



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, March 25, 2009, 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:

Sarah Evans, Chair
Bruce Billings, Vice Chair
Jim Barry
James Horvath
Martha Gilliland (Departed 8:35 a.m.)
Christopher Brooks
Martin M. Fogel
Tina Lee
Amy McCoy (Arrived 7:10 a.m.)
Vince Vasquez
Corina A. Baca
Evan Canfield (Arrived 7:12 a.m.)

Appointed by:

City Manager
Ward 3
City Manager
City Manager
City Manager
City Manager
Mayor
Ward 1
Ward 2
Ward 4
Ward 5
Ward 6

Members Absent:

Daniel Sullivan
Thomas Meixner
Sean Sullivan
Jeff Biggs, Tucson Water Director
Michael Gritzuk, Pima County Regional Water
Reclamation Department Director

City Manager
City Manager
City Manager
Ex-Officio Member
Ex-Officio Member

Others Present:

Chris Avery, Tucson Water Interim Deputy Director
Sandy Elder, Tucson Water Interim Deputy Director
Belinda Oden, Tucson Water Interim Finance Manager
Deborah Galardi, Tucson Water Rate Consultant
Bill Davis, Financial Advisor to City of Tucson
Mitch Basefsky, Tucson Water Public Information Officer
Fernando Molina, Tucson Water Conservation Program Manager
John Thomas, Tucson Water Management Coordinator
Tiki Lawson, Recording Secretary, City Clerk's Office

2. Announcements

There were no announcements.

3. Call to Audience

No one spoke.

4. Approval of Minutes: January 21, 2009 and February 25, 2009

Motion, duly seconded, to approve the Minutes from the CWAC Meetings of January 21, 2009, and February 25, 2009, as presented. Passed by a voice vote of 10 to 0.

5. Director's Report

a. Mayor and Council items

On behalf of Jeff Biggs, Tucson Water Director, Chris Avery, Interim Deputy Director, gave a short summary of recent Mayor and Council activities. Mr. Avery noted that on March 24, 2009, the Mayor and Council unanimously approved the FY 2009-FY 2014 Financial Plan. Mr. Avery added that as a result of Mayor and Council Financial Plan approval, the Utility could retain all its employees without layoffs.

b. Other

Chris Avery stated that, due to the recent internal process of management restructuring, Sandy Elder would be the new Interim Deputy Director running the operations, planning and engineering sections of the Utility.

Mitch Basefsky, Tucson Water Public Information Officer, announced he would be departing from the Utility as of next week to take a job as Communications Representative in Pima and Pinal Counties for the Central Arizona Project.

6. FY 2009 – FY 2014 Financial Plan, Next Steps

(a) Cost of Service Orientation

(b) Rate Design Orientation

(c) Update on Financing Scenarios

Belinda Oden, Interim Finance Manager, distributed a handout containing an overview of Tucson Water Cost of Service / Rate Design. The Utility has now entered the cost of service phase in its water rate study process. Ms. Oden discussed the various graphs in the handout focusing on revenue needs. She said the decision was made to not go forward with a new bond authorization at this time. Rather, the Utility would take some time to evaluate the impact of reduced demand on the proposed capital program before a new voter authorization would be requested. She also discussed that some form of debt financing is required to fund the capital program.

Chair Evans clarified today's discussion on Item 6 was an educational and informational

presentation to lay the groundwork for the vote before CWAC at its next meeting on April 8, 2009. In addition, CWAC's Finance Subcommittee would meet before the April 8th meeting to review and make recommendations regarding the cost of service and rate design.

Ms. Oden introduced Deborah Galardi of Galardi Consulting, the rate consultant for Tucson Water. Ms. Galardi further elaborated on the contents of the handout including Cost of Service principals. Ms. Galardi noted that costs are dependent upon or driven by:

- The nature of the water product delivered to customers
- The water usage/demand of customers
- The number of customers in each class

The rate development process was discussed with emphasis on the three step cost allocation process:

- Allocation to system functions
- Allocation to service characteristics
- Allocation to customer classes

The revenue targets determine what each customer class will pay in relation to the \$126.8 million revenue to be recovered. Ms. Galardi spoke about determining the distribution of costs by functional categories and service characteristics, the latter of which are defined by:

- Base costs (average daily demands)
- Maximum-day and maximum-hour costs (peak water use demand)
- Customer costs (costs that don't fluctuate with water use)
- Fire protection costs (handled separately)
- Indirect costs (general support)
- Reclaimed water costs (associated with the Utility's reclaimed water system)

The Tucson Water cost allocation measurement formula is used to determine the percentage of:

- Max-Day Design Capacity
- Max-Hour Design Capacity
- Max-Day and Hour Design Capacity

These percentages are applied to the different cost categories in order to determine cost structures. The allocation of operation and maintenance (O&M) costs are characterized in terms of these service characteristics. The capital costs consist of a smaller percent of the costs which are based on average demand. The cost of service depends very much in any given year on what comes from O&M and capital areas.

