



CITIZENS' WATER ADVISORY COMMITTEE (CWAC)

Wednesday, January 13, 2016, 7:00 a.m.
Director's Conference Room
Tucson Water, 3rd Floor
310 W. Alameda Street, Tucson, Arizona

Legal Action Report

1. Roll Call:

The meeting was called to order by CWAC Chair Brian Wong at 7:05 a.m. Those present and absent were:

Present:

Brian Wong	Chairperson, Representative, City Manager
Mark Murphy	Representative, Mayor
Catlow Shippek	Representative, City Manager
Mark Taylor	Representative, City Manager
Placido dos Santos	Representative, City Manager
Chuck Freitas	Representative, City Manager
Mark Stratton	Representative, City Manager
Ryan Lee	Representative, Ward 1
Michelle Crow	Representative, Ward 2
Bruce Billings	Representative, Ward 3 (arrived after roll call)
Mark Lewis	Vice Chair, Representative, Ward 5
Albert Elias	Tucson Water, Acting Director, Ex-Officio Member

Absent:

Mitch Basefsky	Representative, City Manager
Jean McLain	Representative, City Manager
George White	Representative, Ward 4
Kelly Lee	Representative, Ward 6
Jackson Jenkins	Pima County Regional Wastewater Reclamation Department Director, Ex-Officio Member

Tucson Water Staff Present:

Sandy Elder	Deputy Director
Scott Clark	Deputy Director
Jeff Biggs	Water Administrator
Melodee Loyer	Water Administrator
Britt Klein	Water Administrator
Andrew Greenhill	Intergovernmental Affairs Manager
Fernando Molina	Water Program Superintendent
Daniel Ransom	Water Conservation Supervisor
Richard Sarti	Engineering Manager
Candice Rupprecht	Public Information Specialist
Joaquim Delgado	Public Information Specialist
Rebecca Spry	Staff Assistant
Johanna Hernandez	Staff Assistant
Kris LaFleur	Staff Assistant

Others Present:

Chris Avery	City of Tucson, Attorney's Office
Amy Stabler	City of Tucson, Ward 6
David Ortega	City of Tucson, Budget
Silvia Amparano	City of Tucson, Finance
Harold Smith	Raftelis Financial Consultants
Bill Davis	Piper Jaffray
Michael Block	Metro Water
Patty Rotondi	Metro Water
Betsy Wilkening	AZ Project WET
Mark Day	Citizen

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2. **Announcements¹** – Chairperson Wong welcomed Michelle Crow to the Committee. Member Crow is the newly appointed representative for Ward 2. Member Crow provided a brief introduction.
3. **Call to Audience** – None
4. **Review of December 3, 2015 Legal Action Report and Meeting Minutes** – Committee Member Freitas motioned to approve the Meeting Minutes of December 3, 2015. Member Billings seconded. Motion passed unanimously by a voice-vote of 10-0.

5. Director's Report –

- a. **Mayor and Council Items** – On the January 20th consent agenda, Mayor and Council will consider a real estate item to sell a parcel of land and purchase a parcel of land to relocate the Santa Cruz Wellfield treatment facility.

Member Crow arrived at 7:10 a.m.

On February 19th, Mayor and Council will consider and item continued from the January 5th agenda, the commemorative naming of the solar array at CAVSARP for former Council Member Steve Leal.

- b. **Department Updates** – Tucson Water currently has 54 vacancies, 6 active recruitments, and 7 pending new hires. The Utility is coordinating filling its vacancies with the City. Transfers between the general fund and the enterprise fund will include lateral transfers, demotions, and promotions. The City is currently addressing a \$42 million shortfall. Many incentives and techniques are being utilized to provide relief to the general fund including retirement incentives of 3 months' pay, cuts of underperforming probationary employees, and possibly layoffs. City staff is also considering methods to increase revenues.
- c. **Informational Items** – Potable water production is down about 5% from this time last fiscal year, the decreases are partially accounted for in the Utility's projections for reductions of demand; likewise, reclaimed production is down about 10% from this time last fiscal year.

