



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 Sarah Evans, Chair, on Wednesday, January 21, 2009, at 7:00 a.m., in the Transamerica Building, Small 5th Floor Conference Room, 177 North Church Avenue, Tucson, Arizona.

1. Call to Order

Members Present:

James T. Barry, Chair
Sarah Evans, Vice-Chair
Thomas Meixner
James Horvath
Daniel Sullivan
Martha Gilliland
Martin M. Fogel
Tina Lee
Amy McCoy
Bruce Billings
Vince Vasquez
Corina A. Baca
Evan Canfield
Jeff Biggs, Tucson Water Director
Mike Gritzuk, Pima County RWRD Director

Appointed by:

City Manager
City Manager
City Manager
City Manager
City Manager
City Manager
Mayor
Ward 1
Ward 2
Ward 3
Ward 4
Ward 5
Ward 6
Ex-Officio
Ex-Officio

Others Present:

Jeff Biggs, Tucson Water Director
Chris Avery, Tucson Water Interim Deputy Director
Sandy Elder, Tucson Water Department Administrator
Mac Hudson, Council Administrative Assistant, Ward 1
Holly Lachowicz, Council Administrative Assistant, Ward 3
Belinda Oden, Tucson Water Interim Business Services Administrator
Trucynda Hawkins, Tucson Water Management Coordinator
Nicole Ewing-Gavin, City Coordinator, Joint City/County Water/Wastewater Oversight Committee
John Thomas, Tucson Water Management Coordinator
Tiki Lawson, Recording Secretary, City Clerk's Office

2. Approval of Minutes

Motion, duly seconded, to approve the minutes of November 5, 2008, as presented passed by a voice vote of 13 to 0.

3. Election of Officers

Committee Member Canfield said the Election Committee composed of himself and Committee Members Corina Baca and Tina Lee met in mid December 2008. They had previously learned that Chair Barry was not interested in continuing as Chair for personal reasons and that Committee Member Sarah Evans was interested in the position. Mr. Canfield noted that over the years Ms. Evans was always prepared, asked good questions and kept a good focus. The Committee nominated Ms. Evans as Chair. Mr. Canfield said due to Mr. Billings' background in the economics of water, as well as being a Ward 3 representative in contact with Ward 3 Council Member Karin Uhlich, he made an excellent nomination for Vice Chair. The Election Committee nominated Mr. Billings as Vice-Chair.

The Motion, duly seconded, to elect Committee Members Sarah Evans as Chair and Bruce Billings as Vice-Chair passed by a voice vote of 13 to 0.

Former Chair Barry then turned the meeting over to newly elected Chair Evans.

Chair Evans thanked Mr. Barry for his service and for putting in so many hours this past year. Ms. Evans said he had been an asset to his position as Chair with his background in financial management and that he would continue to serve on the finance sub-committee and in his capacity as Chair on the Water/Wastewater Joint Committee. She said Mr. Barry would also assist Tucson Water and take on a leadership role as the Utility looked at putting together a bond package for November 2009.

Chair Evans said there were a lot of challenges in the year ahead. Due to the tight time frame of today's meeting, she just wanted to say she looked forward to working with everyone as Chair and wanted to hear any suggestions or concerns. She was hopeful that in the next few months they could get back on a regular monthly meeting schedule and back to discussing presentation topics that included not only the budget but other water-related regional issues which might help them in their role on the Committee.

Chair Evans said the primary purpose of today's meeting was to discuss the budget shortfall. She said if they were not able to have an amendment adopted today, CWAC would have to subsequently meet again in the next few days to discuss this item. This was because the Mayor and Council had asked them to come up with a recommendation to handle the shortfall before a Council Subcommittee was to meet on January 28, 2009. She announced that Jeff Biggs, Tucson Water Director, and Chris Avery, Tucson Water Interim Deputy Director, would give the presentation on this issue.

4. Amendment to Adopted Financial Play for FY 2009

Jeff Biggs began a presentation entitled 'Tucson Water Revenue Shortfall.' Hard copies of this presentation were also distributed. He said this presentation had been given to Mayor and Council aides on January 16, 2009, and in addition, he had discussed this

issue with the CWAC Finance Subcommittee. Mr. Biggs said he was there today to give CWAC a brief update of the Utility's revenue shortfall, and to ask the Committee to recommend approval for the proposal being presented today to handle the shortfall.

Mr. Biggs stated the current revenue shortfall was unprecedented in more than seven years that he had been with the Utility or the ten years that Mr. Avery had been there. No one had seen this type of revenue shortfall at Tucson Water. The projected shortfall for revenues was roughly 15.4 million dollars for the current fiscal year. A little over eleven million dollars of this was from reduced water sales and 4.3 million dollars was from reduced development and growth-related revenues.

