



Citizens' Water Advisory Committee
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Citizens' Water Advisory Committee

MINUTES – December 2, 2009

The regular meeting of the Citizens' Water Advisory Committee was called to order by Sarah Evans, Chair, on Wednesday, December 2, 2009, at 7:05 a.m., in the Tucson Water Building, 310 W. Alameda, 3rd Floor Director's Conference Room, Tucson, Arizona.

1. Call to Order

Members Present:

Sarah Evans, Chair
Jim Barry
Thomas Meixner
Christopher Brooks
Jim Horvath
Tina Lee
Amy McCoy
Bruce Billings, Vice Chair
Vince Vasquez
Evan Canfield
Martin M. Fogel
Jeff Biggs, Tucson Water Director
Michael Gritzuk, Pima County Regional Water
Reclamation Department Director

Appointed by:

City Manager
City Manager
City Manager
City Manager
City Manager Arrived: 7:12 a.m.
Ward 1
Ward 2
Ward 3 Arrived: 7:15 a.m.
Ward 4
Ward 6
Mayor
Ex-Officio Member
Ex-Officio Member

Members Absent:

Mark Taylor City Manager
Martha Gilliland City Manager

Others Present:

Chris Avery, Tucson Water Interim Deputy Director
Sandy Elder, Tucson Water Interim Deputy Director
Belinda Oden, Tucson Water Business Services Administrator
Trucynda Hawkins, Tucson Water Rates & Revenue Manager
Fernando Molina, Tucson Water Public Information Officer
Kelly Gottschalk, City of Tucson Finance Director
Joe Olsen, Tucson Water Engineering Manager
Nicole Ewing-Gavin, City Coordinator, Joint City/County Water/Wastewater Oversight
Committee

Holly Lachowicz, Ward 3 Administrative Assistant
Katie Bolger, Ward 2 Administrative Assistant
Mac Hudson, Ward 1 Administrative Assistant
John Thomas, Tucson Water Management Coordinator
Tiki Lawson, Recording Secretary, City Clerk's Office
Deborah Keenan, Recording Secretary, City Clerk's Office

2. Announcements

There were no announcements.

3. Call to the Audience

No one spoke.

4. Approval of Minutes –November 4, 2009

Motion, by Chair Evans, duly seconded, to approve the Minutes of the November 4, 2009 meeting as presented, was carried by a voice vote of 9 to 0 (Committee Members Billings, Horvath, Gilliland and Taylor absent).

5. Director's Report

a. Mayor and Council items

Jeff Biggs, Tucson Water Director, summarized recent and upcoming Mayor and Council items. He said since the last meeting, there were two Mayor and Council meetings in which the Utility had items for discussion.

- On November 9, 2009, the Mayor and Council approved the Central Arizona Project (CAP) Wheeling Cost of Service Study water for Oro Valley and Metro Water. A scope of the work was drawn up by a consultant for approval by all entities.
- On November 17, Mr. Biggs spoke before the Mayor and Council at the Study Session regarding the proposed appraisal of Tucson Water infrastructure within the Marana Town boundaries, a first step in Marana's possible purchase of that infrastructure. Council Members were concerned that the appraisal would occur before Marana identified the water resources that the Town would use to serve the customers that would be transferred from Tucson Water service. The Council believed that this should occur before the appraisal took place. There was a unanimous motion adopted stating that the City was not currently interested in pursuing an appraisal, and if Marana wanted to continue the discussion, they should begin the dialogue by identifying a renewable and secure water supply outside the City's current supply. Mr. Biggs said that until this happens, Tucson Water will not have further discussions with the Town of Marana concerning this issue.
- On December 7, 2009, the Mayor and Council will be asked to approve effluent and reclaimed water agreements with the Flowing Wells Irrigation District and the Spanish Trail Water Company. Chris Avery, Tucson Water Interim Deputy Director, gave some background information on this item. The new agreements provided these two entities with control of the effluent generated from within their service areas. The reclaimed agreements were companion items to the effluent agreements and established

procedures and a cost basis for the City's treating and wheeling Flowing Wells' and Spanish Trail's effluent through the City's reclaimed system and back to them.

b. Other

Using two graphs, Mr. Biggs compared recent potable water demand and reclaimed water demand, with demand in prior years, and discussed the effect on the Utility's revenues.

