



BOARD OF SUPERVISORS AGENDA ITEM REPORT

Requested Board Meeting Date: January 17, 2017

Title: Proposed Revision To Pima County Code, Title 13, Chapter 24 - Sanitary Sewer User Fees

Introduction/Background:

The Regional Wastewater Reclamation Department (RWRD) provides service to approximately 274,000 residential, commercial, and industrial accounts in metropolitan Pima County. Title 13 Chapter 24 of the Pima County Code outlines the User Fee calculation for sanitary sewage collection, treatment, and disposal of services provided. The purpose of this Code text amendment is to propose a four percent (4%) rate increase to the sewer user fee. This rate increase is necessary to recovery the full cost of services provided and will ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

Discussion:

Each year, the Finance and Risk Management Department - in connection with the Regional Wastewater Reclamation Department and the Finance Subcommittee of the Regional Wastewater Reclamation Advisory Committee - prepares a Financial Plan for the utility. The Financial Plan reviews the financial needs of the Enterprise Fund to ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves for the next four Fiscal Years. The Financial Plan is then presented to the Regional Wastewater Reclamation Advisory Committee for consideration and recommendation to the Board of Supervisors.

The 2016 Financial Plan recommends the adoption of a series of revenue increases, with the first increase of four percent (4%) implemented as early as possible in Calendar Year 2017. Further, the Plan recommends similar revenue increases of four percent (4%) or more on January 1, 2018 and January 1, 2019. Based on comment from the Advisory Committee, only one rate increase is included in this Code text amendment. The future rate increases outlined in the 2016 Financial Plan will take into consideration the methodology and findings of the Sewer User Fee Rate Study, which is currently underway.

Conclusion:

Pima County has not raised sewer rates since July 1, 2013, even though revenues have been declining, and operations and maintenance costs and debt service are increasing. Any further delay in raising rates will put the Enterprise Fund in a financially unhealthy position. An immediate rate increase is needed to generate sufficient revenues to meet all operating and maintenance expenses, debts service payments, and required reserves.

Recommendation:

Recommend the Board of Supervisors approve this four percent (4%) rate increase to the Sewer User Fee.

Fiscal Impact:

A four percent (4%) increase to the Sewer User Fee will generate an additional \$2.5 million in revenue for Fiscal Year 2016/17, and an additional \$6.5 million in revenue each year thereafter.

Board of Supervisor District:

- 1
 2
 3
 4
 5
 All

Department: Regional Wastewater Reclamation

Telephone: 724-6549

Department Director Signature/Date:

John J. Johnston

12/21/16

Deputy County Administrator Signature/Date:  12/22/14

County Administrator Signature/Date: C. D. Mulberry 12/20/14

ORDINANCE 2017-__

AN ORDINANCE OF THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA; RELATING TO WASTEWATER; AMENDING PIMA COUNTY CODE, TITLE 13, CHAPTER 24, SANITARY SEWER USER FEES

The Board of Supervisors of Pima County Arizona finds that:

1. To comply with the revenue generation requirements associated with Pima County's sewer bonds and obligations; and
2. To maintain favorable interest rates on said bonds and obligations;
3. An increase in sewer user rates is necessary.

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

SECTION 1. Amendment. The Pima County Code, Title 13, Chapter 24, Section 13.24.600, Table 1 is hereby amended as follows:

**Table 1
Monthly Service Fee for All Users**

User Class	Class Name	Billing Class	Fee
1	Residential	R	\$12.63 <u>13.14</u>
1A	Income Reduced Residential	RA	3.16 <u>3.29</u>
1B	Income Reduced Residential	RB	6.32 <u>6.57</u>
1C	Income Reduced Residential	RC	9.47 <u>9.85</u>
2A	Multi-Family	MF	12.63 <u>13.14</u>
2B	Commercial	C	12.63 <u>13.14</u>
3A through 5S	Industrial	SA through SP	12.63 <u>13.14</u>

SECTION 2. Amendment. The Pima County Code, Title 13, Chapter 24, Section 13.24.600, Table 2 is hereby amended as follows:

**Table 2
Rate for Residential Users**

User Class	Class Name	Billing Class	Rate (dollars per CCF)
1	Residential	R	\$3.523 <u>3.664</u>
1A	Income Reduced Residential	RA	0.881 <u>0.916</u>
1B	Income Reduced Residential	RB	1.762 <u>1.833</u>
1C	Income Reduced Residential	RC	2.642 <u>2.748</u>

SECTION 3. Amendment. The Pima County Code, Title 13, Chapter 24, Section 13.24.600, Table 3 is hereby amended as follows:

**Table 3
Rates for Multi-Family, Commercial, and Industrial Users**

User Class	Class Name	Billing Class	Strength Factor	Rate (dollars per CCF)
2A	Multi-Family	MF	1.0	\$3.523 <u>3.664</u>
2B	Commercial	C	1.0	3.523 <u>3.664</u>
3C	Auto body and fender repair	SA	2.10	7.398 <u>7.694</u>
3K	Mortuary	SB	1.09	3.840 <u>3.994</u>
3N	Laundromat	SC	1.09	3.840 <u>3.994</u>
4E	Pet clinic	SD	1.20	4.228 <u>4.397</u>
4G	Restaurant, with seating and china	SE	2.03	7.152 <u>7.438</u>
4H	Restaurant, fast food	SF	2.32	8.173 <u>8.500</u>
5A	Car wash, self-service	SG	1.19	4.192 <u>4.360</u>
5C	Bottling company	SI	1.68	5.919 <u>6.156</u>
5F	Printing; copying	SJ	1.01	3.558 <u>3.700</u>
5G	Electrical component manufacturer	SK	1.14	4.016 <u>4.177</u>

5I	Industrial laundry	SL	1.06	3.734 <u>3.883</u>
5J	Bakery	SM	3.63	12.788 <u>13.300</u>
5K	Miscellaneous food processor	SN	2.33	8.209 <u>8.537</u>
5L	Chemical, pharmaceutical	SO	1.25	4.404 <u>4.580</u>
5M	Meat packing	SP	2.38	8.385 <u>8.720</u>
5S	Car wash, full service	SH	1.23	4.333 <u>4.506</u>

SECTION 4. Severability. If any provision of this Ordinance, or the application of any provision thereof is determined by a court of law to be invalid, the invalidity of that provision shall not affect other provisions or the application of this ordinance which can be given effect without the provision determined to be invalid, and to this end the provisions of this Ordinance are severable.

SECTION 5. County Officers and Employees. The various County officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this Ordinance.

SECTION 6. Effective Date. This Ordinance shall become effective 31 days after it is adopted by the Board of Supervisors.

PASSED AND ADOPTED by the Board of Supervisors of Pima County, Arizona, this _____ day of _____ 20__.

PIMA COUNTY BOARD OF SUPERVISORS:

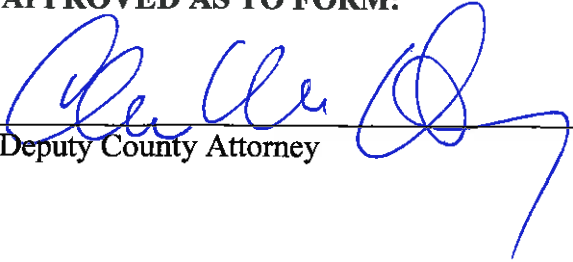
Chairperson

ATTEST:

Clerk of the Board

Dated: _____

APPROVED AS TO FORM:


Deputy County Attorney

APPROVED AS TO CONTENT:


Director, Regional Wastewater Reclamation
Department


Director, Finance Department



PIMA COUNTY
WASTEWATER RECLAMATION

REGIONAL WASTEWATER RECLAMATION ADVISORY COMMITTEE
201 NORTH STONE AVENUE
TUCSON, ARIZONA 85701-1207

September 15, 2016

The Honorable Chair and Members
Pima County Board of Supervisors
130 West Congress Street, 11th Floor
Tucson, Arizona 85701

RE: Proposed Rate Increases as Outlined in the 2016 Financial Plan

Dear Honorable Chair and Members:

The Pima County Regional Wastewater Reclamation Advisory Committee (RWRAC) was established by the Pima County Board of Supervisors, in part, to act as the official advisory body on the Regional Wastewater Reclamation Department's (RWRD) Capital Improvement Program planning and rate structure formulation to County government; annually review the proposed RWRD Capital Improvement Program and recommend to the governing body an annual and five-year Capital Program; and annually review the revenue requirements of the sanitary sewerage system and recommend to the governing body rate adjustments as required.

The Pima County Finance and Risk Management Department prepares an annual report, the Financial Plan, addressing the financial needs of RWRD based on the projected expenses and projected capital improvement program for the current fiscal year and for four subsequent fiscal years.

2016 Financial Plan

The 2016 Financial Plan recommends the following:

1. The issuance of \$20 million of certificates of participation (COPs) in Fiscal Year 2015-2016 to fund current capital improvement projects.
2. The issuance of \$150 million of new sewer revenue obligations to fund future capital improvement projects as follows:
 - a. \$45 million in Fiscal Year 2016-2017,
 - b. \$45 million in Fiscal Year 2017-2018,
 - c. \$30 million in Fiscal Year 2018-2019, and
 - d. \$30 million in Fiscal Year 2019-2020.
3. The early repayment of \$10.3 million of WIFA Loans as those debts become callable in Fiscal Year 2016-2017, saving \$1.5 million in future interest costs and positively impacting the debt service ratios.
4. The adoption of a series of revenue increases, with the first increase of four percent implemented as early as possible in Calendar Year 2017, with similar revenue increases of four percent or more on January 1, 2018, and January 1, 2019, to ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

In May 2016, Fitch Ratings reaffirmed the County's sewer debt rating of AA for the Senior Debt and AA- for the Junior Debt. In addition, in May 2016, Standard and Poor's reaffirmed the County's sewer debt rating of AA for the Senior Debt and upgraded the rating from AA- to AA for the Junior Debt. Both reports emphasized the historic willingness of the County to increase rates to provide funds needed for operations and debt service payments and pointed to the County's strong liquidity resulting from the cash held in reserves and the additional cash generated from revenue operations. For the \$150 million of debt the County will be issuing in the next four years, a decrease in the ratings level could occur if revenues are not increased.

RWRAC Review of the Financial Plan

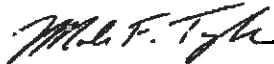
RWRAC has worked diligently to review the 2016 Financial Plan in preparation for the Fiscal Year 2016/17 budget adoption.

- The committee has been actively working on commissioning a new rate study in which a fixed vs. variable user fee structure and fee calculation methodologies will be evaluated. The new rate study will also provide an analysis of how other municipalities fund economic development. The Department provided a sewer rate study scope including objectives, consultant expectations and a timeline graph to the committee. This comprehensive rate study has been awarded and is anticipated to be complete in the first quarter of Calendar Year 2017.
- At its April 15, 2016 meeting, the Finance Subcommittee of the RWRAC supported the recommendations of the first revenue increase of four percent in early Calendar Year 2017 and future revenue increases only if supported by further review.
- At its April 21, 2016 meeting, the RWRAC supported the same revenue increase recommendation, as shown in the April 15th meeting notes.

Recommendation

The RWRAC Committee recommends to the Pima County Board of Supervisors the approval of the 2016 Financial Plan and the proposed rate increase of 4%, in early Calendar Year 2017, and future revenue increases as supported by further review by RWRAC. The members of RWRAC look forward to continuing its close working relationship with the Board of Supervisors and RWRD. All committee members are available at your convenience for any questions or further discussion.

Sincerely,



Mark Taylor, Past Chair



Amber Smith, Current Chair

Regional Wastewater Reclamation Advisory Committee

- c:
- C.H. Huckelberry, County Administrator, Pima County
 - John M. Bernal, Deputy County Administrator – Public Works, Pima County
 - Tom Burke, Deputy County Administrator – Administration, Pima County
 - Jackson Jenkins, Director, Regional Wastewater Reclamation Department
 - Keith Dommer, Director, Finance and Risk Management Department
 - Robin Brigode, Clerk of the Board, Pima County
 - Charles Wesselhoft, Attorney, Pima County Attorney's Office
 - Members, Regional Wastewater Reclamation Advisory Committee



MEMORANDUM

Date: August 23, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **2016 Regional Wastewater Reclamation Department Financial Plan**

This memorandum transmits the 2016 Financial Plan for Pima County's Regional Wastewater Reclamation Enterprise Fund prepared by the Finance and Risk Management Department.

Each year, the Finance and Risk Management Department prepares a financial plan in connection with the Regional Wastewater Reclamation Department and the Finance Subcommittee of the Regional Wastewater Reclamation Advisory Committee. The financial plan is presented to the Regional Wastewater Reclamation Advisory Committee for their consideration and recommendation to the Board of Supervisors regarding sewer rates.

The 2016 Financial Plan reviews the financial needs of the Regional Wastewater Reclamation Enterprise Fund based on projected revenues, projected expenses, and projected capital improvement program for the current fiscal year and for the next four fiscal years through Fiscal Year 2019/20. The focus of the review is to determine the optimal sewer rates needed to ensure the County has sufficient revenues and resources available to do two things: 1) cover all operating, maintenance and debt expenses and required reserves; and 2) maintain adequate debt service ratios to obtain favorable bond ratings and ensure compliance with all debt requirements.

Based on this review, the Finance and Risk Management Department is recommending increasing rates by four percent early in Calendar Year 2017 and additional rate increases of four percent or more in January 2018 and January 2019. At its April 15, 2016 meeting, the Finance Subcommittee of the Regional Wastewater Reclamation Advisory Committee supported the recommendation of the first revenue increase of four percent in early Calendar Year 2017 and future revenue increases only if supported by further review. At its April 21, 2016 meeting, the Wastewater Reclamation Advisory Committee supported the same revenue increase recommendation.

The recommended revenue increases are expected to generate an additional \$3.2 million in the second half of FY 2016/17, \$9.5 million in FY 2017/18 and \$16.2 million in FY 2018/19. As shown in the Financial Plan, these revenue increases are necessary to maintain the financial health of Pima County's Enterprise Fund. Rating agencies concur with the Financial Plan's recommendations and have based their ratings in part on the County's history of adjusting rates when necessary, specifically mentioning the Financial Plan's recommended

**The Honorable Chair and Members, Pima County Board of Supervisors
Re: 2016 Regional Wastewater Reclamation Department Financial Plan
August 23, 2016
Page 2**

revenue increases. In fact, Standard and Poor's reported their stable outlook is dependent on Pima County adjusting rates to maintain its debt service ratios as described in the Financial Plan.