The City has been in discussions with an individual and an offer has been made for the Tucson Water Director position. Further information will be provided when discussions are concluded.

6. Subcommittee Reports –

Technical, Policy, and Planning Subcommittee – Member Wong reported that the last TPP meeting was canceled due to lack of quorum.

Finance Subcommittee – Subcommittee Chair Billings reported that the Subcommittee reviewed the revised Tucson Water Financial Plan; the Plan is scheduled for discussion by the Committee on today's agenda. The Subcommittee requested that the CWAC consider sending a letter to the Mayor and Council requesting explicit policy direction on the inclusion of the PILOT and Low Income program in the Tucson Water budget.

Conservation and Education Subcommittee – Subcommittee Chair Shipek reported that the Subcommittee has several presentations scheduled for a meeting later today. The Subcommittee will meet in February to discuss the midterm report, and new programs.

Bill Redesign Ad-Hoc – Subcommittee Chair Freitas reported that the Subcommittee is awaiting results from the focus groups; a meeting will be scheduled after the focus groups are completed.

RWRAC Update – Member Taylor reported that RWRAC is working on recommendations on the FY16 financial plan.

7. **Commemorative Naming of CAVSARP Solar Array** – Tucson Water staff member Andrew Greenhill discussed Council Member Uhlich's and Council Member Fimbres' proposal for the commemorative naming of the CAVSARP solar array after former Council Member Steve Leal. A brief history of Council Member Leal was provided, including his proposal of a feasibility study for the production of solar power on Tucson Water's Avra Valley properties. On January 5th, Mayor and Council approved the commencement of the process, as outlined by Administrative Directive, to commemoratively name the CAVSARP solar array for former Council

¹ Item addressed in order with no announcements and taken out of order prior to item 9 for introductions

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Member Steve Leal. The Utility will engage in public input for the proposed naming. Mr. Greenhill invited CWAC to provide input, and noted that additional outreach will be engaged in as well. A brief discussion was held regarding costs associated with the naming process.

Member Crow departed at 7:21 a.m. and returned 7:24 a.m.

8. **Discussion of Tucson Water's Financial Plan** – Deputy Director Scott Clark discussed the current state of the Tucson Water Financial Plan. The Financial Plan must address Tucson Water revenue shortfalls resulting from decreased demands; the Water Bank's contractual election not to purchase long-term storage credits this year, and the shifting of funds from Capital to Operations & Maintenance. Taking these considerations into account the Utility presented the Finance Subcommittee with a revised plan for a 9.8% revenue increase. The Finance Subcommittee approved the revised plan for Committee consideration. After discussions with the City Manager, the Utility was directed to reevaluate the revenue request. Tucson Water's rates needs to be considered in the context of the citizen's ability to fund government in general. The Utility was directed to consider a rate structure focused on fixed costs, and to consider all programs optional. Scenarios reflecting a maintenance budget (0% increase, Utility absorbs new costs), a costs only budget, and a costs plus prioritized policy and programs are being developed for City Manager consideration. Each scenario will be considered in terms of the risks and consequences of reduced revenues. The Committee is not being asked to vote on a Financial Plan at this time; however, staff is requesting Committee feedback on today's discussion.

The Committee and staff discussed: ordering Tucson's full CAP allocation; alternative rate structures; payment of the PILOT; the level of the low income program; how other utilities (water and non-water) are responding to issues related to rate structures and conservation; the continued viability of the enterprise model; the continued need for the \$.02 increase of the conservation fund; the return of investment on any economic development investment; the breakdown of affordability by region/ward instead of city/county wide; the role of sewer rates; the Tucson Regional Water report on future cost of CAP; the possibility of reduction of capital investment as a result of reductions of demand; meter reading schedule adjustment; and the role of vacant positions.

