

CITIZENS' WATER ADVISORY COMMITTEE (CWAC)

Finance Subcommittee

3 p.m., Wednesday, January 28, 2016
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 3:00 p.m. Those present were:

Members Present:

Bruce Billings (Chair)	Representative, Ward 3
Mark Lewis	Representative, Ward 5
Chuck Freitas	Representative, City Manager
Catlow Shipek	Representative, City Manager
Mark Stratton *	Representative, City Manager
Mark Taylor *	Representative, City Manager
Brian Wong	Representative, City Manager

* Member Stratton arrived at 3:01; Member Taylor arrived at 3:03

Tucson Water Staff Members:

Albert Elias	Acting Director / Assistant City Manager
Sandy Elder	Deputy Director
Scott Clark	Deputy Director
Fernando Molina	Public Information Supervisor
Wally Wilson	Chief Hydrologist
Steve Ritter	Finance Management Coordinator
Theresa Bourne	Lead Financial Accountant
Suzanna Snyder	Staff Assistant
Johanna Hernandez	Staff Assistant
Kris LaFleur	Staff Assistant

Others Present

Amy Stabler	Ward 6 Council Aide
W Mark Day	

Via Conference Call

Deb Galardi	Galardi Rothstein Group
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2. **Announcements** – Member Freitas referred to comments he said were made by former Vice-President Al Gore in 2006, regarding climate change and fossil fuel use. Member Freitas was happy to announce “we are still here,” despite predictions he attributed to Mr. Gore.

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3. **Call to Audience** – There were no audience comments.
4. **Review of January 21, 2016, Legal Action Report and approval of Meeting Minutes** – Subcommittee Members reviewed the Legal Action Report from the January 21, 2016, CWAC Finance Subcommittee meeting. Member Freitas moved to approve the Minutes; Member Shipek seconded the motion. The motion was carried by a vote of 6-0.
5. **FY 2016-2021 Financial Plan update** – Deputy Directory Scott Clark presented background on the current financial plan discussion, including a review of FY16 revenue projections and realities, a recap of previous financial plan scenarios discussed with the subcommittee, an explanation of guidance received from the City Manager, and a discussion of current city and county financial context.

Mr. Scott presented three revised FY16-21 financial plan proposals, reflecting a FY17 revenue increase of 5.4%, 6.1%, and 7%, respectively. All three proposals included a FY17 conservation fee increase of 2¢/ccf. All proposals projected annual revenue increases of 5% for FY18-21.

Mr. Scott explained the cuts to the Operations budget and Capital Improvement budget required to arrive at the 5.4%, 6.1%, and 7% models. He indicated that the 5.4% model represented the deepest budget cuts the utility could sustain without compromising its ability to meet debt payment metrics, public health and safety requirements, and Mayor & Council directives. He indicated that the 6.1% and 7.1% models represented the basic needs of the 5.4% model, plus the inclusion of priority Operations & Maintenance items.

Members and staff discussed the proposals at length. Staff fielded and answered questions from members.

Member Lewis moved to approve the 7% revenue increase option for discussion. Member Stratton seconded the motion. Members and staff discussed the motion.

Member Freitas indicated he would vote “no” on all three options, although he approved of two. He indicated he would vote “no” due to inclusion of Payment In-Lieu of Property Tax and Low-Income Assistance Program funding in all versions of the Tucson Water financial plan. He stated that his vote might change, pending future CWAC decisions in relation to these programs.

Member Wong raised concerns about inclusion of AOP funds in the financial plan, and inquired about the probability of funds being received in FY17, or contingency plans if funds were not received as planned. Staff and members discussed projections for receipt of the funds, and presented contingency plans.

Members and staff discussed projected CAP price increases, and indicated that future increases were included in the Financial Plan.

Member Taylor indicated that he was uncomfortable with revenue increases remaining at 5% for FY18-21 in the 5% plan. He also recommended that CWAC avoid forwarding any plan that would not be acceptable to M&C. He indicated that the 5.4% option under review would be difficult, but included key components such as full CAP allocation.

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Components that were cut, he said, could be picked up in later years. He recommended that CWAC send a strong message with the 5% plan that the remaining elements of the plan were too important to lose.

Member Stratton pointed out that the subcommittee previously recommended a 9.8% increase, and was now discussing 5.4%. He suggested that the 7% option would be a conservative approach, with 5.4% representing a "bare-bones" budget that could leave the utility financially unprepared.

Member Shipek added that, with a 7% option, holding projected increases at 5% for FY18-21 would send the message that cuts to the FY17 budget were "fluff," which he did not consider an appropriate message. Chair Billings agreed, and suggested that projected increases be set at 7% for FY18-21 in the 7% plan.

Member Lewis indicated that he didn't think a 7% increase for FY17 was high enough, based on previous staff presentations to the subcommittee. He acknowledged that the 7% increase was his preferred option among those currently presented to the subcommittee.

Member Wong suggested that it would be preferable for M&C to receive and accept a proposal for a 7% increase, than to forward a higher revenue increase that M&C might reject.

Member Freitas recommended forwarding the 5.4% revenue increase as an option, with a very strong message from staff regarding the risks of the plan.

Member Taylor requested an amendment to increase outer years in the 7% model to a 7% increase for each year. Members and staff discussed perception over actual application of increased revenues. Staff indicated that adding additional revenues to the capital improvement budget would have minimal impact on future financial plans, but putting funds in the operating & maintenance budget and its cash reserves would have a greater impact on the utility's operating abilities. Members Taylor and Shipek voiced agreement.

Member Lewis restated the amendment: If the 7% option were accepted, revenue increases for FY18-21 would also be projected at 7% annually, with additional revenues being allocated to O&M and improved metrics. Member Stratton seconded the amendment.

Member Shipek suggested sending a second option to Mayor & Council, along with the 7%. He recommended that the 6.1% plan be forwarded as an option, with projected revenue increases for FY18-21 also raised. Member Taylor seconded the motion.

Member Lewis indicated that he preferred a higher plan as alternate, but would accept 6.1% as an alternate.

Member Wong asked if 5% would be held as the projected increase for outer years on the 6.1% plan. Members discussed the question and felt that the FY18-21 projected increases should be raised accordingly. The amended vote was summarized as follows:

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The Financial Subcommittee recommended forwarding two financial plan models for consideration by the full CWAC. The subcommittee's preferred option would represent a 7% revenue increase for FY17, with projected annual increases of 7% for FY18-21. An alternate option would represent a 6.1% revenue increase for FY17, with projected annual increases of 6.1% for FY18-21.

A vote was taken on the amendment. The motion was amended on a voice vote of 4-3.

A vote was taken on the amended motion. The amended motion was carried on a voice vote of 4-3.