Ms. Galardi explained Tucson Water's customer classes, including residential, multifamily, commercial, industrial, construction water, water sprinkler service, and reclaimed. The peak month usage relative to the average annual use in these classes is a key component in determining the revenue targets by class. The schools have a very high peaking relative to their average use resulting from irrigation. The multifamily peak months tend to be June or July.

Ms. Galardi then spoke on the topic of rate design. The two primary objectives related to designing rates are:

1. Revenue stability (monthly service charge applicable regardless of water amount used)
2. Conservation (use more, pay more)

Tucson Water currently has the following three types of water rate structures:

- Uniform rate per unit (rate charged per unit remains constant as consumption increases, e.g., construction water rate)
- Inclining block rates (rate charged per unit increases as consumption increases into next block, e.g., single family, duplex-triplex, and multi-family residential rates)
- Base/excess use rates (seasonal rates – one rate for base use [winter] with additional increases for summer use above base amount [tiered rates], e.g., commercial and industrial rates)

Ms. Galardi summarized the graph representing revenue targets by customer class, and explained that not all the customer classes increased at the same percentage as a result of cost service analysis.

A discussion ensued regarding schools' cost of service and their irrigated turf areas. Schools pay in proportion to when their usage is combined with other industrial which is how the Utility arrives at a composite peaking. It is based on a contractual arrangement going back over thirty years. Ms. Galardi pointed out it was not unusual for schools to have such a large peaking factor because of irrigation.

Ms. Galardi discussed the resulting rate schedule graph. Despite the residential class having a seven percent increase in their overall revenue target in FY 2009, the actual bill impact varies anywhere from 1.85% to 11.12%, depending on volume of usage. She said that staff would work with the Finance Subcommittee to develop a proposed FY 2010 water rate schedule for action by CWAC at its April 8th meeting.

Ms. Galardi noted that as part of the rate design process, some assumptions were made based on the current financial situation and on other factors such as demand elasticity. When looking at the rate structure and how individual components of the rate schedule were going to change, the Utility could add additional assumptions about how individuals at different levels of usage would conserve and these are taken into account. There are a number of factors to be looked at this year in addition to the conservative assumptions that were made in the Financial Plan about usage.

Committee Member Vasquez asked Mr. Avery for clarification on whether the higher percent increases in the upper tiers led to the greater variability in demand.

Mr. Avery said the decline in demand reflects strong conservation awareness, and leads to less predictability in terms of revenue.

Committee Member Canfield noted that homeowners should recognize the fact that water bills have not increased this time of year, although the utility bill has doubled as a result of the inclusion of the wastewater fee and fourteen dollar trash fee in the water bill.

Committee Member Fogel asked about the future availability of CAP water, especially if the

Utility did not take its full allocation for several years.

Mr. Avery stated that any shortage in CAP water was not expected in the five years reflected in the Financial Plan. He added that by years four and five of this Financial Plan, the Utility would be back to taking its full CAP allocation, and that no action has been taken, however financially beneficial, to place that CAP allocation at risk.

Chair Evans added that she was aware this was a topic of discussion at the Finance Subcommittee meeting. The outcome was that the budget needed to be balanced to protect the safety and integrity of the Utility, while maintaining the full future CAP allocation.

Committee Member Brooks inquired whether future rate schedules would be planned out with a certain amount of 'cushion' built in to accommodate any unexpected events.

Ms. Galardi said that no one had expected the present economic situation and so this year, as part of the financial plan process, the Utility made much more conservative assumptions than it previously had.

Committee Member Billings stated that the Utility may have the right kind of rate structure in place already, but needs to build up reserves to ten percent or more over time so that when there was fluctuation in revenues, the Utility already had the money in the bank to pay for it, rather than raising the fixed rates.

The subject of school turf areas, ways to maximize their use, and pricing their irrigation water was discussed at length. Fernando Molina, Tucson Water Conservation Program Manager, addressed these issues noting that TUSD has made irrigation improvements to many of its schools.