The Utility's goal is to complete the financial process by June 30th; the schedule will become more clear as we receive guidance in the coming days and weeks.

Member Lewis departed at 8:08 a.m. and returned at 8:09 a.m.

9. **Bond Council Presentation²** – Tucson Water staff member Melodee Loyer introduced the bond council presentation. The Utility utilizes debt to manage capital investments, providing for water reliability. Debt financing allows Tucson Water to balance equity and affordability in its rates. Ms. Loyer briefly reviewed programs and assets that are, at least partially, funded through bonds. Mr. Bill Davis, financial advisor to the City of Tucson, provided a debt overview. There are multiple types of debt: Water Revenue Bonds and Water Infrastructure Financing Authority (WIFA) loans both require voter approval, Water Revenue Obligations do not require voter approval. Two important aspects for rating agencies are debt service coverage and days of working capital. The Sr. Lien coverage requirement is no less than 175%, the goal is no less than 185%; the industry standard for working capital is over 300 days, the goal for working capital is no less than 85 days. Not meeting the requirements or goals for these aspects would negatively affect the Utility's bond ratings. Tucson Water's projected annual debt service was reviewed in terms of principal and total debt service, assuming no additional bonds were sold, and the effect of capital expenses on revenue requirements. Tucson Water currently has an AA stable rating. Chairperson Wong requested the rating agency reports be sent to the Committee for review. The City is currently reviewing bonds for possible refunding, which is a way to get refunds on existing bonds through interest savings. The general process for debt financing was reviewed.
10. **Open Meeting Law Review** – Tucson Water staff member Johanna Hernandez reviewed the Open Meeting Law (OML), as it applies to CWAC. Staff discussed OML in regards to meeting notices/legal action reports/minutes/recordings, quorum requirements, audience attendance/participation, acceptable discussion items, violation of OML, and what to be careful of. Brief discussion was held on acceptable communications between members outside of meetings.
11. **Future Meetings/Agenda Items** – Vice Chair Lewis submitted a list to Chair Wong for consideration. See projected agenda for additional details.
12. **Adjournment** – Meeting was adjourned at 8:52 a.m.

² Item taken out of order, before item 8



Citizens' Water Advisory Committee (CWAC)

January 13, 2016

**Melodee Loyer, Administrator Tucson Water
William Davis, Managing Director, Piper Jaffray & Co**

Agenda

- **Tucson Water Debt Utilization**
- **Overview of Tucson Water Debt**
 - **Types**
 - **Outstanding Debt & Coverage Ratios**
 - **Annual Debt Service**
 - **Ratings**
- **Debt Financing Process**



Debt Utilization

Debt Financing Ensures....



WaterReliability

The Water Reliability Program includes projects and programs that ensure we have a reliable water supply and water system – today & in the future