- 6. Draft communication re: Financial Plan alignment with M&C Policy** – Members considered a draft communication to Mayor & Council, which had been submitted to the subcommittee by Member Freitas at the request of Chair Billings, following previous subcommittee discussion. Members discussed CWAC's responsibilities in light of M&C water policies, focusing on three elements included in the current Tucson Water financial plan proposals: payment to the City in-lieu of property tax, funding of the low-income assistance program, and funding of public works projects.

Members discussed the intent and content of the communication. Chair Billings requested that Member Wong, as CWAC chair, revise the communication and submit it to full CWAC for consideration and approval.

- 7. Future Meetings / Agenda Items** – Future subcommittee meetings will be scheduled as staff proceeds with cost-of-service analysis.
- 8. Adjournment** – The meeting was adjourned at 4:38 p.m.

CWAC – Finance Subcommittee Financial Plan • 01.28.2016



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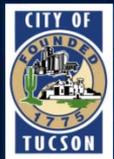


Purpose/Bottom Line Up Front

Purpose: Consider Financial Plans that reflect 5%, 6% and 7% revenue increase

Bottom Line Up Front:

- Revenue increase of 5.4% plus 2¢ conservation fund increase
 - Meets metrics
 - Senior Lien Coverage
 - Estimated Reserves
- Revenue increase of 7.0% plus 2¢ conservation fund increase
 - Meets metrics
 - Regulatory Compliance
 - Public health/life/ safety
 - Mayor and Council Directives
- Staff recommendation



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Background: Financial impacts

- 2016 Financial Plan vs. Reality
 - AZ Water Bank
 - Low-Income Program
 - Payment In Lieu of Taxes
 - Decline in Potable and Reclaimed production
- Preliminary 2017 Financial Plan
 - Projects shifted from CIP to O&M
 - Increased debt service, PILOT, COT administrative fees, employee health care costs



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Financial Plan

2016 vs 2017

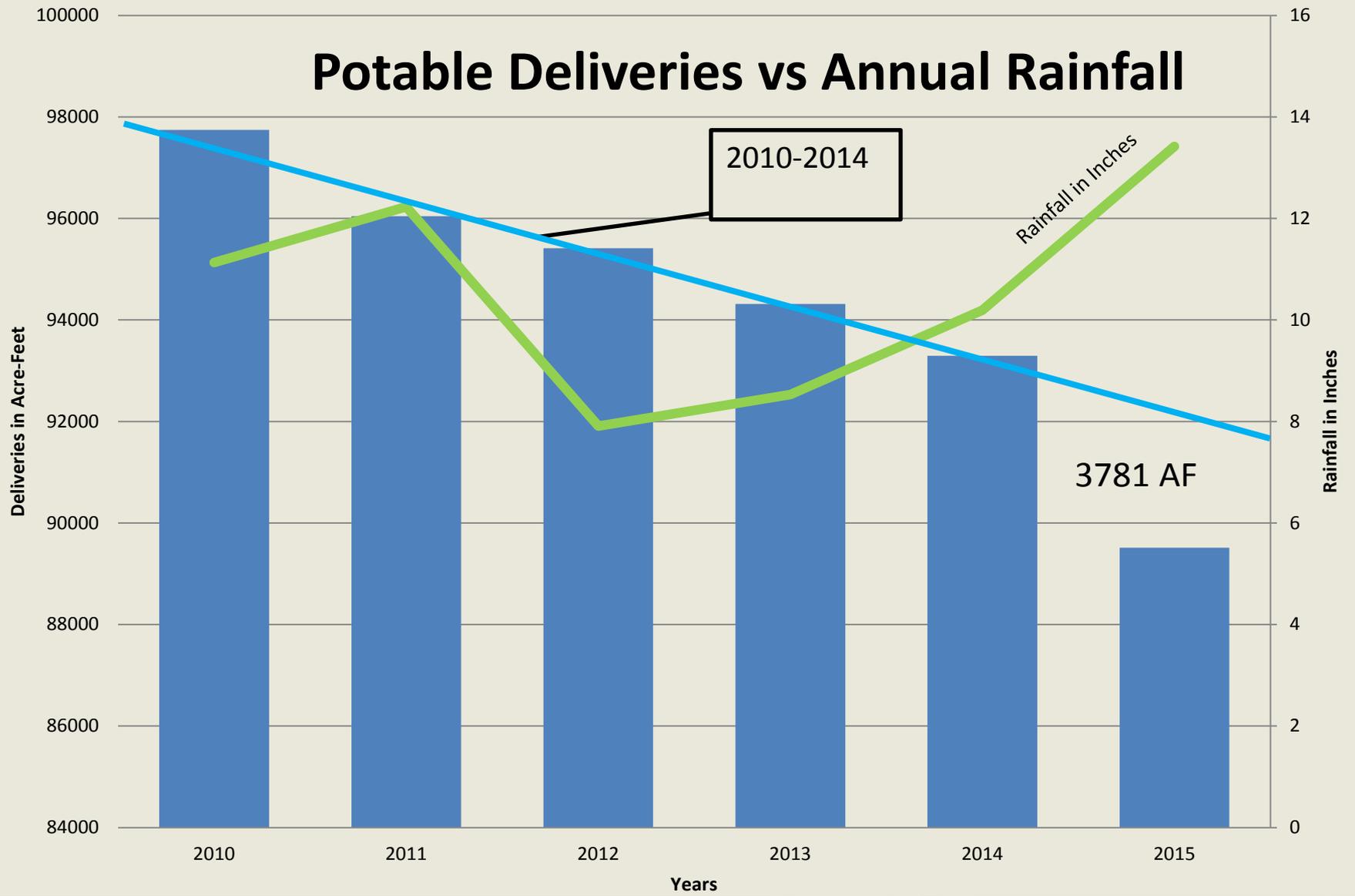
- Last Year – What was planned
 - 7.3 Revenue increase
- What happened
 - Arizona Water Bank \$3.2 million in unrealized revenue = 2% revenue loss
 - Payment in lieu of Taxes (Pilot) an increase of \$400,000 = .25% revenue increase
 - Low income program
 - Budgeted at \$520,000,
 - New estimate based on program growth
 - \$ \$925,000 = .25% revenue increase
- These items were not accounted for with escalators in the 2016 model.



