



Citizens' Water Advisory Committee
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Citizens' Water Advisory Committee
MINUTES

The regular meeting of the Citizens' Water Advisory Committee was called to order by James Barry, Chair, on Wednesday, October 15, 2008, at 7:00 a.m., in the City Information Technology Building, 481 West Paseo Redondo, First Floor, Pueblo Conference Room, Tucson, Arizona.

1. Call to Order

Members Present:

James T. Barry, Chair
Sarah Evans, Vice Chair
Martin M. Fogel
Thomas Meixner
James Horvath
Tina Lee
Amy McCoy
Bruce Billings
Vince Vasquez

Appointed by:

City Manager
City Manager
Mayor
City Manager
City Manager
Ward 1
Ward 2
Ward 3
Ward 4

Members Absent:

Daniel Sullivan
Martha Gilliland
Corina A. Baca
Evan Canfield

Appointed by:

City Manager
City Manager
Ward 5
Ward 6

Others Present:

Jeff Biggs, Tucson Water Director
Ivey Schmitz, Tucson Water Deputy Director
Chris Avery, Tucson Water Interim Deputy Director
Belinda Oden, Tucson Water Financial Manager
Trucynda Hawkins, Tucson Water Rates & Revenues Manager
Pat Eisenberg, Tucson Water Planning & Engineering Administrator
Sandy Elder, Tucson Water Planning & Engineering Administrator
John Thomas, Tucson Water Management Coordinator
Holly Lachowicz, Ward 3 Council Administrative Assistant
Katie Bolger, Ward 2 Council Administrative Assistant
Mac Hudson, Ward 1 Council Administrative Assistant
Fernando Molina, Tucson Water Conservation/Info Supervisor
Tiki Lawson, Recording Secretary, City Clerk's Office

2. Announcements

Chair Barry welcomed the newest CWAC member, Amy McCoy, who was a Ward 2 appointee. He also welcomed Jeff Biggs, the new Director of Tucson Water.

3. Call to the Audience

No one spoke.

4. Approval of Minutes: June 4, 2008

Motion, duly seconded, to approve the minutes of June 4, 2008, as presented. Motion passed by a voice vote of 9 to 0.

5. Introduction of New Water Director, Jeff Biggs,

Chair Barry previously introduced Mr. Biggs during Item 2 above.

6. Director's Report

a) Mayor and Council items

On July 8, 2008, the Mayor and Council approved Tucson Water joining the Arizona Water and Wastewater Agency Response Network (AZWARN). This is a mutual aid network within the state, which lays out financial reimbursement procedures in advance so that in an emergency participating agencies can respond quickly to help one another. These networks are being established all over the country, and grew out of needs that were identified after Hurricane Katrina.

On September 3, 2008, staff provided the Council with an update of water conservation programs, including programs that would be funded with the new Conservation Program fee on water bills. That fee is projected to raise \$1.4 million in FY 2009, of which \$455,000 is targeted for projects recommended by the Community Conservation Task Force and CWAC.

On September 23, 2008, the Mayor and Council adopted the Gray Water Ordinance. Effective June 1, 2010, new homes will be required to be pre-plumbed with gray water stub outs to allow gray water systems to be installed at a later date. In addition, the ordinance requires a separate discharge line for washing machines that goes directly outside the house to permit the wash water to be utilized for irrigation.

On October 14, 2008, the Mayor and Council adopted the Rainwater Harvesting Ordinance that applies to new commercial construction. Effective June 1, 2010, fifty percent of a project's outdoor irrigation requirements will have to be met with harvested rainwater.

Upcoming items included a discussion with the Council in November about the possibility for developing large solar energy projects on City/Tucson Water properties in Avra Valley, in conjunction with Tucson Electric Power's 2008

Renewable Energy RFP.

b) Other

Mr. Biggs introduced Ivey Schmitz, a new Deputy Director of Tucson Water, who came from the Neighborhood Resources Department. She will be responsible for customer service, public information and conservation, and special projects such as expanding the department's use of its computerized maintenance management system.

