

**CITIZENS' WATER ADVISORY COMMITTEE
(CWAC)**

Finance Subcommittee

Wednesday, September 17, 2015, 11:00 a.m.
Tucson Water La Entrada Building
3rd Floor Director's Conference Room
310 W. Alameda Street, Tucson, Arizona



Legal Action Report

1. Roll Call

The meeting was called to order by Finance Subcommittee Chair Bruce Billings at 11:00 a.m. Those present and absent were:

Members Present:

Bruce Billings (Chair)	Representative, Ward 3
Brian Wong	Representative, City Manager
Chuck Freitas	Representative, City Manager
Mark Taylor	Representative, City Manager
Catlow Shipek *	Representative, City Manager

Tucson Water Staff Members:

Scott Clark	Deputy Director
Melodee Loyer	Chief Planner
Steven Ritter	Finance Management Coordinator
Theresa Bourne	Lead Financial Accountant
Johnna Hernandez	Staff Assistant
Kris LaFleur	Staff Assistant
Suzanna Snyder	Staff Assistant

Others Present:

Joyce Garland	City of Tucson Budget Office
David Ortega	City of Tucson Budget Office
Mark Lewis	CWAC

* Member Shipek arrived at 11:04 a.m.

- 2. Announcements** – Scott Clark introduced himself as Tucson Water's new Deputy Director, with direction over the Business Services and Customer Service divisions.
- 3. Call to Audience** – Mark Lewis asked Chairperson Billings if the subcommittee would take questions from the audience during the following discussion items. Chairperson Billings indicated that the subcommittee would do so.
- 4. Review of February 24, 2015, Legal Action Report and approval of Meeting Minutes** – Subcommittee Members reviewed the Legal Action Report from the February 24, 2015, CWAC Finance Subcommittee meeting. Member Freitas moved to approve the Minutes; Member Wong seconded the motion. The motion was carried by a vote of 4-0.

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5. **Tucson Water Financial Team Introductions** – Scott Clark, Melodee Loyer, Theresa Bourne, and Steve Ritter introduced themselves to members of the subcommittee with brief professional summaries and explanations of roles within the Tucson Water budgeting, financial planning, and rate setting processes.

6. **Overview of Revenues –**

a. **FY15 unadjusted financial results:** Mr. Ritter presented unadjusted FY15 financial results for Tucson Water. He indicated that the City Finance Department would be producing audited results. Mr. Ritter explained that water sales revenues were 6.9% below projections, but the shortfall was offset by a reduction in O&M and CIP expenditures, as well as the sale of water revenue bonds. Tucson Water staff fielded and answered questions from subcommittee members on topics including: the shortfall in projected revenues; infrastructure requirements for a proposed aerospace industrial corridor; and the impact of reduced revenues upon cash balances and debt service ratios.

b. **Emerging alternative revenues:** Ms. Loyer presented information about Tucson Water's emerging revenue sources, such as fees and services associated with wheeling and water storage agreements.

In relation to such agreements, staff and members engaged in a brief discussion about a pending reclaimed wheeling agreement between Tucson Water and Pima County, under which Pima County would pay the environmental rate for reclaimed water delivered to Randolph Park. [During this discussion, conflicting figures were given for the reclaimed environmental rate. The correct rate is \$274 per acre-foot.]

Members and staff also discussed the status of a storage and exchange agreement between Tucson and Phoenix, a recent sale of storage credits to the Arizona Water Banking Authority (AWBA), and the origin of recently sold water revenue bonds. Staff offered to provide members with a future presentation on bonds and their role in utility financing.

c. **System equity fee bi-yearly evaluation:** Ms. Loyer briefly discussed Tucson Water's intention to review system equity fees during the coming financial planning cycle.

d. **Water Bank revenue update:** Ms. Loyer reviewed the 2015 agreement between Tucson Water and the AWBA, under which the Water Bank agreed to purchase water credits from Tucson Water over three years. Ms. Loyer indicated that the Water Bank opted not to purchase any credits during FY16.

Members and staff engaged in a discussion about revenues, declining water sales projections, fixed costs, and future rate-setting expectations.

Member Taylor asked staff to provide ongoing and regular updates on Tucson Water's current financial position. Chairperson Billings requested that members be provided with two years of monthly data for single-family residence and duplex/triplex customers,

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indicating the number or percentage of customers being billed at each usage level from 0 to 36ccf.

