Specifically, model simulations were conducted that targeted the variability in both operating and capital costs, with particular attention paid to operating cost escalation rates associated with labor and commodity expenses, and capital cost escalation rates associated with project costs and the level of interest rates. Over the short-term, the sensitivity analysis demonstrated that alternative assumptions for key variables did not have a material impact on rate adjustments required for FY 2008/2009 and FY 2009/2010. Over the long-term, however, differing assumptions for key variables could impact future rate adjustments, further validating our focus of developing definitive rate recommendations to address the Department's immediate needs only.

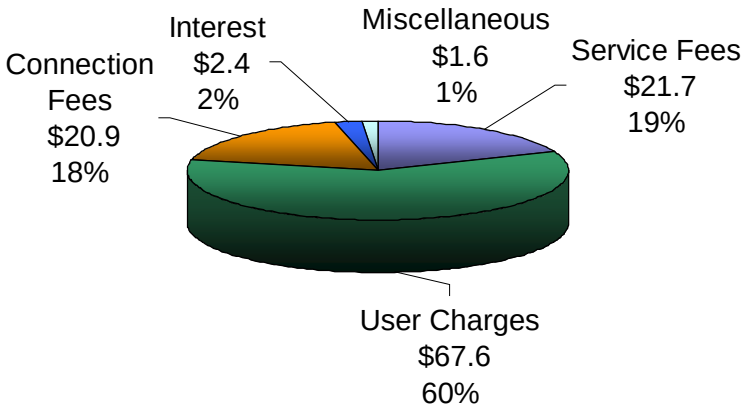
Revenue

In order to remain financially sound, a utility's revenue must, over the course of time, be equal to or greater than its expenses. Therefore, as a utility's costs increase, so must its revenue. Consequently, the utility must increase the rates and charges that generate its revenue. Failure to do so results in a utility being unable to provide safe, reliable service to its existing customers and also being unable to support the economic development of the community it serves.

The revenue for the Department is generated primarily by User Charges and Connection Fees. User Charges are designed to recover costs, or revenue requirements, less other forms of revenue and transfers from reserve funds. Connection Fees are also used to recover revenue requirements but they are a one-time, upfront charge to new customers of the system rather than a monthly fee for services. In addition to User Charges and Connection Fees, the Department also has other sources of revenue such as miscellaneous fees, interest on reserves, grants and contributions.

Figure 10 below shows the current breakdown of revenue by source.

Figure 10: Current Revenue by Source



The following sections of the report address each of the Department's primary sources of revenue and provide recommendations pertaining to adjustments to the drivers of these revenue sources.

User Charges

It is essential that the Department generates revenue sufficient to meet revenue requirements on an annual basis. As such, the primary focus of the analysis of user charges was to ensure revenue sufficiency, although specific attention was also given to rate equity and adherence to cost of service principles. The Department's User Charges are currently comprised of two components: the Service Fee and the Volume Rate.

Service Fee

The Service Fee is comprised of a flat monthly fee that applies to all customers served by the Department. Currently, the Service Fee is $6.82 per month, regardless of the volume or strength of the wastewater discharged. The Service Fee is designed to recover a portion of the Department's costs that do not fluctuate based on the volume or strength of wastewater discharged to and treated by the system. These include costs associated with measuring and billing for service and some of the costs associated with providing the facilities necessary to deliver service.

It is important to review the cost basis of the Service Fee to ensure consistency with cost of service principles. Based on our analysis, 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 a portion of costs associated with debt service, for recovery from the Service Fee. This will increase revenue stability and enhance the credit profile of the utility, and can be reasonably justified as these types of costs are fixed and associated with a utility's readiness to provide service. 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.

The anticipated level of revenue to be generated by the Service Fee over the forecast period is shown on Schedule 11 in the Appendix (Rate Scenario C – See Below). To account for the fact that new customers are connecting to the system, the number of bills per month is escalated at a rate of 2% annually for all customer classes.

Volume Rate

The Volume Rate is designed to recover those costs that vary depending upon either the volume or the strength of wastewater discharged as well as portions of the Department's fixed costs such as labor and debt service. The Volume Rate is comprised of a volume component and two strength components: chemical oxygen demand ("COD") and total suspended solids ("TSS"). A

high strength factor has been calculated by the rate and financial planning model for each customer class and is applied based on assumed wastewater characteristics to the Volume Rate assessed to different customer types in order to appropriately recover costs from high strength users. The existing high strength factors are applied to the calculated Volume Rate in order to determine the Volume Rate for each customer class.

Connection Fees

Connection Fees are charges assessed upfront to new customers. Connection Fee revenue is used to offset costs that would otherwise need to be recovered from User Charges. Over the past ten years, the County has invested significantly in infrastructure to meet the needs of its growing service area. As a result, a significant portion of the Department's revenue stream is related to up-front charges assessed to new customers to protect the ancestral customer base. However, market events over the past two years have demonstrated the risks inherent in depending on a revenue stream that is associated with system growth. As noted previously, Connection Fee revenue in FY 2008/2009 is projected to be $11.9 million less than budgeted. The continued contraction in both the residential and commercial construction market subsequently places significant pressure on user rates and charges to supplement the revenue shortfall. Although it is possible that economic conditions will improve over the next year and new construction will return to historical norms, to be conservative, the forecast assumes that growth in building starts will remain at current levels over the next several years, and then increase slightly in the latter part of the ten-year forecast period. Our building start assumptions are included on Schedule 14 in the Appendix.

In the past, the Department has typically increased Connection Fees in conjunction with increases to its User Charges. In light of current economic conditions, the Department should carefully consider the implications of this strategy and, in particular, the potential risks related to decreased revenue stability, decreased liquidity, and increased cost of capital. Specifically, recent commentary from bond rating agencies has noted the County's dependence on Connection Fee revenue. Comments address the significant volatility in Connection Fee revenue as a contributing factor to an increased risk profile of the wastewater utility. If current conditions persist, continued dependency on this source of revenue to meet cash needs could lead to a ratings downgrade that would increase the County's cost of borrowing. As a result, it is advisable for the County to increase the portion of its revenue stream that is recovered by User Charges. Although doing so will impact existing customers initially, the additional revenue stability and potential lower costs of borrowing will benefit these customers over the long-term. It should be noted that a continued decline in growth might allow the Department to delay or cancel some of the expansion projects in its CIP, thereby reducing the total costs that must be recovered through rates and charges.

Schedule 14 in the Appendix shows the existing Connection Fees and the revenue anticipated to be generated over the forecast period.

Miscellaneous Charges

Miscellaneous charges include those charges that are not necessarily Department specific but are charges that are associated with services provided by the Department from which the Department receives a portion of the revenue. Such charges in the Financial Plan include general government fees, business licenses and permits, sanitation fees, and other fines. In order to provide a conservative estimate, it is anticipated in the Financial Plan that the revenue generated from these charges will not fluctuate during the forecast period with the exception of revenue generated by sanitation fees which is correlated with the projection of building starts. However, as discussed previously, the forecast of building starts is also projected to remain relatively constant over the forecast period.

Schedule 15 in the Appendix shows the projected revenue generated from the existing miscellaneous charges.

Rate Scenarios

As discussed previously, inflationary pressures and the need to fund the Department's $1.03 billion CIP result in significant increases in the Department's annual costs. Consequently, rates and charges must be increased in order to ensure that revenue is sufficient to cover those costs. Specifically, the Financial Plan provides four options that focus on generating sufficient revenue to meet immediate needs over the next two fiscal years. Rate Scenario A and Rate Scenario B focus on increases only to the Volume Rate. Rate Scenario C considers an increase in both the Service Charge and Volume Rate. Rate Scenario D considers increases in the Service Charge, Volume Rate, and Connection Fee.

Rate Scenario A

The first scenario assumes a consistent approach for Volume Rate increases of 16.75% occurring on January 1, 2009; July 1, 2009; and January 1, 2010. The initial rate increase in January of 2009 is projected to generate additional revenue of approximately $5.6 million during the remainder of FY 2008/2009 and approximately $11.5 million in FY 2009/2010. The rate increases in July and January of the following fiscal year are projected to generate additional revenue of approximately $21.4 million in FY 2009/2010. Assuming that the Department uses $37.6 million in reserves in FY 2008/2009 and $6.7 million in reserves in FY 2009/2010, the incremental revenue generated from rates will be sufficient to cover the Department's remaining cash needs in each fiscal year.

Figure 11 below presents the Department's projected revenue requirements, revenue generated from projected rates, and transfers from reserves for Scenario A in FY 2008/2009 and FY 2009/2010.

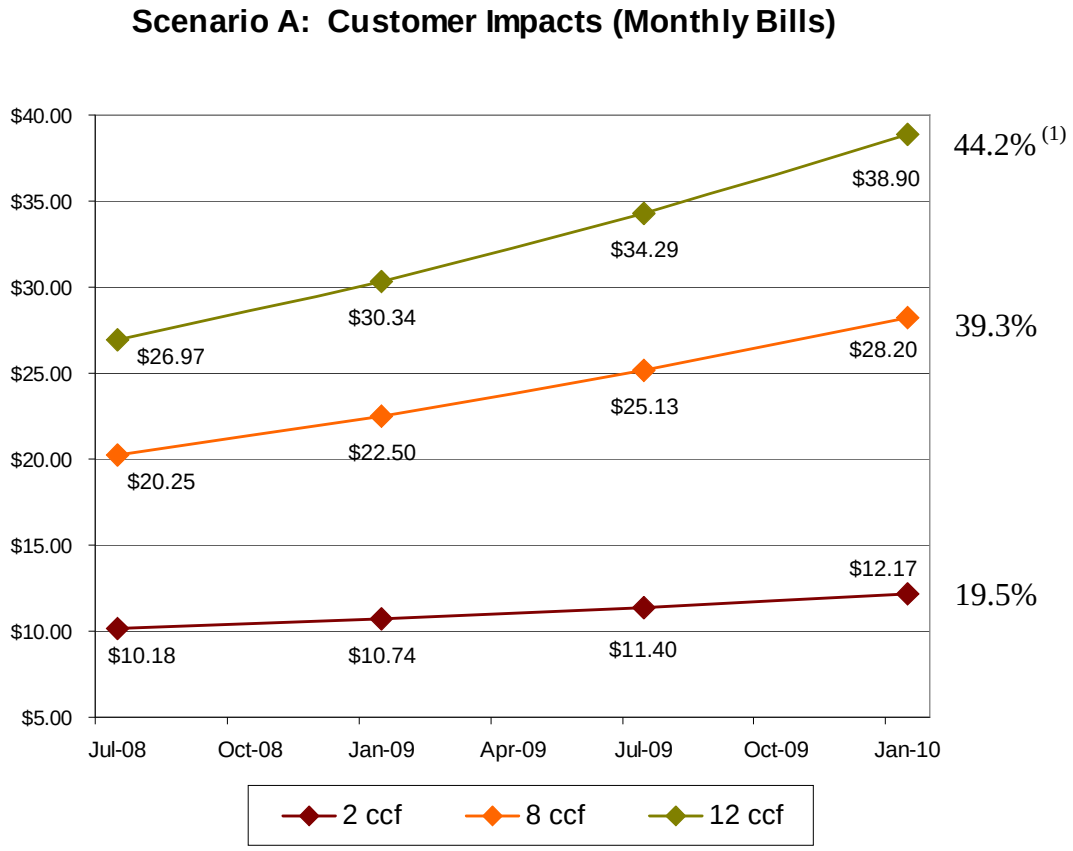
Figure 11: Scenario A

	Fiscal Year	
	2008/09	2009/10
Projected Revenue Under Existing Rates and Charges (1)	$114,280,553	$115,812,540
Revenue Increase from Projected Rates		
2008/09	$ 5,663,383	$ 11,553,301
2009/10	-	21,362,379
Additional Revenue from Projected Rates	$ 5,663,383	$ 32,915,680
Total Revenue	$119,943,936	$148,728,220
Revenue Requirements - Before Transfers	$157,480,365	$155,082,981
Less: Transfers from Reserves	$ (37,600,000)	$ (6,700,000)
Total Revenue Requirements	$119,880,365	$148,382,981
Surplus/Deficit	*$ 63,571*	*$ 345,239*

(1) Includes revenue from all existing sources (operating & non-operating).

The impacts of the recommended increases in January, 2009; July, 2009; and January, 2010 on a residential customer in Scenario A under varying levels of wastewater flow are shown in Figure 12. For comparison purposes, a typical residential customer in Pima County is billed for approximately 8 hundred cubic feet (ccf) of wastewater flow.

Figure 12: Scenario A – Customer Impacts



(1) Percent increase in monthly bill from July '08 to January '10

As seen above, the projected impacts on customer bills are more significant for larger residential customers as the Service Fee, which is not projected to increase, represents a smaller portion of their total monthly bill. Conversely, smaller residential customers would experience lower increases proportionately since the increase is attributed only to the volumetric component of the monthly charge for services. A typical residential customer (8ccf) would see a total increase in their monthly sewer bill of $7.95 by January of 2010.

Scenario B

The second scenario assumes a more aggressive increase in the Volume Rate of 25.25% in January of 2009 and more moderate increases of 9.25% in July, 2009 and January, 2010. The initial rate increase in January of 2009 is projected to generate additional revenue of approximately $8.5 million during the remainder of FY 2008/2009 and approximately $17.4 million in FY 2009/2010. The rate increases in July and January of the following fiscal year are projected to generate additional revenue of approximately $12.4 million in FY 2009/2010. Assuming that the Department uses $34.7 million in reserves in FY 2008/2009 and $9.7 million

in reserves in FY 2009/2010, the incremental revenue generated from rates will be sufficient to cover the Department's remaining cash needs in each fiscal year.

Figure 13 below presents the Department's projected revenue requirements, revenue generated from projected rates, and transfers from reserves for Scenario B in FY 2008/2009 and FY 2009/2010.

