

CITIZENS' WATER ADVISORY COMMITTEE (CWAC)

Finance Subcommittee

8:30 a.m., Wednesday, March 2, 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 8:30 a.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
Brian Wong	Representative, City Manager

Absent:

Mark Stratton	Representative, City Manager
Mark Taylor	Representative, City Manager

Tucson Water Staff Members:

Timothy Thomure	Director
Scott Clark	Deputy Director
Jeff Biggs	Strategic Initiatives Administrator
Melodee Loyer	Interim Financial Services Administrator
Christine Rodriguez	Customer Service Administrator
Wally Wilson	Chief Hydrologist
Cheryl Avila	Metering Operations Superintendent
Steve Ritter	Finance Management Coordinator
Theresa Bourne	Lead Financial Accountant
Daniel Ransom	Water Conservation Supervisor
Kris LaFleur	Staff Assistant

Others Present

W Mark Day	Citizen
Amy Stabler	Ward 6 Council Aide
Michelle Crow	CWAC
Susan Spiess	City of Tucson Finance Department

2. **Announcements** – There were no announcements.

3. **Call to Audience** – There were no audience statements.

Citizens' Water Advisory Committee (CWAC) Finance Subcommittee

Legal Action Report and Minutes

March 2, 2016

4. **Review of January 28, 2016, Legal Action Report and approval of Meeting Minutes** – Subcommittee Members reviewed the Legal Action Report from the January 28, 2016, CWAC Finance Subcommittee meeting. Member Brian Wong moved to approve the Minutes; Member Catlow Shipek seconded the motion. The motion was carried by a vote of 5-0.
5. **Response to subcommittee information requests: AMR/AMI update** – Chris Rodriguez presented an update on the progress and impacts of Tucson Water's rollout of AMR/AMI (Automatic Meter Reading/Automatic Metering Infrastructure) technology in its distribution system. She explained that, between 2000-2015, as Tucson Water began replacing aging water meters with AMR technology, the utility realized a 44% increase in daily meter reads, during a period when services grew by 6%. Ms. Rodriguez briefly reviewed the history of Tucson Water's meter installations, and she presented a timeline of current meter replacements, including the budget and inventory for the project. The presentation also covered the technological impact of AMR/AMI technology, such as transitioning employee roles and an increase in back-office data analysis. Staff fielded and answered questions from members
6. **Financial Plan, Cost of Service, and Rate Study update** – Scott Clark presented an update on the Tucson Water financial planning and rate setting process. He indicated that a financial plan with a recommended 7% revenue increase would be moving forward for Mayor & Council consideration, as approved by CWAC and as discussed with the City Manager. Mr. Clark discussed additional direction from the City Manager, which included a recommendation to hold the Conservation Fee at \$0.09/cf in FY17, and a request that the utility develop a multi-year financial planning and rate setting process, rather than the current annual process. Mr. Clark announced that the utility is in a good position in its efforts to refinance its current bonds.

Members and staff discussed the revised timeline for development of FY17 rate proposals, and the impact this would have on CWAC's ability to participate in the process. Members expressed a preference to shift initially to a two- or three-year financial and rate planning cycle, rather than a four-year cycle.

Mr. Clark explained that guidance from the City Manager included a request that Tucson Water begin shifting revenues to a higher ratio of fixed fees, and he indicated that CWAC would be included in analysis and discussion during that process. He indicated that the utility still intended to send a strong conservation signal and would seek to protect low-income rate payers with any revised rate structure. Members also expressed concern about protecting low-income ratepayers while developing a new rate structure. Member Shipek indicated a desire to develop a stronger conservation message by decreasing the upper limit of the first usage block, and increasing rates for the second block. Members and staff discussed additional potentially revenue-generating fee and policy changes.

Members and staff discussed the portion of reclaimed production that was supported by potable sales, and Member Lewis requested an explanation of the cost of reclaimed production on other water system users.