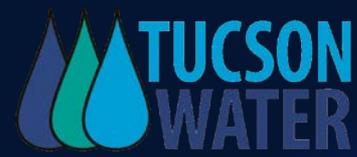
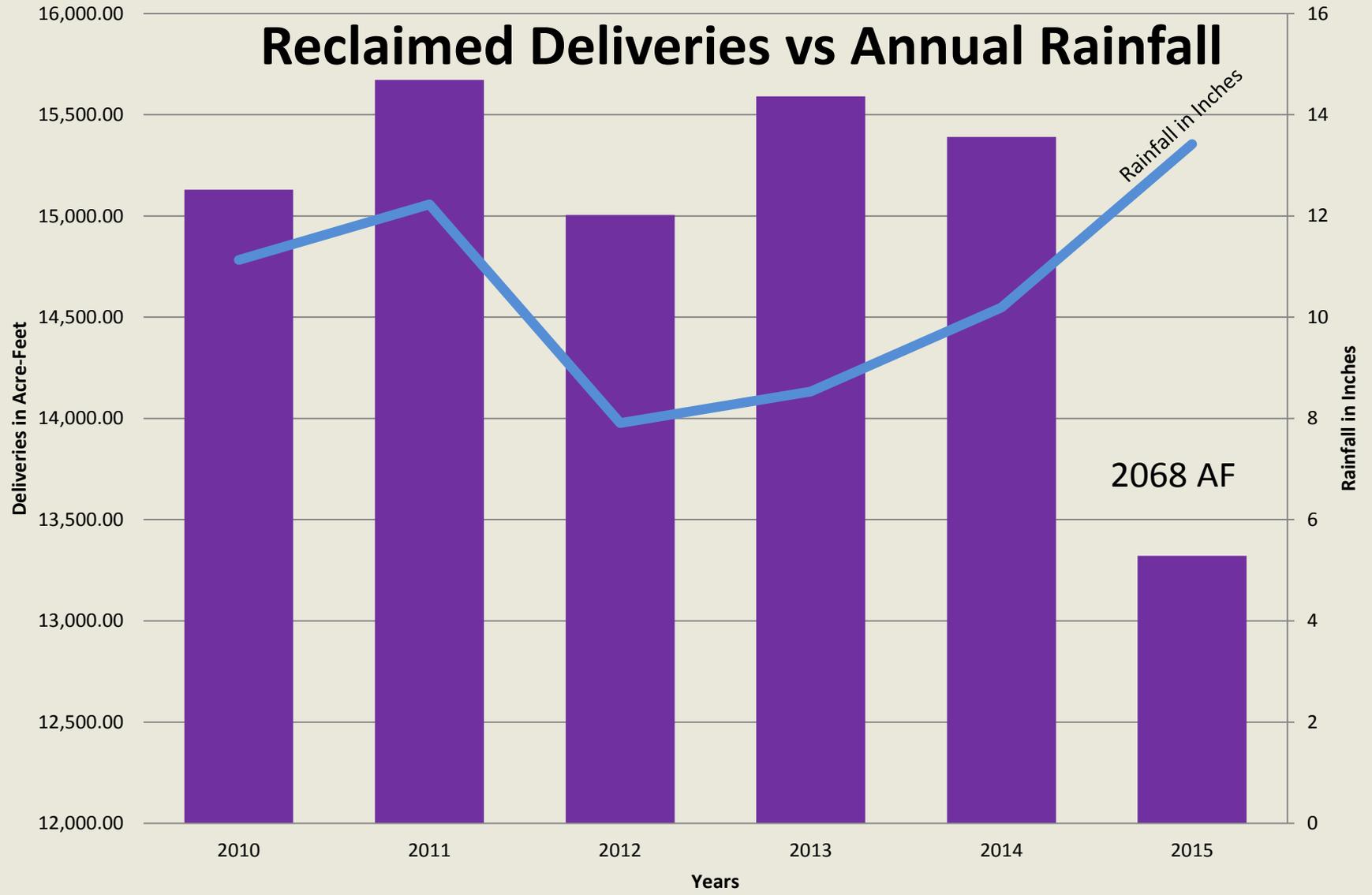
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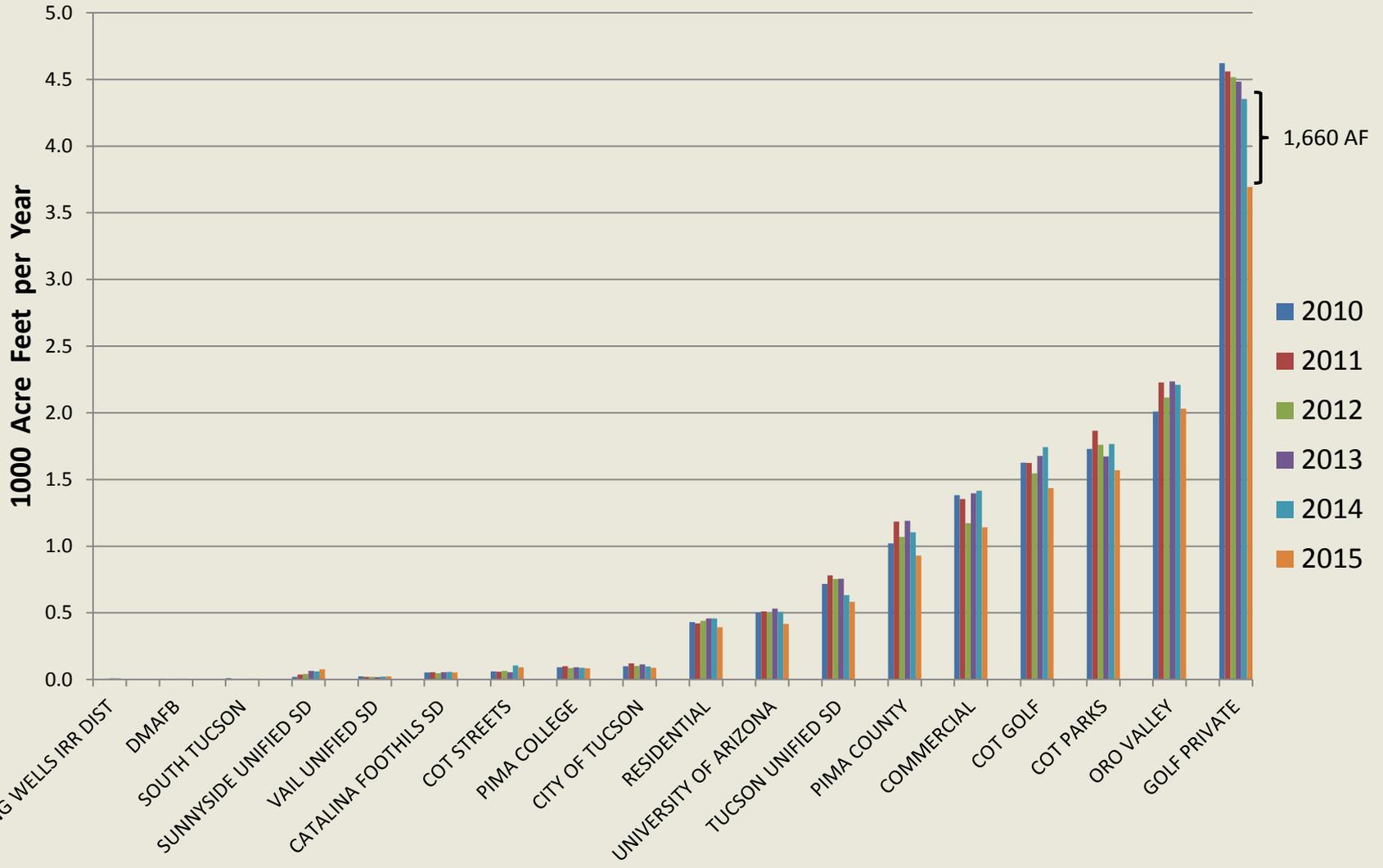
Potable Deliveries vs Annual Rainfall