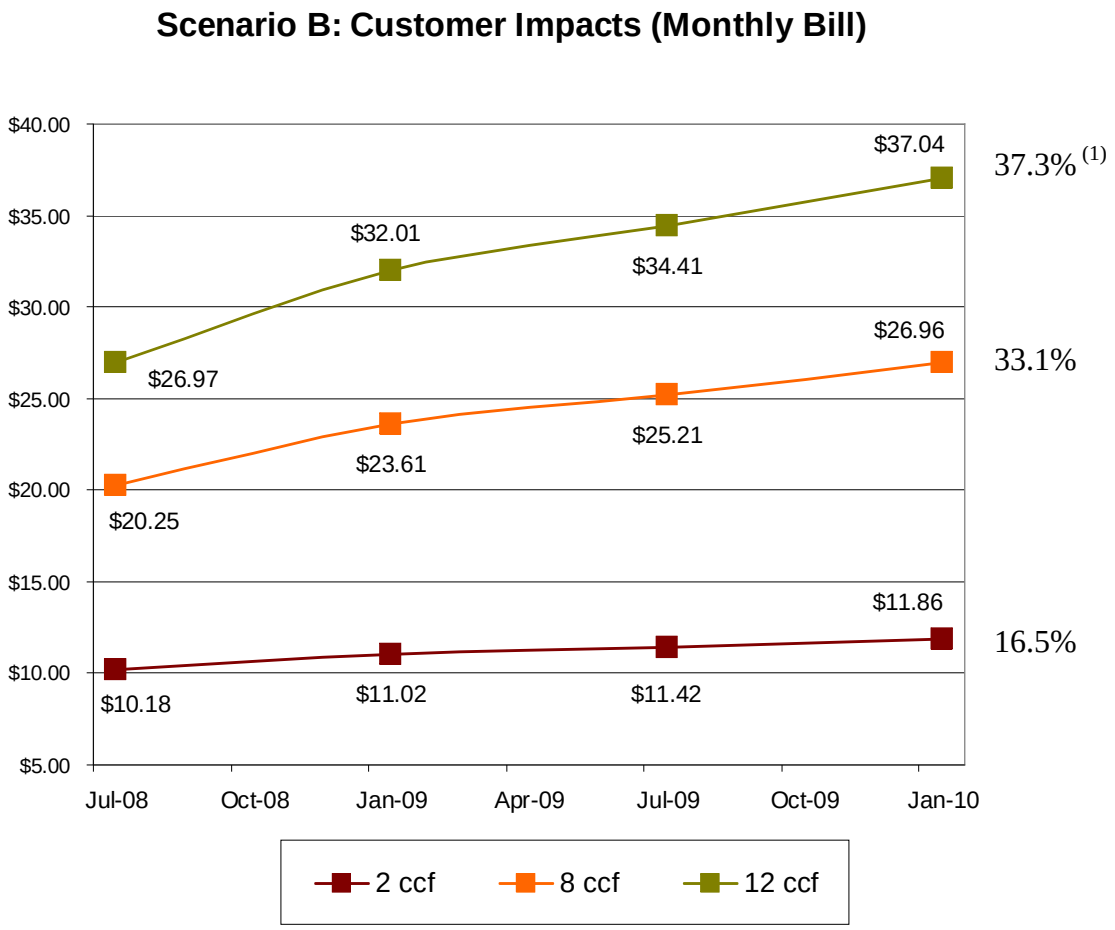
Figure 13: Rate Scenario B

	Fiscal Year	
	2008/09	2009/10
Projected Revenue Under Existing Rates and Charges (1)	$114,280,553	$115,855,648
Revenue Increase from Projected Rates		
2008/09	$ 8,537,339	$ 17,416,171
2009/10	-	12,356,358
Additional Revenue from Projected Rates	$ 8,537,339	$ 29,772,528
Total Revenue	$122,817,892	$145,628,176
Revenue Requirements - Before Transfers	$157,480,365	$155,082,981
Less: Transfers from Reserves	(34,700,000)	(9,700,000)
Total Revenue Requirements	$122,780,365	$145,382,981
Surplus/Deficit	*$ 37,527*	*$ 245,195*

(1) Includes revenue from all existing sources (operating & non-operating).

The impacts of the recommended increases in January, 2009; July, 2009; and January, 2010 on a residential customer in Scenario B under varying levels of wastewater flow are shown on Figure 14. For comparison purposes, a typical residential customer in Pima County is billed for approximately 8 ccf of wastewater flow.

Figure 14: Scenario B – Customer Impacts



(1) Percent increase in monthly bill from July '08 to January '10

Similar to Scenario A, the projected impacts on customer bills are more significant for larger residential customers as the Service Fee, which is not projected to increase, represents a smaller portion of their total monthly bill. Conversely, smaller residential customers would experience lower increases proportionately since the increase is attributed only to the volumetric component of the monthly charge for services. A typical residential customer (8 ccf) would see a total increase in their monthly sewer bill of only $6.71 by January of 2010.

The lower customer impacts in Scenario B as compared to Scenario A are a result of a more aggressive Volume Rate increase upfront, which has more time to generate revenue and provides flexibility to use additional reserves to reduce the level of rate increases in FY 2009/2010. Although, as discussed previously, the FY 2008/2009 Financial Plan does not provide definitive recommendations for rate adjustments beyond FY 2009/2010, current projections for both scenarios do not indicate any additional increases in FY 2010/2011. However, since Scenario A adjusts the Volume Rate to a level higher than Scenario B by January

of 2010, in the following fiscal year (FY 2011/2012) Scenario A would generate more revenue than Scenario B, which could then be used to begin re-building reserves.

Scenario C

The third scenario assumes an increase in the Service Fee of $1.50 in January of 2009 and $1.50 in January of 2010, and increases in the Volume Rate of 12.75% in January of 2009, 12.75% in July of 2009, and 12.75% in January of 2010. The initial rate increases in January of 2009 are projected to generate additional revenue of approximately $6.7 million during the remainder of FY 2008/2009 and approximately $13.7 million in FY 2009/2010. The rate increases in July and January of the following fiscal year are projected to generate additional revenue of approximately $17.9 million in FY 2009/2010. Assuming that the Department uses $36.6 million in reserves in FY 2008/2009 and $7.7 million in reserves in FY 2009/2010, the incremental revenue generated from rates will be sufficient to cover the Department's remaining cash needs in each fiscal year.

Figure 15 below presents the Department's projected revenue requirements, revenue generated from projected rates, and transfers from reserves for Scenario C in FY 2008/2009 and FY 2009/2010.

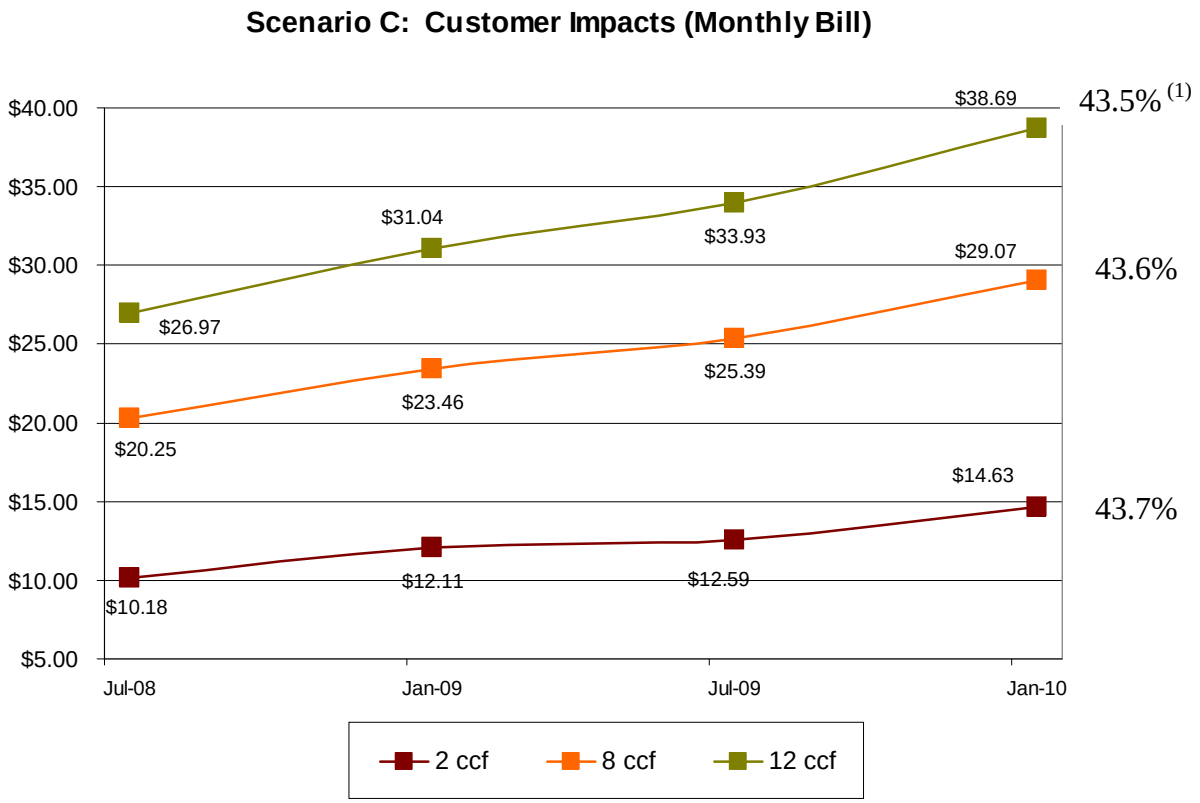
Figure 15: Rate Scenario C

	Fiscal Year	
	2008/09	2009/10
Projected Revenue Under Existing Rates and Charges (1)	$114,280,553	$115,828,106
Revenue Increase from Projected Rates		
2008/09	$ 6,701,262	$ 13,670,575
2009/10	-	17,939,188
Additional Revenue from Projected Rates	$ 6,701,262	$ 31,609,763
Total Revenue	$120,981,815	$147,437,869
Revenue Requirements - Before Transfers	$157,480,365	$155,082,981
Less: Transfers from Reserves	(36,600,000)	(7,700,000)
Total Revenue Requirements	$120,880,365	$147,382,981
Surplus/Deficit	*$ 101,450*	*$ 54,888*

(1) Includes revenue from all existing sources (operating & non-operating).

The impacts of the recommended increases in January, 2009; July, 2009; and January, 2010 on a residential customer in Scenario C under varying levels of wastewater flow are shown on Figure 16. For comparison purposes, a typical residential customer in Pima County is billed for approximately 8 ccf of wastewater flow.

Figure 16: Scenario C – Customer Impacts



(1) Percent increase in monthly bill from July '08 to January '10

As seen above, Scenario C increases the impacts most significantly on a low volume residential customer, since the Service Fee increase represents a much larger portion of their total monthly bill. A typical residential customer would experience higher impacts than both Scenario A and Scenario B, as the increase in the Service Fee still outweighs the lower Volume Charge increases.

An advantage of Scenario C is that the Department will increase revenue stability through a larger Service Fee. Customers are required to pay this fee regardless of their level of demand. A more stable revenue stream will be viewed favorably by rating agencies and improve the credit profile of the utility. Although the impacts in Scenario C are most pronounced on a low volume customer, from a dollar standpoint, the total increase in a monthly bill for this type of customer would be moderate, approximately $4.45 by January of 2010.

Scenario D

The last scenario assumes an increase in the Service Fee of $1.50 in January of 2009 and $1.50 in January of 2010; increases in the Volume Rate of 12.25% in January of 2009, 12.25% in July of 2009, and 12.25% in January of 2010; and an increase in the Connection Fee of 4.0% in January of 2009. The initial rate increases in January of 2009 are projected to generate additional revenue of approximately $7.1 million during the remainder of FY 2008/2009 and approximately $13.9 million in FY 2009/2010. The rate increases in July and January of the following fiscal year are projected to generate additional revenue of approximately $17.2 million in FY 2009/2010. Assuming that the Department uses $36.1 million in reserves in FY 2008/2009 and $8.3 million in reserves in FY 2009/2010, the incremental revenue generated from rates will be sufficient to cover the Department's remaining cash needs in each fiscal year.

Figure 17 below presents the Department's projected revenue requirements, revenue generated from projected rates, and transfers from reserves for Scenario D in FY 2008/2009 and FY 2009/2010.

Figure 17: Rate Scenario D

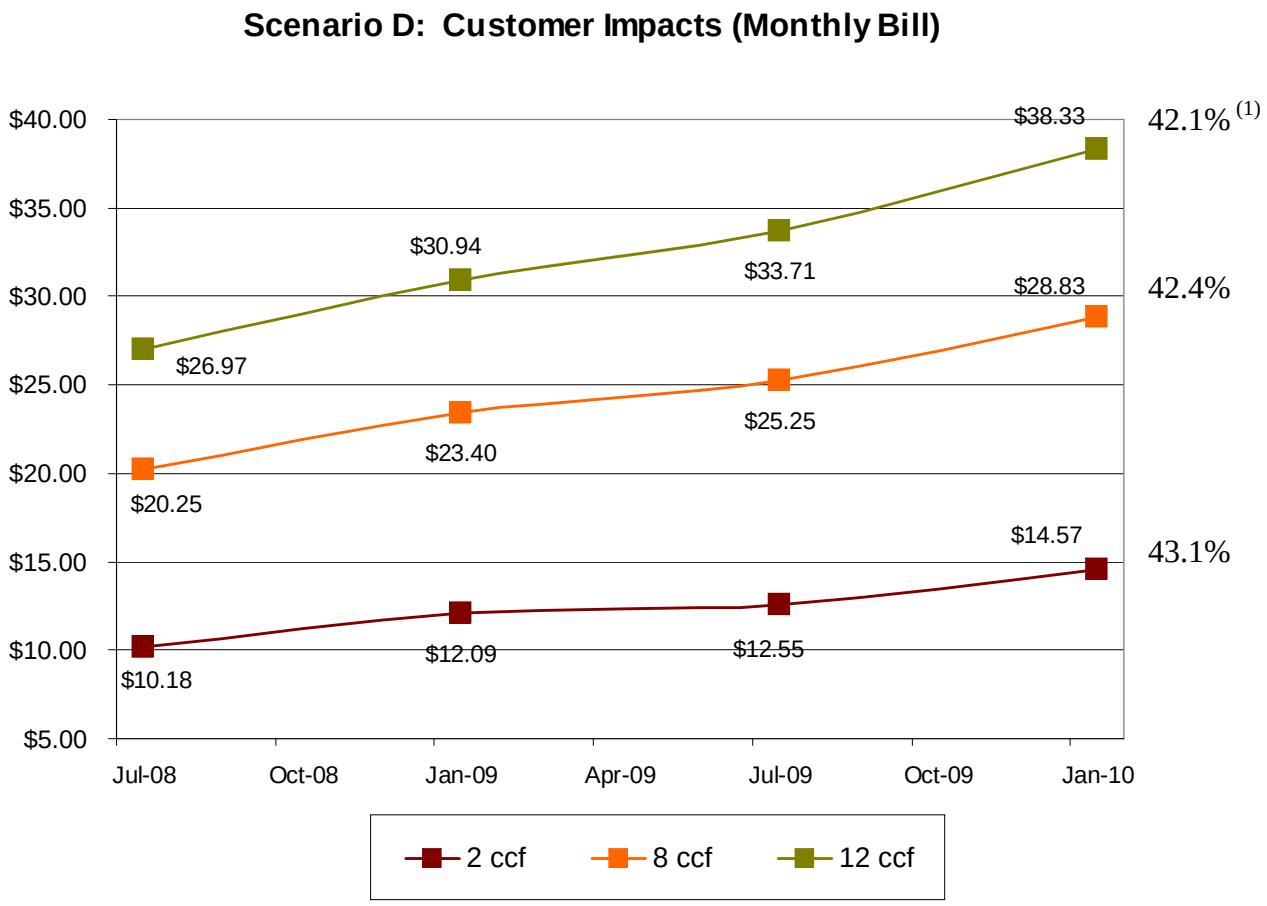
	Fiscal Year	
	2008/09	2009/10
Projected Revenue Under Existing Rates and Charges (1)	$114,280,553	$115,833,901
Revenue Increase from Projected Rates		
2008/09	$ 7,120,749	$ 13,917,476
2009/10	-	17,242,351
Additional Revenue from Projected Rates	$ 7,120,749	$ 31,159,827
Total Revenue	$121,401,302	$146,993,728
Revenue Requirements - Before Transfers	$157,480,365	$155,082,981
Less: Transfers from Reserves	(36,100,000)	(8,300,000)
Total Revenue Requirements	$121,380,365	$146,782,981
Surplus/Deficit	*$ 20,937*	*$ 210,747*

(1) Includes revenue from all existing sources (operating & non-operating).