7. **Miscellaneous Expenses Overview –**

- a. **Low-Income Program budgeting update:** Ms. Loyer presented current information about Tucson Water's Low-Income Program (LIP). She indicated that participation in the program has doubled over the last three years. The FY 15 budget line item for the LIP was just over \$500,000, but actual impact was just over \$800,000. Tucson Water will adjust the budget to accommodate the LIP for FY 16. While the number of participants in the program has increased, the payment per-customer has decreased. Discussion ensued between staff and members about program trends, and about criteria for participation in the program. Mr. Lewis inquired about the availability of detailed water consumption information for participants in the LIP; members and staff discussed sources for acquiring such data. Member Shipek suggested a review of such data to determine potential application for future rate-setting discussions.
- b. **Payment In-Lieu of Tax (PILOT) evaluation:** Ms. Loyer explained that Tucson Water would be looking at the City's calculation of the Payment In-Lieu of Taxes, comparing this to other communities' methods, and reporting back to CWAC.
- c. **Administrative Service Charge update:** Johanna Hernandez briefly summarized recent proceedings of the Independent Audit and Performance Commission (IAPC) and its Cost Allocation Subcommittee's review of the City's Administrative Service Charge procedures. The Cost Allocation Subcommittee submitted a report to the full Committee finding that the City's procedures and allocations were fair, equitable, and reasonable. The Committee directed that the Subcommittee provide additional information and data to support its conclusions. When the Committee completes its work, staff will report back to CWAC. Discussion ensued between members.

8. **Future Meetings / Agenda Items –** Members and staff discussed the schedule for discussions during future Financial Subcommittee meetings.

Items identified for future discussion during the meeting were:

- Staff will report to CWAC regarding the effect of revenue reduction upon cash balances and debt service ratios
- Staff will provide a presentation on the role of bonds in water utility financing
- Staff will provide CWAC with two years of monthly water consumption data, as requested
- Staff will provide regular updates on Tucson Water's current financial position

9. **Adjournment –** The meeting was adjourned at 12:16 p.m.

Tucson Water Financial Update – CWAC Finance Subcommittee Meeting September 17, 2015

The City's 2015 Fiscal Year closed on June 30th. The following are preliminary unaudited financial results for Tucson Water for the reporting period.

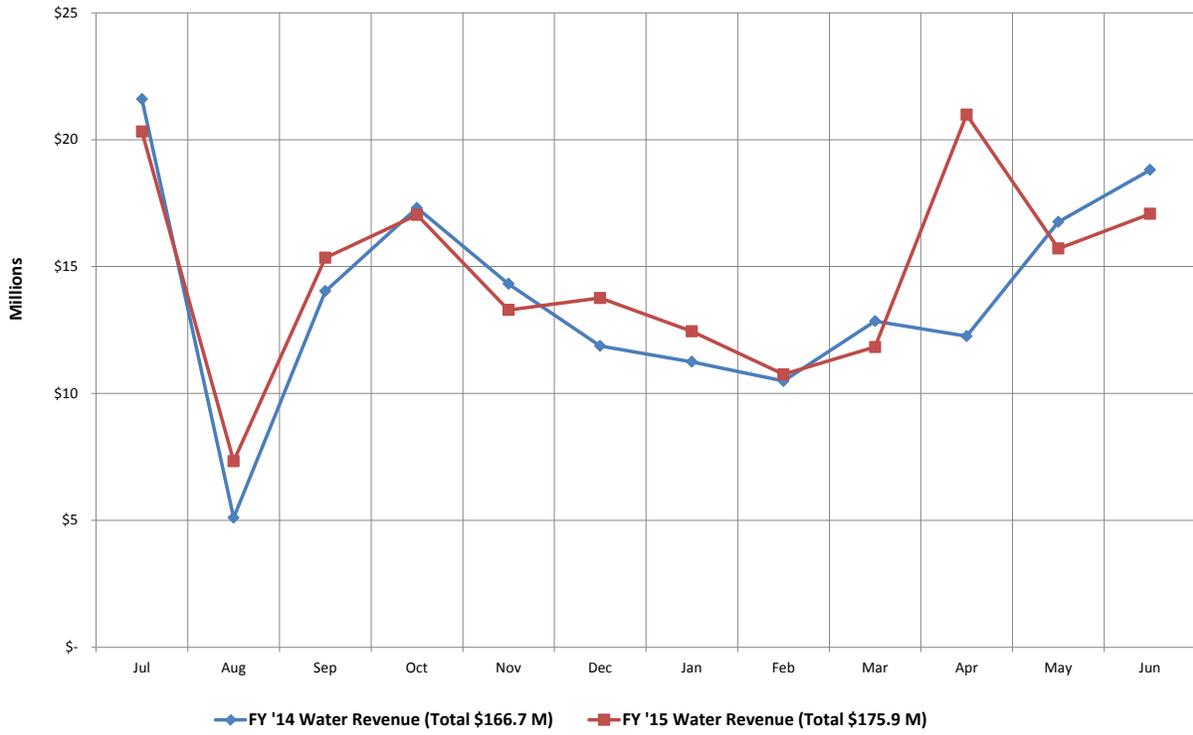
- **FY '15 Revenues - totaled \$175.9 M**
 - An increase of \$9.2 M (5.5%) over the prior year total of 166.7 M
 - Below budgeted revenue (\$189 M) by 6.9% (\$13.1 M)