Reclaimed Deliveries vs Annual Rainfall



Reclaimed Water Deliveries by Institution by Calendar Year



CITY OF TUCSON



Guidance from City Manager

- Cumulative cost of government
- Consider zero revenue increase, and incremental steps
 - Impacts to debt service
 - Operating capital
 - Regulatory compliance
 - Public health/life/safety
- Steps to address Guidance
 - Modeled revenue scenarios
 - 0%,3%, 5%, 6% &7%
 - Described impacts
 - Debt Service
 - Operating Capital
 - Operations and Maintenance
 - Water quality
 - Staffing
 - Public health/life/safety



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City / County Financial Climate

- Voter rejection of Pima County Bond package
- City of Tucson
 - Public Safety Pension Expense
 - M&C discussion
 - Sales Tax
 - Bonds
- Concern over voter tolerance for cumulative cost of governance.

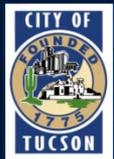


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Discussion

- Financial Plans
 - Metrics
 - Public health/life/safety
 - Mayor and Council Directive
- Subcommittee Recommendation



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TUCSON WATER FINANCIAL PLAN

FY2016-FY2021

**DRAFT FOR DISCUSSION PURPOSES 1-26-2016 w revised O&M incl 5%turn / inc. Sonoran /inc AOP funds
(\$1,000)**

LINE #		Fiscal Years Ending June 30:					
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
1	Projected Beginning Operating Working Capital	\$37,758	\$38,693	\$27,585	\$27,786	\$28,377	\$31,274
2	Beginning Infrastructure Fund	\$15,091	\$15,091	-\$109	\$2,508	\$4,731	\$4,731
2a	Carryover Bond Proceeds	\$7,048					
PROJECTED REVENUES:							
3	Water Sales (existing rates)	\$170,089	\$167,808	\$166,440	\$165,826	\$165,718	\$165,663
4	Water Sales Increases from Rate Adjustments:						
	FY 2017	5.40%	\$9,062	\$8,988	\$8,955	\$8,949	\$8,946
	FY 2018	5.00%		\$8,470	\$8,439	\$8,434	\$8,431
	FY 2019	5.00%			\$8,578	\$8,573	\$8,570
	FY 2020	5.00%				\$8,714	\$8,711
	FY 2021	5.00%					\$8,855
	Total from Rate Adjustments		\$9,062	\$17,458	\$25,972	\$34,669	\$43,513
5	Water Sales (including Rate Adjustments)	\$170,089	\$176,869	\$183,898	\$191,798	\$200,388	\$209,175
6	Other Water Revenues/Sources	\$17,944	\$19,115	\$19,134	\$15,134	\$15,204	\$15,276
6A	System Equity Fee	\$2,200	\$2,200	\$2,300	\$2,400	\$2,450	\$2,500
6B	CAP Water Resource Fee	\$325	\$325	\$350	\$375	\$375	\$375
7	Total Revenues/Sources	\$190,557	\$198,509	\$205,682	\$209,706	\$218,417	\$227,326
PROJECTED REQUIREMENTS:							
8	O & M Expense	\$98,185	\$102,324	\$105,914	\$108,289	\$112,004	\$115,883
9	Utility Tax Embedded in Water Sales Revenues	\$4,082	\$4,237	\$4,397	\$4,579	\$4,777	\$4,980
10	Debt Service	\$51,938	\$52,427	\$53,450	\$56,754	\$58,519	\$58,369
11	Other Requirements	\$1,914	\$3,429	\$2,378	\$2,320	\$2,147	\$2,178
12	In Lieu of Tax	\$1,600	\$2,000	\$2,020	\$2,041	\$2,062	\$2,083
13	Low Income Program	\$875	\$925	\$934	\$944	\$954	\$963
14	Transfer to Infrastructure Fund	\$0	\$0	\$2,617	\$2,223	\$0	\$0
15	Capital from Water Revenues	\$21,038	\$33,964	\$23,324	\$21,384	\$24,338	\$27,703
16	Administrative Service Charge(direct/indirect)	\$9,990	\$10,312	\$10,446	\$10,581	\$10,719	\$10,858
17	Total Requirements	\$189,622	\$209,617	\$205,481	\$209,114	\$215,520	\$223,018
18	Projected Ending Operating Working Capital/Reserve	\$38,693	\$27,585	\$27,786	\$28,377	\$31,274	\$35,583
19	Estimated Reserves As % of Sales Revenue	22.7%	15.6%	15.1%	14.8%	15.6%	17.0%
20	Estimated Reserves as Days of O&M	128	87	85	85	91	100
OTHER SIGNIFICANT DATA/PROJECTIONS:							
21	% Increases: Water Sales Rates/Revenue	N/A	5.4%	5.0%	5.0%	5.0%	5.0%
22	Debt Service Coverage (All Debt)	164.0%	161.0%	165.0%	165.0%	168.0%	176.0%
22a	Coverage: Senior Lien Debt	189.0%	186.0%	187.0%	186.0%	189.0%	195.0%
23	Capital Improvement Program (CIP)	\$51,431	\$56,098	\$46,539	\$53,297	\$40,492	\$34,602
Debt Sales:							
24	Water System Revenue Obligations/Bonds	\$4,161	\$16,703	\$28,434	\$22,458	\$10,601	\$8,820
25	WIFA Loan	\$275	\$0	\$0	\$0	\$0	\$0
26	% of CIP from Current Revenue	59%					

FY 2017 Operating Budget Request at 5% Revenue Increase Request

	FY 2016 Adopted Budget	FY 2017 Requested Budget	Change
Requested O&M Budget	\$172,069,690	\$179,652,870	\$7,583,180
Non Discretionary		84% of total budget	
Debt Service	\$53,511,000	\$56,666,770	\$3,155,770
Salaries (includes 5% turnover credit)	35,196,481	35,719,940	523,459
CAP	26,316,020	27,252,100	936,080
Power	15,913,825	15,422,420	(491,405)
Admin Service Charge (Direct/Indirect)	9,990,440	10,307,957	317,517
In Lieu property	1,600,000	2,000,000	400,000
Legal	600,000	860,000	260,000
Low Income Program	525,000	900,000	375,000
Others include TARP and AOP maintena	687,120	1,727,200	1,040,080
Conservation Loan Program*		300,000	300,000
Stormwater Neighborhood Projects*		350,000	350,000
Total:	\$144,339,886	\$151,506,387	\$7,166,501
Discretionary			
CIPs to O&M		\$1,975,000	\$1,975,000
Additional Vehicles	714,000	2,000,000	1,286,000
Other misc. net reductions		(3,670,957)	(3,670,957)
New CSRs, Customer Service Training, Web Master, AMI PM		576,636	576,636
Utility Billing Upgrades		250,000	250,000
Total:		\$1,130,679	\$416,679
Total FY2017 Increase:			\$7,583,180
<i>*Conservation Fund</i>			
Operating Request as of November Presentation			\$ 188,220,482
Total Reductions Department-wide			(8,567,612)
Operating Request for 5% Revenue Request			\$ 179,652,870
CIP Request as of October Presentation			\$ 280,138,000
Total CIP Reductions			(49,069,000)
CIP Request for 5% Revenue Request			\$ 231,069,000