Mr. Biggs said the City's General Fund budget for FY 2009 was at a \$32 million shortfall, and he asked Kelly Gottschalk, the new City Finance Director, to address this issue.

Ms. Gottschalk introduced herself and gave a brief overview of the City's budget situation. She said the Mayor and Council received a budget update on November 24 that projected, based on the first four month's revenue, that the City would be down \$32 million for the year. Ms. Gottshalk said that on December 15 the Finance and Human Resources Departments would discuss with the Council what could be done to try and solve the problem. She said everything from fee increases to limiting programs, changes in pay plans and Enterprise Funds would be looked at.

6. Proposed FY 2010 – FY 2015 Tucson Water Financial Plan

Belinda Oden, Tucson Water Business Services Administrator, distributed an updated handout detailing the FY 2010-2015 Preliminary Financial Plan and Preliminary Conservation Program Financial Plan. She said the Finance Subcommittee would meet to review the Plans and then provide a recommendation to the full CWAC. Ms. Oden said after the Financial Plans made their way through the full CWAC, the next stage would be the cost of service analysis.

Ms. Oden summarized the Utility's financial planning policies and other financial issues impacting the Financial Plan such as the Utility's revenue bond covenants. She said that the Mayor and Council water policies, last updated in 1998, were still valid and guided the Utility in creating the financial plan. She pointed out that the proposed financial plan does not meet the Mayor and Council policy of 1.75 debt service coverage on all debt in years 2013 through 2015 of the plan, but does meet 1.75 coverage for senior lien debt in all years, as required by bond covenants.

Ms. Oden said another important policy examined for guidance was the issuance of new debt. She said in working with the City's Finance Department, the debt would be structured on a 20-year pay-back period with interest rates varying from 5.0-5.5% over the five years of the Plan. Ms. Oden said this conservative figure was consistent with previous years with interest on these payments being made during the five years of the new debt period of the Plan.

Ms. Oden discussed the other policies in the proposed Plan as recommended by the City's Finance Department and Financial Advisor that included debt financing for new Tucson Water system revenue obligations, calculation of debt service coverage and capitalized interest in place of debt restructuring. Ms. Oden discussed other issues including financing part of the Utility's capital program until the Utility went for a voter authorization of new bonds in November 2011. She stated the Utility was in accordance with the Mayor and Council policy to finance its capital program with a combination of revenues and debt. This policy spread the cost of the infrastructure that benefited ratepayers and customers today and in the future. It would give the opportunity to future customers to help pay for those assets they were benefiting from.

Ms. Oden said the impact of State expenditure limitation requirements was uncertain at this time, given the failure of "home rule" to pass in the recent November 2009 election.

Ms. Oden said one change made in the Plan was to adjust its cash reserves as a percentage of working capital from 95% to 75%. Ms. Oden added if the Utility's cash position improved significantly over the next few years, the percentage would be adjusted accordingly.

Ms. Oden discussed the FY 2011 Operating Budget and the minor changes from the previous breakdown distributed to Committee members in October 2009. She said the Capital Budget had remained the same and summarized various aspects and critical elements of the Preliminary Financial Plan discussing what was different and where the Utility achieved some savings.

In conclusion, Ms. Oden discussed the last graph in the handout covering changes in elements from last year's Plan to the current Preliminary Plan. She covered working capital increases as well as various increases in revenue. She stated there needed to be an increase in working capital by \$4.5 million which the Utility thought was the prudent thing to do with the delicate cash position the Utility and City currently found itself in. A question and answer period ensued.

Trucynda Hawkins, Tucson Water Rates & Revenue Manager, discussed the process the Utility went through this past year for its revenue projections, and how a new team was established along with a course of action in the process which enabled the Utility to foresee future events. She said there was a very conservative projection for revenue for the FY 2011 and all years of the financial plan. Ms. Hawkins said during the next year, this process would be expanded with the inclusion of outside experts such as Committee Member Bruce Billings.

a) Conservation Financial Plan

Ms. Oden went over the figures contained in the Preliminary Conservation Program Financial Plan FY 2010-2015. She handed out a draft and summarized the Plan's items to committee members. Ms. Oden said this Preliminary Plan presented a reduced level of funding than was presented in the prior Plan. She emphasized that additional research related to this Plan will be carried out to ensure the Utility is in compliance with the Mayor and Council's policy direction. Ms. Oden added if there were any change, it would first be brought to the Conservation-Education Subcommittee and then to the full CWAC before the final vote at the January 6, 2010, meeting.