The impacts of the recommended increases in January, 2009; July, 2009; and January, 2010 on a residential customer in Scenario D under varying levels of wastewater flow are shown on

Figure 18. For comparison purposes, a typical residential customer in Pima County is billed for approximately 8 ccf of wastewater flow.

Figure 18: Scenario D – Customer Impacts



Similar to Scenario C, Scenario D increases the impacts most significantly on a low volume residential customer, since the Service Fee increase represents a much larger portion of their total monthly bill. As a result of lower increase in the Volume Rate, the impact on a typical residential customer is slightly less than Scenario C, but still larger than both Scenario A and Scenario B.

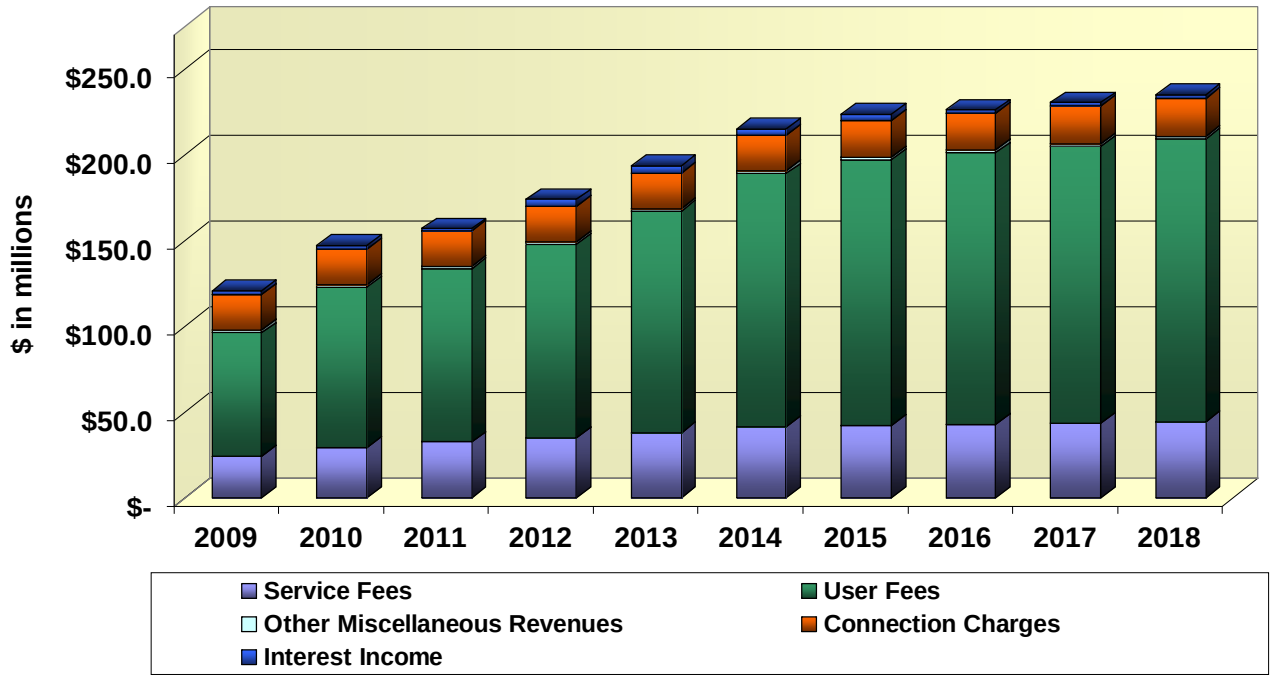
Due to a significantly lower base of building starts, the increase in the Connection Fee does not generate the level of revenue that would have been expected under normal market conditions. Historically, the Department has increased its Connection Fee in conjunction with its user charges, and Scenario D represents an option that is consistent with this strategy. However, in light of current conditions, the Department should carefully consider the ancillary effects of maintaining this strategy and, in particular, the potential risks associated with additional

emphasis on revenue generated from an inherently volatile source. Based on the Department's projected needs for external financing to support its CIP, the most prominent concern relates to potential negative reaction from rating agencies that could ultimately increase the Departments cost of capital.

As mentioned previously, there are a number of external factors that may affect the level of rate adjustments over the long-term including potential funding from a fiscal stimulus package; inflationary impacts; and improvement or decline of broader, regional macroeconomic conditions. As a result, it is inadvisable to make any definitive rate adjustments beyond those recommended through January of 2010. Although the potential events or circumstances described above may provide certain benefits to the Department, these events will not materially impact the rate increases required to meet the Department's immediate revenue requirements. For planning purposes, based on the current forecast, if either of the rate adjustment recommendations is implemented, future increases to customer bills would be lower and more stable compared to increases that would be required without any rate adjustments to meet the Department's immediate needs.

Figure 19 and Schedule 16 in the Appendix show the breakdown of projected revenue between the various sources assuming the Department implements the recommended rate adjustments (Scenario C shown graphically) and the preliminary rate adjustments that the model indicates will be required over the longer-term planning period.

Figure 19: Summary of Projected Revenue



It should be noted that the revenue projections shown in Figure 5 and Schedule 16 are based on rates and charges that are higher than those that are in effect today. As a result, if the rates and charges on which these revenue projections are based are not implemented, actual revenue will be different from projected. To the extent that the rates and charges that are put into effect are lower than those anticipated in this Financial Plan, it is likely that revenue would be less than expenses.

Additional Recommendations

In addition to the adjustments to rates and charges discussed above, RFC also makes the following recommendations.

Debt Service Coverage Policy

Generally speaking, a utility's debt service coverage ratio is the ratio of annual net revenue (gross revenue minus operating expenses) to annual debt service requirements and is used as an indicator of the utility's ability to pay back money it has borrowed from others. Both lenders and rating agencies place a great deal of emphasis on a borrower's debt service coverage ratio when they are negotiating the terms of a borrowing and most government revenue bonds (including Pima County sewer revenue bonds) include covenants that require the issuer to maintain a specific debt service coverage, typically ranging between 1.1 and 1.5 times annual debt service. The covenants also typically provide specific formulas regarding the determination of revenue than can be applied towards the coverage ratio. In the case of Pima County, outstanding bonds that have been used to fund wastewater projects stipulate that wastewater revenue must provide a minimum coverage of 1.2 times annual debt service which is at the low end of the previously mentioned range of typical coverage requirements.

To date, the Department has not violated the coverage requirements of its outstanding debt, in large part due to the fact that its debt service requirements have been relatively small when compared to the utility's total revenue requirements. However, as discussed above, the Department is faced with the need to issue significant quantities of debt over the next ten years in order to fund a large portion of its $1.03 billion capital program. As a result, the Department's debt service coverage ratio will take on more importance in the near future, not only with respect to complying with the covenants of the bonds the County will be issuing, but also in relation to the bond ratings offered by the rating agencies and the terms under which funds are loaned to the County. Rating agencies look favorably on utilities that maintain appropriate debt service coverage and are thus inclined to give them more favorable bond ratings. These favorable ratings can result in lower interest rates on bonds thereby reducing the Department's cost of debt.

In addition to the recommendations for rate adjustments that have been presented throughout this report, RFC continues to recommend that the Board of Supervisors determine an appropriate debt service coverage target, and then adopt a policy stipulating that anytime the Board of Supervisors approves the issuance of revenue bonds it will also authorize wastewater rates and charges that will generate revenue sufficient to meet the debt service coverage target.

At a minimum, the debt service coverage target should be 1.2; the requirement of the Department's outstanding debt. However, the financial planning model has targeted to increase debt service coverage over time in an effort to strengthen the Department's financial position and provide a cushion against the potential volatility in Connection Fee revenue.

Issues for Further Consideration

As discussed earlier, this report provides four alternative recommendations for adjustments to the Department's rates and charges in January of 2009, July of 2009, and January of 2010 that are necessary to meet the Department's immediate needs. Providing recommendations for rate adjustments beyond that timeframe is premature given the number of uncertainties in the external environment that may affect the long-term forecast of revenue requirements. In addition, there are several other items that need to be taken into consideration by the Department, the Regional Wastewater Reclamation Advisory Committee ("RWRAC") and the Board of Supervisors that may have an impact on the type and magnitude of rate adjustments that will be required in future years. Therefore, we recommend that the items addressed in the following section be given careful consideration prior to making definitive decisions for future rate adjustments past January of 2010.

Environmental Fee

As the magnitude of the costs associated with the ROMP projects demonstrate, the costs associated with meeting more stringent regulatory requirements can be quite substantial and have a dramatic impact on the amount that customers pay for sewer service. In an effort to communicate the impact that regulatory requirements have on the cost to provide service more effectively, the Department has requested that RFC look into the establishment of an environmental fee that would be assessed to customers for the purpose of recovering costs associated specifically with meeting new regulatory requirements. This type of fee has been implemented successfully by utilities in Arizona and other parts of the country, and while it does not reduce the amount that customers pay for service, it does help customers gain a better understanding of the factors that are driving the increases in their bills. While the Financial Plan presented in this report does not rely on the implementation of an environmental fee, the financial planning and rate model on which the plan is based has the flexibility to calculate such a fee.

The process of calculating an environmental fee involves an allocation of costs associated with meeting new regulatory requirements to the environmental fee. For instance, since the primary driver of the ROMP program is compliance with more stringent treatment requirements imposed by ADEQ, much of the ROMP capital costs, both cash capital and debt service, could be allocated justifiably to the environmental fee and thereby reduce the total costs that need to be recovered from User Charges and Connection Fees. Additionally, any incremental increases in O&M costs attributable to the more stringent requirements could also be allocated to this fee.

Once the appropriate costs have been allocated, a fee to recover these costs is calculated. At this time it is recommended that the environmental fee be a fixed fee similar to the existing Service Fee with potentially some mechanism to assess the fee on an Equivalent Residential Unit basis. This type of fee recognizes that most of the costs allocated to this fee, particularly the ROMP project costs, are relatively fixed in that they must be incurred by the Department regardless of the volume of wastewater that is discharged to the system. However, as more analysis of the environmental fee is performed, it may become apparent that these costs would be recovered more appropriately through a volumetric charge. Once the analysis of this fee is complete, a specific recommendation can be provided.

If the County decides to implement an environmental fee, RFC will work closely with Department staff to identify those costs that should be allocated to this fee and then proceed to calculate a fee using the periodic fixed fee approach. Results will be presented to the Department, the RWRAC and the Board of Supervisors for their review and consideration.

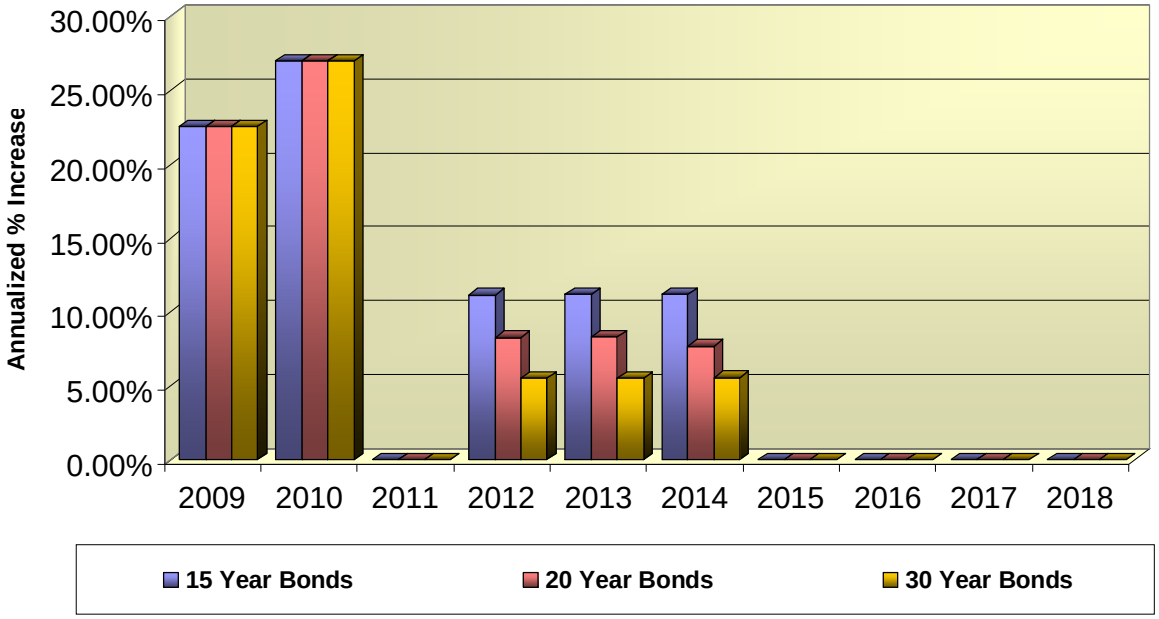
Extended Term for Revenue Bonds

The County's current policy with respect to revenue bonds is to issue bonds with a maximum term for repayment of fifteen years. It is the County's position that this approach provides the County with a greater capability to address unknown future needs, including new regulatory requirements, in that the relatively short repayment term results in a quick pay back of debt thereby freeing up debt capacity more quickly. While this approach has merits, issuing debt with a fifteen year term can result in the need for rather large rate increases due to the fact that the annual debt service on fifteen-year debt is greater than annual debt service on bonds of the same value with a term of 20 to 30 years. These impacts are especially apparent in situations when large amounts of debt are being issued in a short period of time as is the case in Pima County to support the ROMP program.

