



Citizens' Water Advisory Committee
P.O. Box 27210
Tucson, Arizona 85726-7210
(520) 791-4213
(520) 791-2639 (TDD)
(520) 791-4017 (FAX)

Citizens' Water Advisory Committee

MINUTES

The regular meeting of the Citizens' Water Advisory Committee was called to order by Sarah Evans, Chair, on Wednesday, February 25, 2009, at 7:05 a.m., in the Tucson Water Building, 310 W. Alameda, Third Floor, Tucson, Arizona.

1. Call to Order

Members Present:

Sarah Evans, Chair
Bruce Billings, Vice Chair
Jim Barry
Thomas Meixner
James Horvath
Martha Gilliland
Sean Sullivan
Christopher Brooks
Martin M. Fogel
Amy McCoy
Vince Vasquez
Evan Canfield
Jeff Biggs, Tucson Water Director
Michael Gritzuk, Pima County RWRD Director

Appointed by:

City Manager
Ward 3
City Manager
City Manager
City Manager
City Manager
City Manager
City Manager
Mayor
Ward 2
Ward 4
Ward 6
Ex-Officio Member
Ex-Officio Member

Members Absent:

Daniel Sullivan
Corina A. Baca
Tina Lee

City Manager
Ward 5
Ward 1

Others Present:

Ivey Schmitz, Tucson Water Deputy Director
Chris Avery, Tucson Water Interim Deputy Director
Holly Lachowicz, Council Administrative Assistant, Ward 3
Belinda Oden, Tucson Water Interim Business Services Administrator
Trucynda Hawkins, Tucson Water Management Coordinator
Pat Eisenberg, Tucson Water Planning & Engineering Administrator
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. Announcements

Chair Evans welcomed new CWAC members Sean Sullivan and Christopher Brooks whose terms began on February 10, 2009. Ms. Evans also mentioned the upcoming Water Resources Research Center 2009 Annual Conference that would take place on March 17, 2009 at the University of Arizona. Chair Evans said an appointee was needed for the Pima County Regional Wastewater Reclamation Advisory Committee (RWRAC). There was a voting CWAC position on the Committee currently held by John Carhuff, a former CWAC member who was ready to step down.

3. Call to Audience

No one spoke.

4. Approval of Minutes: January 21, 2009 Joint CWAC-RWRAC Meeting

Motion, duly seconded, to approve the minutes from the joint CWAC-RWRAC Meeting of January 21, 2009, as presented. Passed by a voice vote of 12 to 0.

5. Director's Report

a. Mayor and Council items

Jeff Biggs, Tucson Water Director, introduced Mike Gritzuk, the Pima County Regional Water Reclamation Department Director, who was also an ex-officio member of CWAC.

Mr. Biggs said that in December 2008, the Mayor and Council approved the notice of intent to increase the System Equity and CAP Water Resource fees, which led to Public Hearings on the fees on February 10, 2009. No one spoke at the hearings. Council is scheduled to adopt the new fees on March 24th.

Also on February 10, the Utility received Mayor and Council approval of two Water Infrastructure Finance Authority (WIFA) loan agreements. Loan for \$1 million and \$2.5 million would be repaid over twenty years with an interest rate of no greater than seven percent. On February 18, the Mayor and Council approved a revision to the Utility's 2009 Financial Plan to reduce the purchase of CAP water and to restructure bond debt as necessary in FY 2009 and FY 2010, as previously recommended by CWAC.

On March 3, Tucson Water and other enterprise departments of the City will brief the Mayor and Council on their FY 2010 budget requests.

On March 24, the Mayor and Council will be asked to review and adopt the Utility's FY 2009 – FY 2014 Financial Plan. This will set the stage for the rate revision process, which includes the Council approving a notice of intention to increase water rates on April 21, followed by a public hearing on the new rates on June 2.

b. Other

Mr. Biggs said the Utility was bringing its FY 2009 deficit under control, particularly by re-marketing some of its CAP water this fiscal year and by reductions in operating and maintenance expenses. He acknowledged all the Utility staff for stepping up to the plate at this time.