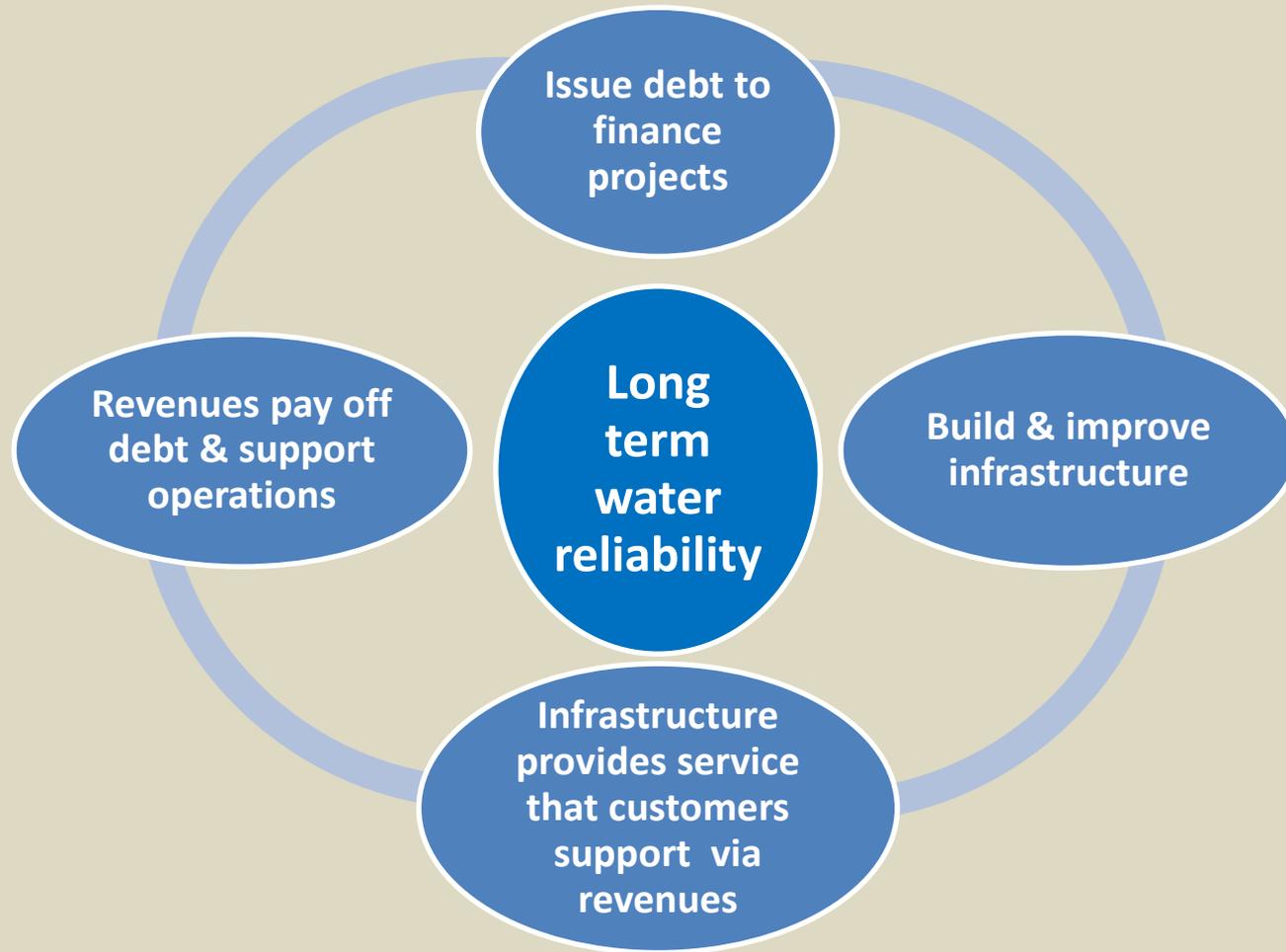


Balancing Equity & Affordability

- ***“... at 0.8% of median household income (MHI), current rates are low for the area and are below Fitch’s affordability threshold of 1% of MHI. Fitch expects this rate to remain affordable over the intermediate term”***
- ***Fitch Ratings January 2015***