- **Water Revenue Bonds – total proceeds \$22.7 M**

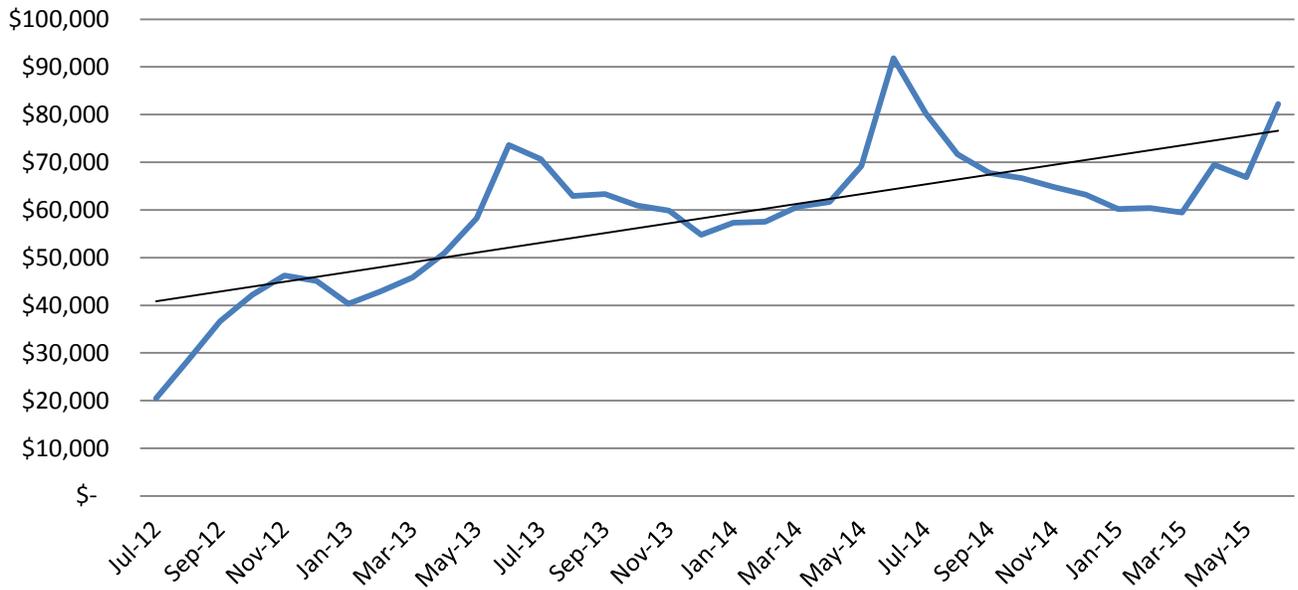
- **FY '15 Operating & Maintenance (O&M) Expenses – Totaled \$159.1 M**
 - Below budgeted expenses (\$164 M) by \$4.9 M (3%)

- **FY '15 Capital Budget (CIP) Expenses – Totaled \$43.5 M**
 - Budgeted expenses totaled \$73.7 M
 - CIP Carryforward totaled \$18 M

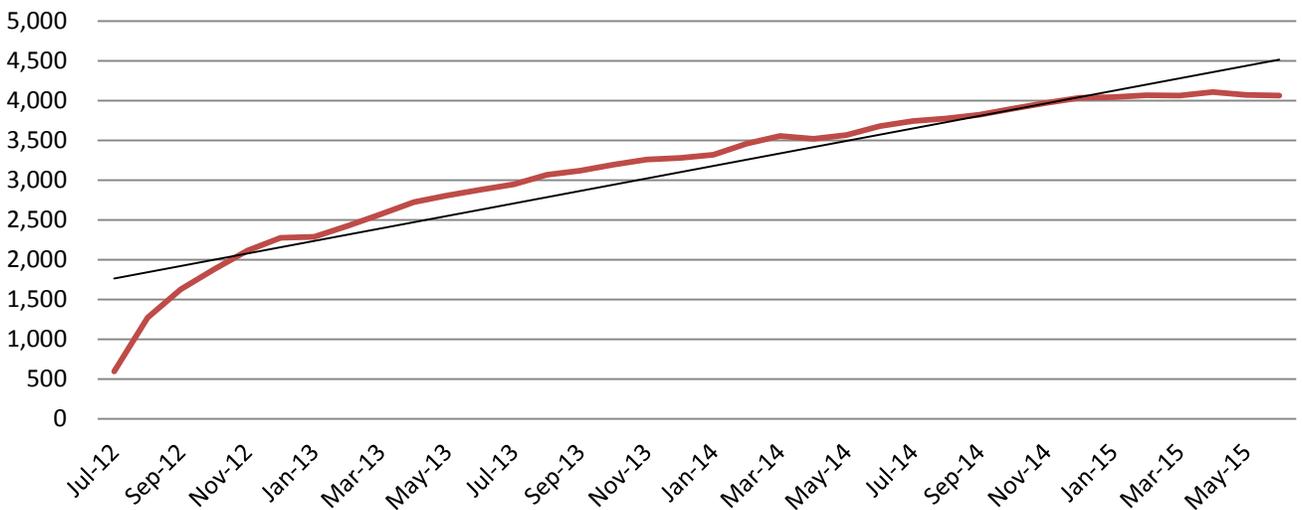
Water Revenues by Month - FY '14 vs. FY '15



Low Income Monthly Payments Total



Low Income Participant Counts



Low Income Prog. Average Payment