The Regional Wastewater Reclamation Department has reported to me that additional cuts to the Department's operating expenses could not be made without jeopardizing the safe operation of the system. I will be requesting the Board authorize the Calendar Year 2017 recommended rate increase at a future Board meeting.

Additionally, it is important to consider that Pima County's Enterprise Fund has not raised rates for three years, since July 2013. Since that time, the City of Tucson has raised its water rates 8 percent and 7 percent in FYs 2014/15 and 2015/16. Oro Valley Water, Marana Water, and Southwest Gas have also raised their rates by 2 percent, 5 percent, and 3 percent in FY 2015/16. Tucson Electric Power has requested a 12-percent rate increase for FY 2016/17.

CHH/mjk

Attachment

- c: John Bernal, Deputy County Administrator for Public Works
Tom Burke, Deputy County Administrator for Administration
Jan Leshner, Deputy County Administrator for Community and Health Services
Nanette Slusser, Assistant County Administrator for Policy, Public Works
Jackson Jenkins, Director, Regional Wastewater Reclamation
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management



2016 Financial Plan
Pima County
Regional Wastewater Reclamation Enterprise Fund

Prepared by
Pima County Finance and Risk Management Department
June 2016

2016 Financial Plan

Pima County Regional Wastewater Reclamation Enterprise Fund

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2016 Financial Plan

Pima County Regional Wastewater Reclamation Enterprise Fund

SUMMARY AND RECOMMENDATIONS

On an annual basis, Pima County reviews the rate structure for the sanitary sewer services provided by its Regional Wastewater Reclamation Department and prepares a report for the Board of Supervisors analyzing the current fee structure in conjunction with the County's overall annual budget process. The focus of the review is to determine the optimal sewer rates needed to ensure that the County has sufficient revenues to meet all operating and maintenance expenses, debt service payments, required reserves, and to maintain an adequate debt service ratio to obtain favorable bond ratings. This enables the County to continue to issue debt for the anticipated improvements in the Capital Improvement Program. There have been no rate increases since July 2013. System revenues continue to decline while operating costs and debt service payments continue to increase as the Department pursues \$30 million to \$45 million in capital projects, annually. Based on this review, the Finance and Risk Management Department is recommending:

1. The issuance of \$20 million of certificates of participation (COPs) in Fiscal Year 2015-2016 to fund current capital improvement projects.
2. The issuance of \$150 million of new sewer revenue obligations to fund future capital improvement projects as follows:
 - a. \$45 million in Fiscal Year 2016-2017,
 - b. \$45 million in Fiscal Year 2017-2018,
 - c. \$30 million in Fiscal Year 2018-2019, and
 - d. \$30 million in Fiscal Year 2019-2020.
3. The early repayment of \$10.3 million of WIFA Loans as those debts become callable in Fiscal Year 2016-2017, saving \$1.5 million in future interest costs and positively impacting the debt service ratios.
4. The adoption of a series of revenue increases, with the first increase of four percent implemented as early as possible in Calendar Year 2017, with similar revenue increases of four percent or more on January 1, 2018 and January 1, 2019, to ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

**2016 Financial Plan
Pima County Regional Wastewater Reclamation Enterprise Fund**

This report addresses the financial needs for the Regional Wastewater Reclamation Department based on the projected revenues, projected expenses, and projected capital improvement program expenses for Fiscal Year 2015-2016 through Fiscal Year 2019-2020. The 2015 Financial Plan included the recommendation of three annual rate increases at four percent, slated to begin July 1, 2015; however, the recommendation was not approved by the Board of Supervisors. As discussed in this report, the Pima County Finance and Risk Management Department is recommending three annual revenue increases to address the increasing cost of operations and debt service.

KEY ASSUMPTIONS

The Finance and Risk Management Department worked with the Regional Wastewater Reclamation Department and the Regional Wastewater Reclamation Advisory Committee to develop these assumptions. The major assumptions include relatively slow growth in the customer base, an increase in user fees and connection fees at the rate of population growth, a declining volume usage rate factor based on a five-year average, a capital improvement program of \$199 million, additional sewer revenue debt of \$150 million, and the issuance of an additional \$20 million of County certificates of participation (COPs) to be used for the Department's capital improvement program. Key assumptions used in this report are identified in Appendix A.

In order to determine rates, Finance and Risk Management analyzed the projected cash needs of the Department for upcoming capital projects, the amount of total revenues, the anticipated operating and maintenance costs, the debt service payments for existing debt, and anticipated debt service payments for planned debt that will be used to pay for the capital improvement program. Although the projected amounts change throughout the year as plans are refined and actual costs are determined, the estimates used for this analysis are as of December 31, 2015.

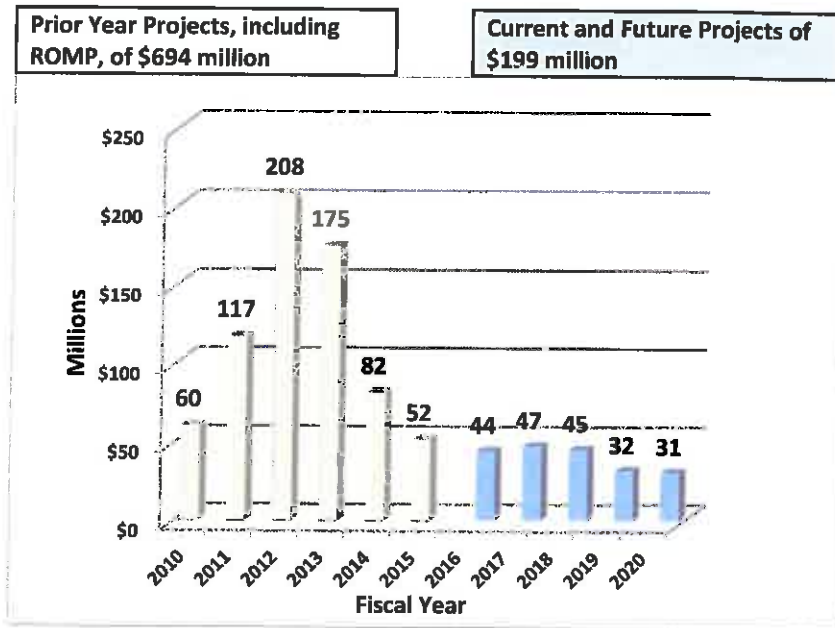
To show the financial impact of not increasing sewer rates, Appendix B, *Five Year Financial Projections Assuming No Rate Increases*, assumes zero rate increases and the utilization of available cash to rebate rates instead of prepaying \$10.3 million of debt in Fiscal Year 2017. Appendix C, *Five Year Financial Projections Assuming Three Four Percent Rate Increases*, assumes three rate increases of four percent with early repayment of \$10.3 million in debt in Fiscal Year 2016-2017. Based on the analysis of these two options, Finance and Risk Management recommends the three revenue increases shown in Appendix C. This scenario allows the County to generate sufficient revenues to cover necessary operations and maintenance expenses, debt service payments, and required reserves for all five years, while saving \$1.5 million of future interest with the early payment of \$10.3 million. Finance and Risk Management believes it is Pima County's responsibility to establish a prudent financial plan that continues the long term financial health of the County's sewer system.

CAPITAL IMPROVEMENT PROGRAM

Capital Improvement Program:

In Fiscal Year 2014-2015, Pima County significantly completed the Regional Optimization Master Plan (ROMP), which started in Fiscal Year 2008-2009. Since 2009, Pima County has had to address required upgrades to its sewer system to comply with federal and state environmental mandates, replacing the more than 50 year old Roger Road treatment facility and performing needed improvements and maintenance to the conveyance and treatment systems. In Fiscal Year 2009-2010, those requirements caused the County to embark on what was then an estimated \$974 million capital improvement program, scheduled through Fiscal Year 2018-2019. As shown in Figure 1, the County has completed the highest levels of construction activity and will have much lower capital needs in upcoming years. From Fiscal Year 2009-2010 to Fiscal Year 2019-2020, the overall cost of the capital improvement program is expected to be \$893 million, consisting of the \$694 million spent between Fiscal Year 2009-2010 and Fiscal Year 2014-2015 and \$199 million of anticipated capital expenditures over the next five years. The \$199 million for future capital expenditures are for necessary improvements and maintenance of the conveyance and treatment systems. An additional \$30 million to \$35 million in capital improvements are anticipated to be needed annually, thereafter.

Figure 1: Capital Project Costs



Although the projected amount of anticipated capital expenditures changes throughout the year as plans are refined and actual construction costs are determined, the Department's estimate of capital projects as of December 2015 was used for this analysis. A summary of capital projects for

the Department for Fiscal Year 2015-2016 through Fiscal Year 2019-2020 can be found in Appendix D, *Five Year Summary of Planned Capital Improvement Projects*. As discussed on page 14, regarding the Expenditure Limitation Impact on Wastewater Projects, Pima County must continue to borrow funds for the \$199 million planned capital improvements program even though the County has significant levels of available cash in the fund.

REVENUES

User Fees and Connection Fees:

Revenues from the wastewater system are generated from two major sources, sewer user fees and sewer connection fees.

User fees consist of the combination of: (1) the standard service fee and (2) the volume rate fee. The last rate increase took effect almost three years ago on July 1, 2013. Without additional rate increases, user fee revenues are expected to remain essentially flat for the foreseeable future. Any increases or decreases will depend upon future growth in the number of new users and volume usage. Until this growth occurs, no additional revenue will be collected.

Connection fees are charged for new construction connecting to the sewer system for the first time or for renovation of existing improvements which require additional or larger water meters. Connection fees are established based primarily on water meter size, with increasing fees as water meter sizes increase. The principal factor that will affect revenues from future connection fees will be the volume of new construction within Pima County.

For purposes of this financial analysis, future user fees and connection fees are projected to increase at the same rate as the estimates for population growth issued in September 2015 by the University of Arizona Economic & Business Research Center. These estimates project population growth rates to be between 0.96 percent in Fiscal Year 2015-2016 and 1.44 percent in Fiscal Year 2019-2020, as indicated in Appendix A.

Declining Volume Usage:

Another factor that must be considered in determining future revenue projections is the recent downward trend in total influent flow, the amount of sewage flowing into the treatment plants. As Table 1 details, the annual influent flow for the system has been decreasing, on average, since Fiscal Year 2009. This downward trend has had a negative impact on the billings for the volume rate component within the user fee revenue calculation. The amount billed is based on an average water usage, also known as the winter quarter average, taken from the months of December, January, and February. As the monthly water consumption decreases, the amounts billed and collected also decrease. Based on the review of user fee revenues billed and collected for the past

five years, this downward trend has decreased revenues on average by approximately 1.8 percent. Therefore, we have utilized a 98.2 percent (100 percent – 1.8 percent = 98.2 percent) rate factor for future year projections. This is consistent with the experience of the water providers who serve the area and have been reporting decreases in water usage.

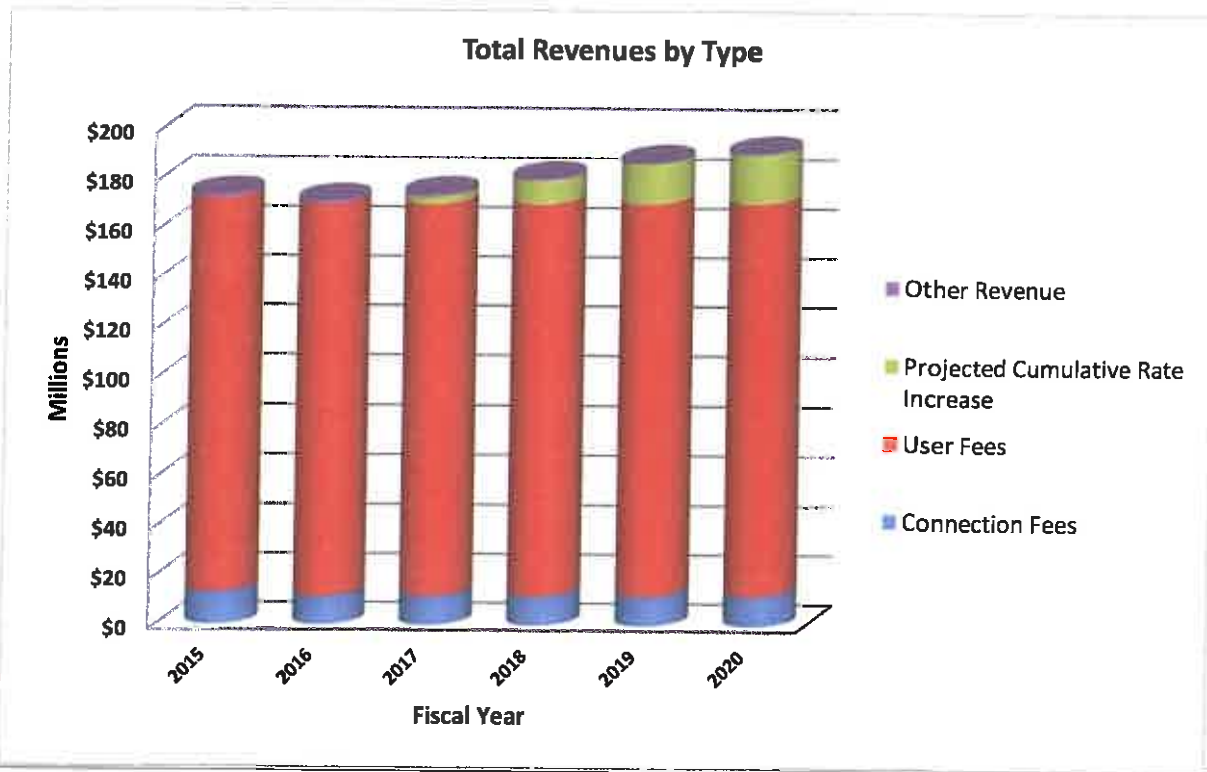
Table 1: Decreasing Influent

Fiscal Year	Total Influent (in Millions of Gallons)	Annual Percentage	Cumulative Decrease Since 2009
2009	23,851.95	0.00%	
2010	23,348.57	-2.11%	-2.11%
2011	22,797.57	-2.36%	-4.42%
2012	22,701.13	-0.42%	-4.82%
2013	22,236.45	-2.05%	-6.77%
2014	21,798.15	-1.97%	-8.61%
2015	21,911.68	0.52%	-8.13%

Total Revenues:

System revenues are decreasing. Overall, Fiscal Year 2014-2015 revenues saw a decrease from the prior fiscal year due to reduced volume usage, despite the increase in population growth. Fiscal Year 2015-2016 revenues, are also expected to decrease by about one and a half percent from \$174 million to \$171.4 million: \$158.6 million (or 93 percent) derived from sewer user fees, \$11.4 million derived from connection fees, and \$1.4 million derived from other revenues. This decrease is also due to reduced volume usage, despite the increase in population growth. From Fiscal Year 2016-2017 through Fiscal Year 2019-2020, user fee revenues are expected to remain relatively flat if rate increases are not approved. Figure 2 shows Total Revenues by Type for Fiscal Year 2014-2015, including projections through Fiscal Year 2019-2020, with a portion of those revenues attributable to connection fees, user fees without rate increases, user fees with the Finance and Risk Management recommended rate increases, and other revenues.