Mr. Biggs said that many senior employees left the department at the end of September 2008 because of the City's retirement incentive program. There are now about seventy vacancies in the department, or twelve-percent of total positions. The Utility will be allowed to fill some high priority positions such as billing positions, field staff, and water operator positions. The other vacancies will be held for different lengths of time for salary savings. During this time, the Utility will face big challenges in maintaining the level of service that customers expect, however he believes this can be accomplished. Mr. Biggs wanted to especially recognize the service of Bruce Johnson; Deputy Director, who retired in September after thirty-three years of dedicated service to Tucson Water. He will be sorely missed.

With reference to the vacancies, Chair Barry reminded the CWAC members that the Financial Plan adopted last year included about \$1.8 million in required salary savings this year. Mr. Biggs said the Utility was still on target with this Plan.

10. Future CWAC Meeting Schedule (item taken out of order)

Chair Barry referred to the handout covering the proposed CWAC meeting schedule. He noted a change to the handout, to move the January meeting to January 21. The other changes were needed to accommodate the financial planning process for new water rates.

The proposed calendar schedules CWAC meetings on the following dates:

- November 5 – CWAC vote on revised System Equity Fee and CAP Water Resource Fee
- December 3 – proposed Financial Plan
- December 17 – CWAC vote on Financial Plan
- January 21 – standing CWAC meeting
- February 11 – Cost of Service / Revenue targets
- February 25 – proposed Water Rate schedule
- March 4 – CWAC vote on Rate schedule
- April 1 – standing CWAC meeting
- May 6 – standing CWAC meeting
- June 3 – standing CWAC meeting

Belinda Oden, Tucson Water Financial Manager, said that state statutes establish numerous timing requirements to implement new water rates. Ms. Oden gave a brief overview of the proposed CWAC meeting calendar with respect to what CWAC would be expected to do at the November meeting and at the two meetings in December. She said that the CWAC Financial Subcommittee would be meeting extensively during this period, reviewing much material in order to provide a recommendation to the full CWAC on the proposed Financial Plan. CWAC would then be asked to vote on the Plan before it is submitted to the Mayor and Council.

Chair Barry said that the Utility staff had been requested to send a two or three page explanation to CWAC so the new members would have a better understanding of what would transpire on upcoming meeting dates.

Motion, duly seconded, to approve the proposed CWAC Calendar including the January 21 meeting date. Passed by a voice vote of 9 to 0.

7. Financial Orientation

Belinda Oden said the Utility was there to serve high quality, safe, reliable water to its customers, and wanted to do it in a way that provided them outstanding customer service. This meant not just meeting the expectations of the Utility's customers but to exceed them and do it in an affordable way with rates that were fair and equitable.

Ms. Oden said the Utility was an enterprise fund which meant that it operated like a business. All of the costs to operate the Utility must come from the revenue proceeds that were charged to its customers. The Utility was the largest of the City's three enterprise funds and the only one that actually issued bonds. As an enterprise fund, the Utility had some regulations which were a bit different than those governing the City's General Fund, but the Utility was still included on the City's audited statements and all of its financial activities were subject to audit.

Ms. Oden said there were important financial policies adopted by the Mayor and Council that the Utility followed:

- The Utility will maintain cash reserves of five percent of water sales revenue, or about six to seven million dollars a year now, to provide a cushion in the event of a revenue shortfall.
- Capital projects will be funded with a combination of revenues (from water rates and fees) and bonds.
- The level of Debt Service coverage (to ensure repayment of bond funds) is 1.75, meaning that net operating income will exceed annual debt service requirements by at least 75%.

Chair Barry said that when the Utility utilized bonds, they were revenue bonds, not general obligation bonds. Revenue bonds were repaid by the revenues that come in to the Utility.