We have found that many water and wastewater utilities have recently been issuing debt with terms of 20 to 30 years and longer. While the total payback amount for longer term bonds is greater since interest is accrued over a longer period of time, longer term bonds have two primary advantages. First, the impact on rates resulting from the debt service on the longer term bonds is less when compared to the impact resulting from fifteen-year bonds. This is due to the fact that the payback of the principle is spread over a longer period and therefore each principle payment is smaller. Second, longer term bonds are more consistent with the principle of intergenerational equity which stipulates that it is more equitable to all ratepayers to match the payback period on an asset with the useful life of the asset. In this way a larger number of the customers that receive the benefit of an asset pay for the asset as opposed to only those that benefit during the period in which the bonds used to fund the asset are being repaid.

We recommend that the County continue to fund projects with useful lives of fifteen years or less with bonds with a fifteen year term, and that the County should consider issuing debt with terms of twenty to thirty years for those projects in the CIP whose useful lives are in excess of fifteen years. Figure 20 and Schedule 17 in the Appendix show the preliminary projected rate increases that would be required if the County were to issue debt with terms of twenty years or thirty years as opposed to the fifteen-year debt that is used in our primary analysis.

Figure 20: Comparison of Volume Charge Increases Under Different Bonds Terms



As shown, the use of bonds with a 20-year term could result in annual rate increases over the medium to longer-term that are approximately 2-3% lower than those that are anticipated when bonds with a fifteen year term are used. The use of 30-year bonds could decrease the required rate increases by an additional 2-3%.

Establish Financial Policies

The establishment of policies that dictate certain actions removes a great deal of uncertainty from the financial planning process. For instance, establishing a policy to maintain a minimum operating reserve fund balance equal to 45 days of O&M costs helps ensure that funds will be available to pay expenses in situations when wastewater Volume Charge revenue is down due to decreased customer flows.

RFC continues to recommend that the Department, the RWRAC and the Board of Supervisors work together to develop a set of financial policies that will help ensure a sound financial future

for the utility. Policies that should be considered include: reserve fund policies; debt service coverage policies; and a capital structure policy.

Conclusions and Summary of Recommendations

The Pima County Regional Wastewater Reclamation Department is faced with the unprecedented challenge of being required to invest more than $1 billion dollars in its wastewater system over the next ten years. The Department is facing this challenge during a time of tremendous economic uncertainty. In an effort to face this challenge, the Department has developed a Financial Plan that will provide financial guidance over both the immediate and longer-term planning periods. The Financial Plan incorporates the Department's cost, both capital and O&M, and its revenue sources, and presents a plan that should provide the revenue to cover the expenses and provide adequate reserves to address unforeseen circumstances as they arise, thereby placing the Department on sound financial footing such that it can continue to provide high quality, reliable service to its customers at the lowest possible cost.

The Financial Plan anticipates that the cost of providing service will increase over time as a result of inflationary pressures, but also as a result of more stringent regulatory requirements to implement approximately $718.6[2] million dollars in capital projects primarily for the purpose of complying with these requirements. These projects, in conjunction with the capital projects necessary to sustain the existing system and to provide capacity to serve a growing customer base, comprise the Department's $1.03 billion dollar CIP. Over the short-term, the Department is facing significant cash needs to address the funding requirements of the CIP. These anticipated needs are placing a significant strain on user rates and charges, which are being compounded by a significant decline in Connection Fee revenue.

In order to address revenue shortfalls and rising costs, the Department recognizes that it must adjust its User Charges. As such, the Financial Plan includes alternative recommendations for rate adjustments in January of 2009, July of 2009, and January of 2010, and a preliminary indication of the rate adjustments that will be required in each year of the ten-year forecast period. The Department recognizes that any actions it can take to reduce costs will ease the severity of future rate adjustments. As such, the Department has made significant reductions, where possible, to its capital program, and has met target reductions in its operating budget. The Department continues to evaluate each component of its O&M budget and CIP in an effort to identify any additional cost saving opportunities. The Department has also engaged in preliminary discussions for funding opportunities that may result from a potential federal stimulus package focused on infrastructure reinvestment. Although there are a number of external events that may provide relief to the County, these events do not materially impact the recommended rate adjustments required to meet the Department's immediate needs.

[2] Total cost of the ROMP is approximately $720 million ($2.0 million expended in FY 2007/2008).

The Financial Plan incorporates the following recommendations:

- The Department should use a combination of rate revenue, cash reserves and the proceeds from sewer revenue bonds to fund projects in the Department's CIP. In support of this financing plan, the Department must receive authorization from the Board of Supervisors and voters in November of 2009 to issue $565 million dollars in debt;

- The Department should seek approval for one of these four alternatives:

  1. Scenario A: A 16.75% increase in the Volume Rate for all customer classes to become effective in January of 2009, a 16.75% increase to become effective in July of 2009, and a 16.75% increase to become effective January of 2010;
  2. Scenario B: A 25.25% increase in the Volume Rate for all customer classes to become effective in January of 2009, a 9.25% increase to become effective in July of 2009, and a 9.25% increase to become effective in January of 2010;
  3. Scenario C: A $1.50 increase in the Service Fee assessed to all customers to become effective in January of 2009, a $1.50 increase to become effective in January of 2010, a 12.75% increase in the Volume Rate for all customer classes to become effective in January of 2009, a 12.75% increase to become effective in July of 2009, and a 12.75% increase to become effective in January of 2010; or
  4. Scenario D: A $1.50 increase in the Service Fee assessed to all customers to become effective in January of 2009, a $1.50 increase to become effective in January of 2010, a 12.25% increase in the Volume Rate for all customer classes to become effective in January of 2009, a 12.25% increase to become effective in July of 2009, a 12.25% increase to become effective in January of 2010, and a 4.0% increase in the Connection Fee to become effective January of 2009.

- The Board of Supervisors should determine an appropriate debt service coverage target and then implement a policy that stipulates that anytime the issuance of revenue bonds is approved, an increase in rates will be implemented such that revenue will be sufficient to meet the debt service coverage target.

In addition to the recommendations summarized above, RFC also recommends that the Department, the RWRAC and the Board of Supervisors take the following items into consideration.

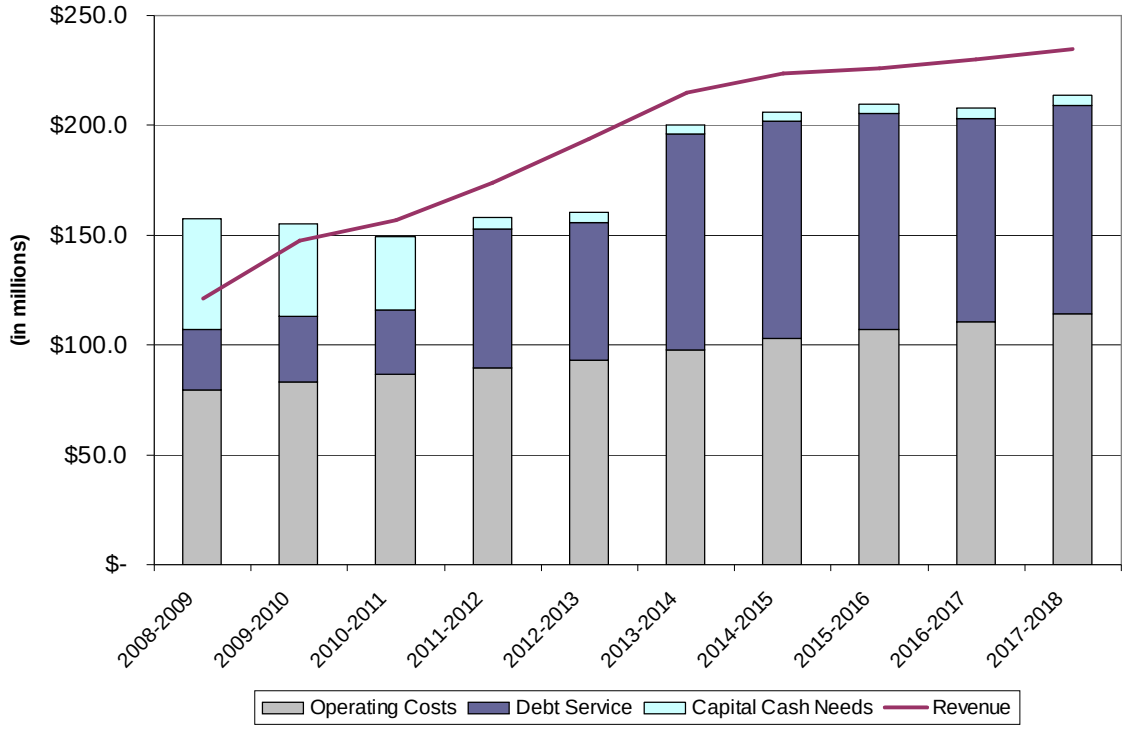
- Consider the implementation of an environmental fee that specifically recovers costs associated with meeting new regulatory requirements;

- Consider issuing qualifying debt with repayment terms consistent with the life of the asset being funded; and
- Proactively develop a set of financial policies that will guide the Department into the future.

Figure 21 shows annual revenue requirements and projected revenue with the proposed increases (Scenario C) and the preliminary projection of increases needed for the remainder of the forecast period.

A cash flow summary predicated on the implementation of the rate adjustments recommended in this report (Scenario C shown graphically) and the preliminary adjustments provided for future years is provided in the Appendix as Schedule 18.

Figure 21: Summary of Revenue Requirements and Revenue



Failure to implement the recommended rate increases will place the Department in a precarious position with respect to meeting regulatory deadlines imposed by ADEQ. If these regulatory deadlines are not met, the Department could be subject to fines or possibly a moratorium on sewer connections. As Schedule 18 shows, the implementation of these recommendations should allow the Department to meet its immediate needs and put the Department on sound financial footing such that it is better prepared to meet the financial challenges presented by increasing O&M costs and a $1.03 billion CIP.

Regional Wastewater Reclamation Advisory Committee

The 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 and small group meetings to further analyze and discuss the Plan with Department staff and consultants.

The RWRAC held a public meeting on January 13, 2009 to solicit public input on the Department's FY 2008/09 Financial Plan narrative, proposed rate increases, and proposed revisions to the Sanitary Sewer User Fees Ordinance and the Sanitary Sewer Construction, Connections and Fees Ordinance.

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

During the January 13, 2009 meeting the RWRAC was presented with the four rate adjustment scenarios described previously in this report. At the end of the meeting, the RWRAC held a vote to determine which of the four rate adjustment scenarios it would recommend to the Board of Supervisors

The Committee recommendations are described in the following section.

RWRAC Recommendations

The RWRAC issued the following recommendations for the FY 2008/2009 Financial Plan.

1) Support rate adjustment Scenario C presented in the FY 2008/09 Financial Plan:

For March 2009:

- Increase the Service Fee by $1.50 from $6.82 to $8.32.
- Increase the Volume Rate by 12.75%. This would result in the Volume Rate for residential customer increasing from $1.679/ccf to $1.893/ccf.

This would increase the monthly bill for 8 ccf by $3.21 to $23.46.

For July 2009

- Increase the Volume Rate by 12.75%. This would result in the Volume Rate for a residential customer increasing from $1.893 / ccf to $2.134 / ccf

This would increase the 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 by $12.75%. This would result in the Volume Rate for a residential customer increasing from $2.134 / ccf to $2.406 / ccf

This would increase the monthly bill for 8 CCF by $3.68 to $29.07.

2) Modify Sanitary Sewer User Fee ordinance such that the discounts provided to qualified customers under the Sewer Outreach Subsidy (SOS) program are applied to the Service Fee as well as the volumetric component of the sewer bill.

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Schedule 1: Department Financial Plan (FY 2008/2009 – FY 2012/2013)

	Fiscal Year Ending June 30				
	2009	2010	2011	2012	2013
Revenue					
Operating Revenue					
Service Fee	$ 24,120,592	$ 29,474,842	$ 32,550,365	$ 35,196,159	$ 38,072,710
Volume Charge	71,933,417	93,274,722	100,901,413	112,367,446	128,846,449
Other Operating Revenue	1,516,180	1,508,983	1,504,687	1,504,687	1,504,687
Total Operating Revenue	$ 97,570,189	$ 124,258,547	$ 134,956,465	$ 149,068,292	$ 168,423,846
Non-Operating Revenue					
Connection Fee Revenue	$ 20,900,000	$ 20,795,500	$ 20,733,114	$ 20,733,114	$ 20,733,114
Miscellaneous Non-Operating Revenue	-	-	-	-	-
Cash Reimbursements (1)	100,000	100,000	100,000	100,000	100,000
Total Non-Operating Revenue	$ 21,000,000	$ 20,895,500	$ 20,833,114	$ 20,833,114	$ 20,833,114
Interest Income					
Interest from Unrestricted Reserves (2)	$ 1,800,936	$ 1,089,892	$ 427,737	$ 426,798	$ 778,205
Interest from Restricted Reserves (3)	610,690	1,193,930	610,381	3,622,105	3,685,679
Total Interest Income	$ 2,411,626	$ 2,283,822	$ 1,038,118	$ 4,048,903	$ 4,463,884
Total Revenue	$ 120,981,815	$ 147,437,869	$ 156,827,697	$ 173,950,309	$ 193,720,844
Revenue Requirements (4)					
O & M	$ 79,820,438	$ 83,336,195	$ 86,433,978	$ 89,655,942	$ 93,007,277
Net Revenue Available For Debt Service	41,161,377	64,101,674	70,393,719	84,294,367	100,713,567
Debt Service					
Existing Debt	$ 27,421,166	$ 25,644,681	$ 25,601,655	$ 24,597,092	$ 24,586,807
Proposed Debt	0	3,862,259	3,862,259	38,380,589	38,380,589
Total Debt Service	$ 27,421,166	$ 29,506,940	$ 29,463,914	$ 62,977,681	$ 62,967,396
Total Transfers From Reserves	(36,600,000)	(7,700,000)	-	-	-
Annual Capital Outlay	50,238,761	42,239,846	33,347,261	5,472,095	4,412,711
Total Revenue Requirements	$ 120,880,365	$ 147,382,981	$ 149,245,154	$ 158,105,718	$ 160,387,384
Operating Fund Balance					
Net Annual Cash Balance	$ 101,450	$ 54,888	$ 7,582,542	$ 15,844,590	$ 33,333,459
Transfer To Capital Reserve	$ -	$ -	$ -	$ -	$ (15,000,000)
Beginning Operating Fund Balance	-	101,450	156,339	7,738,881	23,583,471
Ending Operating Fund Balance	$ 101,450	$ 156,339	$ 7,738,881	$ 23,583,471	$ 41,916,930
Minimum Desired Balance (5)	$ 9,977,550	$ 10,417,020	$ 10,804,250	$ 11,206,990	$ 11,625,910
Debt Coverage 125% (6)	150%	217%	239%	134%	160%

NOTE

(1) Represents miscellaneous cash reimbursements.