Figure 2: Total Revenues by Type



As detailed in Table 2, Connection Fees are expected to remain at or below \$12.1 million.

Table 2: Total Revenues by Type – Detail

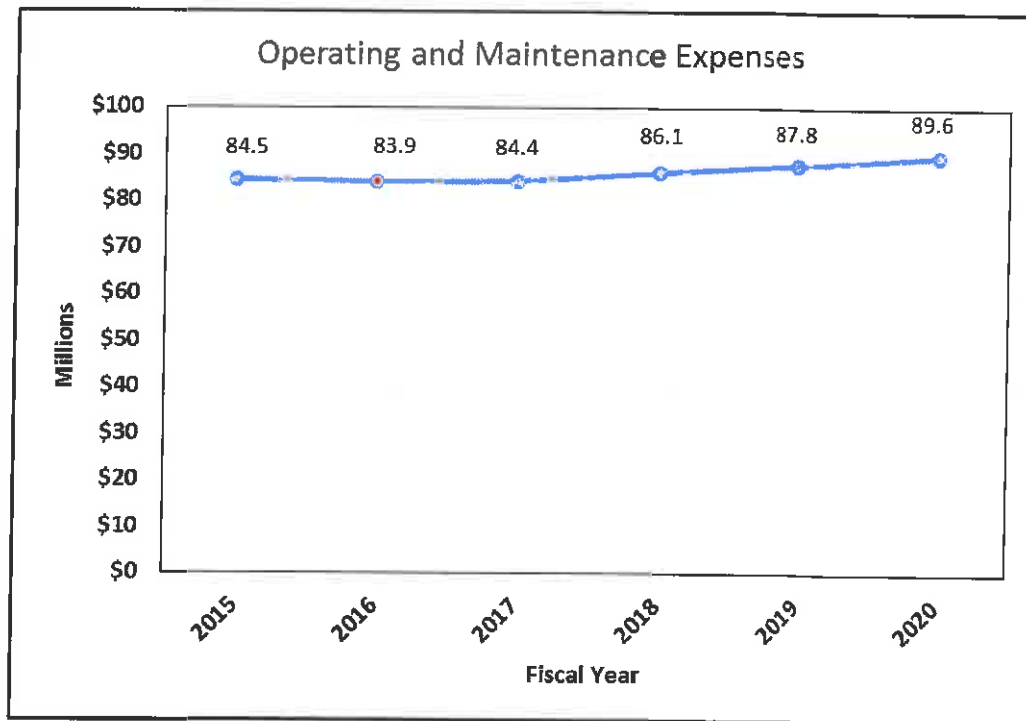
Fiscal Year	Connection Fees	User Fees	Projected Cumulative Rate Increase for FY 2017 - 2020	Other Revenue	Total Revenues
2015	\$ 13.1	\$ 159.3	\$ -	\$ 1.6	\$ 174.0
2016	11.4	158.6	-	1.4	171.4
2017	11.6	158.5	3.2	1.3	174.6
2018	11.7	158.6	9.6	1.0	180.9
2019	11.9	158.7	16.4	0.9	187.9
2020	12.1	158.8	19.8	0.9	191.6

OPERATING AND MAINTENANCE EXPENSES

Projected Operating and Maintenance Expenses:

The Department is expecting to complete Fiscal Year 2015-2016 with Operating and Maintenance (O&M) expenses of \$83.9 million. The budget for Fiscal Year 2016-2017 has not yet been determined, but for purposes of this analysis, the County is budgeting \$84.4 million with a two percent increase in operating costs the following fiscal years. The most significant portion of O&M costs relate to employee compensation, which, at \$32.6 million for Fiscal Year 2016-2017, represents 39 percent of total operating expenses. This financial analysis assumes that operating expenses will continue to increase by two percent each year, starting in Fiscal Year 2017-2018. At this rate of increase, the O&M costs are expected to increase by approximately \$5.7 million during the next four-year period. Figure 3 shows the increase in O&M expenses from Fiscal Year 2014-2015 to Fiscal Year 2019-2020.

Figure 3: Operating and Maintenance Expenses

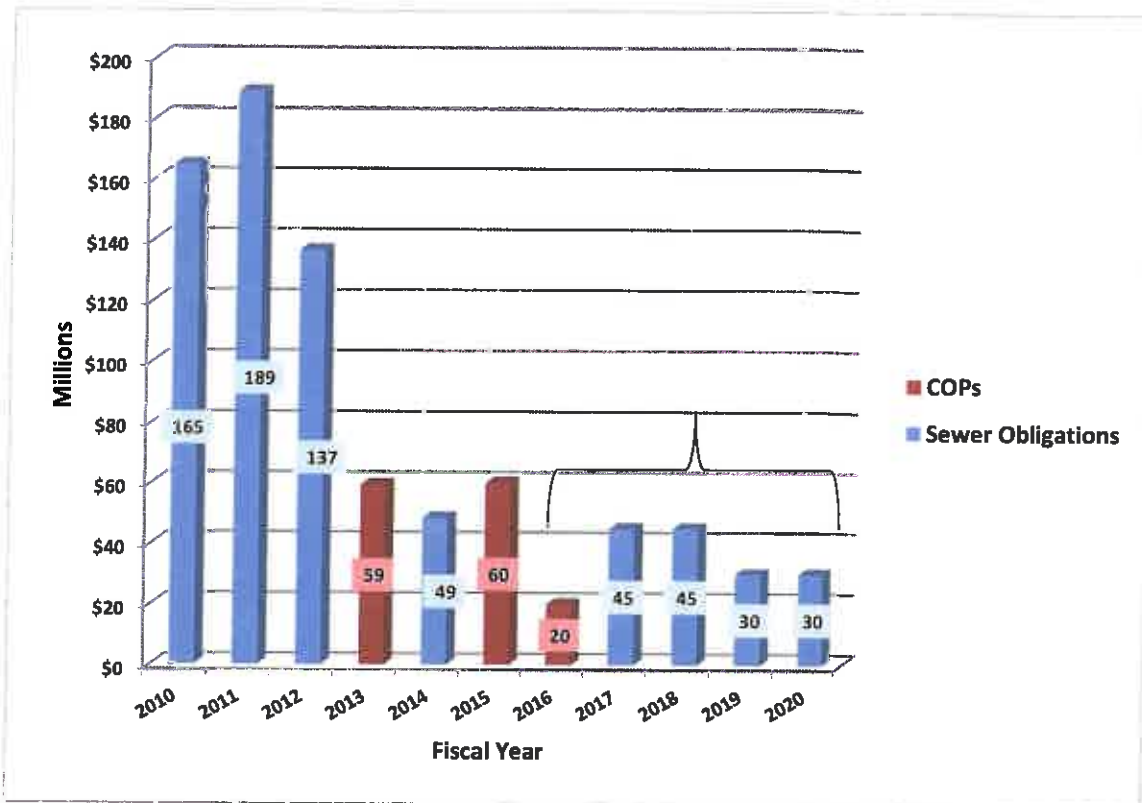


DEBT FINANCING

Sewer Revenue Debt Financing:

As of June 30, 2015, Pima County had \$608.9 million of sewer revenue debt outstanding. The County issued another \$20 million in COPs in April 2016 and plans to issue an additional \$150 million of new sewer revenue obligations over the next four years. Although the COPs issued in Fiscal Year 2015-2106 were not secured by sewer system revenues, repayment will be made from the cash generated by the sewer system revenues. Thus, an additional \$170 million of debt (\$20 million of Pima County COPs and \$150 million of sewer revenue debt, indicated by bracket in Figure 4) will be issued to fund the anticipated \$199 million of construction previously mentioned in this report. Figure 4 shows the amounts and timing of the future debt issues.

Figure 4: \$170 Million of Additional Debt 2016 Through 2020



As discussed in greater detail in the Cash Reserves, Cash Balances, and the Expenditure Limitation section, although the County has unrestricted cash in the sewer fund, the County cannot use the available cash for capital projects due to constitutional expenditure limitation restrictions. Instead, the County needs to finance its capital programs through debt financing. The County has used the available unrestricted cash to significantly decrease the overall debt service requirements by issuing COPs (with accelerated repayment schedules) and by prepaying existing debt as soon as possible.

DEBT SERVICE PAYMENTS

Debt Service Payments:

Because the County has issued significant debt in the last few years and anticipates additional debt as defined in Figure 5, total debt service payments are expected to continue increasing over the next few years, even though the annual level of projects is declining. Debt service for Fiscal Year 2015-2016 will be \$68.8 million, down from \$71.3 million last year.

Figure 5 shows the debt service payments from Fiscal Year 2014-2015 and the projected payments through Fiscal Year 2027-2028.

Figure 5: Debt Services Payments

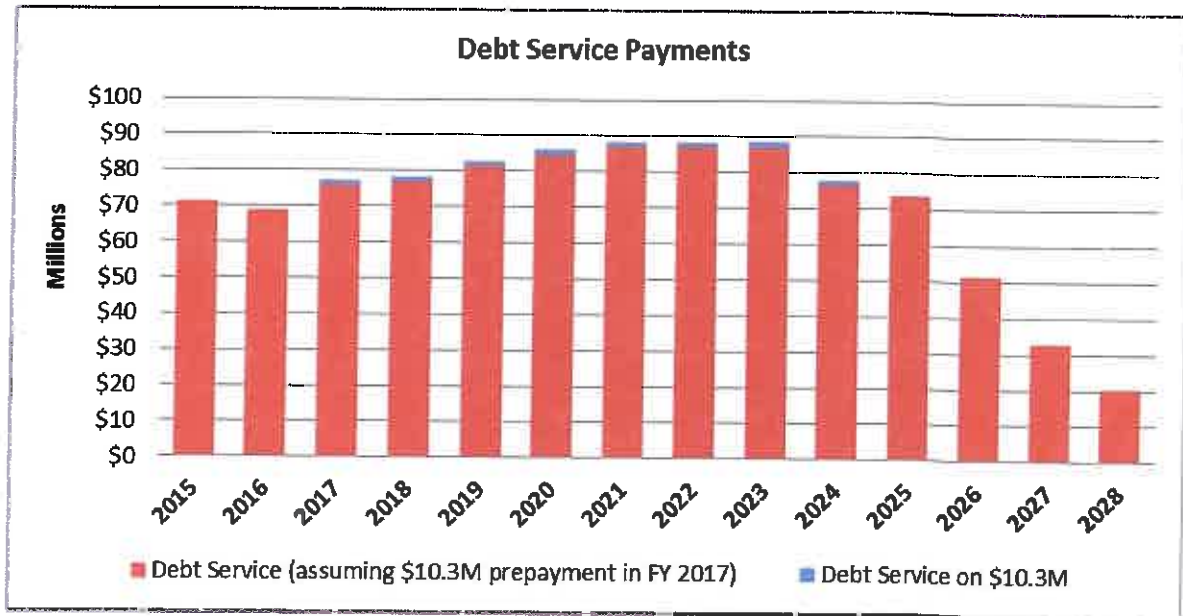


Table 3 details the impact on the debt service payments by year, if the early repayment of \$10.3 million of outstanding debt occurs when callable in Fiscal Year 2016-2017. By paying this debt early, the Department would save approximately \$1.5 million in future interest costs. It is important to note that these estimates assume that the County issues no new sewer revenue pledged debt after Fiscal Year 2019-2020. If the County does issue more debt secured by sewer revenues after Fiscal Year 2019-2020, the estimated debt service will increase.

Table 3: Debt Services Payment – Detail

Fiscal Year	Debt Service (assuming prepayment of \$10.3M in FY 2017)	Debt Service Payment on \$10.3M	Total Debt Service Payment (without prepayment)
2015	\$ 71.3	\$ -	\$ 71.3
2016	68.8	-	68.8
2017	75.8	1.3	77.1
2018	80.6	1.5	82.1
2019	85.1	1.5	86.6
2020	88.3	1.5	89.8
2021	90.6	1.5	92.1
2022	90.7	1.5	92.2
2023	90.8	1.5	92.3
2024	80.2	1.5	81.7
2025	77.6	-	77.6
2026	55.3	-	55.3
2027	32.8	-	32.8
2028	20.3	-	20.3

As seen in Table 3, when additional debt is issued, the debt service payments (assuming prepayment) are expected to continue increasing at least through Fiscal Year 2020-2021 to \$91 million and remain at that level for three years, with a rapid decrease after Fiscal Year 2022-2023, assuming no additional debt is issued after Fiscal Year 2019-2020.

The projections of debt service for future debt in Appendix C, showing recommended rate increases, include the assumption that Pima County will use available cash to accelerate the payment of principal on debt and save \$1.5 million in future interest costs, thereby reducing debt service requirements.

CASH RESERVES AND CASH BALANCES

Cash Reserves and Cash Balances:

The Pima County Regional Wastewater Reclamation Enterprise Fund has unrestricted cash and several types of restricted and designated cash accounts to meet the various debt covenants and to maintain an emergency fund that enables the County to handle unexpected events. Appendix E, *Cash Position Assuming Rate Increases and the Prepayment of \$10.3 Million*, shows the balances and projected balances of the cash accounts with the assumption that rate increases are adopted. As of the December 31, 2015 Cash Flow report, the Fund will have an estimated \$189.8 million in cash at the end of Fiscal Year 2015-2016, of which \$100.6 million is currently

estimated to be unrestricted. These restricted and designated cash accounts include:

1. **Emergency Reserve Fund (Unrestricted)** – Beginning in Fiscal Year 2009-2010, \$20 million was set aside and designated by the Board of Supervisors as an Emergency Reserve Fund. The fund is for unexpected events affecting the ongoing operations of the sewer system.
2. **Operating Reserve Fund (Partially Restricted)** – Although only required by the various debt instruments to maintain a 30 days balance of anticipated operating expenses, the County maintains 90 days of anticipated operating expenses in this fund. By the end of Fiscal Year 2015-2016, these reserves are projected to be \$21 million. Because only 30 days of reserves are required, the remaining 60 days of reserve of cash is unrestricted.
3. **Debt Service Reserve Fund (Restricted)** – This restricted fund is used to set aside cash for sewer debt service payments. On a monthly basis, the County transfers one-twelfth of budgeted annual debt service into this reserve account to ensure cash is available for the annual debt service payments. These funds will be applied to the final debt service payments for the respective debt. By the end of Fiscal Year 2015-2016, these debt reserves are projected to be \$37.2 million.
4. **Bond Proceeds (Restricted)** – This restricted fund is used to restrict the bond proceeds received until the funds are spent for the various bond projects. By the end of the Fiscal Year 2015-2016, this reserve is projected to be \$11 million.