Capital Investment & Revenue Generation



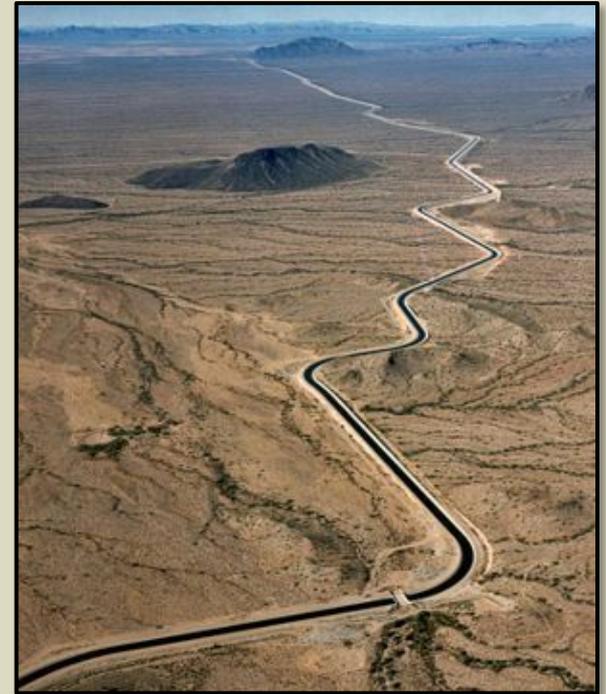
Strategic Capital Investment Program

- Smart Meter Replacement Program
- Water line relocations
- Reservoir Rehabilitation Program
- Recycled Water Program
- Supervisory Control and Data Acquisition System (SCADA) improvements
- Santa Cruz Wellfield upgrade



Tucson Water's \$1 Billion in Assets

- 280 million gallons of reservoir storage
- 4,600 miles of water mains
- 85,400 valves
- 253,300 installed meters
- 21,600 fire hydrants
- More than 200 wells



Plus recharge basins, pumping stations and more



Debt Overview

Types of Debt

- Water Revenue Bonds – a pledge of water revenues that require voter authorization
- Water Revenue Obligations – a pledge of water revenues that do not require voter authorization
- Water Infrastructure Financing Authority (WIFA) Loans – a pledge of water revenues that require voter authorization



Tucson Water Debt Overview

Debt Type	Principal Outstanding*
Bonds and Obligations (Sr. Lien)	\$ 461,465,000
WIFA Loans (Jr. Lien)	\$ 58,220,000
Total Principal Outstanding	\$ 519,685,000

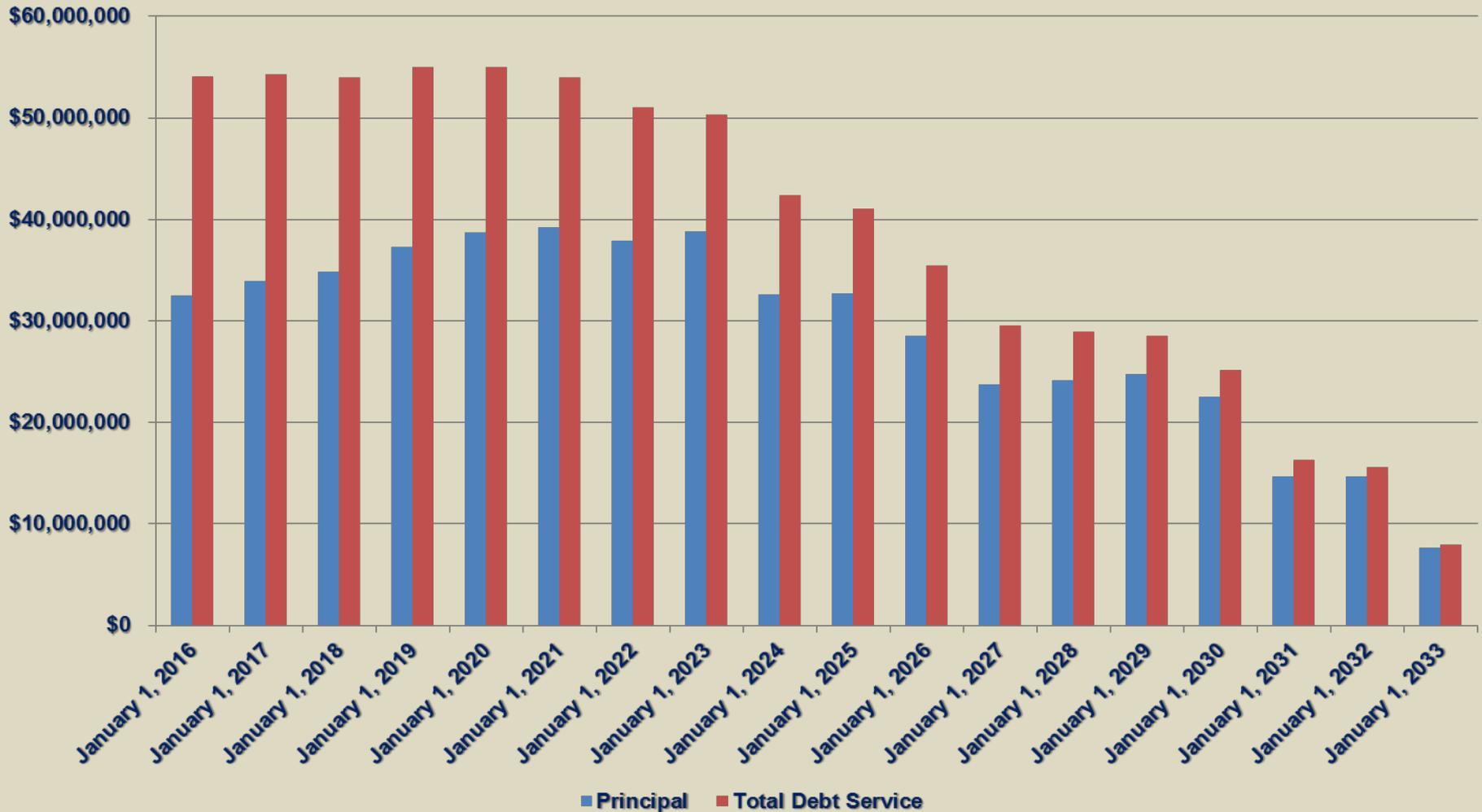
Debt Service Coverage: All Debt**						Debt Service Coverage: Senior Lien**					
2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
173%	169%	177%	179%	185%	193%	200%	194%	202%	201%	206%	215%
*M&C Policy = 175%						*Bond Covenant = 175%					