(2) Represents interest earnings from unrestricted reserves in the Operating Fund, Capital Reserve Fund, and Emergency Reserve Fund.

(3) Represents interest earnings from bond proceeds

(4) Based on CIP dated 9/29/08

(5) Estimated at 12.5% of annual operation and maintenance expense.

(6) Includes interest on Reserve Funds.

Schedule 1 (Continued): Department Financial Plan (FY 2013/2014 – FY 2017/2018)

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Revenue					
Operating Revenue					
Service Fee	$ 41,155,772	$ 41,978,887	$ 42,818,465	$ 43,674,834	$ 44,548,331
Volume Charge	147,735,996	155,119,915	158,222,314	161,383,021	164,614,495
Environmental Fees	-	-	-	-	-
Other Operating Revenue	1,518,965	1,533,387	1,547,953	1,562,664	1,577,523
Total Operating Revenue	$ 190,410,733	$ 198,632,189	$ 202,588,731	$ 206,620,519	$ 210,740,349
Non-Operating Revenue					
Connection Fee Revenue	$ 20,940,445	$ 21,149,849	$ 21,361,348	$ 21,574,961	$ 21,790,711
Miscellaneous Non-Operating Revenue	-	-	-	-	-
Cash Reimbursements (1)	100,000	100,000	100,000	100,000	100,000
Total Non-Operating Revenue	$ 21,040,445	$ 21,249,849	$ 21,461,348	$ 21,674,961	$ 21,890,711
Interest Income					
Interest from Unrestricted Reserves (2)	$ 1,290,876	$ 1,559,360	$ 1,594,520	$ 1,654,656	$ 1,789,875
Interest from Restricted Reserves (3)	2,158,259	2,246,113	395,636	435,304	452,305
Total Interest Income	$ 3,449,135	$ 3,805,473	$ 1,990,156	$ 2,089,960	$ 2,242,180
Total Revenue	$ 214,900,312	$ 223,687,512	$ 226,040,235	$ 230,385,440	$ 234,873,240
Revenue Requirements (4)					
O & M	$ 97,615,837	$ 103,188,917	$ 107,148,414	$ 110,684,131	$ 114,355,090
Net Revenue Available For Debt Service	117,284,475	120,498,595	118,891,821	119,701,310	120,518,149
Debt Service					
Existing Debt	$ 24,629,615	$ 24,601,024	$ 22,139,226	$ 16,257,149	$ 16,219,390
Proposed Debt	74,001,161	74,001,161	76,270,312	76,270,312	78,722,680
Total Debt Service	$ 98,630,775	$ 98,602,184	$ 98,409,538	$ 92,527,461	$ 94,942,070
Total Transfers From Reserves	-	-	-	-	-
Annual Capital Outlay	4,088,249	4,117,867	4,251,698	4,389,878	4,532,549
Total Revenue Requirements	$ 200,334,863	$ 205,908,969	$ 209,809,650	$ 207,601,470	$ 213,829,710
Operating Fund Balance					
Net Annual Cash Balance	$ 14,565,450	$ 17,778,543	$ 16,230,586	$ 22,783,971	$ 21,043,530
Transfer To Capital Reserve	$ (15,000,000)	$ (15,000,000)	$ (15,000,000)	$ (15,000,000)	$ (1,000,000)
Beginning Operating Fund Balance	41,916,930	41,482,380	44,260,923	45,491,509	53,275,480
Ending Operating Fund Balance	$ 41,482,381	$ 44,260,924	$ 45,491,509	$ 53,275,480	$ 73,319,010
Minimum Desired Balance (5)	$ 12,201,980	$ 12,898,610	$ 13,393,550	$ 13,835,520	$ 14,294,390
Debt Coverage 125% (6)	119%	122%	121%	129%	127%

NOTE

(1) Represents miscellaneous cash reimbursements.

(2) Represents interest earnings from unrestricted reserves in the Operating Fund, Capital Reserve Fund, and Emergency Reserve Fund.

(3) Represents interest earnings from bond proceeds

(4) Based on CIP dated 9/29/08

(5) Estimated at 12.5% of annual operation and maintenance expense.

(6) Includes interest on Reserve Funds.

Schedule 2: Capital and Non-Operating Expenses (FY 2008/2009 – FY 2017/2018)

	Fiscal Year Ending June 30				
	2009	2010	2011	2012	2013
Capital and Non-Operating Costs (1)					
Capital Outlays					
Departmental Capital Outlays (2)	$ 3,398,850	$ 3,509,313	$ 3,623,365	$ 3,741,125	$ 3,862,711
Direct CIP Funding (Cash-SDF Projects)	46,839,911	38,730,533	29,723,896	1,730,970	550,000
Subtotal Capital Outlays	$ 50,238,761	$ 42,239,846	$ 33,347,261	$ 5,472,095	$ 4,412,711
Debt Service					
Existing Debt Service	$ 27,421,166	$ 25,644,681	$ 25,601,655	$ 24,597,092	$ 24,586,807
Proposed Debt Service					
Short Term Financing (COPs-SDF Funded Projects)	-	-	-	-	-
Short Term Financing (COPs-All Other Projects)	-	-	-	-	-
Series 2009 Revenue Bonds	-	3,862,259	3,862,259	36,848,226	36,848,226
Series 2009 Revenue Bonds (WIFA Loan)	-	-	-	-	-
Series 2012 Revenue Bonds	-	-	-	1,532,363	1,532,363
Series 2016 Revenue Bonds	-	-	-	-	-
Additional Borrowing Requirements	-	-	-	-	-
Subtotal Debt Service	$ 27,421,166	$ 29,506,940	$ 29,463,914	$ 62,977,681	$ 62,967,396
Total Non-Operating Expenses	$ 77,659,927	$ 71,746,786	$ 62,811,175	$ 68,449,776	$ 67,380,106

(1) Based on CIP dated 9/29/08.
(2) Capital outlays greater than $5,000.

	Fiscal Year Ending June 30				
	2014	2015	2016	2017	2018
Capital and Non-Operating Costs (1)					
Capital Outlays					
Departmental Capital Outlays (2)	$ 3,988,249	$ 4,117,867	$ 4,251,698	$ 4,389,878	$ 4,532,549
Direct CIP Funding (Cash-SDF Projects)	100,000	-	-	-	-
Subtotal Capital Outlays	$ 4,088,249	$ 4,117,867	$ 4,251,698	$ 4,389,878	$ 4,532,549
Debt Service					
Existing Debt Service	$ 24,629,615	$ 24,601,024	$ 22,139,226	$ 16,257,149	$ 16,219,390
Proposed Debt Service					
Short Term Financing (COPs-SDF Funded Projects)	-	-	-	-	-
Short Term Financing (COPs-All Other Projects)	-	-	-	-	-
Series 2009 Revenue Bonds	55,091,571	55,091,571	55,091,571	55,091,571	55,091,571
Series 2009 Revenue Bonds (WIFA Loan)	-	-	-	-	-
Series 2012 Revenue Bonds	18,909,590	18,909,590	21,178,741	21,178,741	23,631,109
Series 2016 Revenue Bonds	-	-	-	-	-
Additional Borrowing Requirements	-	-	-	-	-
Subtotal Debt Service	$ 98,630,775	$ 98,602,184	$ 98,409,537	$ 92,527,461	$ 94,942,070
Total Non-Operating Expenses	$ 102,719,025	$ 102,720,052	$ 102,661,235	$ 96,917,339	$ 99,474,620

(1) Based on CIP dated 9/29/08.
(2) Capital outlays greater than $5,000.

Schedule 3: ROMP Projects

	Fiscal Year Ending June 30			
	2009-2011	2012 - 2015	2016 - 2018	Total
ROMP Projects (in escalated dollars) (1) (2)				
Roger Road to Ina Road Plant Interconnect	$ 40,330,233	$ -	$ -	$ 40,330,233
Ina Road Power Generation and Distribution Facilities	5,712,588	23,652,361	-	29,364,949
Ina Road Biosolids Upgrade and Facilities Improvement	29,657,941	38,540,210	17,972,608	86,170,759
32 MGD at Roger Road (NDN)	38,487,227	279,436,255	37,636,350	355,559,832
50 MGD at Ina Road (NDN)	40,436,570	166,772,521	-	207,209,091
Total	**$ 154,624,559**	**$ 508,401,347**	**$ 55,608,958**	**$ 718,634,864**
	$ 154.6	$ 508.4	$ 55.6	

(1) Capital project costs as of 9/29/08.

(2) Total cost of ROMP, including approximately $2.0 million expended in FY 2007/2008, is approximately $720 million.

Schedule 4: Treatment Projects

	Fiscal Year Ending June 30			
	2009-2011	2012 - 2015	2016 - 2018	Total
Treatment Projects (in escalated dollars) (1)				
Avra Valley BNROD Expansion to 4 MGD	25,400,364	-	-	25,400,364
Corona de Tucson Odor Control for Headworks	270,000	-	-	270,000
Corona de Tucson Sludge Storage Facility	200,000	-	-	200,000
Corona de Tucson UV Disinfection and Filtration	5,000,000	-	-	5,000,000
Green Valley Sludge Storage Facility	500,000	-	-	500,000
Green Valley BNROD Exp 2.0 to 4.0 MGD	10,000,000	20,000,000	-	30,000,000
Ina Road Projects	14,183,000	1,450,000	-	15,633,000
KERP DeChlor Building Upgrades Phase II	5,366	-	-	5,366
Marana Bio-Solid Loading Station	200,000	-	-	200,000
Marana BNROD Exp 1.5 to 3.0 MGD (3.5)	-	20,000,000	-	20,000,000
Marana WWTF Expansion BNROD (.7 to 2.2) Filtration and UV, Design, Construction	12,591,837	15,032,116	-	27,623,953
Roger Road Projects	3,230,945	-	-	3,230,945
SCR Basin Nitrification/Denitrification Implementation Study	465,000	-	-	465,000
Total	**$ 72,046,512**	**$ 56,482,116**	**$ -**	**$ 128,528,628**

(1) Capital project costs as of 9/29/08

Schedule 5: Conveyance Projects

	Fiscal Year Ending June 30			
	2009-2011	2012 - 2015	2016 - 2018	Total
Conveyance Projects (in escalated dollars) (2)				
Arivaca Junction Gravity Sewer Relief (1)	3,236,099	-	-	3,236,099
Capstan Lift Station	754,398	-	-	754,398
Continental Ranch Regional Pump Station	214,000	-	-	214,000
Conveyance Vapor Treatment Unit Odor Control System Expansion	495,000	-	-	495,000
Electrical Study	1,543,860	-	-	1,543,860
Green Valley Flood Control Protection Wall	277,216	-	-	277,216
Green Valley Recharge Monitoring System	61,154	-	-	61,154
Green Valley Screens, Washer and Compactor	500,000	-	-	500,000
Large Line Rehabilitation & Construction (Greater than or Equal to 15")	18,900,000	18,633,167	-	37,533,167
Mission View Wash	5,815,193	-	-	5,815,193
Mt. Lemmon Sewer System	6,713,897	-	-	6,713,897
Park Avenue &18th Sewer Augmentation	17,500,000	17,500,000	-	35,000,000
Prince Road & I-10 ADOT Sewer Modification	6,324,166	930,970	-	7,255,136
Prudence Pump Station	1,350,000	-	-	1,350,000
Randolph - Clean Screens with reclaim not potable	10,000	-	-	10,000
Region Wide Conveyance Odor Control System Expansion	400,000	-	-	400,000
Region Wide Conveyance Odor Control System Safety and Performance	940,000	-	-	940,000
Richey Yard Field Operations Division Facility	1,768,571	-	-	1,768,571
Sabino Creek Pump Station	1,015,000	-	-	1,015,000
Santa Cruz Interceptor Prince-Franklin Phase II	1,909,369	-	-	1,909,369
Santa Cruz Interceptor, Prince-Franklin Phase III	15,529,053	-	-	15,529,053
Santa Cruz River Bank Protection Green Valley	-	47,000,000	-	47,000,000
Sunrise Lift Station	80,000	-	-	80,000
Tangerine Road Sewer Crossing at Big Wash	2,542,658	-	-	2,542,658
Tanque Verde Int., Craycroft-Tucson Country Club (1)	724,926	9,165,857	-	9,890,783
Tanque Verde Int., Craycroft-Tucson Country Club	-	2,076,956	-	2,076,956
Total	**$ 88,604,560**	**$ 95,306,950**	**$ -**	**$ 183,911,510**

Schedule 6: CIP Funding Summary

	Fiscal Year Ending June 30			
	2009 - 2011	**2012 - 2015**	**2016 - 2018**	**Total**
CIP Funding Summary (in escalated dollars) (1)				
SDF Funding	$ 96,189,423	$ 2,380,970	$ -	$ 98,570,393
Series 1997 Revenue Bonds	1,140,724	447,388	-	1,588,112
Series 2004 Revenue Bonds	55,769,131	-	-	55,769,131
Series 2009 Revenue Bonds	162,176,353	402,823,647	-	565,000,000
Series 2012 Revenue Bonds	-	254,538,408	55,608,958	310,147,366
Total	$ 315,275,631	$ 660,190,413	$ 55,608,958	$ 1,031,075,002