TUCSON WATER FINANCIAL PLAN

FY2016-FY2021

DRAFT FOR DISCUSSION PURPOSES 1-26-2016 w revised O&M incl 6%turn / inc. Sonoran /inc AOP funds
(\$1,000)

LINE #		Fiscal Years Ending June 30:					
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
1	Projected Beginning Operating Working Capital	\$37,758	\$38,693	\$27,669	\$28,018	\$28,552	\$31,137
2	Beginning Infrastructure Fund	\$15,091	\$15,091	-\$109	\$370	\$784	\$784
2a	Carryover Bond Proceeds	\$7,048					
PROJECTED REVENUES:							
3	Water Sales (existing rates)	\$170,089	\$167,808	\$166,440	\$165,826	\$165,718	\$165,663
4	Water Sales Increases from Rate Adjustments:						
	FY 2017	6.10%	\$10,236	\$10,153	\$10,115	\$10,109	\$10,105
	FY 2018	5.00%		\$8,490	\$8,458	\$8,453	\$8,450
	FY 2019	5.00%			\$8,598	\$8,592	\$8,589
	FY 2020	5.00%				\$8,734	\$8,731
	FY 2021	5.00%					\$8,875
	Total from Rate Adjustments		\$10,236	\$18,642	\$27,171	\$35,888	\$44,751
5	Water Sales (including Rate Adjustments)	\$170,089	\$178,044	\$185,082	\$192,997	\$201,606	\$210,413
6	Other Water Revenues/Sources	\$17,944	\$19,115	\$19,134	\$15,134	\$15,204	\$15,276
6A	System Equity Fee	\$2,200	\$2,200	\$2,300	\$2,400	\$2,450	\$2,500
6B	CAP Water Resource Fee	\$325	\$325	\$350	\$375	\$375	\$375
7	Total Revenues/Sources	\$190,557	\$199,684	\$206,866	\$210,906	\$219,635	\$228,564
PROJECTED REQUIREMENTS:							
8	O & M Expense	\$98,185	\$103,424	\$106,914	\$109,039	\$112,004	\$115,883
9	Utility Tax Embedded in Water Sales Revenues	\$4,082	\$4,264	\$4,425	\$4,607	\$4,805	\$5,009
10	Debt Service	\$51,938	\$52,418	\$53,326	\$56,429	\$58,018	\$57,807
11	Other Requirements	\$1,914	\$3,401	\$2,327	\$2,274	\$2,131	\$2,178
12	In Lieu of Tax	\$1,600	\$2,000	\$2,020	\$2,041	\$2,062	\$2,083
13	Low Income Program	\$875	\$925	\$934	\$944	\$954	\$963
14	Transfer to Infrastructure Fund	\$0	\$0	\$479	\$414	\$0	\$0
15	Capital from Water Revenues	\$21,038	\$33,964	\$25,645	\$24,043	\$26,358	\$27,703
16	Administrative Service Charge(direct/indirect)	\$9,990	\$10,312	\$10,446	\$10,581	\$10,719	\$10,858
17	Total Requirements	\$189,622	\$210,708	\$206,516	\$210,372	\$217,050	\$222,484
18	Projected Ending Operating Working Capital/Reserve	\$38,693	\$27,669	\$28,018	\$28,552	\$31,137	\$37,217
19	Estimated Reserves As % of Sales Revenue	22.7%	15.5%	15.1%	14.8%	15.4%	17.7%
20	Estimated Reserves as Days of O&M	128	87	85	85	90	105
OTHER SIGNIFICANT DATA/PROJECTIONS:							
21	% Increases: Water Sales Rates/Revenue	N/A	6.1%	5.0%	5.0%	5.0%	5.0%
22	Debt Service Coverage (All Debt)	164.0%	161.0%	165.0%	166.0%	171.0%	180.0%
22a	Coverage: Senior Lien Debt	189.0%	186.0%	188.0%	188.0%	193.0%	199.0%
23	Capital Improvement Program (CIP)	\$51,431	\$56,098	\$46,539	\$53,297	\$40,492	\$34,602
Debt Sales:							
24	Water System Revenue Obligations/Bonds	\$4,161	\$15,310	\$25,910	\$20,182	\$9,793	\$8,820
25	WIFA Loan	\$275	\$0	\$0	\$0	\$0	\$0
26	% of CIP from Current Revenue	62%					

FY 2017 Operating Budget Request at 6% Revenue Increase Request

	FY 2016 Adopted Budget	FY 2017 Requested Budget	Change
Requested O&M Budget	\$172,069,690	\$180,752,870	\$8,683,180
Non Discretionary 84% of total budget			
Debt Service	\$53,511,000	\$56,666,770	\$3,155,770
Salaries (includes 5% turnover credit)	35,196,481	35,719,940	523,459
CAP	26,316,020	27,252,100	936,080
Power	15,913,825	15,422,420	(491,405)
Admin Service Charge (Direct/Indirect)	9,990,440	10,307,957	317,517
In Lieu property	1,600,000	2,000,000	400,000
Legal	600,000	860,000	260,000
Low Income Program	525,000	900,000	375,000
Others include TARP and AOP maintena	687,120	1,727,200	1,040,080
Conservation Loan Program*		300,000	300,000
Stormwater Neighborhood Projects*		350,000	350,000
Total:	\$144,339,886	\$151,506,387	\$7,166,501
Discretionary			
CIPs to O&M		\$2,689,500	\$2,689,500
Additional Vehicles	714,000	2,000,000	1,286,000
Other misc. net reductions		(3,285,457)	(3,285,457)
New CSRs, Customer Service Training, Web Master, AMI PM		576,636	576,636
Utility Billing Upgrades		250,000	250,000
Total:		\$2,230,679	\$1,516,679
Total FY2017 Increase:			\$8,683,180
<i>*Conservation Fund</i>			
Operating Request as of November Presentation			\$ 188,220,482
Total Reductions Department-wide			(7,467,612)
Operating Request for 5% Revenue Request			\$ 180,752,870
CIP Request as of October Presentation			\$ 280,138,000
Total CIP Reductions			(49,069,000)
CIP Request for 5% Revenue Request			\$ 231,069,000