Working Capital/Cash Reserves**						
	2015	2016	2017	2018	2019	2020
Working Capital Cash Reserves	\$35.0M	\$30.9M	\$31.5M	\$31.9M	\$32.7M	\$33.6M
Days Working Capital	121	100	100	99	100	100

*As of FY Ending June 30, 2015 ** Adopted by M&C Feb. 18, 2015



Tucson Water Annual Debt Service



Tucson Water Ratings

(As of June 2015)

Agency	Moody's	S&P	Fitch
Rating	Aa2	AA	AA
Outlook	Stable	Stable	Stable

Rating Comments:

Moody's:

Aa2 rating reflects large, primarily large residential service area; satisfactory financial operations that include adequate debt service coverage levels and available liquidity; and strong governance and management of the system.

S&P:

Large service area, below average service rates for a water system with sufficient supply and treatment capacity; historically strong financial operations with minimum targeted coverage levels; and management's multi-year capital and operating plan which incorporates rate increases and additional debt issuances.



Tucson Water FY 2016 Debt Plans

- Water Revenue Refunding Bonds
 - \$72.5M Refunding
 - Refund existing maturities for interest savings
 - March 2016
- Water Revenue Obligations
 - Approximately \$25M – final amount yet to be determined
 - New money issue to fund infrastructure needs
 - June 2016



Debt Financing Process

Debt Financing Process

CWAC Review of Financial Plan



Understand Funding Requirements



Submit Recommendations to Mayor and Council



Financial Plan adopted by Mayor and Council



Finance Begins Working with FA on Financing



Present and Receive Ratings From Rating Agencies



Issue Debt and Receive Proceeds



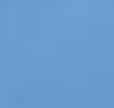
Questions or Comments



Open Meeting Law Refresher



CWAC January 13, 2016



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What is Open Meeting Law (OML)?

