



CITIZENS' WATER ADVISORY COMMITTEE (CWAC)

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

Summary Minutes

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 Shipek	Representative, City Manager
Mark Taylor	Representative, City Manager
Placido dos Santos	Representative, City Manager
Chuck Freitas	Representative, City Manager
Mark Stratton	Representative, City Manager
Jean McLain	Representative, City Manager
Ryan Lee	Representative, Ward 1
Michelle Crow	Representative, Ward 2 (arrived after roll call)
Bruce Billings	Representative, Ward 3
Mark Lewis	Vice Chair, Representative, Ward 5
Kelly Lee	Representative, Ward 6
Albert Elias	Tucson Water, Acting Director, Ex-Officio Member
Jackson Jenkins	Pima County Regional Wastewater Reclamation Department Director, Ex-Officio Member

Absent:

Mitch Basefsky	Representative, City Manager
George White	Representative, Ward 4

Tucson Water Staff Present:

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

Others Present:

Timothy Thomure	Appointed Director of Tucson Water
Chris Avery	City of Tucson, Attorney's Office
Amy Stabler	City of Tucson, Ward 6
James McAdams	City of Tucson, City Manager's Office
Mark Day	Citizen

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2. **Announcements** – Member McLain announced the 12th Annual Water Resources Research Center Chocolate Fest, scheduled for Friday, February 12th from 3:30 – 5:00 p.m., at the Sol Resnick Conference Room.
3. **Call to Audience** – No action taken.
4. **Review of January 13, 2016 Legal Action Report and Meeting Minutes** – Committee Member Freitas motioned to approve the Meeting Minutes of January 13, 2016. Member Billings seconded. Motion passed unanimously by a voice-vote of 12-0.
5. **Director's Report** –
 - a. **Mayor and Council Items** – On the February 9th agenda, Mayor and Council will consider the commemorative naming of the CAVSARP Solar Array. The Utility has completed public outreach on the issue, and has received only positive feedback.

On the March 8th agenda, Mayor and Council will consider an IGA with Pima County regarding the construction of water facilities related to World View Enterprises (also known as Project Curvature).
 - b. **Department Updates** – Tucson Water currently has 54 vacancies, 10 active recruitments, and 12 pending new hires. The Utility is coordinating filling its vacancies with the City.
 - c. **Informational Items** – Acting Director Elias introduced Tim Thomure as the newly appointed Tucson Water Director effective February 16, 2016.

Potable water production is down about 2.7% from this time last fiscal year; likewise, reclaimed production is down about 9.7% from this time last fiscal year. Potable demand for January was about 60-70 millions of gallons per day (MDG); reclaimed demand for January was about 3.3 MGD.
6. **Subcommittee Reports** –

Technical, Policy, and Planning Subcommittee – Subcommittee Chair Murphy reported that the TPP received very informative presentations on subsidence and desalination at the last TPP meeting.

Finance Subcommittee – Subcommittee Chair Billings reported that the Subcommittee reviewed the revised Tucson Water Financial Plan options; 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, that letter is agendaized for separate consideration by the Committee today. Cost allocations will be considered in the upcoming meetings.

Conservation and Education Subcommittee – Subcommittee Chair Shipek reported that the Subcommittee had presentations by Project WET and Environmental Education Exchange, and has an upcoming presentation by Community Home Repair of Arizona. 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, to be held in late February; 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. New information received regarding bond ratios have resulted in reevaluation and may result in changes to the proposed plan.
7. **C&E Discussion re \$.02 Increase to Conservation Fee** – Subcommittee Chair Shipek led the Subcommittee members in discussion on the proposed \$.02 increase to the conservation fund. Tucson Water staff member Daniel Ransom summarized the need for the \$.02 increase as it relates to the need to establish reserves for the fund, pay a proportional amount of the administrative services fee, and support new programs. Member Lewis raised concerns regarding the lack of established program limits and policies regarding protecting the fund. These topics will be addressed at a future C&E meeting. Staff clarified that the administrative service fee was allocated to the conservation fund based on a straight percentage of the proportion of the Tucson Water budget represented by the conservation fund. Subcommittee members discussed and requested that future administrative service fees be allocated to the conservation fund by cost allocation, not a straight percentage.

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Additionally, Subcommittee Chair Shipek discussed the opportunity to consider tiered conservation fees, as opposed to flat fees.

Member Ryan Lee arrived at 7:17 a.m.

Member Ryan Lee expressed concerns regarding the lack of consideration for the argument that no increase may be needed to the conservation fund, as well as the condensed timeframe within which options were considered. Further clarification was given by staff and members regarding the reasons for the need of the \$.02 increase.

Member Lewis motioned to approve the \$.02 increase to the conservation fee as part of the Financial Plan the Committee will be considering today, with a request for detailed tracking of the administrative fee and consideration of program policy limits. Member Murphy seconded. Motion passed by a voice vote of the Subcommittee of 4-1-1, Member McClain opposed, and Member Ryan Lee abstained.

8. CWAC Letter re M&C Policy Alignment with Financial Plan – Member Freitas motioned to approve and submit the draft letter to Mayor and Council. Member Billings seconded. Discussion was held regarding the Property in Lieu of Tax (PILOT), and what information the Committee would like from Mayor and Council on this subject. Issues regarding the legality of the PILOT were discussed. Members discussed redrafting the portion of the letter regarding the PILOT to include a more direct question on the City's policy regarding the PILOT. Member Billings submitted a Substitute motion to postpone forwarding the letter to Mayor and Council pending modification of the draft. Member Murphy seconded. Substitute motion passed by a voice vote of 11-2-0, with Members Lewis and Freitas opposed.