TUCSON WATER FINANCIAL PLAN

FY2016-FY2021

**DRAFT FOR DISCUSSION PURPOSES 1-26-2016 w revised O&M incl 7%turn / inc. Sonoran /inc AOP funds
(\$1,000)**

LINE #	Fiscal Years Ending June 30:						
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
1	Projected Beginning Operating Working Capital	\$37,758	\$38,693	\$27,494	\$28,018	\$28,552	\$31,693
2	Beginning Infrastructure Fund	\$15,091	\$15,091	\$164	\$666	\$1,213	\$1,287
2a	Carryover Bond Proceeds	\$7,048					
PROJECTED REVENUES:							
3	Water Sales (existing rates)	\$170,089	\$167,808	\$166,440	\$165,826	\$165,718	\$165,663
4	Water Sales Increases from Rate Adjustments:						
	FY 2017		\$11,747	\$11,651	\$11,608	\$11,600	\$11,596
	FY 2018			\$8,514	\$8,483	\$8,477	\$8,474
	FY 2019				\$8,623	\$8,617	\$8,614
	FY 2020					\$8,759	\$8,756
	FY 2021						\$8,901
	Total from Rate Adjustments		\$11,747	\$20,165	\$28,713	\$37,454	\$46,342
5	Water Sales (including Rate Adjustments)	\$170,089	\$179,554	\$186,605	\$194,539	\$203,172	\$212,005
6	Other Water Revenues/Sources	\$17,944	\$19,115	\$19,134	\$15,133	\$15,204	\$15,276
6A	System Equity Fee	\$2,200	\$2,200	\$2,300	\$2,400	\$2,450	\$2,500
6B	CAP Water Resource Fee	\$325	\$325	\$350	\$375	\$375	\$375
7	Total Revenues/Sources	\$190,557	\$201,194	\$208,389	\$212,448	\$221,202	\$230,156
PROJECTED REQUIREMENTS:							
8	O & M Expense	\$98,185	\$104,824	\$106,914	\$109,039	\$112,004	\$115,883
9	Utility Tax Embedded in Water Sales Revenues	\$4,082	\$4,298	\$4,460	\$4,642	\$4,842	\$5,045
10	Debt Service	\$51,938	\$52,413	\$53,252	\$56,234	\$57,717	\$57,470
11	Other Requirements	\$1,914	\$3,384	\$2,297	\$2,247	\$2,121	\$2,178
12	In Lieu of Tax	\$1,600	\$2,000	\$2,020	\$2,041	\$2,062	\$2,083
13	Low Income Program	\$875	\$925	\$934	\$944	\$954	\$963
14	Transfer to Infrastructure Fund	\$0	\$273	\$503	\$547	\$74	\$551
15	Capital from Water Revenues	\$21,038	\$33,964	\$27,038	\$25,639	\$27,569	\$27,703
16	Administrative Service Charge(direct/indirect)	\$9,990	\$10,312	\$10,446	\$10,581	\$10,719	\$10,858
17	Total Requirements	\$189,622	\$212,393	\$207,864	\$211,914	\$218,061	\$222,735
18	Projected Ending Operating Working Capital/Reserve	\$38,693	\$27,494	\$28,018	\$28,552	\$31,693	\$39,114
19	Estimated Reserves As % of Sales Revenue	22.7%	15.3%	15.0%	14.7%	15.6%	18.4%
20	Estimated Reserves as Days of O&M	128	85	85	85	92	110
OTHER SIGNIFICANT DATA/PROJECTIONS:							
21	% Increases: Water Sales Rates/Revenue	N/A	7.0%	5.0%	5.0%	5.0%	5.0%
22	Debt Service Coverage (All Debt)	164.0%	162.0%	168.0%	169.0%	175.0%	184.0%
22a	Coverage: Senior Lien Debt	189.0%	186.0%	191.0%	191.0%	197.0%	203.0%
23	Capital Improvement Program (CIP)	\$51,431	\$56,098	\$46,539	\$53,297	\$40,492	\$34,602
Debt Sales:							
24	Water System Revenue Obligations/Bonds	\$4,161	\$14,474	\$24,395	\$18,817	\$9,308	\$8,820
25	WIFA Loan	\$275	\$0	\$0	\$0	\$0	\$0
26	% of CIP from Current Revenue	63%					

FY 2017 Operating Budget Request at 7% Revenue Increase Request

	FY 2016 Adopted Budget	FY 2017 Requested Budget	Change
Requested O&M Budget	\$172,069,690	\$182,152,870	\$10,083,180
Non Discretionary 83% of total budget			
Debt Service	\$53,511,000	\$56,666,770	\$3,155,770
Salaries (includes 5% turnover credit)	35,196,481	35,719,940	523,459
CAP	26,316,020	27,252,100	936,080
Power	15,913,825	15,422,420	(491,405)
Admin Service Charge (Direct/Indirect)	9,990,440	10,307,957	317,517
In Lieu property	1,600,000	2,000,000	400,000
Legal	600,000	860,000	260,000
Low Income Program	525,000	900,000	375,000
Others include TARP and AOP maintena	687,120	1,727,200	1,040,080
Conservation Loan Program*		300,000	300,000
Stormwater Neighborhood Projects*		350,000	350,000
Total:	\$144,339,886	\$151,506,387	\$7,166,501
Discretionary			
CIPs to O&M		\$3,170,000	\$3,170,000
Additional Vehicles	714,000	2,000,000	1,286,000
Other misc. net reductions		(2,365,957)	(2,365,957)
New CSRs, Customer Service Training, Web Master, AMI PM		576,636	576,636
Utility Billing Upgrades		250,000	250,000
Total:		\$3,630,679	\$2,916,679
Total FY2017 Increase:			\$10,083,180
<i>*Conservation Fund</i>			
Operating Request as of November Presentation			\$ 188,220,482
Total Reductions Department-wide			(6,067,612)
Operating Request for 5% Revenue Request			\$ 182,152,870
CIP Request as of October Presentation			\$ 280,138,000
Total CIP Reductions			(49,069,000)
CIP Request for 5% Revenue Request			\$ 231,069,000

Tucson Water Budget Reductions based on a 5% Revenue Increase

Division: Director's Office			
Object description	Proposed Reduction (\$)	What Does Reduction Include?	Impacts and Risks
7319/Obj 266-Advertising	47,000	Reduction in Advertising	Visitors *& employees will have to enter and exit gates functioning 24/7 and deliveries will have to be coordinated with onsite staff
7419/obj 219	27,500	Eliminate Plant 1 security entry gate officer	Incomplete Website Upgrades
7319 / Obj 219	25,000	Web Upgrade Consulting	No risk to water system.
7420/285 - Studies	23,000	Reduced opportunities for water quality studies.	EPA will in the near future require updating Mandatory 2002 VA our last one
7419/obj 211	12,500	Eliminating EPA Vulnerability Assessment (VA) Update	Impact of no outside validation of 3rd party for Safety program. May cause department to be out of compliance.
7418 / Obj 219	7,500	Eliminating cost for consultants for 5-Star Training and Executive Recruitments	Reduced Support Services
7319/Obj 263 Publ Relat	7,500	Reduction in Services	
7416/212 Consultant	5,000	Cut space study by 40%	
7416/285 Studies	5,000	Eliminate benchmarking study	
7416/202 Travel	3,400	Cut travel to conferences by 50%	
7419/obj 317	3,300	Decrease Security operating system Lenel upgrades	Eventually license will be outdated and unsupported
7420/204 - Training	2,900	Reduced training opportunities.	No risk to water system.
7420/212 - Consultants	2,900	Reduced work on Utility Management, etc.	No risk to water system.
7416/204 Training	2,200	Cut training by 50%	
7418 / Obj 266	1,100	Elimination of Adverstising	No advertising will impact variety of talent & specialization that may be needed to Tucson Water if advertising outside City/State possibly Nationwide.
7418 / Obj 341	1,100	Elimination of materials for in-house training	Impact is loss of essential resources to conduct effective training courses, crucial for employee development given so many new hires.
Total	176,900		