Use of Unrestricted Cash Balances – At the March 9, 2010 Board of Supervisors meeting, the Board adopted a series of rate increases and, simultaneously, restricted any unrestricted cash balances to be used for reduction of debt or for rebate of sewer fees. To this end, the County plans to retire certain debt as soon as outstanding debt instruments are callable. If rate increases are approved, the County will call and prepay \$10.3 million of WIFA loans as they become callable in Fiscal Year 2016-2017. The County continues to issue COPs which are used to fund capital improvement projects for the sewer system. Unrestricted cash balances are used to repay this debt with accelerated payment schedules between three and six years. Such actions significantly reduce future debt payments.

DEBT SERVICE RATIO

Rating Agency Debt Service Ratio – Net Operating Revenue to Debt Service:

Net operating revenues are the regular, recurring revenues generated by operating the sewer system that remain after paying for sewer system operating expenses. Net operating revenues must be sufficient to do two things: (1) to cover the required debt service payments and required reserves and (2) generate a sufficient margin necessary to enable the County to pay non-operating costs and maintain additional reserves for unforeseen events.

Bond rating agencies use a basic ratio of net operating revenues to debt service to evaluate the financial health of governmental sewer operations. A ratio of 1 indicates that net operating revenues match debt service payments – net operating revenues are 100 percent of debt service payments. A ratio of less than 1, for example, 0.9, indicates that net revenues are less than, or in this example 90 percent, of debt service payments. A ratio of greater than 1, for example, 1.3, indicates that net revenues are larger than, or in this example 130 percent of debt service payments.

To make sewer revenue debt that pays lower interest rates attractive to investors, bond rating agencies have historically expected to see governmental sewer operators set rates high enough to maintain a rating agency debt service ratio of 1.3. At this level, not only will the government be able to cover its debt service payments, but there will also be sufficient unrestricted financial reserves generated to cover non-operating costs and unforeseen future events.

Historically, Pima County has been committed to regularly setting rates to maintain a rating agency debt service ratio of 1.3. The Regional Wastewater Reclamation Advisory Committee (RWRAC) formally stated this goal in a letter to Pima County's Board of Supervisors. By regularly meeting this goal, Pima County's sewer revenue debt has good ratings and Pima County has been able to readily sell debt for its capital improvement program at low interest rates. Pima County and its RWRAC also recognize that there may be the occasional need to modify this goal for short periods of time when it is in the best interest of the rate payer.

Recently, Pima County has not needed to use its unrestricted financial reserves to pay for unforeseen events and a significant balance has accumulated (see Cash Balances section). Pima County recommends two related actions in this financial plan: 1) prepaying \$10.3 million of sewer revenue debt discussed in the Debt Service Payments section and 2) temporarily setting rates to achieve a debt service ratio slightly less than 1.3, while carefully monitoring unrestricted cash balances to ensure they stay at reasonable levels.

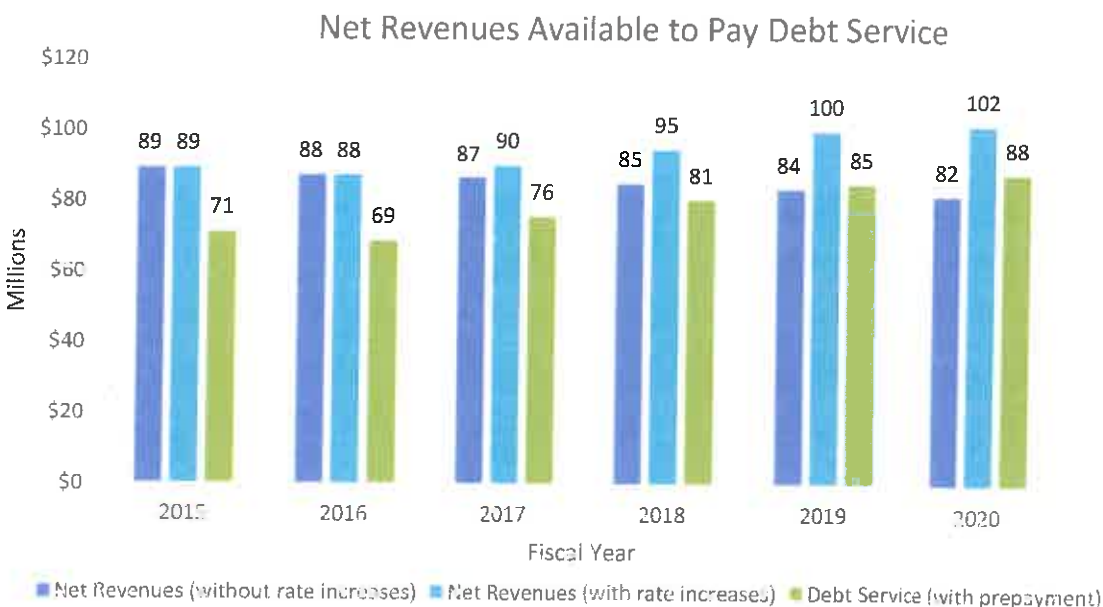
Temporarily setting rates to achieve a rating agency debt service ratio less than 1.3 does not eliminate the need for future rate increases. While rate increases are still necessary, rates can be increased by smaller amounts, lessening the immediate impact on Pima County's rate payers. Rather than an eight percent increase necessary on July 1, 2016 (the start of Fiscal Year 2016-

2017), followed by several annual three percent increases that would be necessary to maintain a rating agency debt service ratio of 1.3, Pima County could increase rates four percent on January 1, 2017, followed by two annual four percent increases. This would keep the rating agency debt service ratio near 1.2 and reduce the County's unrestricted reserves in a predictable, reasonable, and careful manner.

It is important to note that Pima County has two additional debt service ratios. These two ratios (the senior debt service ratio and the junior debt service ratio) are calculated differently, and are not used as indicators of financial health. They should not be used for financial planning in the same way the rating agency debt service ratio is used. These two ratios are used by external parties to make legal determinations about whether Pima County is violating the contractual provisions of its debt. By setting rates to keep the bond rating agency debt service ratio at or near 1.2, Pima County will not violate the contractual provisions of its debt. Additional details about these two contractual debt service ratios can be found in Appendix F, *Debt Service Ratio Calculations*.

Appendices B (assuming no rate increases) and C (assuming rate increases) provide more detail of the projected revenues, expenses, net operating revenues, and debt service ratios of the system. Figure 6 shows the relationship between projected net revenues available for debt service with and without rate increases and the projected debt service through Fiscal Year 2019-2020, illustrating that, with rate increases, net revenues would be sufficient to cover the amount needed for debt service through Fiscal Year 2019-2020, while maintaining a rating agency debt service ratio near 1.2.

Figure 6: Net Revenues (with Rate Increases) Available to Pay Debt Service



As seen in Figure 6, if no rate increases are adopted, the projected net revenues will not be sufficient to pay for debt service beginning in Fiscal Year 2018-2019. A delay in raising rates will put the County's sewer system fund in a financially unsustainable position within three years.

EXPENDITURE LIMITATION

Expenditure Limitation Impact to Wastewater Projects:

Due to the expenditure limitation restrictions in Article IX, Section 20, of the Arizona Constitution, the County is not able to use available cash to fund capital improvements on a pay-as-you-go basis. The expenditure limitation restricts the use of local revenues which consist of primary property taxes, impact fees, connection fees, including all fees charged for sewer services, and any other fees charged for County services. The County may not exceed the expenditure limit even if the County has cash available to spend.

Although the County cannot use the cash to fund projects on a pay-as-you-go basis, the County can use the cash to pay debt service without impacting the expenditure limit. In order to comply with the expenditure limitation, the County must fund sewer capital projects with borrowed funds, and use available unrestricted cash to pay the debt service on such funds. The use of the COPs described above enables the County to finance sewer improvements using relatively short term financing at very favorable rates. Such financing technique allows the County to essentially have a modified pay-as-you-go approach to financing sewer improvements, whereby available cash is used to fund projects with minimal interest payments.

BOND RATINGS

Bond Rating Agencies:

In May 2016, Fitch Ratings reaffirmed the County's sewer debt rating of AA for the Senior Debt and AA- for the Junior Debt. In addition, in May 2016, Standard and Poor's reaffirmed the County's sewer debt rating of AA for the Senior Debt and upgraded the rating from AA- to AA for the Junior Debt. The issued reports explained the analysis of Pima County's financial condition for its sewer debt. The bond ratings reflect the rating agencies evaluation of the financial stability of the County and its ability to repay debt. As ratings increase, the interest rates offered by lenders decrease, making the overall debt cost to the County lower.

Both reports emphasized the historic willingness of the County to increase rates to provide funds needed for operations and debt service payments and pointed to the County's strong liquidity resulting from the cash held in reserves and the additional cash generated from revenue operations.

For the \$150 million of debt the County will be issuing in the next four years, a decrease in the ratings level could occur if revenues are not increased. This would likely cause the County to pay at least 15 to 20 basis points (0.15 percent to 0.20 percent) higher interest rate, which would result in about \$1.5 million to \$2.5 million of additional interest over the terms of the debt.

RECOMMENDED REVENUE INCREASES

Revenue Increases:

Pima County has not raised sewer rates since July 1, 2013, even though revenues have been declining, debt service is increasing, and the Department anticipates another \$155 million of capital improvement projects over the next four years. Based on the information presented in the preceding sections, Pima County's Finance and Risk Management Department recommends the adoption of a series of revenue increases, with the first increase of four percent implemented as early as possible in Calendar Year 2017 and similar revenue increases of four percent or more on January 1, 2018 and January 1, 2019. The implementation of these revenue increases will ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

The Calendar Year 2017 revenue increase is recommended to begin one half year later and is half the size of the eight percent revenue increase that would have been necessary to continue the County's goal of maintaining the Fund's rating agency debt service ratio at 1.3 as discussed in the Debt Service Ratio section. To delay the starting date and to reduce the size of the revenue increase, the County is recommending the use the Fund's unrestricted cash balance to cover a portion of the Fund's costs and pay off a portion of the Fund's outstanding debt prior to its maturity. This basically requires the Department to function with a structural deficit until future revenue increases are implemented.

The use of the Fund's unrestricted cash balance to cover a portion of the Fund's costs helps delay and reduce the need for revenue increases for a short period of time, so current system users do not have to pay for 100 percent of the costs of the system. In addition, paying off a portion of the Fund's outstanding debt prior to its maturity reduces the need for revenue increases because future interest costs will be lower and less revenue will need to be generated.

Because Pima County is spending down some of the Fund's unrestricted cash to delay and reduce needed revenue increases, Finance and Risk Management will carefully monitor the financial health of the Fund. Finance and Risk Management recommends the adoption of a series of revenue increases, with the first increase of four percent implemented as early as possible in Calendar Year 2017, with similar revenue increases of four percent or more on January 1, 2018 and January 1, 2019 to ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

ADVISORY COMMITTEE RECOMMENDATION

The Regional Wastewater Reclamation Advisory Committee Recommendation:

During fiscal year 2015-2016, the Finance and Risk Management Department met regularly with the Finance Subcommittee of the Regional Wastewater Reclamation Advisory Committee. The Finance Subcommittee moved and approved the following recommendation at its April 15, 2016 meeting.

We support the findings and recommendations outlined in the 2016 Financial Plan, which identifies current and future revenue shortfalls for the Department. We recognize the urgency for a revenue increase as early in calendar year 2017 as possible. We further recognize a Rate Study is underway, which is necessary to equitably allocate the cost of providing service. Therefore, we recommend an initial 4% revenue increase to take effect as early as possible in calendar year 2017. The Committee also recommends revenue increases for fiscal year 2017/2018 and beyond, consider the methodology and findings of the Rate Study and future financial plans.

The full Regional Wastewater Reclamation Advisory Committee moved and approved this recommendation at its April 21, 2016 regular meeting.

Members of the Advisory Committee requested that this report include a history of rate increases and the dollar impact of such increases. Appendix G, *Summary of Rate Increases and Their Impact, Fiscal Years 2004 through 2016 and Proposed for Fiscal Year 2017 through 2020* contains a history of rates since Fiscal Year 2003-2004 and includes the impact of the recommended four percent revenue increases in Fiscal Years 2016-2017, 2017-2018, and 2018-2019.

RECOMMENDATIONS

Recommendations:

Pima County is recommending:

1. The issuance of \$20 million of certificates of participation (COPs) in Fiscal Year 2015-2016 to fund current capital improvement projects.
2. The issuance of \$150 million of new sewer revenue obligations to fund future capital improvement projects as follows:
 - a. \$45 million in Fiscal Year 2016-2017,
 - b. \$45 million in Fiscal Year 2017-2018,
 - c. \$30 million in Fiscal Year 2018-2019, and
 - d. \$30 million in Fiscal Year 2019-2020.
3. The early repayment of \$10.3 million of WIFA Loans as those debts become callable in Fiscal Year 2016-2017.
4. The adoption of a series of revenue increases, with the first increase of four percent implemented as early as possible in Calendar Year 2017, with similar revenue increases of four percent or more on January 1, 2018 and January 1, 2019, to ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

LIST OF APPENDICES

Appendix A – Key Assumptions Used for 2016 Financial Plan

Appendix B – Five Year Financial Projections Assuming No Rate Increases

Appendix C – Five Year Financial Projections Assuming Three Four Percent Rate Increases

Appendix D – Five Year Summary of Planned Capital Improvement Projects

Appendix E – Cash Position Assuming Rate Increases and the Prepayment of \$10.3 Million

Appendix F – Debt Service Ratio Calculations

Appendix G – Summary of Rate Increases and Their Impact, Fiscal Years 2004 through 2016 and Proposed for Fiscal Year 2017 through 2020.