Mr. Biggs said the Utility had already started reducing its expenses by about 5.1 million dollars, and discussed what these reductions included. Despite these reductions, it still left the Utility with 6.5 million dollars that needed to be made up, either by further reducing expenses or increasing revenues. Mr. Biggs talked about strategies to address this revenue shortfall. The major strategy was to not buy 50,000 acre feet (AF) of the Utility's current CAP allocation that it had planned on buying. Doing this would generate about 5.4 million dollars in savings. If the Arizona Water Banking Authority (AWBA) purchased this CAP water and stored it at the water in the Utility's Clearwater facility in Avra Valley, approximately seven hundred fifty thousand dollars in storage fees would be generated, bringing the total savings/revenues to about 6.1 million dollars.

Mr. Biggs said this would still leave the Utility short by about half a million dollars that it would try to make up through other budget adjustments. In addition, the Utility may have to look at restructuring some of its bond debt to balance the current budget by June 30, 2009.

Chris Avery then spoke about the proposal to not take as much CAP water as planned, Option 1 in the presentation. He said one of the things that made this strategy more attractive to the Utility was the dramatic changes in the last couple of years in the volume of water used by customers. He presented graphs showing the declined in the average customer's water usage and bill.

Mr. Avery discussed the actual CAP allocation taken in the previous years. The strategy being put forward today would be for the Utility to take its full allocation starting again in 2012 but to go through a fallow period during the next two and a half years. A graph with projected and actual water consumption showed a steady increase of water consumption projected to take place over time.

Because much less water is being consumed than had been expected back in 2005-2007, the proposal is reduce the Utility's order for CAP water by 50,000 AF a year for the next two years (2009 and 2010). In the third year (2011), the Utility would like to match its CAP order to its potable water consumption as projected for that year. Then the Utility would return to ordering its full CAP allocation for 2012.

Mr. Avery stated one of the reasons why this strategy was also more suitable was that the risk of shortage on the Colorado River had declined dramatically since the spring of 2005. Mr. Avery said the best projection was that a shortage was not likely to occur on the Colorado River until 2014.

In conclusion, Mr. Avery stated there were a couple of different shortage sharing and water consumption reasons why this strategy was more palatable than it would have been a few years ago. When the Utility looked at ways to try and meet its budget shortfall, the following questions were raised and were answered in the affirmative when dealing with Option 1 – Water Transfer Advantages:

- Does this protect our assured water supply?
- Does this protect us from a shortage?
- Does it allow us to order our full CAP allocation in the future?
- Does it allow us to store the same amount of water in our facilities?

Mr. Avery said this would be the best strategy to mitigate the larger 15.4 million-dollar shortfall. He also spoke about the pros and cons of restructuring bond debt, which he said would defer some payments to future years.

Committee Member Gilliland pointed out the graph showed a decline in usage. She mentioned that the decline could continue and did not appear to be leveling off, which meant this issue of declining revenues could get worse.

Mr. Biggs said that in the Five-Year Financial Plan, the Utility was predicting just about no growth for the next few years. That was why it was confident that the CAP order could be cut back.

Mr. Barry confirmed this strategy would be in place for two years and for CWAC to endorse it as a two-year strategy.

Mr. Avery said that what was being proposed was a two and a half-year strategy, consisting of two years when the order would be cut by 50,000 AF, and one year where it would be cut probably by twenty thousand to twenty-five thousand AF.

Chair Evans verified that the action before CWAC today was amending the Utility's current fiscal year financial plan to incorporate this direction, and that these issues would be made part of next year's regular budget process.

Mr. Avery verified that as the Utility went through developing next year's financial plan, it would incorporate this strategy for adoption.

Chair Evans asked Mr. Avery if there were more than the two options he mentioned or if Option 1, to reduce the CAP order, and Option 2, to restructure bond debt, were the only choices.

Mr. Avery replied the Utility was using these in a conjunctive strategy. First, it would pursue a reduction in its CAP order, then it would look at restructuring bond debt as a way of trimming up any remaining deficit at the end of the year. He added it was vitally important that the Utility meet its coverage and cash reserve requirements.

Mr. Biggs said another option could occur where the AWBA did not agree with the Utility's proposal, which would then leave the Utility to restructure close to that 15 million-dollar shortfall.

Committee Member Vasquez recommended looking at a water rate increase plan over time, and to start addressing the fact that the Utility was undercharging for water as it did needed more revenue and should be more proactive in looking at this issue.

Committee Member Horvath said he thought that not taking the full CAP amount was a good solution for a difficult problem. If the Water Bank stored the water in our facilities, it would be available for future use if needed.

A motion was made, duly seconded, to recommend an amendment to the adopted Financial Plan for FY 2009, which passed by a voice vote of 13 to 0.

5. Next Meeting

The next meeting was scheduled for February 25, 2009. The Financial Plan would be sent out beforehand to members by mail in order to discuss and approve the Plan.

6. Call to Audience

No one spoke.

7. Adjournment: 7:32 a.m.