Ms. Oden said the 1.75 Debt Service coverage requirement was a legally binding agreement with the Utility's bondholders. Additional agreements with the

bondholders (called bond covenants) require the Utility to maintain its system in good working order making it possible for the continuance of the revenue stream needed to pay back its bondholders. Similarly, the Utility must maintain revenues by charging for all the water it delivers, and cannot give water away.

b) Proposed FY 2010 Operating Budget (taken out of order)

Ms Oden went over a chart which summarized the operating budget requested for FY 2010. She said that in the current fiscal year, the Utility was finally taking its full allocation of CAP water (144,191 acre-feet).

Ms. Oden said that it was important to consider the Utility's costs for its operating budget were relatively fixed over a one or two year period, and did not change much in relation to the volume of water sold. She compared FY 2009 costs to those projected for FY 2010 for different elements in the O&M (operating and maintenance) budget.

Mr. Meixner inquired whether Utility bills could be paid online, and was advised that e-billing would soon be implemented.

Chair Barry stated that staff would not ask CWAC to separately approve the O&M budget, but that it was part of the overall Financial Plan that would be approved by CWAC.

Ms. Oden said that Trucynda Hawkins, Tucson Water Rates & Revenues Manager, would share a diagram with CWAC at the next meeting concerning the financial planning process.

Chair Barry asked what the status was regarding conversations between Tucson Water and the City Manager's office regarding the proposed O&M Budget.

Ms. Oden said that a future meeting was planned with the City Manager's Office.

Chair Barry confirmed that when the Financial Plan was brought to CWAC, with the O&M and Capital Improvement Plan (CIP) included, it should be assumed that the Utility and the City Manager's office were in agreement on those two budgets. However, he advised CWAC that the Financial Plan to be reviewed by CWAC in December may have to be looked at again based on subsequent decisions by the City Manager's office.

a) 5-Year CIP (Capital Improvement Program)

Sandy Elder and Pat Eisenberg, Tucson Water Planning & Engineering Administrators, provided a handout summarizing the requested FY 2010 through FY 2014 Capital Budget. They said it generally continued the policies and strategies the Utility had adopted in the past, which was to use as much of its Colorado River water allocation as it could to secure that supply. The Utility was currently able to buy its entire Central Arizona Project (CAP) water allocation because it had recently constructed a number of basins in Avra Valley where the water was being recharged. What needed to be done moving forward was to build

the facilities to recover the recharged water and deliver it to the community. This was the core of the proposed capital improvement budget.

Tucson Water's forty-seven page Proposed Five-Year Capital Budget FY 2010 through FY 2014 was distributed.

Mr. Elder discussed major CIP projects with the use of several maps. The big dollar items were the recharge and recovery of Colorado River water. Ms. Eisenberg spoke about major items in the requested capital budget, the use of the 2005 Bond Authorization, and the need for a new bond election in November 2009.

A discussion ensued regarding the Utility's revenue bonds and how difficult it was to predict the bond market that currently was relatively frozen.

Chair Barry said theoretically, that the Utility was looking at a November 2009 bond package of around two hundred million dollars.

Mr. Biggs said that he recently had a discussion with Michael Letcher, Deputy City Manager regarding the Utility's need for a bond authorization. He said that in the near future, he and Mr. Letcher would meet with City Manager Mike Hein and other department heads to talk about this topic, and that CWAC would play a large role in this issue.

Chair Barry verified that the bond package would have to be done by April 2009 and that there was not a lot of time left. He said he assumed that it was in the planning stages.

Chris Avery, Tucson Water Interim Deputy Director said that every effort would be made for the bond issue to go to the voters in November 2009. He explained the process involved in the bond package whereby the City or County would put together a bond subcommittee to look over the package of proposals and help sort these out and determine what amount of bond funding would go to the voters to approve. In the past, CWAC had traditionally functioned as the bond advisory subcommittee for the City with regard to Utility revenue bonds.

b) Proposed System Equity Fee (SEF) Update

Trucynda Hawkins distributed a handout explaining the development of the System Equity Fee. Basically the fee is charged when new connections hook up to the existing water system that was oversized in the past to accommodate new users. The System Equity fee represents a "buy-in" fee, where the new connection helps pay back the additional capacity that was paid for by previous customers of the water system. The volume of available system capacity and fee amount are reviewed every three years.

