

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

**Finance Subcommittee**

3 p.m., Wednesday, January 28, 2016  
Tucson Water La Entrada Building  
3<sup>rd</sup> Floor Director's Conference Room  
310 W. Alameda Street, Tucson, Arizona



**Summary Minutes**

*Approved 3/2/2016*

**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.