(1) Capital project costs as of 9/29/08

Schedule 7: Projects Funded By SDF

	Fiscal Year Ending June 30			
	2009 - 2011	2012 - 2015	2016 - 2018	Total
SDF Funded Projects (in escalated dollars) (1)				
Arivaca Junction Gravity Sewer Relief	$ 2,820,301	$ -	$ -	$ 2,820,301
Avra Valley BNROD Expansion to 4 MGD	22,235,124	-	-	22,235,124
Capstan Lift Station	754,398	-	-	754,398
Continental Ranch Regional Pump Station	214,000	-	-	214,000
Conveyance Vapor Treatment Unit Odor Control System Expansion	495,000	-	-	495,000
Corona de Tucson Odor Control for Headworks	270,000	-	-	270,000
Corona de Tucson Sludge Storage Facility	200,000	-	-	200,000
Corona de Tucson UV Disinfection and Filtration	5,000,000	-	-	5,000,000
Electrical Study	83,726	-	-	83,726
Green Valley Sludge Storage Facility	500,000	-	-	500,000
Green Valley Flood Control Protection Wall	277,216	-	-	277,216
Green Valley Recharge Monitoring System	61,154	-	-	61,154
Green Valley Screens, Washer and Compactor	500,000	-	-	500,000
Ina Road Projects	14,743,688	1,450,000	-	16,193,688
KERP DeChlor Building Upgrades Phase II	5,366	-	-	5,366
Marana Bio-Solid Loading Station	200,000	-	-	200,000
Marana WWTF Expansion BNROD (.7 to 2.2) Filtration and UV, De	7,362,973	-	-	7,362,973
Mission View Wash	5,815,193	-	-	5,815,193
Prince Road & I-10 ADOT Sewer Modification	6,324,166	930,970	-	7,255,136
Randolph - Clean Screens with reclaim not potable	10,000	-	-	10,000
Region Wide Conveyance Odor Control System Expansion	400,000	-	-	400,000
Region Wide Conveyance Odor Control System Safety and Performa	940,000	-	-	940,000
Reline Aerator Air Line Roger Road	18,317	-	-	18,317
Richey Yard Field Operations Division Facility	1,768,571	-	-	1,768,571
Roger Road Biotower Arm Replacement	112,668	-	-	112,668
Roger Road Odor Control Projects	145,624	-	-	145,624
Roger Road Rehab Structural Assessment	116,763	-	-	116,763
Roger Road SCADA Upgrade	100,000	-	-	100,000
ROMP Projects	6,032,509	-	-	6,032,509
Sabino Creek Pump Station	1,015,000	-	-	1,015,000
Santa Cruz Interceptor, Prince-Franklin Phase III	14,943,008	-	-	14,943,008
SCR Basin Nitrification/Denitrification Implementation Study	102,000	-	-	102,000
Sunrise Lift Station	80,000	-	-	80,000
Tangerine Road Sewer Crossing at Big Wash	2,542,658	-	-	2,542,658
Total	$ 96,189,423	$ 2,380,970	$ -	$ 98,570,393

(1) Based on CIP dated 9/29/08.

Schedule 8: Projects Funded By 2004 Revenue Bonds

	Fiscal Year Ending June 30					
	2009	**2010**	**2011**	**2012**	**2013**	**Total 09-13**
2004 Bond Projects (in escalated dollars) (1)						
Avra Valley BNROD Expansion to 4 MGD	$ 3,165,240	$ -	$ -	$ -	$ -	$ 3,165,240
Electrical Study	1,460,134	-	-	-	-	1,460,134
Ina Power Generation & Distribution Facilities	49,386	-	-	-	-	49,386
Ina Road Biosolids Facilities Improvement	3,568,845	-	-	-	-	3,568,845
Large Line Rehabilitation & Construction (Greater than or E	4,606,168	-	-	-	-	4,606,168
Marana WWTF Expansion BNROD (.7 to 2.2) Filtration an	260,980	-	-	-	-	260,980
Mt. Lemmon Sewer System	2,500,000	3,200,000	1,013,897	-	-	6,713,897
Reline Aerator Air Line Roger Road	1,589,428	-	-	-	-	1,589,428
Roger Road to Ina Road Plant Interconnect	12,564,343	8,159,344	-	-	-	20,723,687
Roger Road Biotower Arm Replacement	764,908	-	-	-	-	764,908
Roger Road Rehab Structural Assessment	383,237	-	-	-	-	383,237
ROMP Ina Road 12.5 MGD Expansion	3,136,200	-	-	-	-	3,136,200
ROMP Ina Road BNRAS System Modification (12.5MGD)	372,902	-	-	-	-	372,902
ROMP Ina Road HPO Replacement System (25 MGD)	5,855,549	-	-	-	-	5,855,549
ROMP PCRWRD Laboratory	72,345	187,811	-	-	-	260,156
Santa Cruz Interceptor Prince-Franklin Phase II	-	1,909,369	-	-	-	1,909,369
Santa Cruz Interceptor, Prince-Franklin Phase III	-	586,045	-	-	-	586,045
SCR Basin Nitrification/Denitrification Implementation Stu	363,000	-	-	-	-	363,000
Total	$40,712,665	$14,042,569	$ 1,013,897	$ -	$ -	$55,769,131

(1) Capital project costs as of 9/29/08.

Schedule 9: Projects Funded By 2009 Revenue Bonds

	Fiscal Year Ending June 30					
	2009	2010	2011	2012	2013	Total 09-13
2009 Bond Projects (in escalated dollars) (1)						
Green Valley BNROD Exp 2.0 to 4.0 MGD	$ -	$ 700,000	$ 9,300,000	$ 20,000,000	$ -	$ 30,000,000
Ina Power Generation & Distribution Facilities	-	2,890,638	2,772,564	13,055,283	10,090,393	28,808,878
Ina Road Biosolids Facilities Improvement	-	11,109,415	14,418,993	4,452,152	-	29,980,560
Large Line Rehabilitation & Construction (Greater than or E	-	6,293,832	8,000,000	9,000,000	9,633,167	32,926,999
Marana WWTF Expansion BNROD (.7 to 2.2) Filtration an	-	-	4,967,884	15,032,116	-	20,000,000
Park Avenue &18th Sewer Augmentation	-	2,500,000	15,000,000	17,500,000	-	35,000,000
Prudence Pump Station	-	1,350,000	-	-	-	1,350,000
Roger Road to Ina Road Plant Interconnect	-	10,702,537	8,904,009	-	-	19,606,546
ROMP Ina Road 12.5 MGD Expansion	-	3,284,474	9,267,727	31,911,394	11,607,055	56,070,650
ROMP Ina Road BNRAS System Modification (12.5MGD)	-	449,797	2,207,391	6,870,005	-	9,527,193
ROMP Ina Road HPO Replacement System (25 MGD)	-	4,408,282	9,619,941	41,586,876	42,968,480	98,583,579
ROMP PCRWRD Laboratory	-	520,959	2,846,552	11,679,602	2,352,731	17,399,844
ROMP PCWMD Administration Building at WRC	-	201,502	1,777,679	7,513,234	1,510,873	11,003,288
ROMP Roger Road WWTP Demolition	-	81,614	83,307	83,307	82,988	331,216
ROMP SCADA	-	1,812,837	2,180,004	3,344,212	3,299,150	10,636,203
ROMP Water Reclamation Campus 32 MGD	-	11,066,237	13,458,178	40,027,307	78,804,918	143,356,640
Total (FY 2008/2009 - FY 2012/2013)	$ -	$ 57,372,124	$ 104,804,229	$ 222,055,488	$ 160,349,755	$ 544,581,596

(1) Capital project costs as of 9/29/08.

	Fiscal Year Ending June 30				
	2014	2015	2016	2017	Total
2009 Bond Projects (in escalated dollars) (1)					
Green Valley BNROD Exp 2.0 to 4.0 MGD	$ -	$ -	$ -	$ -	$ -
Ina Power Generation & Distribution Facilities	506,685	-	-	-	506,685
Ina Road Biosolids Facilities Improvement	-	-	-	-	-
Large Line Rehabilitation & Construction (Greater than or Equal to 15")	-	-	-	-	-
Marana WWTF Expansion BNROD (.7 to 2.2) Filtration and UV, Desig	-	-	-	-	-
Prudence Pump Station	-	-	-	-	-
Roger Road to Ina Road Plant Interconnect	-	-	-	-	-
ROMP Ina Road 12.5 MGD Expansion	-	-	-	-	-
ROMP Ina Road BNRAS System Modification (12.5MGD)	-	-	-	-	-
ROMP Ina Road HPO Replacement System (25 MGD)	18,214,637	-	-	-	18,214,637
ROMP PCRWRD Laboratory	-	-	-	-	-
ROMP PCWMD Administration Building at WRC	-	-	-	-	-
ROMP Roger Road WWTP Demolition	-	-	-	-	-
ROMP SCADA	1,697,082	-	-	-	1,697,082
ROMP Water Reclamation Campus 32 MGD	-	-	-	-	-
					-
Total (FY 2011/2012 - FY 2014/2015)	$ 20,418,404	$ -	$ -	$ -	$ 20,418,404

(1) Capital project costs as of 9/29/08.

Schedule 10: Projects Funded By 2012 Revenue Bonds

	Fiscal Year Ending June 30							
	2012	2013	2014	2015	2016	2017	2018	Total
2012 Bond Projects (in escalated dollars) (1)								-
								-
Ina Class A Biosolids Upgrade	$ -	$ -	$ 867,511	$ 2,912,044	$ 10,672,169	$ 7,125,086	$ 175,353	$ 21,752,163
Ina Road Biosolids Facilities Improvement	12,451,652	12,975,232	4,881,619	-	-	-	-	30,308,503
Marana BNROD Exp 1.5 to 3.0 MGD (3.5)	-	5,000,000	15,000,000	-	-	-	-	20,000,000
ROMP Ina Road 12.5 MGD Expansion	-	6,323,776	2,017,450	-	-	-	-	8,341,226
ROMP Ina Road BNRAS System Modification (12.5MGD)	654,629	4,155,101	463,118	-	-	-	-	5,272,848
ROMP Roger Road WWTP Demolition	-	-	83,307	149,314	4,645,456	31,556,079	1,434,815	37,868,971
ROMP Water Reclamation Campus 32 MGD	-	36,345,979	78,358,491	14,103,760	-	-	-	128,808,230
Santa Cruz River Bank Protection Green Valley	-	6,000,000	21,000,000	20,000,000	-	-	-	47,000,000
Tanque Verde Int., Craycroft-Tucson Country Club	2,076,956	8,718,469	-	-	-	-	-	10,795,425
Total	$ 15,183,237	$ 79,518,557	$ 122,671,496	$ 37,165,118	$ 15,317,625	$ 38,681,165	$ 1,610,168	$ 310,147,366

(1) Capital project costs as of 9/29/08.

Schedule 11: Revenue from Proposed Service Fee

	Fiscal Year Ending June 30				
	2009	2010	2011	2012	2013
Annualized Service Fee ($/Bill)	$ 6.82	$ 9.07	$ 9.82	$ 10.41	$ 11.04
Total Number of Annual Bills	3,186,256	3,249,981	3,314,980	3,381,280	3,448,906
Revenue from Service Fee	$ 21,730,263	$ 29,477,325	$ 32,553,107	$ 35,199,124	$ 38,075,917

	Fiscal Year Ending June 30				
	2014	2015	2016	2017	2018
Annualized Service Fee ($/Bill)	$ 11.70	$ 11.70	$ 11.70	$ 11.70	$ 11.70
Total Number of Annual Bills	3,517,884	3,588,241	3,660,006	3,733,206	3,807,870
Revenue from Service Fee	$ 41,159,239	$ 41,982,423	$ 42,822,072	$ 43,678,513	$ 44,552,084

Schedule 12: Residential Volume Rate and Semi-Annual Increases

	Fiscal Year Ending June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Residential Volume Rate					
Volume Rate ($/Ccf) Previous Year	$ 1.533	$ 1.893	$ 2.408	$ 2.408	$ 2.707
First Bi-Annual Increase (%)	*9.52%*	*12.78%*	*0.00%*	*6.02%*	*6.02%*
Volume Rate ($/Ccf) First Half of Year	$ 1.679	$ 2.135	$ 2.408	$ 2.553	$ 2.870
Second Bi-Annual Increase (%)	*12.75%*	*12.79%*	*0.00%*	*6.03%*	*6.03%*
Volume Rate ($/Ccf) Second Half of Year	$ 1.893	$ 2.408	$ 2.408	$ 2.707	$ 3.043
Annualized Increase (%)	*23.49%*	*27.20%*	*0.00%*	*12.42%*	*12.41%*

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Residential Volume Rate					
Volume Rate ($/Ccf) Previous Year	$ 3.043	$ 3.420	$ 3.420	$ 3.420	$ 3.420
First Bi-Annual Increase (%)	*6.01%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Volume Rate ($/Ccf) First Half of Year	$ 3.226	$ 3.420	$ 3.420	$ 3.420	$ 3.420
Second Bi-Annual Increase (%)	*6.01%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Volume Rate ($/Ccf) Second Half of Year	$ 3.420	$ 3.420	$ 3.420	$ 3.420	$ 3.420
Annualized Increase (%)	*12.39%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*

Schedule 13: Residential Customer Impacts

Volume	Monthly Sewer Bill				Monthly Sewer Bill			
Discharged (ccf)	Sept. 2008	Mar. 2009	$ Increase	% Increase	Mar. 2009	Sept. 2010	$ Increase	% Increase
0	$6.82	$8.32	$1.50	22.0%	$8.32	$8.32	$0.00	0.0%
5	$15.22	$17.79	$2.57	16.9%	$17.79	$19.00	$1.21	6.8%
10	$23.61	$27.25	$3.64	15.4%	$27.25	$29.67	$2.42	8.9%
15	$32.01	$36.72	$4.71	14.7%	$36.72	$40.35	$3.63	9.9%

Schedule 14: Revenue from Connection Charges

	Fiscal Year Ending June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Connection Charge Revenue					
First Bi-Annual Increase (%)	9.50%	0.00%	0.00%	0.00%	0.00%
Second Bi-Annual Increase (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Annualized Increase (%)	9.50%	0.00%	0.00%	0.00%	0.00%
Building Starts (%)		-0.50%	-0.30%	0.00%	0.00%
Effective Revenue Increase (%)	0.60%	-0.50%	-0.30%	0.00%	0.00%
Revenue ($)	$ 20,900,000	$ 20,795,500	$ 20,733,114	$ 20,733,114	$ 20,733,114

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Connection Charge Revenue					
First Bi-Annual Increase (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Second Bi-Annual Increase (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Annualized Increase (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Building Starts (%)	1.00%	1.00%	1.00%	1.00%	1.00%
Effective Revenue Increase (%)	1.00%	1.00%	1.00%	1.00%	1.00%
Revenue ($)	$ 20,940,445	$ 21,149,849	$ 21,361,348	$ 21,574,961	$ 21,790,711