Bill Davis, City of Tucson Financial Advisor, spoke in depth about available debt financing alternatives for the Utility's capital program. He discussed aspects covered in his handout entitled "Water System Revenue Bonds, Comparison of Trust/Certification of Participation (COP) Structures", stressing the advantages and challenges of each structure.

Mr. Davis emphasized it was important to have a revenue pledge of net system revenue when proceeding with one of these structures. Such an alternative would bridge the gap until a bond election in 2011 for voter authorization to sell revenue bonds.

There was discussion about various voter approved bond issues with Mayor and Council support as well as potential risks regarding the alternative financial structures mentioned. Mr. Davis spoke cited a case in Phoenix in the mid 1960's whereby the Court ruled that a city, as long as it was not pledging property taxes, could pledge excise tax revenues to secure debt.

Chair Evans asked what the next step would be for CWAC and the CWAC Finance Subcommittee on this issue, as they have not been involved in this discussion in the past and have not issued any kind of opinion or recommendation as a group.

Belinda Oden said that the City Manager's office had only recently provided direction regarding how to proceed with additional financing, and that this matter would be discussed by the Mayor and Council on May 5, 2009. She said the Utility needed to proceed with its cost of service analysis and rate design under the assumption that it would obtain

appropriate debt financing.

Chair Evans suggested it would be helpful if CWAC were provided with more background information on this topic; it would be useful as the public debate begins.

Member Barry said that CWAC was not being asked to comment on the alternative debt financing methods, as that issue was “above the pay grade” of CWAC.

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

Chris Avery gave a brief update on the Committee’s current status. He noted last week the Committee finished drafting the Phase I report, which will be published shortly. A series of white papers are being developed on subjects to be considered in Phase II. One white paper soon to be completed covers the reclaimed system. Another white papers addresses conservation, drought and climate change, and others address a cost of growth analysis and urban landfill and planning options. There will be some relatively sophisticated white papers published in Phase II that discuss some long standing issues in the community in a novel way.

8. Water Use per Account (changes in water demand)

Chris Avery gave a short presentation on Tucson Water’s changing water demand, summarizing graphs showing the Utility’s average potable water demand profile over a five year period and recent peak demand days. The peak day of the entire history of the Utility’s water system was July 14, 2005 when 165.3 million gallons were delivered.

Mr. Avery mentioned that the reclaimed system this year and last was delivering more water than it previously had due to some of recent agreements with the Town of Oro Valley. Some of their golf courses that used to receive potable water were now on the reclaimed system.

The Utility significantly reduced the number of new customers coming on to the potable system. The Financial Plan projects sixty to seventy new customers per month as opposed to three- to four-hundred new customers a month previously.

From 1997 to the present, average single-family and multi-family residential use has declined by 20%, with the most rapid decline over the last five years. Average use by commercial customers has declined more than 10% since 1997, with the largest decline occurring in the last two years. This fiscal year the Utility experienced a 6% decline in water sales.

Mr. Avery spoke about a recent CAP presentation given by the Central Arizona Project that projected a 10% per capita decline in consumption across the CAP service area by the year 2048. In comparison, Tucson Water has seen a 10% decline in its per capita consumption just in the last five years. He added this decline did not start with the recession in fall of 2008, so all of its assumptions about what was going on were probably false.

Chair Evans asked if similar trends have been seen nationwide.

Ms. Galardi said that declines could be seen in other southwestern cities and California where there have been conservation programs. Comparisons could not be made

nationwide; as one should look at comparable cities; there was a more rapid decline in the southwest than elsewhere.

Committee Member Vasquez said that from some of the data on new construction he had seen, this decline was a function of the efficiency of new construction that used smaller lots more appropriate landscape designs with smaller turf areas, and more efficient plumbing fixtures. He thought the decline probably began with the 1991-92 Plumbing Code change.

9. Tucson's Effluent Resources

This item was deferred to the next meeting.

10. Future Agenda Items

Committee Member Barry said CWAC should schedule a discussion at the next meeting regarding the residency requirement for the Tucson Water Director to live within the City limits vs within the Utility's service area. He added there was a recent newspaper article indicating that the Tucson Water Director could lose his job by not moving into the City limits. Mr. Barry pointed out that 40% of the Utility's customers are outside the City and thus any residency requirements should include this service area.

Committee Member Billings inquired whether Tucson Water was included in the new economic stimulus package, and if not, why not.

Pat Eisenberg, Tucson Water Administrator, advised that the Utility had applied for two project loans with certain specifications

11. Call to Audience

No one spoke.

12. Adjournment – 9.02 a.m.