Appendix B
Five Year Financial Projections Assuming No Rate Increases

	Actuals	Adopted Budget with Rate Increase	Budget Amount with No Rate Increase	Forecasted				
	2014-15	2015-16	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
System Revenues								
Volumetric User Fee	118,042,427	125,819,884	125,819,884	116,985,509	116,379,322	115,802,590	115,837,944	114,887,282
Fixed User Administrative Fee	40,928,930	42,768,370	42,768,370	41,828,853	41,845,277	42,419,353	43,028,574	43,641,005
Sanitation Fees	299,638	310,000	310,000	310,000	310,000	310,000	310,000	310,000
Total Sewer Utility Service	159,270,995	168,898,254	168,898,254	159,124,362	158,529,599	158,531,942	159,176,518	158,838,287
Sewer Connection Revenue								
Interest	13,148,881	13,548,877	13,250,251	11,427,897	11,572,094	11,730,852	11,897,946	12,068,693
Other Income	874,522	781,000	781,000	781,000	781,000	562,348	488,459	406,126
Total Revenues	173,977,336	183,266,289	179,256,784	171,427,538	171,391,964	171,378,813	171,611,399	171,867,277
Operations and Maintenance Costs								
	84,492,408	84,549,649	84,549,648	83,900,000	84,400,000	86,088,000	87,809,760	89,565,935
Net Revenues	89,485,127	98,716,640	94,707,135	87,527,538	86,991,964	85,290,813	83,801,639	82,301,322
Existing Debt Service - Senior Debt		17,653,379	17,653,379	17,653,379	17,737,129	17,850,004	17,952,761	18,073,428
Existing Debt Service - Subordinate Debt		51,195,225	51,195,225	51,195,225	58,159,125	58,161,350	58,163,225	58,155,600
Total Existing Debt Service Payments	71,932,392	68,848,604	68,848,604	68,848,604	75,896,254	75,991,354	76,115,986	76,229,023
Proposed Debt Service	-	1,237,500	1,237,500	-	1,237,500	6,092,397	10,450,291	13,566,383
Total Debt Service Payments	71,932,392	70,086,104	70,086,104	68,848,604	77,133,754	82,083,751	86,566,277	89,795,386
Debt Service Coverage (DSC) = Net Revenues / Total Debt Service Payments	1.25	1.41	1.35	1.27	1.13	1.04	0.97	0.92
DSC - Bond Rating Agency								
DSC = Net Revenues / Debt Service Payments on Senior Lien Debt		5.59	5.36	4.96	4.90	4.78	4.67	4.55
DSC - Senior Debt Covenants (bonds)								
DSC = (Net Revenues + Beginning Unrestricted Cash) / Total Debt Service Payments		2.93	2.81	2.88	2.49	2.03	1.62	1.24
DSC - Subordinate Debt (obligations and loans)								
Net Revenues after Debt Service Payments		28,600,000	24,600,000	18,700,000	9,800,000	3,200,000	(2,800,000)	(7,500,000)
Net Operating Transfers Out								
CDPs 2013		(5,000,000)	(5,000,000)	(5,000,000)	-	-	-	-
CDPs 2015		(17,200,000)	(17,200,000)	(17,000,000)	(16,500,000)	(16,000,000)	(12,300,000)	-
CDPs 2016		-	-	-	(7,350,000)	(7,100,000)	(6,700,000)	-
Debt Service Reserve (Obligations) Transfer		(2,700,000)	(2,700,000)	-	(2,400,000)	(2,400,000)	(1,600,000)	(1,600,000)
Other Operating Transfers Out		(1,100,000)	(1,100,000)	(1,100,000)	(700,000)	(700,000)	(700,000)	(250,000)
Prepayment of 2004 and 2007 Bonds		(9,300,000)	(5,300,000)	(2,200,000)	(2,850,000)	(1,500,000)	(1,400,000)	(1,100,000)
Net Changes in Assets and Liabilities		(700,000)	(4,700,000)	(6,600,000)	(20,000,000)	(24,500,000)	(25,500,000)	(10,550,000)
Subtotal								
Beginning Unrestricted Cash Balance		110,700,000	100,700,000	110,700,000	100,900,000	81,550,000	56,150,000	29,050,000
Change in Restrictions of Cash		(9,600,000)	(9,600,000)	(9,600,000)	1,050,000	(800,000)	(1,600,000)	(1,300,000)
Ending Unrestricted Cash Balance		106,500,000	90,500,000	100,500,000	81,950,000	56,150,000	29,050,000	17,200,000
CFP Projections	52,005,269	47,907,510	17,507,510	44,050,000	47,350,000	45,270,000	31,780,000	30,850,000
Sewer Revenue debt		45,000,000	45,000,000		45,000,000	45,000,000	30,000,000	30,000,000
Certificates of Participation	60,000,000			20,000,000				

Appendix C
Five Year Financial Projections Assuming Three 4 Percent Rate Increases

	Actuals	Adopted Budget with Rate Increase	Budget Amount with No Rate Increase	Forecasted				
	2014-15	2015-16	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
System Revenues:								
Volumetric User Fee	118,042,427	125,619,694	122,855,004	118,985,509	118,655,909	122,848,987	127,244,511	129,282,279
Fixed User / Administrative Fee	40,928,930	42,768,970	41,427,157	41,323,859	42,682,183	44,998,448	47,464,989	49,109,076
Sanitation Fees	299,639	310,000	310,000	310,000	310,000	310,000	310,000	310,000
Total Sewer Utility Service	159,270,996	168,698,664	164,592,161	159,619,368	161,648,092	168,157,435	175,019,499	178,701,355
Sewer Connection Revenue	13,143,881	13,548,975	13,254,891	11,127,897	11,572,094	11,730,852	11,897,946	12,068,699
Interest	874,522	761,000	781,000	781,000	781,000	445,979	384,369	315,066
Other Income	688,137	232,250	232,250	599,280	553,670	553,670	553,670	553,670
Total Revenues	173,977,536	183,260,288	179,156,784	171,427,538	174,554,856	180,982,937	187,855,500	191,638,779
Operations and Maintenance Cost:	84,492,409	84,549,649	84,549,649	83,900,000	84,400,000	86,088,000	87,809,760	89,565,953
Net Revenues	89,485,127	98,710,640	94,607,135	87,527,538	90,154,856	94,794,937	100,045,740	102,072,824
Existing Debt Service - Senior Debt		17,659,979	17,553,379	17,653,379	16,418,809	16,340,532	16,463,289	16,583,951
Existing Debt Service - Subordinate Debt		51,195,225	51,195,225	51,195,225	58,159,125	58,161,350	58,163,225	58,155,600
Total Existing Debt Service Payments	71,332,992	68,855,204	68,748,604	68,848,604	74,577,934	74,501,882	74,626,514	74,739,551
Proposed Debt Service		1,237,500	1,237,500		1,237,500	6,092,397	10,450,251	13,566,353
Total Debt Service Payments	71,332,992	70,092,704	70,092,704	68,848,604	75,815,434	80,594,279	85,076,765	88,305,914
Debt Service Coverage (DSC) = Net Revenues / Total Debt Service Payments								
DSC - Bond Rating Agency	1.25	1.41	1.35	1.27	1.19	1.18	1.18	1.16
DSC = Net Revenues / Debt Service Payments on Senior Lien Debt		5.59	5.36	4.96	5.49	5.80	6.11	6.15
DSC - Senior Debt Covenants (bonds)								
DSC = (Net Revenues + Beginning Unrestricted Cash) / Total Debt Service Payments		1.93	2.81	2.88	2.52	2.10	1.86	1.70
DSC - Subordinate Debt (obligations and loans)								
Net Revenues after Debt Service Payments		28,600,000	1,600,000	18,700,000	14,900,000	14,200,000	15,000,000	13,800,000
Net Operating Transfers Out:								
CDPs 2013		(5,000,000)	(5,000,000)	(5,000,000)	-	-	-	-
CDPs 2015		(17,200,000)	(17,200,000)	(17,200,000)	(16,500,000)	(16,000,000)	(12,900,000)	-
CDPs 2016					(7,350,000)	(7,100,000)	(6,700,000)	-
Debt Service Reserve (Obligations) Transfer		(2,700,000)	(2,700,000)	(2,400,000)	(2,400,000)	(2,900,000)	(1,600,000)	(1,600,000)
Other Operating Transfers Out		(1,100,000)	(1,100,000)	(1,100,000)	(700,000)	(700,000)	(700,000)	(250,000)
Prepayment of 2004 and 2007 Bonds					(10,900,000)			
Net Changes in Assets and Liabilities		(3,300,000)	(3,300,000)	(2,200,000)	(5,014,000)	(2,660,000)	(2,540,000)	(1,870,000)
Subtotal		(700,000)	(1,000,000)	(6,800,000)	(27,664,000)	(14,660,000)	(8,840,000)	(10,380,000)
Beginning Unrestricted Cash Balance	110,700,000	110,700,000	110,700,000	110,700,000	100,600,000	74,070,000	58,500,000	48,080,000
Change in Restrictions of Cash	(3,600,000)	(3,600,000)	(3,500,000)	(3,500,000)	1,494,000	(910,000)	(1,580,000)	(1,330,000)
Ending Unrestricted Cash Balance	103,400,000	102,400,000	100,600,000	100,600,000	74,070,000	58,500,000	48,080,000	46,850,000
CIF Projections	52,005,269	47,507,510	47,507,510	44,050,000	47,330,000	45,270,000	31,780,000	30,850,000
Sewer Revenue Debt		45,000,000	45,000,000		45,000,000	45,000,000	30,000,000	30,000,000
Certificates of Participation	6,000,000			20,000,000				

Five Year Summary of Planned Capital Improvement Projects

Project Name	Fiscal Year 2015/2016	Fiscal Year 2016/2017	Fiscal Year 2017/2018	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Total
S. 12th Ave to S.2nd Ave and W. 22nd St to W.36th St	\$ 102,040	\$ -	\$ -	\$ -	\$ -	102,040
Conveyance Rehab - 12th-4th-36th-Ajo	169,368	-	-	-	-	169,368
22nd St Alvernon Way to Swan Rd Augmentation	3,173,056	225,000	-	-	-	3,398,056
22nd to Congress Osborne to Toole	129,991	-	-	-	-	129,991
ADOT - W Ajo Way & I-19 Sewer Modifications	123,779	44,492	-	-	-	168,271
Old Nogales Interc. Aug - New Aerospace Corr Sewer	919,594	2,331,680	5,000,000	5,000,000	5,000,000	18,251,274
State Prison Pump Station Rehabilitation FY13/14	147,943	636,689	-	-	-	784,632
New Influent Emergency Overflow Basin - Avra Valley WRF	133,145	700,000	550,000	-	-	1,383,145
Avra Valley WRF Valve & Gate Motorized Oper. & Scada	130,000	-	-	-	-	130,000
Avra Valley WRF SCADA & Automation Impr FY 17/18	-	-	-	360,000	254,000	614,000
COTDOT Broadway Blvd Euclid-Campbell Ave Sewer Utility	-	-	-	110,900	4,100	115,000
Black Wash Augmentation	73,500	893,000	-	-	-	966,500
Broadway Blvd. Augmentation - N. Chantilly to N. Crayc	85,000	-	573,000	-	-	658,000
Corona De Tucson WRF Influent Splitter Box Improvements	200,000	-	-	-	-	200,000
Corona de Tucson WWTF UV Disinfection & Filtration	809,697	293,867	-	-	-	1,103,564
Continental Ranch Pump Station - Second Force Main	-	-	-	610,000	7,301,000	7,911,000
Cardenal Pump Station	24,650	-	-	-	-	24,650
System-Wide Conveyance Rehabilitation Program	-	500,000	6,500,000	11,989,000	12,510,000	31,499,000
Conveyance Rehabilitation Program	2,957	-	-	-	-	2,957
CRRPS Facility Modifications	2,220,807	2,802,665	-	-	-	5,023,472
Corona de Tucson WRF SCADA & Operations Upgrade	358,681	-	-	-	-	358,681
Conveyance SCADA System Upgrade Richey Rd to Ina Rd	1,164,846	100,800	-	-	-	1,265,646
Dodge Blvd Security Improvements	302,490	-	-	-	-	302,490
Silverbell Pump Station Rehabilitation	624,300	-	-	-	-	624,300
City of Tucson DOT Downtown Links Phase 2&3	-	240,000	-	-	-	240,000
Emergency Overflow Basin #4 Creation	725,000	100,000	-	-	-	825,000
SCADA Emergency Operations Center	-	-	630,000	-	-	630,000
PC Fairgrounds WRF Connection to Existing Conveyance	-	50,000	1,100,000	1,725,000	2,003,000	4,878,000
COTDOT Grant Rd Corridor Improvement Sewer Utility	-	32,000	154,000	-	-	186,000
Green Valley WRF SCADA & Automation Improvements	781,318	-	-	-	-	781,318
Green Valley WRF - Future Development Plan FY13/14	300,000	1,331,261	-	-	-	1,631,261
Green Valley Process Improvements	460,000	-	-	-	-	460,000
Houghton Rd Broadway Blvd Intersection Improve COTDOT	-	154,000	-	-	-	154,000
Helen St to Elm St 6th Ave to 1st Ave	502,819	-	-	-	-	502,819
Hanson Software Upgrade to Version 8	189,780	-	-	-	-	189,780
Two Additional Centrifuge Sludge Screens - Tres Rios WRF	-	925,000	-	-	-	925,000
ADOT - Ina Rd & I-10 Sewer Modifications	175,000	1,000,000	682,194	-	-	1,857,194
Kostka Ave Michigan to Pennsylvania	49,972	-	-	-	-	49,972
La Cholla Blvd & Calle Pacifica to Speedway Blvd & Silv	2,201	-	-	-	-	2,201