Tucson Water Budget Reductions based on a 5% Revenue Increase

Division: 7417 / Financial Services			
Object description	Proposed Reduction (\$)	What Does Reduction Include?	Impacts and Risks
455/Computer Eq >\$5,000	125,000	utility billing upgrades	
212/Consultants	37,500	Consultant services for rates, financial plan etc.	May impact the ability to present to CWAC
219/Misc Prof.	20,000	Professional services for rates, financial plan, CWAC, Sungu	May impact the ability to present to CWAC
234/Computer hardware	8,020	annual maintenance computers	
204/Training	6,500	Reduced training opportunities	Reduce ability to stay current with technology
202/Travel	5,500	Reduced training opportunities	Reduce ability to stay current with technology
346/Computer Equipmer	3,550	reduce computer replacement	
Total	206,070		

Division: Customer Services			
Object description	Proposed Reduction (\$)	What Does Reduction Include?	Impacts and Risks
	93,000	Overtime	If there is a turnover of staff we need to work overtime to obtain readings. Delay in billing days which correlates to increases to customer bills due to inclining rates. Staying current on technological changes in the industry. Impairs TW to provide certifications for backflow prevention.
	8,500	Travel & Training	Service staff may require an additional trip to make repairs since they will carry less on their vehicles.
	5,100	Repair Parts	
	3,600	Computer Equipment	Equipment may not be replaced or repaired depending on the cost, this may have an impact on productivity. This will reduce the number of hand-held units to collect readings.
Total	110,200		

Tucson Water Budget Reductions based on a 5% Revenue Increase

Division: Planning & Engineering			
Proposed			
Object description	Reduction (\$)	What Does Reduction Include?	Impacts and Risks
202 - Travel	9,000	Conferences, ESRI, State Meetings	Lack of knowledge
204 - Training	5,800	CAD, Equipment Use, Software Trng.	Low software utilization; CEUs
212 - Consultants	6,000	Planning, Outside Expertise	Loss of specialized expertise
311 - Office Supplies	4,500	Office supplies	Impost pCard controls
312 - Printing	15,500	Less outside printing	More work for Print Room
317 - Computer Software	2,500	Fewer software packages purchased	Compatibility/license issues
331 - Uniforms/Clothing	4,000	TW Logo clothing	Underutilized union benefit
345 - Furn/Equip/Tools	4,000	Gauges, hand tools, furniture	Unable to buy ergo furniture
346 - Computer Equip.	7,300	Computer hardware, printers	Obsolete computers, crashes
Total	58,600		

Division: Maintenance			
Proposed			
Object description	Reduction (\$)	What Does Reduction Include?	Impacts and Risks
7240-219	250,000	LOCK - Fire Hydrant locking program	Regulatory-Increase to LAW
7240-219	300,000	W106 - Misc. Eng Scs Road Resurface	Reliability & Claims Against City
7240-219	75,000	W176 Recycled Water Program	
7240-219	50,000	W254RE - Pumping Facility Maint	Reliability & Resiliency
7240-219	200,000	M077 - Well Field Maintenance	Reliability & Resiliency
7240-219	100,000	M553 - CAVSARP Well Pump Replacement	Reduced Recharge-Firming
7240-219	120,000	WRs - Service Line Replacement	Road Damage & Conservation
7240-219	100,000	W283RE - Valve Replacement Program	Reliability & Resiliency
7117-212	100,000	SCADA consultant management was \$588k	
Total	1,295,000		

Tucson Water Budget Reductions based on a 5% Revenue Increase

Division:		Water Quality and Operations	
Object description	Proposed Reduction (\$)	What Does Reduction Include?	Impacts and Risks
	118,750	R&M BUILDINGS & GROUNDS	Reduction Of Schedule For Planned Maintenance, Preventative Maintenance
	82,000	CHEMICALS	Reduction In Caustic Chemicals
	28,000	NON OFFICE SUPPLIES	Reduction In Purchases For Operation
	25,000	CONSULTANTS AND SURVEYS	Reduction In Consultant Input
	20,100	REPAIR PARTS	Reduction In Schedule Of Repairs
	17,060	R&M MACHINERY & EQUIPMENT	Reduction Of Schedule For Planned Maintenance, Preventative Maintenance
	14,300	FURNISHINGS, EQUIPMENT AND TOOLS < \$5,000	Reduction Of Replacement Furnishings, Equipment And Tools Budgeted, Not Needed
	10,880	OVERTIME AND EXTRA TIME (UNIT 7318)	Reduced Maintenance, Purchases, And Services
	10,750	MISCELLANEOUS PROFESSIONAL SERVICES	Reduction In Useful Pdh'S, Training On New Technologies, And Industry Standards
	9,135	Training	Reduction In Useful Pdh'S, Training On New Technologies, And Industry Standards
	5,920	Travel	Reduction Of Schedule For Planned Maintenance, Preventative Maintenance
	5,100	MAINTENANCE SUPPLIES FOR MACHINERY AND EQUIPMENT	Limiting The Purchase Of Books And 3Rd Party Studies
	2,750	STUDIES AND BOOKS	Will Be Over Budget If There Are Any Increases
	2,225	LICENSES AND PERMITS	Reduction Of Planned Computer Replacement
	1,500	COMPUTER EQUIPMENT < \$5,000	
353,470			

Division:		Other Budgetary	
Object description	Proposed Reduction (\$)	What Does Reduction Include?	Impacts and Risks
7437-223	200,000	Damage claimes, awards, indemnity	previously not charged in prior years
7437-230	103,000	MAINTENANCE SERVICES NON 1099	contract managed by facilities now
303,000			

Total Reductions if 5.5% I	2,503,240		
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**CIP COMPARISON:
FY 2017 - FY 2021**

MAJOR CHANGES SINCE NOVEMBER CWAC PRESENTATION

(Amounts Rounded to 000's)