Citizens' Water Advisory Committee (CWAC) Finance Subcommittee

Legal Action Report and Minutes

March 2, 2016

Members requested an analysis of rates for other water providers in the Tucson area, including a review of fixed vs. variable costs and usage blocks, including information about median income for ratepayers of those providers.

Member Lewis requested that staff distribute information about proposed rates to members in advance of the next Financial Subcommittee meeting, allowing time for members to submit questions before the meeting.

7. **Future Meetings / Agenda Items** – Members and staff discussed scheduling for future meetings of the Finance Subcommittee.
8. **Adjournment** – The meeting was adjourned at 9:45 a.m.

[Note: An audio recording of this meeting is not available due to equipment failure.]

Auditing Meter Reading Performance



AMR Increased Meter Reading Efficiency

Year	Total Accounts Read	Number of Meter Readers	Daily Average
2000	2,312,403	28	435
2005	2,646,865	28	461
2010	2,824,385	28	474
2015	2,904,000	26	628



Measuring and Tracking Performance

Year	Cumulative Increase in Services	Cumulative Increase in Average Daily Reads
2000		
2005	14%	6%
2010	22%	9%
2015	26%	44%



Additional Assignments Include Repairing Leaks and Replacing Meters

Fiscal Year	Completed Work Orders
2015	9,285
2014	7,640
2013	4,538
2012	2,677



History of Meter Installations for Tucson Water

- August 30, 1985: 73-year-old meter found in the system (Installation Date of 8/1/1912)
- 2000 Pilot Radio Frequency Reading
- 2002 Established Automatic Meter Reading Fee
- 2004 Initial Meter Replacement Program
- 2011 All New Meter Installations must be AMR



Meter Replacement Budget/Installations/Inventory

- \$23.3 million budgeted over the next four years
- ~25,000 meters are installed annually
- 118,100 smart meters capable of extracting 40 days of data
- 20,800 meters are AMR/AMI enabled, capable of a daily read
- 5,000 meters are AMR enabled
- 96,100 direct-read meters



Technology Impacts

- AMR/AMI automates traditionally manual functions
- Transitioning employee roles and responsibilities to ensure system maintenance and reliability
- Back office analysis to leverage the data coming from the system



Questions?



CITY OF
TUCSON





Financial Plan, Cost of Service & Rate Study

CWAC Finance Subcommittee
Scott Clark, Deputy Director

March 2, 2016



Purpose/Bottom Line Up Front

- Purpose
 - Update CWAC Finance Subcommittee on Tucson Budget Process
- Bottom Line Up Front:
 - CWAC 7% revenue increase moving forward
 - City Manager guidance
 - Present financial plan and rate increase simultaneously
 - Develop a multi-year rate plan for approval
 - Return to Mayor & Council on a biannual or less frequent basis.
 - Remove 2 cent rate increase from conservation plan
- Presents opportunities for other CWAC work



CITY OF
TUCSON



Topics

- Review process schedules
- Process to date
- Potential ways ahead



CITY OF
TUCSON



Water Rates //Growth Related Fees

Month of October, 2015 TBD	CWAC Finance Sub-committee Review 5-Year Capital Improvement Program (CIP) Review FY 2016 Operating Budget Request
November 4, 2015	CWAC: Review 5-Year Capital Improvement Program (CIP)
December 2, 2015	CWAC: Review FY 2016 Operating Budget Request
Month of December, 2015	Staff meets with City Manager Re:Operating and CIP Budget Requests
Month of December, 2015 TBD	CWAC Finance Sub-committee Meet with Sub-committee on revenue Projections and Preliminary Financial Plan. Committee votes to recommend (or not) to full CWAC
December 30, 2015	Distribute Preliminary FY 2016-2021 Financial Plan to Full CWAC
January 6, 2016	CWAC: Vote on Financial Plan
January 11 - February 15, 2016	Mayor and Council and CMO Meet with Council Offices on Financial Plan

