



Citizens Utility Advisory Commission

Oasis Water Campus
7070 W. Northern Avenue
March 8, 2017, 6:00 P.M.

FINAL MINUTES

I. CALL TO ORDER – 6:00 p.m.

II. ROLL CALL: Present: Chairman Jonathan Liebman, Vice-chairman Ron Short, Commissioners Amber Ford, Ruth Faulls, Robin Berryhill, and Robert Gehl

Staff: Water Services-Craig Johnson, John Henny, Doug Kupel, Ron Serio, Dan Hatch, Mark Smith, Megan Sheldon, Thomas Relucio, and Sally Melling, Recording Secretary

III. APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Review and approval of the March 1, 2017 meeting minutes will be sought at the April 5, 2017 Citizens Utility Advisory Commission meeting.

IV. DIRECTOR'S REPORT – Craig Johnson, P.E., Water Services Director

- Mr. Craig Johnson reviewed updates with the Commission on changes made to the upcoming meetings schedule
- New Deputy Director for Administration, Kerri Logan, announced
- The Urban Irrigation season kick-off letter should be available by March 17; and will include the new rate schedule for this year
- Tentative meeting dates and subjects were discussed from April to November
 - June 6 and August 15 Council Workshops at 1:30 p.m.
 - June 27 and September 26 Council Voting meetings at 6 p.m.
 - Dates of required CUAC action or recommendations: April 5, May 3, and August 2

Questions from CUAC with answers in parenthesis:

- ✓ Will information be sent to CUAC earlier than usual for Commission review and study? (Yes, as soon as possible.)

ACTION: NO ACTION REQUIRED, INFORMATION ONLY

V. WATER SERVICES 5-YEAR FINANCIAL PLAN REVIEW

Craig Johnson, Water Services, Director; and Dan Hatch, Water Services, Administrator/Financial Programs presented information to the Commission. Information based using the current year plus the coming 5-year projections. Staff also creates an 11-year financial plan since a 5-year plan is

based on percentage cost increases, while the 11-year plan captures projected capital improvement needs.

Objectives:

Provide required resources for daily operations of water and waste water systems

Provide revenue to replace, repair, and rehabilitate both systems

Provide revenue for capital improvements and new growth

Provide financial stability

Minimize impact required revenue increases on customers

Mr. Hatch explained it is a three-stage development process.

- Developing Financial Plan
 - Operating and maintenance expenses
 - Capital outlay
 - Debt service-coverage to be ratio greater than 1.4 (or 120% of operating revenue) to achieve high credit rating
 - Fund balance-greater than 50% of operating revenues for operational stability retained as reserve
 - Outstanding debt not be more than 4 times as much as operating revenue
- Cost of service study
- Design and calculation of new rate schedules

Financial Plan

- Assumptions
 - 800 expense accounts, 29 divisions, 29 revenue accounts
 - Continual attempts to get better prices for goods and services
 - Conservative increases- 2% for Operating & Maintenance costs for forecast period
- Factors impacting plan
 - Delayed capital improvement plan over last 5 years
 - ongoing needs of replacement and rehabbing system
 - Maintain current “A1 stable” credit rating of Water Enterprise Fund
- Cost categories- water and waste water slightly different but overall similar
 - Personnel-department almost fully staffed at 206.75 positions
 - Raw Water
 - Chemicals
 - Electricity
 - Other expenses-vehicle costs, internal department charges, equipment maintenance, plant and facility maintenance
 - Capital Outlay expenses
 - Reclamation Facilities
 - Water Plants
 - Water Mains
 - Collection Lines
 - Wells (with the aim of redundancy)
 - Water Supply (Gaining water rights and increasing water supplies)
 - Support Infrastructure (Security, Water and Wastewater Master Plans, and Vehicle Replacement)
- Debt Service
 - Currently, 5 bond issues with outstanding \$212.5 million balance with \$20 million to \$25 million annual debt service payment

Balance refinanced 2015 to save \$6.6 million total or \$2.2 million saving per year for first 3 year