6. Tucson Water's Proposed FY 2009 – FY 2014 Financial Plan

- (a) Conservation Fee Amount, FY 2010
- (b) FY 2009 – FY 2014 Financial Plan

Mr. Biggs said that the Utility understood the economic hardships that people were experiencing now, but that the Utility had to pursue a revenue increase in order to ensure its continued ability to provide safe and reliable water service.

Mr. Biggs said that last year's Financial Plan estimated FY 2010 revenues of \$163 million. It is now estimated that FY 2010 revenues will be \$143 million, or a \$20 million reduction. Water demand is less than anticipated due to slowing in growth of new connections as well as reduced usage per connection. In response to the revenue shortfall, the Utility has made significant reductions in both its O & M and CIP budgets, and deferred items to future years to get down to the proposed 10% revenue increase. In addition, about \$3 million in debt will have to be restructured.

Mr. Biggs said the proposed Financial Plan includes two potential City of Tucson revenue enhancements, a 1% increase in the Municipal Utility Tax, which would have an approximate \$750,000 impact on the Utility budget, and a new In-Lieu-of-Property Tax, which would have about a \$1.6 million impact annually. Both would be discussed by the Mayor and Council in a few weeks. If the Mayor and Council decide not to assess these taxes, Mr. Biggs would propose that the Utility maintain the 10% revenue increase in order to support its CIP program and help with cash reserves. The City Manager's Office has approved the Financial Plan.

Chair Evans said that CWAC had also spoken with the City Manager's office. In addition, the CWAC Finance Subcommittee voted to recommend the adoption of the Financial Plan.

Belinda Oden, Interim Business Services Administrator, distributed copies of the Tucson Water Proposed FY 2009 – FY 2014 Financial Plan, and praised the Finance Subcommittee's diligence in their review of the Plan. Ms. Oden said that the revenue shortfall had impacted the calendar for approving the Plan: many of the Plan's elements that were submitted to CWAC in fall 2008 had to be recalculated, which shortened the time available for CWAC's current review and approval.

Ms. Oden discussed the FY 2009 Rate Process Calendar showing the steps leading to Mayor and Council adoption of new rates. She said that as an enterprise fund, the Utility must pay for all its requirements via its revenues; it is not subsidized by the General Fund. Ms. Oden discussed the Mayor and Council Water Financial Policies impacting the Financial Plan, that include the following:

- Annual average debt coverage of at least 1.75 shall be maintained.
- The Utility shall maintain year-end cash reserves adequate for known future obligations plus an allowance for unbudgeted contingencies set at five percent (5%) of all revenues from prior year's water sales.
- Water rates and charges shall be reviewed annually, and changes in the rate structure shall be implemented so as to avoid sudden and large-scale shifts in water rates.

The proposed Plan also included the following policies and assumptions:

- Debt financing assumptions for new Tucson Water Revenue Bonds or for any alternative capital debt financing:

- Term – 22 years
 - Interest rates – 5% to 5.5%
 - Payments – Interest only during Financial Plan years
- Existing Revenue Bond Debt would be restructured in every year of the proposed Plan to reduce annual debt service payments from \$1.7 million in FY 2009, to \$3 million in all other Plan years.

Personnel costs in the Plan include reductions associated with holding positions vacant as well as a proposed City furlough program for employees.

Ms. Oden then spoke about the amount of CAP water to be recharged in the Prior and Proposed Financial Plans.

Pat Eisenberg, Tucson Water Administrator, discussed the FY 2010 – FY 2014 Capital Budget and the major CIP projects included. She also mentioned changes to the schedule for some of the major Clearwater projects.

Chair Evans asked how delaying the redundant SAVSARP transmission main would impact the Utility in terms of providing services. Ms. Eisenberg said the primary impact in delaying the augmentation main would be the delay of recharged Avra Valley water delivery to the southeast (the Rita Ranch area). This delay is less serious because of the decrease in demand as a result of less building in the area. Ms. Eisenberg said the Utility monitors its transmission mains to avoid problems, and should be able to serve customers without the redundant main.

Committee Member Meixner asked if recharged water would be extended to the Rita Ranch area, and Ms. Eisenberg confirmed that the plans were still in place and the extensions would begin to be built in five to ten years, depending on the budget.