- State Law ARS 38-431 thru 38-431.09



- Meetings of public body are conducted openly, with notices and agenda that reflect the activity of the committee

- Provides public access to the government, and ensures transparency



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Aspects of OML

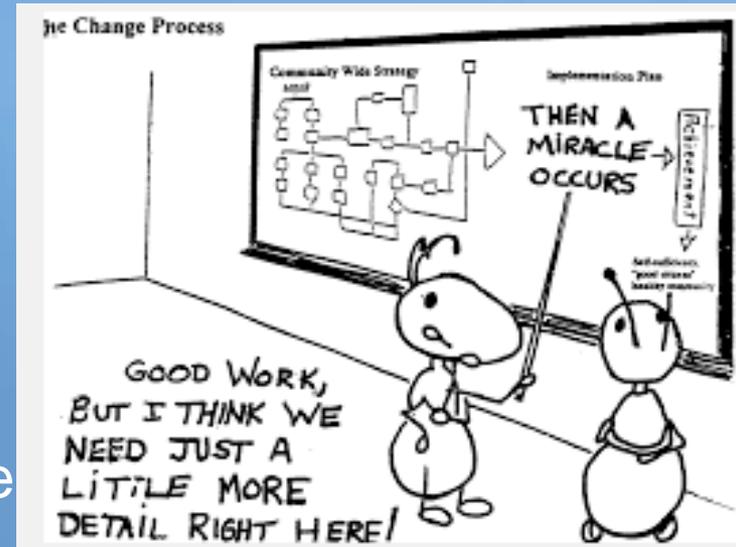
✓ Public must be permitted to attend, *not participate*

✓ Legal Action must occur in a public meeting

✓ Written LAR and Minutes/recording required

✓ Public notice

✓ Location to accommodate reasonable estimate of attendees



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What is a Meeting?

Three Trustees
Walk Into a Tavern...
Did a Public Meeting
Break Out?

- A gathering, in person OR through *technological devices*, of a quorum of a Committee or Subcommittee at which legal action is taken, discussed, proposed, or deliberated



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What Happens at a Meeting

- ✓ Agenda must be transparent of meeting content
- ✓ Quorum established (51% of voting members)
- ✓ Call to Audiences (optional)
- ✓ Executive Sessions
- ✓ Legal Action Report
- ✓ Minutes



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Quorum Issues



- Meetings can only be called to order when a quorum is present
- Meetings can be delayed or recessed 15 minutes to establish a quorum, and then the meeting is canceled
- Cancellation notice is posted and sent to Boards and Commissions
- LAR/Minutes reflect cancellation



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Call to the Audience

- Is not required and is not participatory
- Public may express thoughts to Committee
- Committee can not discuss, responses are limited to:
 - A request for staff to follow-up
 - A request for a future agenda item
 - A response to a direct criticism



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What About Discussion?



Citizens' Water Advisory Committee
P.O. Box 27210
Tucson, AZ 85726-7210
(520)791-4213 (Voice)
(520)791-2639 (TDD)
(520)791-4017 (FAX)

MEETING NOTICE

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Citizens' Water Advisory Committee and to the general public that the Commission will hold the following meeting which will be open to the public on:

CITIZENS' WATER ADVISORY COMMITTEE
Wednesday, January 13, 2016 – 7:00am
Tucson Water – Director's Office Conference Room
310 W. Alameda – 3rd Floor, Tucson AZ, 85701

Please enter the building using the public elevator in the basement garage (the garage entrance is on Granada Avenue), and sign in at the security desk on the 1st floor to get a badge before proceeding to the 3rd floor.