Appendix D

Five Year Summary of Planned Capital Improvement Projects

Project Name	Fiscal Year 2015/2016	Fiscal Year 2016/2017	Fiscal Year 2017/2018	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Total
La Tierra Pump Station Conversion to Gravity Sewer	748,462	-	-	-	-	748,462
Sewer Utility Minor Modification Projects	300,000	-	-	-	-	300,000
Sewer Utility Minor Modification Projects 2016/2017	-	100,000	-	-	-	100,000
Sewer Utility Minor Modification Projects 2017/18	-	-	100,000	-	-	100,000
Sewer Utility Minor Modification Projects 2019/20	-	-	-	-	100,000	100,000
Sewer Manhole Rehabilitation #6	1,599,000	1,000	-	-	-	1,600,000
Sewer Manhole Rehabilitation # 7	-	1,599,000	1,000	-	-	1,600,000
Sewer Manhole Rehabilitation # 8	-	-	1,599,000	1,000	-	1,600,000
Minor Rehabilitation Projects FY15/16	9,995,000	5,000	-	-	-	10,000,000
Minor Rehabilitation Projects FY 16/17	-	9,995,000	5,000	-	-	10,000,000
Minor Rehabilitation Projects FY 17/18	-	-	9,995,000	5,000	-	10,000,000
North Rillito Interceptor Rehabilitation	6,361,234	6,849,730	3,000,000	-	-	16,210,964
Odor and Corrosion Control @ Tanque Verde Siphon	-	-	80,000	521,000	-	601,000
North Rillito Interceptor Relief Sewer	1,230,899	-	-	-	-	1,230,899
Pantano Grade Control Structure	-	-	754,000	-	-	754,000
Pantano Interceptor Chemical Dosing Unit at Houghton Rd	364,814	-	-	-	-	364,814
Prince Rd & I-10 ADOT Sewer Modifications	150,000	-	-	-	-	150,000
Principal Pump Station	-	119,704	393,861	-	-	513,565
Road Embankment Widening, Roger Rd WRF Clean Closure	395,716	-	-	-	-	395,716
ADOT W Ruthrauff Rd & Interstate 10 Sewer Modifications	50,000	100,000	1,000,000	725,000	-	1,875,000
Ina Rd WPCF Class A Biosolids Improvements	37,986	-	-	-	-	37,986
Biogas Sales and Utilization	403,492	-	-	-	-	403,492
Side Stream Treatment	74,526	-	-	-	-	74,526
Roger Rd Treatment Plant Entry Post-Closure Implement	43,241	-	-	-	-	43,241
Roger Rd WRF Clean Closure	300,530	-	-	-	-	300,530
Addition to RWRD Central Laboratory	402,161	-	-	-	-	402,161
Sahuara Bio-Filter	7,072	-	-	-	-	7,072
Speedway Blvd Area Capacity Augmentation Alignment Study	-	-	171,000	3,084,000	1,500,000	4,755,000
Sabino Creek Pump Station	1,155,375	888,286	-	-	-	2,043,661
St Mary's Rd & N Cuesta Ave to Speedway Blvd Silverbell	33,704	-	-	-	-	33,704
SE Interceptor Augmentation	1,090,329	10,233,418	6,462,824	-	-	17,786,571
Safe Flush Tanks for Low-Flow Sewers	-	-	-	-	175,000	175,000
SE Houghton Area Recharge Project	100,000	-	1,373,918	1,373,918	-	2,847,836
Tres Rios Sludge Holding Tank	140,000	1,760,000	-	-	-	1,900,000
Ina Rd Existing Plant SCADA Upgrades	380,012	-	-	-	-	380,012
SCADA WAN Infrastructure Upgrade	311,541	1,100,000	428,000	-	-	1,839,541
Silverado Pump Station Rehabilitation	-	-	-	514,000	-	514,000
SRF Parking, Paving & Drainage Improvements	300,000	-	-	-	-	300,000
Sewer Utility Modification Program	-	-	-	3,000	2,000	5,000
System Wide Treatment Rehabilitation & Enhancement	-	1,225,000	3,375,000	3,300,000	-	7,900,000
Tangerine Rd Force Main Relocation	1,806,869	-	-	-	-	1,806,869
Tres Rios WRF Existing Infrastructure Upgrades Project	1,368,131	1,000,000	1,345,869	2,000,750	2,000,000	7,714,750
Total Trihalomethane Control Through Centrate Dosing	655,000	-	-	-	-	655,000
COTDOT 22nd St I-10 to Tucson Blvd Sewer Utility	-	15,000	-	450,000	-	465,000
Valencia to Los Reales Camino de la Tierra to Cardinal	163,951	-	-	-	-	163,951
Total Planned Expenses	44,050,979	47,351,592	45,273,666	31,772,568	30,849,100	199,297,905

Appendix E
 Cash Position Assuming Rate Increases and the Prepayment of \$10.3 million

	2015-16	2016-17	2017-18	2018-19	2019-20
Estimated Cash Balance at End of Fiscal Year	189,800,000	162,700,000	149,900,000	138,800,000	148,800,000
Less Reserves:					
O&M - Operating Reserve	21,000,000	21,000,000	21,500,000	22,000,000	22,000,000
Debt Service Reserve	37,200,000	38,800,000	41,600,000	43,400,000	45,300,000
Construction - Bond Proceeds	11,000,000	8,830,000	8,300,000	5,320,000	4,670,000
Emergency Reserve	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Projected Ending Cash Balance after Reserve Requirements are met	100,600,000	74,070,000	58,500,000	48,080,000	56,830,000

Appendix F

Debt Service Ratio Calculations

The County has historically maintained the goal of a rating agency debt service ratio of at least 1.3 as discussed in the Debt Service Ratio section. This ratio is used by the rating agencies and serves as a good tool to use for financial planning.

In addition to the rating agency debt service ratio, Pima County's sewer revenue debt has two additional ratios that are mandated by the debt covenants. These debt covenant ratios are used by external parties to determine Pima County's compliance with contractual obligations related to its debt. While these debt covenant ratios should be considered when setting interest rates, they should not be used as a financial planning tool in the same way that the rating agency debt service ratio is used. By setting rates to maintain a rating agency debt service ratio at or near 1.3, the County will also comply with these debt covenant ratios.

The first debt covenant ratio is the Senior Debt Service Ratio. The first layer of debt is Senior Debt. Senior Debt consists of the sewer revenue bonds and Water Infrastructure Finance Authority of Arizona (WIFA) loans issued before the County began issuing the sewer revenue obligations in Fiscal Year 2009-2010. Because the Senior Debt holders have a priority claim on the net revenues of the sewer system, the Senior Debt Service Ratio only uses the senior debt service in its calculation.

The second debt covenant ratio is the Junior Debt Service Ratio. The second layer of debt is Junior Debt. As implied by those terms, Junior Debt is junior in priority to Senior Debt. Moreover, the pledge of revenues for Senior Debt must be paid before payments are made for Junior Debt. Because the Senior Debt must be paid first, the Junior Debt Service Ratio uses both the senior debt service and the junior debt service in its calculation.

Including the rating agency debt service ratio, the three debt service ratio calculations are as follows:

- 1) **Rating Agency Debt Service** - The Bond Rating Agencies calculate the debt service ratio using the excess of net revenues over the required debt service. The rating agencies require a 1.3x debt ratio be maintained. A debt service ratio lower than 1.3 would likely cause rating agencies to downgrade future sewer debt from its current rating. The impact of a downgrade would be additional interest costs for future debt. Because the majority of the needed debt for RWRD construction has already been issued, the impact, though negative, would not be significant to the overall outstanding debt service. This is the most conservative of the three calculations.

$$\text{Rating Agency Debt Service Ratio} = \frac{\text{Net Operating Revenues}}{\text{Senior and Junior Debt Service Payments}}$$

- 2) **Senior Debt Service Ratio** - The Senior Debt Service Ratio is calculated by taking net operating revenues over the amount of Senior Debt. Because the balance of the outstanding Senior Debt is decreasing each year, the debt service ratio for the Senior Debt is improving each year. This is because the net revenues are many times greater than the ever declining debt service payments for the Senior Debt, in any given year. The County is required to maintain a 1.2x Senior Debt Service Ratio. Failure to maintain a 1.2x triggers a default and provides a mechanism to force the County to increase rates.

$$\text{Senior Debt Service Ratio} = \frac{\text{Net Operating Revenues}}{\text{Senior Debt Service Payments}}$$

- 3) **Junior Debt Service Ratio** – The Junior Debt Service Ratio is calculated by taking the net operating revenues plus unrestricted cash balance from the beginning of the fiscal year, over the amount of Senior and Junior Debt. The County is required to maintain a 1.2x Junior Debt Service Ratio. Failure to maintain a 1.2x triggers a default and provides a mechanism to force the County to increase rates.

$$\text{Junior Debt Service Ratio} = \frac{\text{Net Operating Revenues} + \text{Unrestricted Cash Balance}}{\text{Senior and Junior Debt Service Payments}}$$

The table below shows the debt service ratios for two scenarios (with and without rate increases).

Assuming Rate Increases

Debt Service Ratios for:	FY 2017	FY 2018	FY 2019	FY 2020
Bond Rating Agencies	1.19	1.18	1.18	1.16
Senior Debt Covenant of 1.2x	5.49	5.80	6.08	6.15
Junior Debt Covenant of 1.2x	2.52	2.10	1.86	1.70

Assuming No Rate Increases

Debt Service Ratios for:	FY 2017	FY 2018	FY 2019	FY 2020
Bond Rating Agencies	1.13	1.04	0.97	0.92
Senior Debt Covenant of 1.2x	4.90	4.78	4.67	4.55
Junior Debt Covenant of 1.2x	2.43	2.03	1.62	1.24

Appendix G

Summary of Rate Increases and Their Impact, Fiscal Years 2004 through 2016 and Proposed for Fiscal Year 2017 through 2020

Fiscal Year	Percent Rate Increase	Dollar Impact on Average 8cccf Bill	
2004	-	-	
2005	4.00	0.56	
2006	8.00	1.16	
2007 (a)	12.00	1.89	
2008 (b)	15.00	2.64	
2009 (c)	22.25	5.14	
2010 (d)	25.50	3.68	
2011	10.00	2.57	
2012	10.00	2.80	
2013	10.00	3.04	
2014	10.00	3.33	
2015	-	-	
2016	-	-	
2017	4.00	1.63	Proposed
2018	4.00	1.70	
2019	4.00	1.77	
2020	-	-	

- (a) The 12% rate increase represents two rate increases that occurred during the fiscal year. The first for 6% became effective on August 11, 2006, and the second for 6% became effective on January 1, 2007.
- (b) The 15% rate increase represents two rate increases that occurred during the fiscal year. The first for 6% became effective on July 1, 2007, and the second for 9% became effective on January 1, 2008.
- (c) The 22.25% rate increase represents two rate increases that occurred during the fiscal year. The first for 9.5% became effective on July 1, 2008, and the second for 12.75% became effective on March 20, 2009.
- (d) The 25.50% rate increase represents two rate increases that occurred during the fiscal year. The first for 12.75% became effective on July 1, 2009, and the second for 12.75% became effective on January 1, 2010.

Regional Wastewater Reclamation Department Enterprise Fund

2017 CURRENT FORECAST – Projections with ONE JANUARY 2017 4% RATE INCREASE

	Forecasted			
	2016-17	2017-18	2018-19	2019-20
System Revenues:				
Volumetric User Fee	116,383,722	117,691,799	116,698,028	115,733,920
Fixed User Administrative Fee	42,599,434	44,819,280	47,161,700	48,681,135
Sanitation Fees	310,000	310,000	310,000	310,000
Total Sewer Utility Service	159,293,156	162,821,079	164,169,728	164,725,055
Sewer Connection Revenue	10,832,708	10,958,844	11,088,071	11,220,884
Interest	687,101	763,587	674,627	608,093
Other Income	922,160	922,160	922,160	922,160
Total Revenues	171,735,125	175,465,670	176,854,586	177,476,192
Operations and Maintenance Costs	88,976,837	85,656,374	87,869,501	89,116,891
Net Revenues	87,758,288	89,809,296	89,485,085	88,359,301
Existing Debt Service - Senior Debt	13,342,628	10,739,352	10,841,261	2,164,552
Existing Debt Service - Subordinate Debt	60,737,796	63,011,350	63,033,475	70,849,850
Total Existing Debt Service Payments	74,080,424	73,750,702	73,874,736	73,014,402
Proposed Debt Service	1,237,500	6,092,397	10,450,291	13,566,363
Total Debt Service Payments	75,317,924	79,843,099	84,325,027	86,580,765
Debt Service Ratio - Bond Rating Agency	1.17	1.12	1.06	1.02
2016 Financial Plan Ratios	1.19	1.18	1.18	1.16
Debt Service Ratio - Senior Covenant	6.58	8.36	8.25	40.82
Debt Service Ratio - Junior Covenant	2.63	2.10	1.73	1.44

Note: The 2016 Financial Plan Ratios (above in red) for comparative purposes include the series of three 4% rate increases proposed by the 2016 Financial Plan. The 2016 Financial Plan projections were based on projections from financial information available at the time the report was issued. The information in the table above includes projections from fiscal year 2016-17 financial information and only the first January 2017 4% recommended increase.

WELCOME



SEWER USER FEE INFORMATIONAL MEETING

**Keith Dommer
Pima County Finance Director**

Notice of Proposed Rate Increase to Existing Sewer User Fee (posted November 9, 2016)

Pursuant to ARS § 11-251.13, Pima County is providing notice that on or after January 17, 2017, the Board of Supervisors will consider a four percent (4%) proposed increase to existing sewer user fees.

A discussion of the proposed rate increase is contained in the **2016 Financial Plan for the Regional Wastewater Reclamation Enterprise Fund**. Copies of the Plan are available at [Financial Reports](#) (under the "Other" tab) or from the Finance and Risk Management Department by calling (520) 724-3669.

Two public meetings sponsored by the Regional Wastewater Reclamation Advisory Committee on the rate increase are scheduled:

1. Monday, December 12, 2016, at 6:00 p.m.
Pima County Natural Resources, Parks and Recreation Conference Room
3500 W. River Rd., Tucson, Arizona 85741
2. Thursday, December 15, 2016, at 8:00 a.m. Pima County Administration Building Board of Supervisors Hearing Room
130 W. Congress St., 1st Floor, Tucson, Arizona 85701

There will also be an opportunity to speak on the proposed rate increase during the public hearing to be held at the Pima County Board of Supervisors meeting when the matter is scheduled for action, which is currently anticipated to occur on Tuesday, January 17, 2017.

Written comments can be sent to Keith Dommer, Pima County Finance and Risk Management Department, 130 West Congress, 6th Floor, Tucson, AZ 85701.