9. Approval of TW Financial Plan¹ – Tucson Water Deputy Director Scott Clark presented a PowerPoint on Tucson Water's Financial Plan. Tucson Water will present three plans for CWAC consideration today, a 5%, 6%, and 7% plan, each plan including a \$.02 increase to the Conservation Fee. Each plan meets the minimal metrics for the Utility with various levels of cuts to the Operations and Maintenance (O&M) budget, and cuts to the Capital Improvement Plan (CIP) that span across all three plans. Adjustments to previous plan projections were necessary as a result of unrealized revenues related to Arizona Water Bank credit sales, Low-Income Program expenses, PILOT expenses, declines in potable and reclaimed sales, shifting programs from CIP to O&M, increased debt service, administrative service fees, and employee health care costs. Last year a 7.3% revenue increase was planned, the unrealized revenues and increased non-discretionary expenses equate to a 2.5% revenue requirement, resulting in the Utility's initial request of 9.8%. Decreases in potable and reclaimed sales were also greater than projected. Possible contributing factors to that greater-than-expected decrease were discussed, such as rainfall, conservation, and cost of water. Through the guidance of the City Manager, the Utility modeled scenarios reflecting revenue increases of 0%, 3%, 5%, 6%, and 7%. Each scenario considered impacts to debt service, operating capital, O&M, water quality, staffing, and public health, life, and safety. Additional guidance conveyed that concerns over the cumulative cost of government, including water rates, must be considered. The Finance Subcommittee considered plans for 5% (Option C), 6% (Option B), and 7% (Option A), and recommended Option A, with Option B as an alternative. The Subcommittee requested strong language accompanies Option C conveying the serious risks associated with that option.

- Option A includes a 7% revenue increase, with a \$.02 conservation fee increase, \$7.5 million in O&M reductions, a 5% vacancy turnover credit, \$49.1 million in reductions to the CIP, Sonoran Corridor funding, AOP reimbursement (\$4 million in FY17 and \$4M in FY18), spending down \$15 million in reserves, meets all metrics, and addresses Mayor and Council directives.
- Option B includes 6.1% revenue increase, with a \$.02 conservation fee increase, \$6.1 million in O&M reductions, a 5% vacancy turnover credit, \$49.1 million in reductions to the CIP, Sonoran Corridor funding, AOP reimbursement (\$4 million in FY17 and \$4M in FY18), spending down \$15 million in reserves, meets all metrics, and addresses Mayor and Council directives.
- Option C includes 5.4% revenue increase, with a \$.02 conservation fee increase, \$9.9 million in O&M reductions, a 5% vacancy turnover credit, \$49.1 million in reductions to the CIP, Sonoran Corridor funding, AOP reimbursement (\$4 million in FY17 and \$4M in FY18), spending down \$15 million in reserves, meets all metrics, and addresses Mayor and Council directives.

All plans will include revenue increases from FY18-21 equal to that of the first year of the plan, additional revenue from the outer years will be allocated to O&M and cash reserves.

¹ Member Lewis departed at 7:58 a.m. and returned at 7:59 a.m.; Chair Wong departed at 8:09 a.m. and returned at 8:11 a.m.

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Members discussed each proposed plan, alternative options for 9% and 8% plans, and the effect of the conservation fund \$.02 increase on each of the plans. Conservation funds, program expenses, measurement of water conservation & benefits, and program effectiveness were discussed. The Conservation & Education Subcommittee and the Committee will continue to discuss and consider the metrics of measuring conservation of actual water and other possibly unrealized benefits.

Member McLain departed at 8:42 a.m.

Member Lewis motioned for approval of a 9% revenue increase, plus a \$.02 conservation fee increase, and a 7% projected increase in the outer years of the plan; with an alternative of a 7% revenue increase, plus a \$.02 conservation fee increase, and a 7% projected increase in the outer years of the plan. Member Freitas seconded. Motion failed by a roll call vote of 10-2, with Members Lewis and Freitas supporting. Member Billings motioned for approval of the Financial Subcommittee recommendation - a 7% revenue increase, plus a \$.02 conservation fee increase, and a 7% projected increase in the outer years of the plan (Option A), with alternative for a 6.1% revenue increase, plus a \$.02 conservation fee increase, and a 6.1% projected revenue increase in the outer years (Option B). Member Lewis requested an amendment to the motion to include policy clarifications, Member Billings declined to amend as requested. Motion passed by a roll call vote 8-3-1, with Members Lewis, Freitas and Crow opposing, and Member Ryan Lee abstaining.

10. **Conservation Annual Report** – Tucson Water staff member Daniel Ransom briefly reviewed the Conservation Annual Report. Conservation and Education Chair Shipek conveyed to the Committee the Subcommittee's approval of the report.

Member Taylor departed at 8:58 a.m.

Member Murphy motioned for approval of the Conservation Annual Report. Member Stratton seconded. Motion passed unanimously by a voice vote of 11-0.

11. **Future Meetings/Agenda Items** – See projected agenda for additional details.

12. **Adjournment** – Meeting was adjourned at 9:02 a.m.

Approved 3/2/16