Class Revenue Target / Rate Design

Late Jan/Early Feb	Customer Rate Design Group w/Subcommittee
Middle February	Staff conducts COS study
February 22- 26, 2016 TBD	CWAC Finance Sub-committee COS/Revenue Targets to Finance Sub-Committee -vote to approve (or not) Present Rate Schedule to Finance Sub-Committee - vote to approve
Mid March, 2016	Presentation of Rate Schedule to City Manager
February 24, 2016	E-mail COS/ Revenue Targets/ Rate Schedule to all CWAC members
March 2, 2016	CWAC MEETING CWAC vote on Rate Schedule (update to City Manager)
March 7 - 31, 2016	Mayor & Council /Stakeholders Meet with Council Offices on Rate Schedules

Legal Process

February 23, 2016	M&C Vote Financial Plan
April 5, 2016	Presentation to M&C on FY 2016 Proposed Water Rate schedule M&C Notice of Intent to increase Water Rates
May 17, 2016	M&C Public Hearing / Vote to Adopt (or not) FY 2016 Proposed Rate Schedule
July 4, 2016	New Water Rates and Growth Related Fees take effect

Old Process Schedule

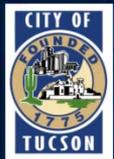


CITY OF
TUCSON



Revised FY17 Financial Plan / Rate Setting Schedule

Late Feb/ early March:	TW staff reviews cost-of-service figures and creates rate proposals
March 2:	CWAC Finance: Financial Plan & Rate Study update
March 17 (tentative):	CWAC Finance: Rate Proposal review & recommendation
Week of March 21:	Full CWAC: Rate Proposal review & recommendation
April 5:	<u>M&C</u> - FY17 combined Financial Plan/Proposed Rate presentation - Adoption of Notice of Intent to Raise Rates (ARS 9-511.01)
May 17:	<u>M&C</u> - Rate Increase Public Hearing (ARS 9-511.01) - Adoption of Rate Increase
July 5:	New rates take effect first week of FY17



CITY OF
TUCSON



Process to date

- CIP to CWAC - November
- O&M to CWAC - December
- Financial Plan to Subcommittee – December 16 (10.9%) & Jan. 6 (9.8%)
- Financial Plan to CWAC – January 13 (9.8%)
- City Manager’s Office new direction – January 13
 - Consider 0%, 3%, and 5% options
 - Consider 6% and 7%
- Revised Financial Plan to CWAC – February 3 (7% & 6.1%)
- City Manager’s Office additional direction – February 12
 - 7% to M&C for multi-year rate consideration
 - One trip to M&C (Approval of Financial Plan & Rates at the same time)



CITY OF
TUCSON

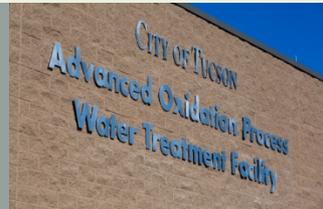


In Process

- Financial Plan - Completed
- Cost of Service (in Progress)
- Bond Refinance (In Progress)
- Rates (Subsequent to Cost of Service)
- Return of Subcommittee and Full CWAC in March



CITY OF
TUCSON



Potential benefits and impacts of a new process

- Financial Plan, Cost of Service and Rates combined in future years
 - Provides opportunities for other CWAC work
 - Reduces staff work
- Potential multi-year rate plan
 - 2 or 4 years
- Can return for adjustments
 - Changes in circumstances not accounted for in models
 - Weather, war, shortages, etc.

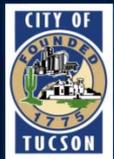


CITY OF
TUCSON



Potential CWAC Roles

- Revise water policies
- Budget monitoring and reporting
- Develop Asset Management Plan
- Evaluate alternative rate structures
- Multi-year Financial Plan cycle
- Development of annual or other work plans



CITY OF
TUCSON





Financial Plan, Cost of Service & Rate Study

Questions

March 2, 2016



CITY OF
TUCSON