2016 Financial Plan

Pima County Regional Wastewater Reclamation Enterprise Fund



*Prepared by
Pima County Finance Risk Management Department
June 2016*

2016 Financial Plan

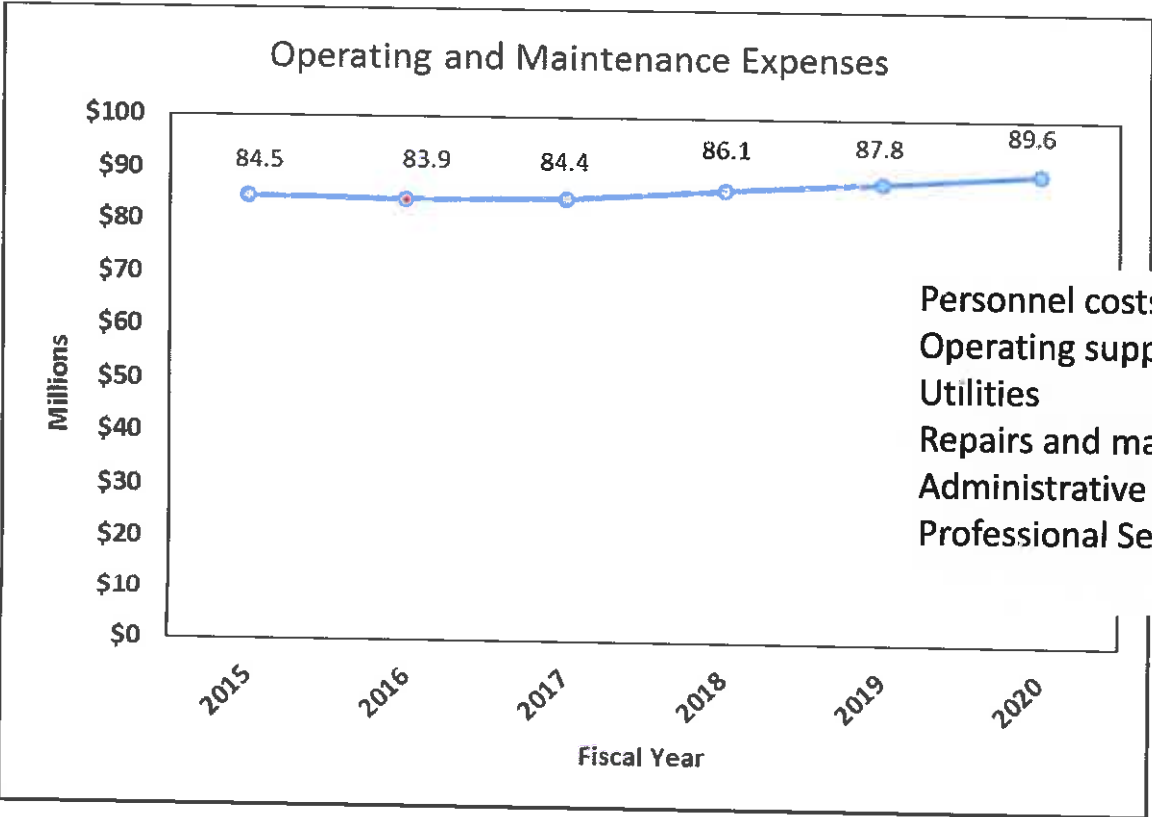
**Pima County Regional Wastewater
Reclamation Enterprise Fund**

SUMMARY AND RECOMMENDATIONS

The adoption of a series of revenue increases, with the first increase of four percent implemented as early as possible in Calendar Year 2017, with similar revenue increases of four percent or more on January 1, 2018 and January 1, 2019, to ensure the County generates sufficient revenues to meet all operating and maintenance expenses, debt service payments, and required reserves.

2016 Financial Plan
Pima County Regional Wastewater Reclamation
Enterprise Fund

PROJECTED OPERATING AND MAINTENANCE EXPENSES



Personnel costs	37%
Operating supplies	8%
Utilities	8%
Repairs and maintenance	12%
Administrative	19%
Professional Services	15%

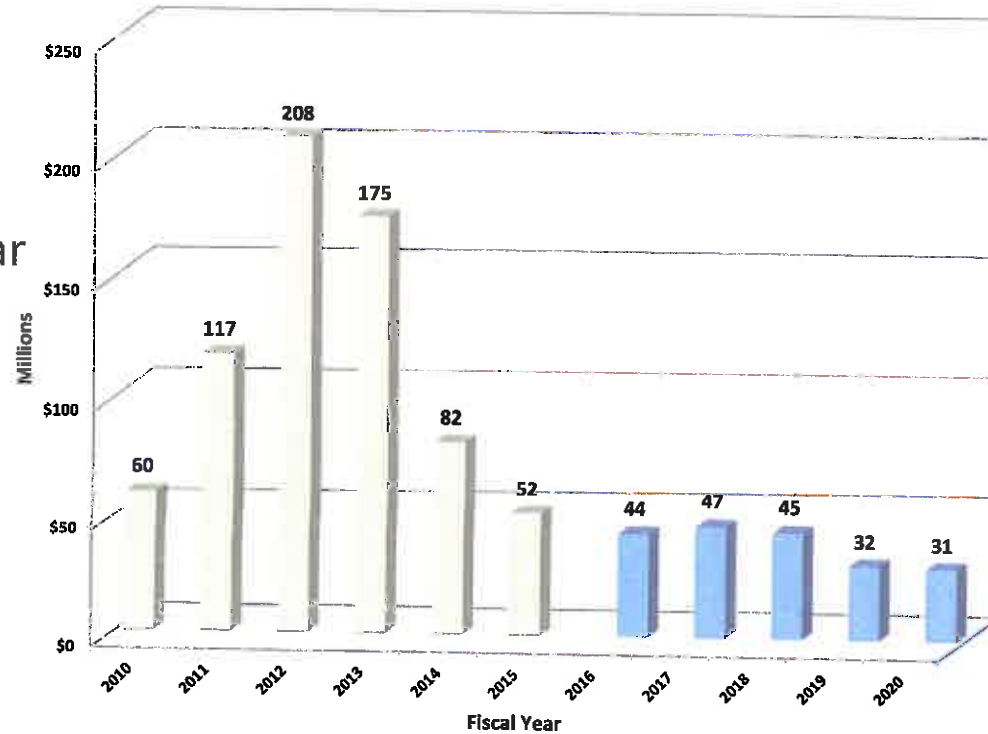
2016 Financial Plan
Pima County Regional Wastewater Reclamation
Enterprise Fund