Trucynda Hawkins, Tucson Water Revenue Manager, discussed the Plan in greater detail, starting with the three steps in the “egg” diagram of The Water Rate Study Process:

- Revenues and Revenue Requirements. Is a revenue increase needed?
- Cost of Service Analysis. Who should pay and how much?
- Rate Design. How will rates be structured?

Committee Member Brooks asked if the Cost of Service study would analyze how the 10% revenue increases would be distributed to customers; Ms. Hawkins replied in the affirmative.

Chair Evans asked how much risk was there in the financial projections. Ms. Hawkins replied that the projections were very conservative. For example the projected revenue from the system equity fees was cut by more than half from prior estimates. The Plan also incorporated the impact of increased conservation programs on demand. Water sales were actually projected to decrease overall by 2014.

Chair Evans asked when we would know whether the City’s remarketed CAP water will be stored in City facilities in Avra Valley. Mr. Biggs said the Utility hoped to hear from CAP in early March 2009.

Ms. Hawkins discussed the administrative service charge that the Utility pays to the General Fund for direct or indirect services the City organization provides to Tucson Water. The administrative service charge is increasing in part to cover the cost of utility IT staff that have been transferred from Tucson Water to the City's IT Department as part of a larger reorganization of City IT functions. This transfer actually helped the Utility's debt coverage ratio because the administrative service charge is not calculated into the ratio.

Ms. Hawkins also said that the Utility's cash reserves (as percentage of prior year water sales revenue) are at 5.2% in 2010, and build gradually to a 10% reserve in 2014.

Ms. Hawkins stated the Utility meets the 1.75 debt coverage ratio for senior lien debt in all five years of the Plan. She added that since the last bond sale authorization was FY 2005, the Utility would need to go for another bond authorization in November 2009 or pursue an alternate financing mechanism to fund the 2010 capital improvement program.

Chair Evans asked when there would be more information regarding the method to finance the capital projects in the Plan. Mr. Biggs replied that he had an upcoming meeting with the City Manager and Budget staff to make determinations about financing methods, and would advise CWAC of the outcome at the next CWAC meeting.

Committee Member Vasquez asked about the two new or increased taxes in the Plan. He said that the Utility tax was levied on all water sales; this tax was embedded in water rates and goes into the General Fund.

Ms. Hawkins agreed. She also described the other tax, a proposed in-lieu-of property tax on Tucson Water. State statutes do not allow cities to impose property taxes on any municipal utility. Thus, instead of assessing a property tax, the City would assess an "in-lieu-of" fee related to the property that the utility owned. The \$1.6 million in the Financial Plan from a new in-lieu-of tax was based on a percentage estimate of Tucson Water-owned property in the City limits. Should the Mayor and Council adopt the in-lieu-of tax, staff would coordinate with the City's Finance Department regarding which Utility assets would be used in the calculation.

Committee Member Meixner commented that since the utility tax was embedded in the rates, it should be separated out so that customers could observe what that cost was. Ms. Oden said that the utility tax issue went back to 1977 when she thought that the Mayor and Council decided to embed it in water rates as a customer equity issue. However, the amount embedded in rates is calculated on inside-City water sales only.

Ms. Hawkins stated that the proposed 10% revenue increase did not mean that everybody would get a 10% rate increase – the increase could be distributed differently to different rate classes (such as commercial vs. single family residential), based on the cost of service analysis and other factors.

To establish a perspective on the possible impact on customer bills, Mr. Biggs said that if the typical water customer with 10 Ccf per month consumption received a 10% rate increase, their current \$18.62 monthly bill would go up about \$1.86 a month.

Chris Avery, Tucson Water Interim Deputy Director, said the Utility's hydrology staff was in the process of compiling last year's consumption information. He added that the residential and multi family classes started a decline in consumption around 2003 - 2004. Commercial customers started the same slope of decline about two years later. Two years ago, it could

be said commercial consumption had stayed relatively the same, but it appeared now that all of these customer classes are declining.