AGENDA

1. Roll Call /Call to Order
2. Announcements
3. Call to Audience
4. Review of December 3, 2015 Legal Action Report and Meeting Minutes
5. Director's Report, Albert Elias, Acting Director – (5 minutes)
 - (a) Mayor and Council Items
 - (b) Department Updates
 - (c) Other Items
6. Subcommittee Reports – (5 minutes)
 - Technical, Policy, and Planning Subcommittee - Bill Redesign Ad-Hoc Subcommittee
 - Finance Subcommittee - RWRAC update
 - Conservation and Education Subcommittee
7. Tucson Water Financial Plan – Scott Clark (45 present/15 discuss)
8. Bond Council Presentation – Bill Davis (25 min present/5 discuss)
9. Open Meeting Law – Johanna Hernandez (15 min present/5 discuss)
10. Future Meetings / Agenda Items
11. Adjournment

DO Discuss:

- Items that are agendaized with specific topics for discussion

DO NOT Discuss:

- General Topic Update Items (Announcements, Director's Report, Subcommittee Reports)
- Call to the Audience

It Depends...

- Future Agenda Items: you may discuss what you want to discuss in the future...but you may not discuss the actual topic
- Director's Report/Subcommittee Reports: You may only discuss if items are specifically agendaized

Action may be taken on any item.

Next CWAC Meeting: February 3, 2016

If you require an accommodation, materials in accessible format, a foreign language interpreter, or materials in a language other than English for this event, please call Johanna Hernandez at 837-2083 or email johanna.hernandez@tucsonaz.gov at least 2 business days in advance.



Violations of OML

- Email communications between members via email may violate OML, even if action isn't taken or no responses are sent
- Daisy Chain Communications
- Spoke and Wheel Communications



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Subcommittee Attendance

- Attendance at Subcommittee meetings, by members not appointed to the Subcommittee is encouraged...BUT...**be careful**
- Non-members
 - Do NOT count towards quorum
 - Can NOT vote
 - Can NOT participate in discussion
 - CAN *only* speak during Call to the Audience, can not ask questions
 - Can NOT discuss meeting content with other members



If the a quorum of the full Committee is reached by the presence of non-members (Finance/C&E)...

- ~Non-members can NOT participate in any part of the meeting *including* call to the audience
- ~Non-members should consider leaving the meeting and following-up with the LAR and recording



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Beware...

DON'T

- Consensus build
- Wander off agenda
- Communicate between meetings about meetings



DO

- Communicate through staff



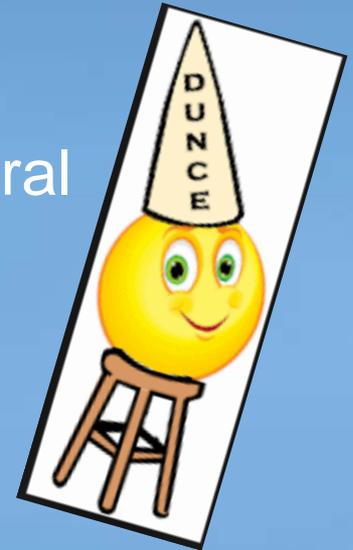
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What Happens If...

- OML is enforced by the State Attorney General
- Violations result in:
 - Personal liability
 - Fines of up to \$500
 - Removal from commission
 - No legal representation provided



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Questions?



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Citizens' Water Advisory Committee

Projected Agenda



Meeting Date/Agenda Items

Materials Deadline

February 3, 2016

- Adoption of Tucson Water Financial Plan
- Approval of Conservation Annual Report

January 27, 2016

March 2, 2016

- Adoption of Tucson Water Rate Schedule
- Avra Valley Communications Plan

February 24, 2016

April 6, 2016

March 30, 2016

Future Agenda Items without a Date:

- Effluent Sales and ground water use Analysis **Wally
- Staff Report on History of Pool Conservation **C&E
- Presentation of CWAC research findings by Julie Brugger (C Freitas)
- CAP/TW Shortage and Drought Presentation **Mitch/Wally (May)
- Green Streets Presentation OIP
- Water Conservation efforts in CA (J Jenkins)
- M&C Water Policies