Schedule 15: Miscellaneous Charge Revenue

	Fiscal Year Ending June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Miscellaneous Charge Revenue					
General Government Fees	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000
Business Licenses and Permits	5,000	5,000	5,000	5,000	5,000
Sanitation Fees	1,439,380	1,432,183	1,427,887	1,427,887	1,427,887
Other Fines	58,800	58,800	58,800	58,800	58,800
Total Miscellaneous Revenue	$ 1,516,180	$ 1,508,983	$ 1,504,687	$ 1,504,687	$ 1,504,687

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Miscellaneous Charge Revenue					
General Government Fees	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000
Business Licenses and Permits	5,000	5,000	5,000	5,000	5,000
Sanitation Fees	1,442,165	1,456,587	1,471,153	1,485,864	1,500,723
Other Fines	58,800	58,800	58,800	58,800	58,800
Total Miscellaneous Revenue	$ 1,518,965	$ 1,533,387	$ 1,547,953	$ 1,562,664	$ 1,577,523

Schedule 16: Summary of Revenue

	Fiscal Year Ending June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Summary of Revenue					
Operating Revenue					
Service Fee	$ 24,120,592	$ 29,474,842	$ 32,550,365	$ 35,196,159	$ 38,072,710
Volume Charge	71,933,417	93,274,722	100,901,413	112,367,446	128,846,449
Environmental Fees	-	-	-	-	-
Miscellaneous Operating Charges	1,516,180	1,508,983	1,504,687	1,504,687	1,504,687
Total Operating Revenue	$ 97,570,189	$ 124,258,547	$ 134,956,464	$ 149,068,292	$ 168,423,846
Non-Operating Revenue					
Connection Charges	$ 20,900,000	$ 20,795,500	$ 20,733,114	$ 20,733,114	$ 20,733,114
Cash Reimbursements	100,000	100,000	100,000	100,000	100,000
Interest Income	2,411,626	2,283,822	1,038,118	4,048,903	4,463,884
Miscellaneous Non-Operating Charges	-	-	-	-	-
Total Non-Operating Revenue	$ 23,411,626	$ 23,179,322	$ 21,871,232	$ 24,882,017	$ 25,296,998
Total Revenue	$ 120,981,815	$ 147,437,869	$ 156,827,696	$ 173,950,309	$ 193,720,844

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Summary of Revenue (Continued)					
Operating Revenue					
Service Fee	$ 41,155,772	$ 41,978,887	$ 42,818,465	$ 43,674,834	$ 44,548,331
Volume Charge	147,735,996	155,119,915	158,222,314	161,383,021	164,614,495
Environmental Fees	-	-	-	-	-
Miscellaneous Operating Charges	1,518,965	1,533,387	1,547,953	1,562,664	1,577,523
Total Operating Revenue	$ 190,410,733	$ 198,632,189	$ 202,588,731	$ 206,620,519	$ 210,740,349
Non-Operating Revenue					
Connection Charges	$ 20,940,445	$ 21,149,849	$ 21,361,348	$ 21,574,961	$ 21,790,711
Cash Reimbursements	100,000	100,000	100,000	100,000	100,000
Interest Income	3,449,135	3,805,473	1,990,156	2,089,960	2,242,180
Miscellaneous Non-Operating Charges	-	-	-	-	-
Total Non-Operating Revenue	$ 24,489,580	$ 25,055,322	$ 23,451,504	$ 23,764,921	$ 24,132,891
Total Revenue	$ 214,900,313	$ 223,687,511	$ 226,040,235	$ 230,385,440	$ 234,873,240

Schedule 17: Comparison of Volume Rate Increases Under Different Bonds Terms

	Fiscal Year Ending June 30				
Volume Rate	**2009**	**2010**	**2011**	**2012**	**2013**
Annualized % Increase 15 year bonds	23.49%	27.20%	0.00%	12.42%	12.41%
Annualized % Increase 20 year bonds	23.49%	27.20%	0.00%	9.26%	9.24%
Annualized % Increase 30 year bonds	23.49%	27.20%	0.00%	6.15%	6.10%

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Annualized % Increase 15 year bonds	12.39%	0.00%	0.00%	0.00%	0.00%
Annualized % Increase 20 year bonds	9.26%	0.00%	0.00%	0.00%	0.00%
Annualized % Increase 30 year bonds	6.12%	0.00%	0.00%	0.00%	0.00%

Schedule 18: Cash Flow Summary (FY 2008/2009-FY 2012/2013)

	Fiscal Year Ending June 30				
	2009	**2010**	**2011**	**2012**	**2013**
Revenue					
Operating Revenue	$ 97,570,189	$ 124,258,547	$ 134,956,465	$ 149,068,292	$ 168,423,846
Non-Operating Revenue	21,000,000	20,895,500	20,833,114	20,833,114	20,833,114
Interest Income (1)	2,411,626	2,283,822	1,038,118	4,048,903	4,463,884
Total Revenue	$ 120,981,815	$ 147,437,869	$ 156,827,697	$ 173,950,309	$ 193,720,844
Expenses					
O&M Expenses	$ 79,820,438	$ 83,336,195	$ 86,433,978	$ 89,655,942	$ 93,007,277
Net Revenues Available for Debt Service	$ 41,161,377	$ 64,101,674	$ 70,393,719	$ 84,294,367	$ 100,713,567
Debt Service	27,421,166	29,506,940	29,463,914	62,977,681	62,967,396
Net Revenues Available After Debt Service	$ 13,740,211	$ 34,594,734	$ 40,929,805	$ 21,316,686	$ 37,746,171
Sources and Uses					
Sources:					
Net Revenues Available After Debt Service	$ 13,740,211	$ 34,594,734	$ 40,929,805	$ 21,316,686	$ 37,746,171
Total Transfers from Reserves	36,600,000	7,700,000	-	-	-
1997 Revenue Bond Proceeds	295,099	300,926	544,699	447,388	-
2004 Revenue Bond Proceeds	40,712,665	14,042,569	1,013,897	-	-
2009 Revenue Bond Proceeds	-	38,267,207	104,804,229	222,055,488	160,349,755
2012 Revenue Bond Proceeds	-	-	-	15,183,237	64,518,557
Total Sources	$ 91,347,975	$ 94,905,436	$ 147,292,630	$ 259,002,799	$ 262,614,483
Uses:					
Annual Capital Outlays	$ 50,238,761	$ 42,239,846	$ 33,347,261	$ 5,472,095	$ 4,412,711
Bond Funded Capital Improvement Projects	41,007,764	52,610,702	106,362,825	237,686,113	224,868,312
Total Uses	$ 91,246,525	$ 94,850,548	$ 139,710,086	$ 243,158,208	$ 229,281,023
Net Sources Over Uses	$ 101,450	$ 54,888	$ 7,582,544	$ 15,844,591	$ 33,333,460
Beginning Cash Balance	$54,579,000	$18,080,450	$10,435,339	$18,017,881	$33,862,471
Transfers for Capital Projects	(36,600,000)	(7,700,000)	-	-	-
Net Sources Over Uses	101,450	54,888	7,582,544	15,844,591	33,333,460
Projected Ending Cash Balance	$ 18,080,450	$ 10,435,338	$ 18,017,883	$ 33,862,472	$ 67,195,931
Emergency Reserve Cash	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000
Projected SDF Funds Available	$ 8,080,450	$ 435,338	$ 8,017,883	$ 23,862,472	$ 57,195,931
Debt Coverage 125%	150%	217%	239%	134%	160%

Schedule 18 (continued): Cash Flow Summary (FY 20013/2014-FY 2017/2018)

	Fiscal Year Ending June 30				
	2014	**2015**	**2016**	**2017**	**2018**
Revenue					
Operating Revenue	$ 190,410,733	$ 198,632,189	$ 202,588,732	$ 206,620,519	$ 210,740,349
Non-Operating Revenue	21,040,445	21,249,849	21,461,348	21,674,961	21,890,711
Interest Income	3,449,135	3,805,473	1,990,156	2,089,960	2,242,180
Total Revenue	$ 214,900,313	$ 223,687,511	$ 226,040,236	$ 230,385,440	$ 234,873,240
Expenses					
O&M Expenses	$ 97,615,837	$ 103,188,917	$ 107,148,414	$ 110,684,131	$ 114,355,090
Net Revenues Available for Debt Service	$ 117,284,476	$ 120,498,594	$ 118,891,822	$ 119,701,309	$ 120,518,150
Debt Service	98,630,775	98,602,184	98,409,538	92,527,461	94,942,070
Net Revenues Available After Debt Service	$ 18,653,700	$ 21,896,410	$ 20,482,285	$ 27,173,849	$ 25,576,080
Sources and Uses					
Sources:					
Net Revenues Available After Debt Service	$ 18,653,700	$ 21,896,410	$ 20,482,285	$ 27,173,849	$ 25,576,080
Total Transfers from Reserves	-	-	-	-	-
2009 Revenue Bond Proceeds	20,418,404	-	-	-	-
2012 Revenue Bond Proceeds	107,671,496	22,165,118	317,625	23,681,165	610,168
2016 Revenue Bond Proceeds	-	-	-	-	-
Total Sources	$ 146,743,600	$ 44,061,528	$ 20,799,910	$ 50,855,014	$ 26,186,248
Uses:					
Annual Capital Outlays	$ 4,088,249	$ 4,117,867	$ 4,251,698	$ 4,389,878	$ 4,532,549
Bond Funded Capital Improvement Projects	128,089,900	22,165,118	317,625	23,681,165	610,168
Total Uses	$ 132,178,149	$ 26,282,985	$ 4,569,323	$ 28,071,043	$ 5,142,717
Net Sources Over Uses	$ 14,565,451	$ 17,778,543	$ 16,230,587	$ 22,783,971	$ 21,043,531
Beginning Cash Balance	$ 67,195,931	$ -	$ -	$ -	$ -
Transfers for Capital Projects	-	-	-	-	-
Net Sources Over Uses	14,565,451	17,778,543	16,230,587	22,783,971	21,043,531
Projected Ending Cash Balance	$ 81,761,382	$ 17,778,543	$ 16,230,587	$ 22,783,971	$ 21,043,531
Emergency Reserve Cash	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000
Projected SDF Funds Available	$ 71,761,382	$ 7,778,543	$ 6,230,587	$ 12,783,971	$ 11,043,531
Debt Coverage 125%	119%	122%	121%	129%	127%

Attachments

Attachment 1: Amendment to Pima County Code, Title 13, Chapter 24
Sanitary Sewer User Fees

Attachment 1

Amendment to Pima County Code, Title 13, Chapter 24

Sanitary Sewer User Fees Ordinance

ORDINANCE 2009-___

AN ORDINANCE OF THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA; RELATING TO WASTEWATER; AMENDING PIMA COUNTY CODE, TITLE 13, CHAPTER 24, SANITARY SEWER USER FEES

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

SECTION 1. *Amendment.* The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.030

Fee calculation.

A. A monthly fee shall be levied and collected from all users for the service of sanitary sewage collection, treatment and disposal provided through the wastewater system. User fees are calculated according to the following rate formulas for all customers:

Residential Monthly User Fee = (F x R) + A

High Strength Class Monthly User Fee =

F x (R x HS) + A

Where F = Monthly wastewater flow contribution to the public sanitary sewer equal to:

One hundred percent of the metered monthly water consumption; or

The user class average flow for contributors whose water consumption is not metered; or

One hundred percent of the wastewater flow measured by:

Direct meter reading, or

The difference in direct wastewater flow meter readings, or

A combination of direct wastewater flow meter readings and metered monthly water consumption, or

Other acceptable methods.

Where wastewater flow contribution is based on metered monthly water consumption or user class average flow, this amount shall not exceed the average amount of the months of December, January, and February, computed in the same manner.

HS = High Strength Factor determined and based on the wastewater strength of a given class relative to residential wastewater strength as defined in this chapter.

A = $~~5.72~~8.32* ~~Flat~~ Standard service fee ~~for all users~~.

R = User fee ~~basic~~ volume rate.

1. From the effective date of the Ordinance through ~~December 31, 2007~~June 30, 2009, the user fee ~~basic~~volume rate (R) per one hundred cubic feet (ccf) of monthly residential wastewater flow contributions = $~~1.406~~1.893, The user fee ~~basic~~volume rate will rise to $~~1.533~~2.134 on ~~January 1, 2008~~July 1, 2009 and will rise to $~~1.679~~2.407 on ~~July 1, 2008~~January 1, 2010.

* Staff note: This number will rise to $~~6.23~~9.82 effective January 1, 200~~8~~10 ~~and will rise to $6.82 effective July 1, 2008~~.

B. The monthly volume of discharge for all users served by a private water company is presumed to be one hundred percent of the average water use as reflected by the billings for the months of December, January and February.

C. If neither direct metered wastewater flow data nor metered water use data is available for a user, the discharge shall be estimated using the average unit discharge associated with that user's class.

D. Consistent with governing regulations of the United States Environmental Protection Agency, the Director has determined that certain classes of users discharge wastewater that contains higher concentrations of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharge from all residential users, and that accordingly impose additional costs on the operation and maintenance of the system.

1. A user found to discharge wastewater containing a higher concentration of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharges from residential users and who is currently not assigned to a user class will be assessed a rate based on the concentrations of chemical oxygen demand and suspended solids as these rates are defined in 13.24.180.

E. In addition to any user fees established by this chapter, a user who is detected discharging any toxic wastes into the sanitary sewerage system in violation of Chapter 13.36 of the Pima County Code shall be subject to the increased cost of the treatment of the prohibited substance. This provision shall not preclude the director from imposing the additional penalties provided in Chapter 13.36 of the Pima County Code.

SECTION 2. *Amendment.* The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.040

Rate schedule.

A. The user fee rate for customers identified with each user class shall be as shown in the rate schedule codified at the end of this chapter. Each user fee rate was determined in accordance with Section 13.24.030~~and is based on the following:~~

~~1. The projected annual expenses for the wastewater system for fiscal year 2007-2008 are $121,335,773 (including operations and maintenance ($72,791,971), debt service ($20,386,502), capitalized purchases ($4,211,208), and depreciation ($23,946,092); the portion to be financed with collected user fees is $77,107,236~~.

B. A ~~flat~~ service fee, codified in the service fee schedule at the end of this chapter, shall be levied upon each sewer account to recover fixed system costs and costs not proportional to flow. Th~~is~~e standard service fee shall be $~~5.72~~8.32 per month until December 31, 2009. On January 1, 2010, the service fee will rise to $9.82.