Committee Member Canfield said that because of the increase in the wastewater fees, there was a double economic conservation signal. Because the wastewater fee was based on water consumption, by using less water a customer had a smaller water bill as well as a smaller wastewater bill.

Michael Gritzuk, Pima County Regional Wastewater Reclamation Department Director, said that the wastewater rates were based upon the water consumption during the months of December, January and February. Vice Chair Billings said that most consumers did not know this because if they did, there would be a big drop in consumption in those three months.

Committee Member Meixner noted that Tucson Water had a very large groundwater storage facility in Avra Valley, which was a potential revenue source. He asked if there was any effort by the Utility to market that facility to the Arizona Water Bank or the states of California or Nevada. Mr. Biggs said there had been some local discussions about this, but it was understood that the Utility might need this excess capacity eventually.

Committee Member Vasquez asked about the CAP storage rate. Mr. Biggs replied that the going rate would be twelve to fourteen dollars per acre-foot.

Chair Evans asked if there was any further discussion on the Financial Plan.

Committee Member Horvath said that the Finance Subcommittee reviewed all the financial information and recommended unanimously that CWAC approve the budget. He said that the two new or increased taxes in the Plan added about 2%, so what would have been an 8% revenue increase without the taxes is now a 10% increase.

The FY 2010 – FY 2014 Conservation Fund Financial Plan – reflecting the revenue needs to fund the conservation program – was distributed to CWAC by staff.

Committee Member Canfield spoke about the Conservation Fee that was adopted by the Mayor and Council in 2008 to fund new programs recommended by the Community Conservation Task Force. This fee was adopted at \$0.03 per Ccf of potable water sales, and was intended to increase each year to fully fund the Task Force recommendations over a 5 year period. He said that the Conservation Education Subcommittee met on February 23, 2009, and approved the following motion.

Committee Member Canfield moved, duly seconded, to support maintaining the planned Efficiency Program Community Conservation Task Force (CCTF) budget of \$842,636 for FY 2010 by increasing the conservation fee amount by one cent, with CWAC recommending the fee be set at \$0.04 per Ccf for FY 2010. Passed by voice vote of 12 to 0.

Committee Member Canfield reiterated that the Conservation Fee funded the Utility's ongoing conservation programs as well as the Task Force-recommended efficiency programs.

Committee Member Barry moved, duly seconded, for CWAC to approve the Financial Plan as presented, and recommend that Mayor and Council approve the Plan at its March 24, 2009, meeting. Passed by voice vote of 12 to 0.

Mr. Biggs thanked CWAC for its continued support of Tucson Water and its efforts during these difficult economic times.

7. Update: City-County Water/Wastewater Study Committee

Nicole Ewing-Gavin, City Coordinator of the Joint City/County Water/Wastewater Oversight Committee, gave a brief summary of the Committee's recent Study Report. It is anticipated that the Study Report would be finalized by the Joint Committee's March 19, 2009, meeting, after which it would be transmitted to the Mayor and Council and the Board of Supervisors in early April. Many of the review comments received were positive and reflected the feeling that the City and County had made progress and done quality work. The Committee was already engaged in Phase Two of the Report in which teams of City/County staff would be developing technical reports on the following topics:

- Drought Planning: looking at City/County efforts to prepare for drought
- Reclaimed water and water conservation
- Location of growth and urban form
- Integrating land use planning with water resources and infrastructure and economic needs for water
- New water resources and environmental need for water

Ms. Ewing-Gavin said the draft reports would be posted online two weeks before Committee meetings, and the Committee would now meet monthly.

8. Conservation – Education Subcommittee Report

Committee Member Canfield thanked CWAC for continuing to support the Conservation fee and gave an update on the expansion of the conservation program for 2010. The Subcommittee will return to CWAC with program recommendations for next year.

9. CWAC Meeting Schedule

It was agreed that future meeting dates would be March 25, April 8, May 8 and June 3, 2009.

10. Future Agenda Items

Chair Evans suggested there be a short update from staff on the Water Use per Service item mentioned earlier. There were also some topics lined up for some outside speakers, which would resume at the next couple of meetings. She asked for any suggestions regarding future topics.

11. Call to Audience

No one spoke.

12. Adjournment – 8.30 a.m.