7. Large Meter Replacement Program

Joe Olsen, Tucson Water Engineering Manager, gave a presentation about the Utility's large meter replacement program, a program intended to enhance Utility revenues. Mr. Olsen said that the Tucson Water system contained approximately two hundred twenty thousand meters, but the Utility did not have the resources to do a wide sweep to ensure every meter was accurate. He spoke about the Utility's large meters, three inches in diameter or larger, through which approximately 1.2 billion gallons of water passed, or in other words 0.1% of the meters delivered almost 4% of the Utility's total water. Mr. Olsen added that many of these large meters were installed more than twenty-five years ago and were based on outdated technology; more modern technology could increase meter accuracy and Utility revenues.

Mr. Olsen discussed the two-year large meter study the Utility carried out. It resulted in an increase in metered consumption and revenues after meter replacement, in addition to a

payback on investment. By replacing only ten of the Utility's high volume meters, the Utility's total lost (unaccounted for) water was reduced by half a percent. Mr. Olsen added that even if a large meter is underreporting consumption by just a couple of percentage points, the results could be thousands of dollars in lost revenues to the Utility.

Mr. Olsen concluded with the "take away" points from his presentation:

- Marry correct application to meter technology
- Appropriately size meters to usage/fixture counts
- Maintain annual large meter test program
- Small financial investment can net large gains

He said in the future, the Utility would continue to replace ten to fifteen large meters annually. A question and answer period followed the presentation.

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

Nicole Ewing-Gavin, City Coordinator, Joint City/County Water/Wastewater Oversight Committee, gave a brief update on the Study which, she said, was nearing the end. She added the final meeting, December 3, 2009, was to continue to refine the combined draft report written by both staff and the committee. She said the public comment period had just ended and staff was going through the comments in order to make recommendations.

Ms. Ewing-Gavin stated a joint meeting of the Mayor and Council and Board of Supervisors was scheduled for January 12, 2010 to receive the final report. She added it would be recommended that the governing bodies adopt a joint resolution to prioritize the recommendations in the report such as reporting back to CWAC and other organizations with frequent updates on the implementation of these recommendations.

9. Update: ADD Water Project

Chris Avery gave a update and some background on the Acquire, Develop and Deliver (ADD) water project initiated by the Central Arizona Water Conservation (CAWCD) to try and find additional water supplies to meet future needs of Arizona. The stakeholder process was initiated in the spring of 2008 and would most likely finish and go before the Central Arizona Project (CAP) Board in early 2010. The three issues resolved were:

- How to incorporate other water providers outside the three County CAP area into the process.
- How to deliver ADD water outside the three County CAP service area through the CAP canal, and ensure those water providers outside the three County area would pay a fee to CAP.
- How to incorporate the long-term interest of the Central Arizona Groundwater Replenishment District (CAGRDR) into the ADD water process.

Mr. Avery said the idea that came out of the stakeholder group was that the CAGRDR would be required to find sources of supply to meet its existing obligations. Any service area that joined the CAGRDR after the commencement of the ADD water process would then be mainstreamed into the ADD water process. He said, in addition, one of the issues agreed upon was how the CAP canal capacity needed to be allocated in a time of surplus.

In conclusion, Mr. Avery said there were still some issues involved in how to go forward with the master planning effort as well as some sensitive discussions going on regarding governance of the project and its decision making. A question and answer period followed.

11. Election of Chair and Vice-Chair for 2010 (taken out of order)

There was a motion made by Committee Member Canfield and seconded by Committee Member Barry, to re-elect current Chair Sarah Evans as Chair and Committee Member Gilliland as Vice Chair for 2010. The Motion carried by a voice vote of 11 to 0.

10. Subcommittee Updates

There were no subcommittee reports.

12. Future Agenda Items

Chair Evans said information would be forthcoming to the Finance Subcommittee and that CWAC would vote on the Financial Plan and Conservation Financial Plan at its next meeting on January 6, 2010.

13. Call to the Audience

No one spoke.

14. Adjournment: 9:00 a.m.