The current System Equity fee of \$1,528 for a 5/8 inch new residential meter connection is proposed to increase to \$1,577 (a 3.2%% increase). Ms. Hawkins said that CWAC would be asked to vote on the proposed increase at its November 5, 2008 meeting.

Ms. Hawkins also distributed a handout comparing Tucson Water's fee with the fees charged by other utilities in the state.

She said that she and Belinda Oden would be more than happy to meet individually with any CWAC member to go over the financial items being discussed today in more detail.

c) Proposed CAP Water Resource Fee (CWRP) Update

Belinda Oden discussed a handout entitled "Development of a CAP Water Resource Fee." The CWRP provides for the recovery of an equitable portion of the costs incurred, or estimated to be incurred, for acquisition of CAP water rights from future connections to the central potable system. The fee is based upon the average amount of CAP water expected to be used by each connection and the costs to the Utility for the right to that volume of water. The fee will be charged as long as the Utility has excess CAP water that is available to new connections. If the Utility does not acquire any new CAP water, then when the current CAP allocation is fully utilized by existing customers the CAP Water Resource Fee will no longer be charged.

The amount of the CWRP fee is updated every two years based on the changing cost for the right to CAP water and any new water rights received. The current CWRP fee of \$202 for a 5/8 inch new residential meter connection is proposed to increase to \$218 (a 7.9% increase).

Chair Barry said this issue would be brought back at the November 5 meeting when CWAC would vote on the proposed increase. In the meantime the Finance Subcommittee would review the details of the calculations and return with a recommendation.

8. Status Report on Joint City-County Water & Wastewater Study

Chair Barry briefly explained the background of the joint committee, which had been meeting since June 2008. There were three more presentations scheduled, and two sessions (on October 22 and October 29) would be opened up to the public for comments and thoughts about what a sustainable water future might be. After that, the committee would go into an intensive report writing mode with the goal of having a draft of the Phase 1 report completed in the beginning of January 2009. That would be followed by a public outreach.

He thought the Phase 1 report would be presented to CWAC and Wastewater Management Advisory Committee at a joint meeting in January, possibly on January 21 the date of CWAC's currently scheduled meeting. The idea was to submit a final report to the Mayor and Council and the Board of Supervisors by the end of February 2009. Phase 2 would last from March through September 2009. At that time recommendations would be made on areas that the City and County could agree on that had to do with water conservation and resources. After that the Committee would go out of existence.

Chair Barry said the City and County staff had been outstanding throughout this study process. The level of effort and willingness had been exceptional. The Committee

itself had done an outstanding job. He said he believed that the Committee's work might create a common context for the discussion about water and wastewater issues that would hopefully facilitate more regional dialogue.

9. Proposed Code Changes to Appoint Water Director and Director of Pima County Regional Water Reclamation Department as Ex-Officio (Non-Voting) Member of both CWAC and the Pima County Wastewater Management Advisory Committee.

John Thomas, Tucson Water Management Coordinator, distributed a draft City ordinance proposing that the Directors of the Tucson Water Department and the Pima County Regional Wastewater Reclamation Department each be made an ex-officio member of CWAC. A similar proposal was being proposed in Pima County, that the two directors be made ex-officio members of the County's Wastewater Management Advisory Committee (which was recently renamed the Regional Wastewater Reclamation Advisory Committee).

The purpose of these director appointments was to create better communication and coordination between the two departments and the two advisory committees, and was an outgrowth of the Joint City-County Water & Wastewater Study effort discussed above.

Motion, duly seconded, to approve the proposed Draft Ordinance, as presented. Motion passed by a voice vote of 9 to 0.

11. Colorado River Water

Due to lack of time, this item was deferred

12. CWAC appointee to Wastewater Management Advisory Committee

Chair Barry appointed Committee Member James Horvath as a member of the Wastewater Management Advisory Committee (now called the Regional Wastewater Reclamation Advisory Committee).

13. Call to Audience

No one spoke.

14. Adjournment – 8:55 a.m.