Major Changes	CARRY FORWARD	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	5 Year Total
		FY2017	FY2018	FY2019	FY2020	FY2021	No CF
Totals from November CWAC Presentation	10,300	60,579	60,857	54,967	48,592	44,843	280,138
W101 Drill Production Wells	-	-	(1,679)	(1,735)	(1,801)	97	(5,118)
W061 Equip Well A-061		(56)	(392)	-	62	457	71
W140 Gas Engines		(403)	(404)	(432)	(435)	489	(1,185)
W166 Pima Mine Rd Prod Well Drilling				(2,892)		3,262	370
W195 Pima Mine Rd Well Equipping (3)					(180)	(1,488)	(1,668)
W075 Pressure Tank Replacement		(329)	(330)	(347)	(354)	(362)	(1,722)
W176 Recycled Water Program		(2,056)	(2,701)	(4,564)	(6,505)	(6,381)	(22,207)
W857 Santa Cruz Wells -Re-Equipping		(683)	709			-	26
W167 Santa Cruz Well SC-001/04/14 Drilling			(168)	(1,388)	186	1,566	196
W189 Santa Cruz Well SC-001/04/14 Equipping				(174)	(1,441)	196	(1,419)
W083 SA-016A Recovery Well Drilling					(720)		(720)
W084 SA-019A/SA-021A Recovery Well Drilling					(1,372)		(1,372)
W085 SA-023A Recovery Well Drilling					(720)		(720)
W064 SAVSARP Phase III Well Equipping						(1,178)	(1,178)
W050 Trails End Reservoir Rehabilitation		(11)	1	(162)	(774)	1,043	97
W058 Valley View Reservoir Rehabilitation			(2,687)				(2,687)
W170 Anklam Rd (2000 W) Relocate PRV			(196)			228	32
W171 Camino de Los Ranchos Relocate PRV				(202)			(202)
W172 Craycroft-Shadow Ridge Relocate PRV		(252)			279		27
W173 Glenn Campbell PRV Relocate PRV		(224)			248		24
W181 Magee Rd (410 E) PRV SCADA Installation			(84)			98	14
W198 Relocate Spencer PRV					(180)		(180)
W200 Rita Rd "F2" to "G2" Zone Booster Station		(1,008)	1,046				38
W174 Via Valazquez Relocate PRV		(196)			217		21
W160 CAP Basin Well Collection Mains, Pima Mine Rd					(60)	(1,426)	(1,486)
W161 CAP Basin Well 24" Trans Main, Pima Mine Rd, Old Nogales Hwy				(174)	(60)	(2,283)	(2,517)
W796 Sahuarita Supply Line Slip Liner		(78)	(1,080)	(5,038)	6,686		490

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	Total
Major Changes	FY2017	FY2018	FY2019	FY2020	FY2021	No CF
W039 Santa Cruz SC-008 Well Collector Line	(224)	232				8
W089 Santa Cruz Wellfield Pipelines	(45)	(570)	639			24
W154 Santa Cruz Transmission Main Replacement	(6)	(89)	99			4
W710 SAVSARP Collector Lines Phase III					(930)	(930)
W832 SAVSARP Collector Lines Phase V				(41)	(2,210)	(2,251)
W444 SAVSARP Recovered Water TM					(620)	(620)
WSO Sonoran Corridor	583	1,744	6,970			9,297
W184 SC-005 Well Collector Transmission Line	(112)	116				4
W185 SC-013 Well Collector Transmission Line	(101)	105				4
W791 Maryvale Manor Subdivision, Phase I MR		58	(54)			4
W846 Maryvale Manor Subdivision, Phase III MR			58	(44)		14
W175 Nebraska Rd Distribution Main			58	(52)		6
W790 Northgate Subdivision, Phase II		58	(54)			4
W850 San Paulo Village Main Replacement I	29	(22)				7
W041 San Paulo Village Main Replacement Phase II	58	4	5			67
W071 San Paulo Village Main Replacement Phase III	29	2	2			33
W381 Facility Safety & Security Infrastructure	45	(539)	(576)	(582)	(588)	(2,240)
W759 Santa Cruz Wellfield Facility Upgrade	298	(2,423)	2,788			663
W668 Arc Flash System Upgrades	605	602	584	639	685	3,115
W782 SCADA Potable	(3,693)	(2,558)	(2,700)	(2,729)	(2,359)	(14,039)
W797 Southeast Houghton Area Recharge Project (SHARP)	(7,113)		7,377			264
W157 Tertiary Effluent Forebay Roof Improvements	(560)	(3,359)				(3,919)
W761 Reclaimed Booster Expansion					(329)	(329)
W774 Reclaimed Plant Filtration System Modifications	(560)	(784)		619	913	188
W783 SCADA Reclaimed	(130)	(231)	141	266		46
Total Minor Changes to CIP	1,412	1,301	101	748	920	4,482
Total Changes	(14,781)	(14,318)	(1,670)	(8,100)	(10,200)	(49,069)
NEW Totals	10,300	45,798	46,539	53,297	34,643	231,069

Letter to Mayor and Council:

Subject:

Tucson Water is currently developing the FY 2017 financial plan with a FY 2018-2021 proposed plan. There are three items for which CWAC requests direction from Mayor and Council (M & C):

1. IN LIEU PROPERTY TAX

The City of Tucson receives \$7 million, plus, annually, from Tucson Water ratepayers for administrative and other services provided by it for Tucson Water. The City, then, has for 6 years taken an additional \$1.6 million from the ratepayers - including County residents - the funds going into the General Fund. This tax will increase to \$2.0 million (FY 2017) at the direction of the COT Finance Department. This action is not in accordance with COT Water Policies passed by M & C on January 26, 1995. This type of action is contrary to the City Charter (a). This assessment upon water ratepayers was done without a specific motion of M & C permitting the new tax, and, also, without the City Charter requirement for a specifically related public hearing. Simply listing the new in-lieu property tax within a financial plan does not meet the requirements of the City Charter. Having a public hearing and motions on an annual "omnibus" budget with the in-lieu tax buried, therein, does not meet the letter nor the spirit of the City Charter.

2. LOW INCOME ASSISTANCE PROGRAM

According to M & C, formal, Water Policy (page 3e.), funding of this program will be "from the general fund of the City and not from water rates." Since July 2010, Tucson Water rate payers have funded this program. Initially, funding was \$500,000. The budget figure for FY 2017 is \$925,000.

CWAC has been informed by memorandum that "the Low Income Program and the adopted Water Policy can in fact coexist with the knowledge of M & C". Is this your position?

3. PUBLIC WORKS FUNDING

The M & C water policies (page 6e.) states: "Capital requirements for relocations or other modifications to the water system required to accommodate other public works shall be derived from sources other than the water utility". What is the position of M & C on this policy?

(a) Section 10 Property exempt from taxation....There shall be exempt from taxation all federal, state, county and municipal property;....every ordinance imposing a tax shall state distinctly the object of the tax, to which object only it shall be applied. (Ord. No. 1142, eff. 6/23/48)

(end)