Debt Service includes future bonds programmed as needed

- Debt Service Coverage
Reporting practice of both Water and Wastewater funds added together as aggregate total
Wastewater fund is above required level
Water fund currently below level
Both funds projected to go below level in 2019
- Fund Balance
50% of operating budget
- Current Revenue
Based on current rates, account growth, and consumption per account estimates
Other revenue streams (Development Impact Fees \$1 million last year), rents, and electricity reimbursement for reclaimed water
- Revenue options-
After analysis of department financial plans, various capital funding and rate revenue increase scenarios, Raftelis to provide:
 - Development of cost of service models for appropriate customer class and rate components
 - Proposed required rate revenue increase and capital financing options
 - Several different rate scenarios

Questions from CUAC with answers in parenthesis:

- ✓ What are model and system growth based on? (Historic trends of new growth based on building permits issued by city, very conservative at ½% increase)
- ✓ Do salary and benefits increases, and cost increases take into account the cost of inflation? (No, inflation and cost of living index not taken into account; costs of goods kept as low as possible through re-bidding contracts and multi-year contracts.)
- ✓ If amounts not fully paid from capital outlay cash where does the rest come from? (Operating fund)
- ✓ When is the \$212 million paid back? (2034, 20-year bond)
- ✓ What trends dictate account usage? (Weather, rain and/or drought, temperatures, conservation efforts)
- ✓ What is budget transfer in? Is that a source of revenue? (Yes it is. In 2012, the Water Service Fund loaned the General Fund \$15 million. That is the loan repayment.)
- ✓ The loan amount was questioned as it was believed to be \$45 million. (There were two loan events over two years; Water Services Fund total amount was \$15 million, Information Technology and Sanitation funds also had money taken out.)
- ✓ What interest rate is it being repaid at? (Variable rate paid on the city's credit rate.)
- ✓ Is the raw water rate being stable? (Only the percentage amount placed into the yearly budget is stable based on actual use being seen. Actual amounts and costs projected are not stable and are reviewed each year.)
- ✓ Are CAP and SRP water percentages going up proportionately? (No, SRP water amount is increasing 3%-5% and CAP water is 10%-12% however it remains fluid because of the Navajo Generating Plant closure.)
- ✓ Explanation of the combined Water and Wastewater Debt Service Coverage number of 1.9 was requested. (The bond and covenant agency requires a single number to be reported, rather than breaking them out separately.)

- ✓ It might be perceived that water conservation equals a penalty for not using water. Please explain. How does using less water but at higher cost per gallon help revenue? (That is an good observation and that aspect will need to be explained during the public meetings.)
- ✓ Are bonds issued separately for Water and Wastewater? (No, bonds are issued as a total amount.)
- ✓ Is the city's bond rating lower than Water Services? (Yes, the city is at AA. Prior to 2014, we were AA; in 2014, we were raised to A1 Positive, and in 2016, we were again raised to A1 Stable. The only one city in Arizona that has a AAA rating is Phoenix.)
- ✓ What percentage of the 5-year forecast is capacity enhancements? (Almost 0. Current focus is on rehabilitating and repair. The only enhancement underway is at the Pyramid Peak Water Plant and it is not for Glendale. The city of Peoria is seeking to expand the capacity at their cost.)
- ✓ Do we get any of the Development Impact Fees? (Yes. The infrastructure is already in the ground; fees pay us back so the debt service is repaid.)
- ✓ What is the formula to find the ratios of debt service? (Operating revenue - operating expense = net number, divide net number by debt service.)
- ✓ What is debt service formula? (Debt outstanding ÷ operating revenue = debt service. This number should be greater than 1.2.)

ACTION: NO ACTION REQUIRED

VI. CALL TO THE AUDIENCE

No audience members spoke.

VII. FUTURE AGENDA ITEMS

Public Works Final Rate Proposal Options

VIII. COMMISSIONER COMMENTS

All Commission members thanked staff for the informative presentation.

IX. NEXT MEETING: April 5, 2017, 6 p.m.

X. ADJOURNMENT – Motion to adjourn was made by Vice-Chairman Short, **seconded by Comm. Faulls. **MOTION APPROVED 6-0.** The meeting adjourned at 7:30 p.m.**

Respectfully submitted,


Sally Melling