C. The above-referenced rates and charges shall be reflected in sewer user bills beginning with the first billing cycle after the effective date of the ordinance.

SECTION 3. *Amendment*. The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.180

Volume Rate and Service Fee schedules-Tables.

A. Volume Rate

The volumetric portions of ~~M~~monthly bills are computed and charged to wastewater customers by user class as set forth in the table below, and are based on the average wastewater strengths shown:

Class	Class Name	High-Strength Factor	~~Jul. 1, 2007~~ March 20, 2009 Rate (dollars per ccf)	~~Jan. 1, 2008~~ July 1, 2009 Rate (dollars per ccf)	~~Jul. 1, 2008~~ Jan. 1, 2010 Rate (dollars per ccf)
1	Residential/All other customer classes	1.00	$~~1.406~~1.893	$~~1.533~~2.134	$~~1.679~~2.406
1A	Residential/All	1.00	~~0.352~~0.473	~~0.384~~0.533	~~0.420~~0.602

	other customer classes				
1B	Residential/All other customer classes	1.00	~~0.703~~0.945	~~0.766~~1.066	~~0.839~~1.202
1C	Residential/All other customer classes	1.00	~~1.055~~1.419	~~1.150~~1.600	~~1.259~~1.804
3C	Auto body and fender repair	2.10	~~2.953~~3.975	~~3.219~~4.482	~~3.526~~5.053
3K	Mortuary	1.09	~~1.533~~2.063	~~1.671~~2.326	~~1.830~~2.623
3N	Laundromat	1.09	~~1.533~~2.063	~~1.671~~2.326	~~1.830~~2.623
4E	Pet clinic	1.20	~~1.687~~2.271	~~1.840~~2.561	~~2.015~~2.888
4G	Restaurant, with seating and china	2.03	~~2.854~~3.842	~~3.112~~4.332	~~3.408~~4.884
4H	Restaurant, fast food	2.32	~~3.262~~4.391	~~3.557~~4.951	~~3.895~~5.582
5A	Car wash, self-service	1.19	~~1.673~~2.252	~~1.824~~2.539	~~1.998~~2.863
5C	Bottling company	1.68	~~2.362~~3.180	~~2.575~~3.586	~~2.821~~4.043
5F	Printing; copying	1.01	~~1.420~~1.912	~~1.548~~2.156	~~1.696~~2.430
5G	Electrical component manufacturer	1.14	~~1.603~~2.158	~~1.748~~2.433	~~1.914~~2.743
5I	Industrial laundry	1.06	~~1.490~~2.006	~~1.625~~2.262	~~1.780~~2.551
5J	Bakery	3.63	~~5.104~~6.872	~~5.565~~7.748	~~6.095~~8.736
5K	Miscellaneous food processor	2.33	~~3.276~~4.410	~~3.572~~4.973	~~3.912~~5.607
5L	Chemical, Pharmaceutical	1.25	~~1.758~~2.366	~~1.916~~2.668	~~2.099~~3.008
5M	Meat packing	2.38	~~3.346~~4.505	~~3.649~~5.079	~~3.996~~5.727
5S	Car wash, full service	1.23	~~1.729~~2.328	~~1.886~~2.625	~~2.065~~2.959

B. Service Fee

The service fee added to each monthly bill is charged to wastewater customers by user class as set forth in the table below:

Class	Class Name	Service Fee effective March 20, 2009	Service Fee effective January 1, 2010
1	Residential/All other customer classes	$8.32	$9.82
1A	Residential/All other customer classes	2.08	2.45
1B	Residential/All other customer classes	4.16	4.91
1C	Residential/All other customer classes	6.24	7.36
3C	Auto body and fender repair	8.32	9.82
3K	Mortuary	8.32	9.82
3N	Laundromat	8.32	9.82
4E	Pet clinic	8.32	9.82
4G	Restaurant, with seating and china	8.32	9.82
4H	Restaurant, fast food	8.32	9.82
5A	Car wash, self-service	8.32	9.82
5C	Bottling company	8.32	9.82
5F	Printing; copying	8.32	9.82
5G	Electrical component manufacturer	8.32	9.82
5I	Industrial laundry	8.32	9.82
5J	Bakery	8.32	9.82
5K	Miscellaneous food processor	8.32	9.82
5L	Chemical, Pharmaceutical	8.32	9.82
5M	Meat packing	8.32	9.82
5S	Car wash, full service	8.32	9.82

SECTION 4. *Amendment.* The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.185

Residential Rates and Service Fees.

A. Each residential wastewater customer shall use the Class 1 user fee rate and service fee unless the Director has approved an alternate residential user fee rate and service fee for that customer pursuant to this section.
B. Any residential wastewater customer whose current household income is at one hundred percent (100%) or less of the federal poverty guidelines may apply to the Director for approval to be billed at the Class 1A user fee rates and service fee.
C. Any residential wastewater customer whose current household income is greater than one hundred percent (100%) but is less than or equal to one hundred and twenty-five percent (125%) of the federal poverty guidelines may apply to the Director for approval to be billed at the Class 1B user fee rates and service fee.
D. Any residential wastewater customer whose current household income is greater than one hundred and twenty-five percent (125%) but less than or equal to one hundred and fifty percent (150%) of the federal poverty guidelines may apply to the Director for approval to be billed at the Class 1C user fee rates and service fee.
E. Each residential user fee Class change shall be valid for one year following approval by the Director.
F. There is no limit on the number of years a residential user may apply for approval for a reduced residential user fee rate.

SECTION 5. *Severability.* If any provision of this Ordinance, or the application of any provision thereof is determined by a court of law to be invalid, the invalidity of that provision shall not affect other provisions or the application of this ordinance which can be given effect without the provision determined to be invalid, and to this end the provisions of this Ordinance are severable.

SECTION 6. *County Officers and Employees.* The various County officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this Ordinance.

SECTION 7. *Effective Date*. This Ordinance shall become effective 31 days after it is adopted by the Board of Supervisors.

PASSED AND ADOPTED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA.

PIMA COUNTY BOARD OF SUPERVISORS

_____
Chairman

Dated:_____

ATTEST:

_____
Clerk of the Board

Dated:_____

APPROVED AS TO CONTENT:

_____
Director, Regional Wastewater Reclamation Department

Dated: 1/29/09

APPROVED AS TO FORM:

_____
Deputy County Attorney

Dated: 1-29-09

ORDINANCE 2009-___

AN ORDINANCE OF THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA; RELATING TO WASTEWATER; AMENDING PIMA COUNTY CODE, TITLE 13, CHAPTER 24, SANITARY SEWER USER FEES

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

SECTION 1. *Amendment.* The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.030

Fee calculation.

A. A monthly fee shall be levied and collected from all users for the service of sanitary sewage collection, treatment and disposal provided through the wastewater system. User fees are calculated according to the following rate formulas for all customers:

Residential Monthly User Fee = (F x R) + A

High Strength Class Monthly User Fee =

F x (R x HS) + A

Where F = Monthly wastewater flow contribution to the public sanitary sewer equal to:

One hundred percent of the metered monthly water consumption; or

The user class average flow for contributors whose water consumption is not metered; or

One hundred percent of the wastewater flow measured by:

Direct meter reading, or

The difference in direct wastewater flow meter readings, or

A combination of direct wastewater flow meter readings and metered monthly water consumption, or

Other acceptable methods.

Where wastewater flow contribution is based on metered monthly water consumption or user class average flow, this amount shall not exceed the average amount of the months of December, January, and February, computed in the same manner.

HS = High Strength Factor determined and based on the wastewater strength of a given class relative to residential wastewater strength as defined in this chapter.

A = 8.32* Standard service fee.

R = User fee volume rate.

1. From the effective date of the Ordinance through June 30, 2009, the user fee volume rate (R) per one hundred cubic feet (ccf) of monthly residential wastewater flow contributions = $1.893, The user fee volume rate will rise to $2.134 on July 1, 2009 and will rise to $2.407 on January 1, 2010.

* Staff note: This number will rise to $9.82 effective January 1, 2010.

B. The monthly volume of discharge for all users served by a private water company is presumed to be one hundred percent of the average water use as reflected by the billings for the months of December, January and February.

C. If neither direct metered wastewater flow data nor metered water use data is available for a user, the discharge shall be estimated using the average unit discharge associated with that user's class.

D. Consistent with governing regulations of the United States Environmental Protection Agency, the Director has determined that certain classes of users discharge wastewater that contains higher concentrations of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharge from all residential users, and that accordingly impose additional costs on the operation and maintenance of the system.

1. A user found to discharge wastewater containing a higher concentration of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharges from residential users and who is currently not assigned to a user class will be assessed a rate based on the concentrations of chemical oxygen demand and suspended solids as these rates are defined in 13.24.180.

E. In addition to any user fees established by this chapter, a user who is detected discharging any toxic wastes into the sanitary sewerage system in violation of Chapter 13.36 of the Pima County Code shall be subject to the increased cost of the treatment of the prohibited substance. This provision shall not preclude the director from imposing the additional penalties provided in Chapter 13.36 of the Pima County Code.

SECTION 2. *Amendment.* The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.040

Rate schedule.

A. The user fee rate for customers identified with each user class shall be as shown in the rate schedule codified at the end of this chapter. Each user fee rate was determined in accordance with Section 13.24.030.

B. A service fee, codified in the service fee schedule at the end of this chapter, shall be levied upon each sewer account to recover fixed system costs and costs not proportional to flow. The standard service fee shall be $8.32 per month until December 31, 2009. On January 1, 2010, the service fee will rise to $9.82.

C. The above-referenced rates and charges shall be reflected in sewer user bills beginning with the first billing cycle after the effective date of the ordinance.

SECTION 3. *Amendment.* The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.180

Volume Rate and Service Fee schedules-Tables.

A. Volume Rate

The volumetric portions of monthly bills are computed and charged to wastewater customers by user class as set forth in the table below, and are based on the average wastewater strengths shown:

Class	Class Name	High-Strength Factor	March 20, 2009 Rate (dollars per ccf)	July 1, 2009 Rate (dollars per ccf)	Jan. 1, 2010 Rate (dollars per ccf)
1	Residential/All other customer classes	1.00	$1.893	$2.134	$2.406
1A	Residential/All other customer classes	1.00	0.473	0.533	0.602
1B	Residential/All other customer classes	1.00	0.945	1.066	1.202

1C	Residential/All other customer classes	1.00	1.419	1.600	1.804
3C	Auto body and fender repair	2.10	3.975	4.482	5.053
3K	Mortuary	1.09	2.063	2.326	2.623
3N	Laundromat	1.09	2.063	2.326	2.623
4E	Pet clinic	1.20	2.271	2.561	2.888
4G	Restaurant, with seating and china	2.03	3.842	4.332	4.884
4H	Restaurant, fast food	2.32	4.391	4.951	5.582
5A	Car wash, self-service	1.19	2.252	2.539	2.863
5C	Bottling company	1.68	3.180	3.586	4.043
5F	Printing; copying	1.01	1.912	2.156	2.430
5G	Electrical component manufacturer	1.14	2.158	2.433	2.743
5I	Industrial laundry	1.06	2.006	2.262	2.551
5J	Bakery	3.63	6.872	7.748	8.736
5K	Miscellaneous food processor	2.33	4.410	4.973	5.607
5L	Chemical, Pharmaceutical	1.25	2.366	2.668	3.008
5M	Meat packing	2.38	4.505	5.079	5.727
5S	Car wash, full service	1.23	2.328	2.625	2.959

B. Service Fee

The service fee added to each monthly bill is charged to wastewater customers by user class as set forth in the table below:

Class	Class Name	Service Fee effective March 20, 2009	Service Fee effective January 1, 2010
1	Residential/All	$8.32	$9.82

	other customer classes		
1A	Residential/All other customer classes	2.08	2.45
1B	Residential/All other customer classes	4.16	4.91
1C	Residential/All other customer classes	6.24	7.36
3C	Auto body and fender repair	8.32	9.82
3K	Mortuary	8.32	9.82
3N	Laundromat	8.32	9.82
4E	Pet clinic	8.32	9.82
4G	Restaurant, with seating and china	8.32	9.82
4H	Restaurant, fast food	8.32	9.82
5A	Car wash, self-service	8.32	9.82
5C	Bottling company	8.32	9.82
5F	Printing; copying	8.32	9.82
5G	Electrical component manufacturer	8.32	9.82
5I	Industrial laundry	8.32	9.82
5J	Bakery	8.32	9.82
5K	Miscellaneous food processor	8.32	9.82
5L	Chemical, Pharmaceutical	8.32	9.82
5M	Meat packing	8.32	9.82
5S	Car wash, full service	8.32	9.82

SECTION 4. *Amendment*. The Pima County Code, Title 13, Chapter 24, is hereby amended as follows:

13.24.185

Residential Rates and Service Fees.

A. Each residential wastewater customer shall use the Class 1 user fee rate and service fee unless the Director has approved an alternate residential user fee rate and service fee for that customer pursuant to this section.
B. Any residential wastewater customer whose current household income is at one hundred percent (100%) or less of the federal poverty guidelines may apply to the Director for approval to be billed at the Class 1A user fee rates and service fee.
C. Any residential wastewater customer whose current household income is greater than one hundred percent (100%) but is less than or equal to one hundred and twenty-five percent (125%) of the federal poverty guidelines may apply to the Director for approval to be billed at the Class 1B user fee rates and service fee.
D. Any residential wastewater customer whose current household income is greater than one hundred and twenty-five percent (125%) but less than or equal to one hundred and fifty percent (150%) of the federal poverty guidelines may apply to the Director for approval to be billed at the Class 1C user fee rates and service fee.
E. Each residential user fee Class change shall be valid for one year following approval by the Director.
F. There is no limit on the number of years a residential user may apply for approval for a reduced residential user fee rate.

SECTION 5. *Severability.* If any provision of this Ordinance, or the application of any provision thereof is determined by a court of law to be invalid, the invalidity of that provision shall not affect other provisions or the application of this ordinance which can be given effect without the provision determined to be invalid, and to this end the provisions of this Ordinance are severable.

SECTION 6. *County Officers and Employees.* The various County officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this Ordinance.

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SECTION 7. *Effective Date*. This Ordinance shall become effective 31 days after it is adopted by the Board of Supervisors.

PASSED AND ADOPTED BY THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA.

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ATTEST:

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Clerk of the Board

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APPROVED AS TO CONTENT:

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Director, Regional Wastewater Reclamation Department

Dated: 1/29/09

APPROVED AS TO FORM:

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Deputy County Attorney

Dated: 1-29-09