CAPITAL IMPROVEMENT PROGRAM

Prior Year Projects, including ROMP, of \$694 million

Current and Future Projects of \$199 million

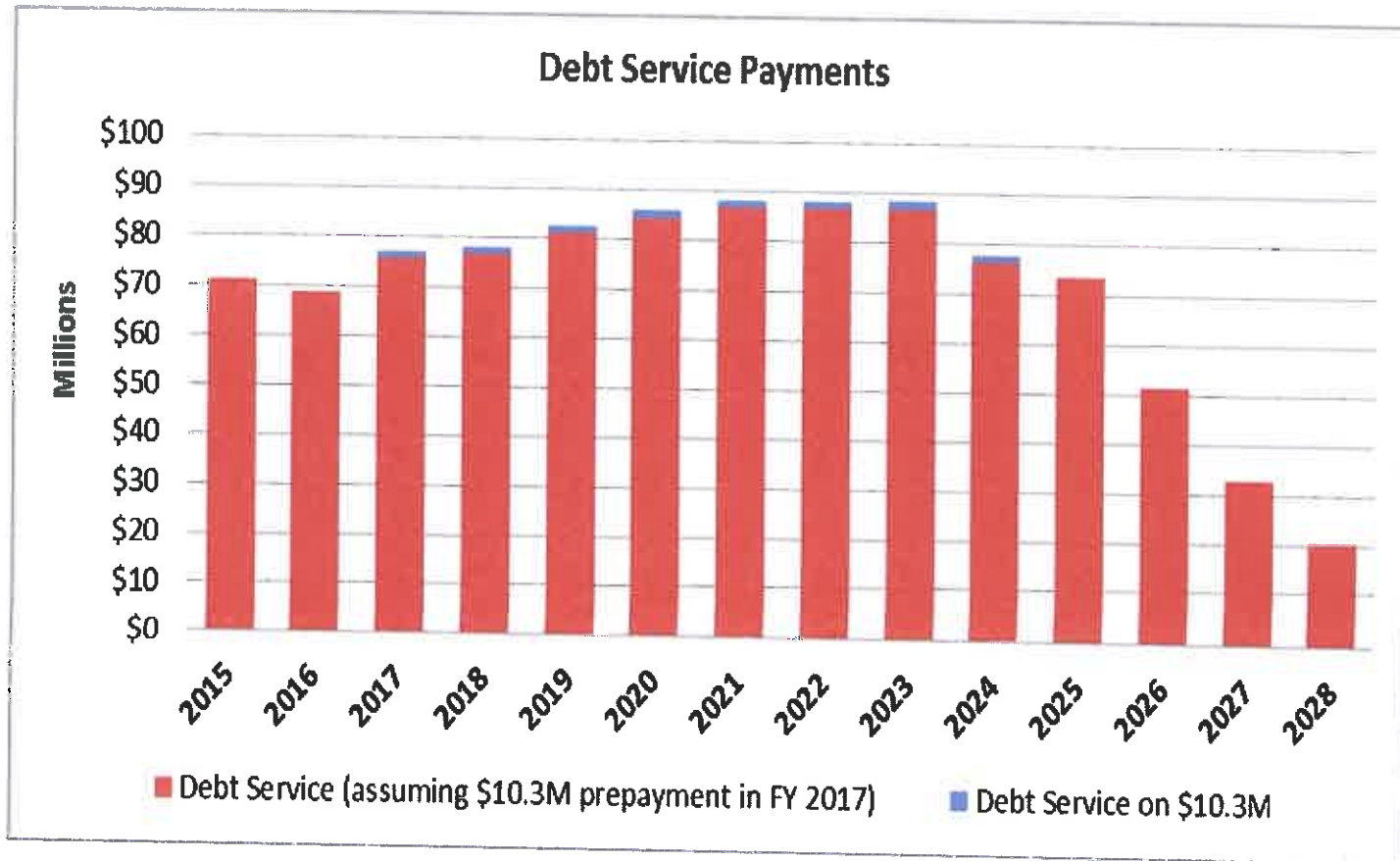
Average:
\$116 million per year



Average:
\$40 million per year

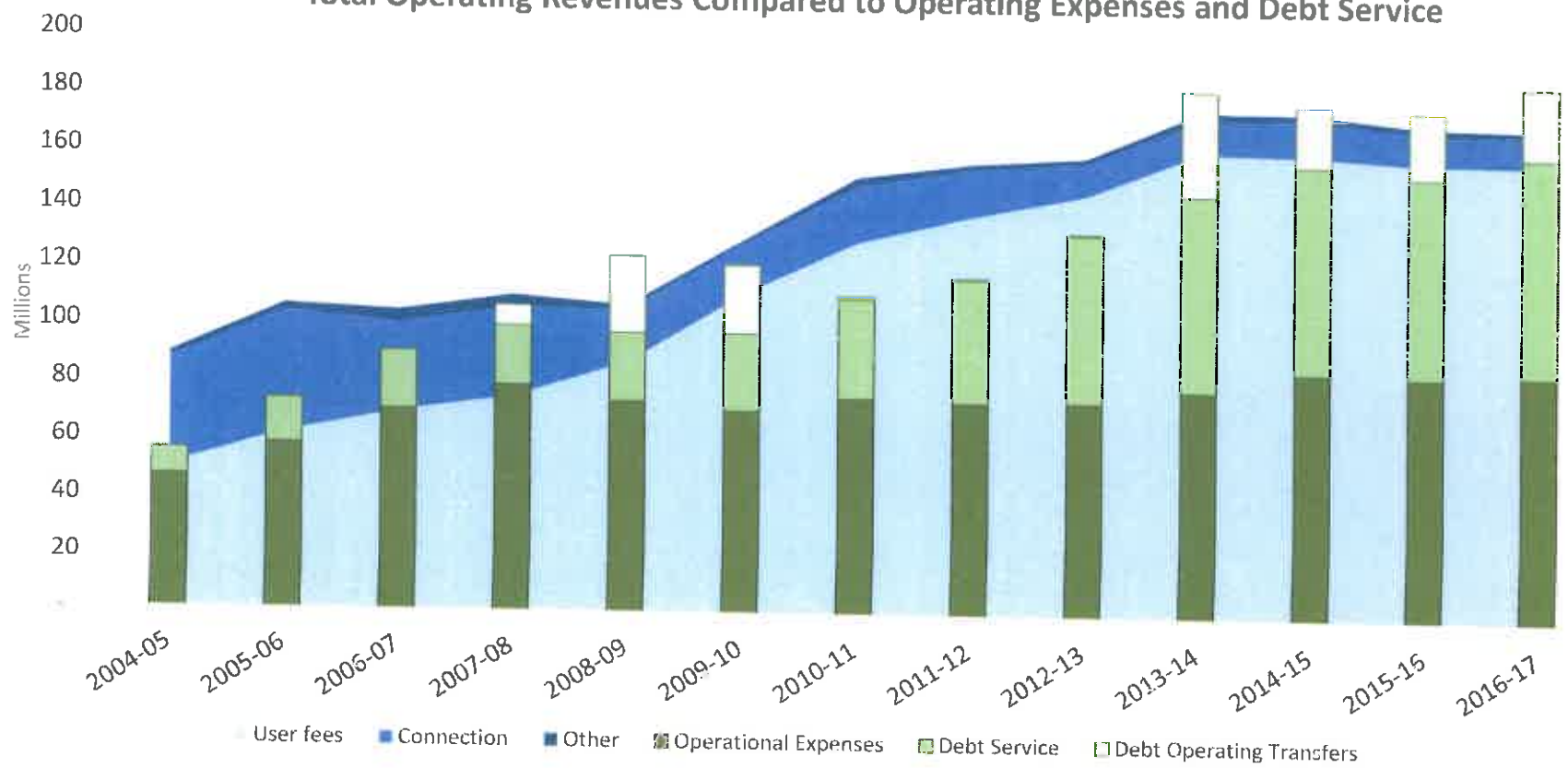
DEBT SERVICE PAYMENTS

2016 Financial Plan
Pima County Regional Wastewater Reclamation
Enterprise Fund



PIMA COUNTY, ARIZONA
 REGIONAL WASTEWATER RECLAMATION DEPARTMENT
 REVENUE AND EXPENSE SUMMARY - HISTORY

Total Operating Revenues Compared to Operating Expenses and Debt Service



Historic Primary Rate Setting Measure

Bond Rating Agency Debt Service Coverage Ratio

Recurring Revenues less Operating Expenses to Debt Service

\$100 revenues - \$50 operating expenses = \$50 net revenues

\$50 debt service

Debt Service Coverage Ratio: 1.0

Historical Target: **1.3**

1.5 is considered strong

1.25 is considered good

1.0 is considered adequate

Less than 1 is insufficient

Regional Wastewater Reclamation Department Enterprise Fund

2016 FINANCIAL PLAN – Projections with **NO RATE INCREASES**

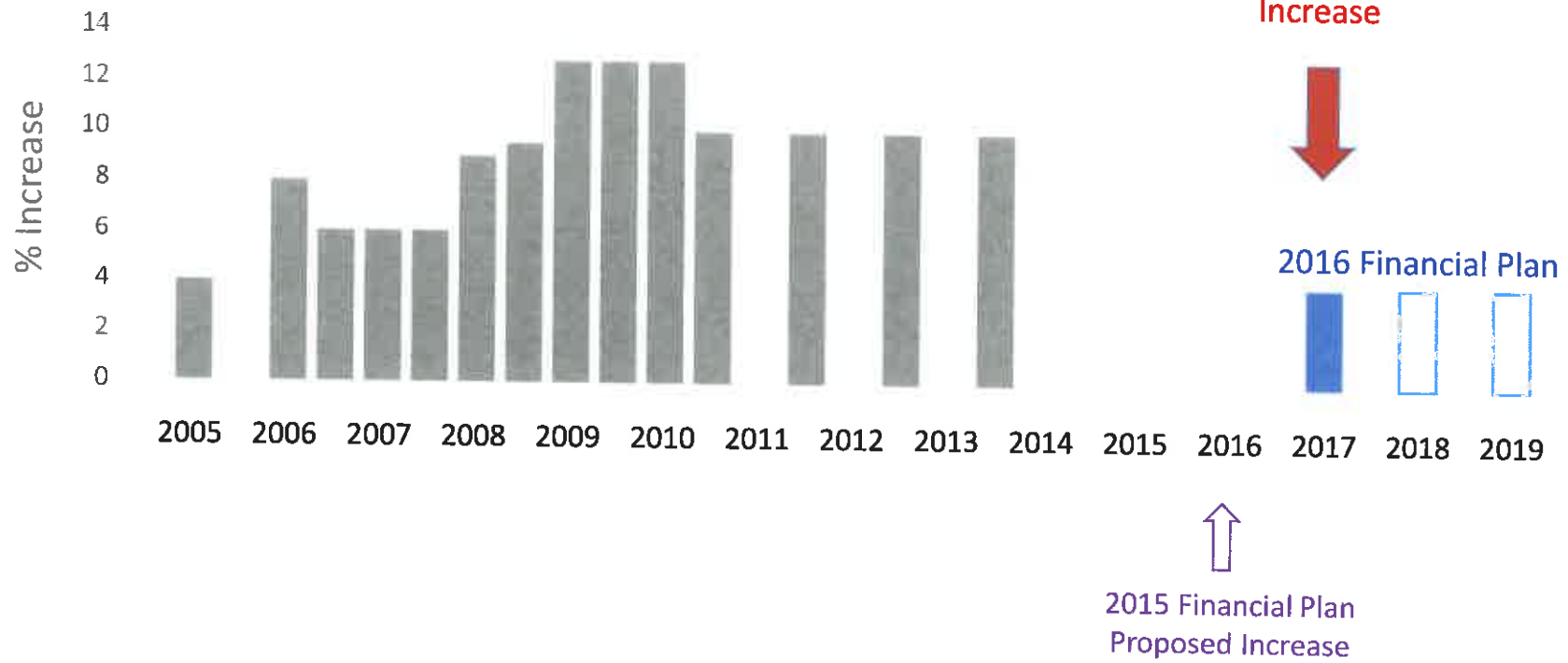
	Forecasted			
	2016-17	2017-18	2018-19	2019-20
System Revenues				
Volumetric User Fee	116,329,322	115,802,590	115,337,944	114,887,282
Fixed User Administrative Fee	41,845,277	42,419,353	43,023,574	43,641,005
Sanitation Fees	310,000	310,000	310,000	310,000
Total Sewer Utility Service	158,484,599	158,531,942	158,671,518	158,838,288
Sewer Connection Revenue	11,572,094	11,730,852	11,897,946	12,068,693
Interest	781,000	562,349	488,459	406,626
Other Income	553,670	553,670	553,670	553,670
Total Revenues	171,391,364	171,378,813	171,611,593	171,867,277
Operations and Maintenance Costs	84,400,000	86,088,000	87,809,760	89,565,955
Net Revenues	86,991,364	85,290,813	83,801,833	82,301,322
Existing Debt Service - Senior Debt	17,737,729	17,830,004	17,952,761	18,073,423
Existing Debt Service - Subordinate Debt	58,159,125	58,161,350	58,163,225	58,155,600
Total Existing Debt Service Payments	75,896,854	75,991,354	76,115,986	76,229,023
Proposed Debt Service	1,237,500	6,092,397	10,450,291	13,566,363
Total Debt Service Payments	77,134,354	82,083,751	86,566,277	89,795,386
Debt Service Ratio - Bond Rating Agency	1.13	1.04	0.97	0.92
Debt Service Ratio - Senior Covenant	4.90	4.78	4.67	4.55
Debt Service Ratio - Junior Covenant	2.43	2.03	1.62	1.24
Ending Unrestricted Cash Balance	81,550,000	56,150,000	29,050,000	17,200,000

Regional Wastewater Reclamation Department Enterprise Fund

2016 FINANCIAL PLAN – Projections with 4% Increases in 2017, 2018, 2019

	Forecasted			
	2016-17	2017-18	2018-19	2019-20
System Revenues:				
Volumetric User Fee	118,655,909	122,843,387	127,244,511	129,282,273
Fixed User Administrative Fee	42,682,183	44,998,449	47,464,983	49,109,076
Sanitation Fees	310,000	310,000	310,000	310,000
Total Sewer Utility Service	161,648,091	168,151,837	175,019,495	178,701,349
Sewer Connection Revenue	11,572,094	11,730,852	11,897,946	12,068,693
Interest	781,000	445,979	384,389	315,066
Other Income	553,670	553,670	553,670	553,670
Total Revenues	174,554,856	180,882,337	187,855,500	191,638,779
Operations and Maintenance Costs	84,400,000	86,088,000	87,809,760	89,565,955
Net Revenues	90,154,856	94,794,337	100,045,740	102,072,824
Existing Debt Service - Senior Debt	16,418,809	16,340,532	16,463,289	16,583,951
Existing Debt Service - Subordinate Debt	58,159,125	58,161,350	58,163,225	58,155,600
Total Existing Debt Service Payments	74,577,934	74,501,882	74,626,514	74,739,551
Proposed Debt Service	1,237,500	6,092,397	10,450,291	13,566,363
Total Debt Service Payments	75,815,434	80,594,279	85,076,805	88,305,914
Debt Service Ratio - Bond Rating Agency	1.19	1.18	1.18	1.16
Debt Service Ratio - Senior Covenant	5.49	5.80	6.08	6.15
Debt Service Ratio - Junior Covenant	2.52	2.10	1.86	1.70
Ending Unrestricted Cash Balance	74,070,000	58,500,000	48,080,000	56,830,000

History of Rate Increases



DEBT SERVICE RATIOS

BOND RATING AGENCY – Historical Target of 1.3
 Recurring Revenues less Operating Expenses to Debt Service

SENIOR DEBT COVENANT – Contractual Requirement of 1.2
 Recurring Revenues less Operating Expenses to Senior Debt Service

JUNIOR DEBT COVENANT – Contractual Requirement of 1.2
 Recurring Revenues and Unrestricted Cash less Operating Expenses to Debt Service

2016 Financial Plan

With Rate Increases				
Debt Service Ratios	FY 2017	FY 2018	FY 2019	FY 2020
Bond Rating Agencies	1.19	1.18	1.18	1.16
Senior Debt Covenant	5.49	5.80	6.08	6.15
Junior Debt Covenant	2.52	2.10	1.86	1.70
No Rate Increases				
Debt Service Ratios	FY 2017	FY 2018	FY 2019	FY 2020
Bond Rating Agencies	1.13	1.04	0.97	0.92
Senior Debt Covenant	4.90	4.78	4.67	4.55
Junior Debt Covenant	2.43	2.03	1.62	1.24

Regional Wastewater Reclamation

Fiscal Year 2016-2017 Period 04

October 31, 2016 Revenue Summary

Description	Budgeted Revenues	Projected Revenues	Projected Shortfall or Surplus
Sewer User Fees	\$ 158,174,599	\$ 155,854,381	(\$2,320,218)
Connection Fees	11,572,094	10,832,708	(739,386)
Capital Contributions	5,000,000	5,000,000	-
Other Revenue	1,500,854	1,609,261	108,407
Sanitation Fees	310,000	310,000	-
Total Revenues	\$176,557,547	\$173,606,350	(\$2,951,197)

Regional Wastewater Reclamation Department Enterprise Fund

2017 CURRENT FORECAST – Projections with **NO RATE INCREASES**

	Forecasted			
	2016-17	2017-18	2018-19	2019-20
System Revenues:				
Volumetric User Fee	114,090,230	113,121,683	112,166,501	111,239,831
Fixed User Administrative Fee	41,764,151	42,250,452	42,748,670	43,260,713
Sanitation Fees	310,000	310,000	310,000	310,000
Total Sewer Utility Service	156,164,381	155,682,135	155,225,171	154,810,544
Sewer Connection Revenue	10,832,708	10,958,844	11,088,071	11,220,884
Interest	687,101	749,947	617,835	475,611
Other Income	922,160	922,160	922,160	922,160
Total Revenues	168,606,350	168,313,086	167,853,237	167,429,199
Operations and Maintenance Costs	83,976,837	85,656,374	87,369,501	89,116,891
Net Revenues	84,629,513	82,656,713	80,483,736	78,312,308
Existing Debt Service - Senior Debt	13,342,628	10,739,352	10,841,261	2,164,552
Existing Debt Service - Subordinate Debt	60,737,796	63,011,350	63,033,475	70,849,850
Total Existing Debt Service Payments	74,080,424	73,750,702	73,874,736	73,014,402
Proposed Debt Service	1,237,500	6,092,397	10,450,291	13,566,363
Total Debt Service Payments	75,317,924	79,843,099	84,325,027	86,580,765
Debt Service Ratio - Bond Rating Agency	1.12	1.04	0.95	0.90
2016 Financial Plan Ratios	1.13	1.04	0.97	0.92
Debt Service Ratio - Senior Covenant	6.34	7.70	7.42	36.18
Debt Service Ratio - Junior Covenant	2.59	1.97	1.51	1.13
Ending Unrestricted Cash Balance	74,750,000	47,230,000	19,240,000	6,940,000

Regional Wastewater Reclamation Department Enterprise Fund

2017 CURRENT FORECAST – Projections with **4% Increases in 2017, 2018, 2019**

	Forecasted			
	2016-17	2017-18	2018-19	2019-20
System Revenues:				
Volumetric User Fee	116,383,722	119,999,481	123,745,674	125,177,808
Fixed User Administrative Fee	42,599,434	44,819,280	47,161,700	48,681,135
Sanitation Fees	310,000	310,000	310,000	310,000
Total Sewer Utility Service	159,293,156	165,128,761	171,217,374	174,168,943
Sewer Connection Revenue	10,832,708	10,958,844	11,088,071	11,220,884
Interest	687,101	763,587	674,627	608,093
Other Income	922,160	922,160	922,160	922,160
Total Revenues	171,735,125	177,773,352	183,902,232	186,920,080
Operations and Maintenance Costs	83,976,837	85,656,374	87,369,501	89,116,891
Net Revenues	87,758,288	92,116,978	96,532,731	97,803,189
Existing Debt Service - Senior Debt	13,342,628	10,739,352	10,841,261	2,164,552
Existing Debt Service - Subordinate Debt	60,737,796	63,011,350	63,033,475	70,849,850
Total Existing Debt Service Payments	74,080,424	73,750,702	73,874,736	73,014,402
Proposed Debt Service	1,237,500	6,092,397	10,450,291	13,566,363
Total Debt Service Payments	75,317,924	79,843,099	84,325,027	86,580,765
Debt Service Ratio - Bond Rating Agency	1.17	1.15	1.14	1.13
2016 Financial Plan Ratios	1.19	1.18	1.18	1.16
Debt Service Ratio - Senior Covenant	6.58	8.58	8.90	45.18
Debt Service Ratio - Junior Covenant	2.63	2.12	1.84	1.66
Ending Unrestricted Cash Balance	77,470,000	58,700,000	45,930,000	52,770,000

Other Utility Rate Increases

	2014	2015	2016	2017
City of Tucson Water	8.30%	8.30%	7.30%	7.00%
Oro Valley Water			2016 2.00%	
Marana Water			2016 5.00%	2017 5.00%
Southwest Gas			2.8% - Requested Rate Increase for 2016	
Tucson Electric Power			7% - Requested Rate Increase for 2017	

Thank You



MEMORANDUM

Date: September 13, 2016

To: John Bernal
Deputy County Administrator
for Public Works

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Jackson Jenkins, Director
Regional Wastewater Reclamation

Re: **Public Notice Process for Proposed Sewer User Fee Increases**

Please proceed with the notice process outlined in your September 8, 2016 memorandum, which will lead to a decision and action on the proposed rate increases by the Board of Supervisors at their January 17, 2017 Board meeting.

CHH/lab

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Nanette Slusser, Assistant County Administrator for Policy, Public Works
Keith Dommer, Director, Finance and Risk Management
Robert W. Johnson, Budget Manager, Finance and Risk Management



WASTEWATER RECLAMATION
201 NORTH STONE AVENUE
TUCSON, ARIZONA 85701-1207

JACKSON JENKINS
DIRECTOR

PH: (520) 724-6500
FAX: (520) 724-9635

September 8, 2016

TO: C.H. Huckelberry, County Administrator

THRU: John M. Bernal, P.E., Deputy County Administrator - Public Works

FROM: Jackson Jenkins, Director - RWRD

SUBJECT: Public Notice Process for the Proposed Sewer User Fee Increases

The 2016 Financial Plan

The Finance and Risk Management Department prepares an annual Financial Plan for the Regional Wastewater Reclamation Department enterprise fund. The focus of the Financial Plan is to determine the optimal sewer rates needed to ensure that the County has sufficient revenues to meet all operating and maintenance expenses, debt service payments, required reserves, and to maintain an adequate debt service ratio to obtain favorable bond ratings. The 2016 Financial Plan recommends the adoption of a series of rate increases.

Public Notice Requirements

State statutes establish the public notice and public hearing process for rate increases to ensure that Pima County Regional Wastewater Reclamation Department customers receive adequate notice time, the ability to study the Financial Plan supporting the proposed rate increases, and the opportunity to speak at a public hearing regarding the proposed increases.

Please find attached a Timeline of Events leading up to a January 17, 2017, Board of Supervisors hearing on the 2016 Financial Plan and recommended rate increases. You will find the number of public notices exceeds the amount required per state statutes. Given the holiday season, and our desire to ensure the public has ample opportunity to participate in this process, we have erred on the side of caution in providing additional notices and public meetings.

Conclusion

If it is decided the Board of Supervisors will consider the 2016 Financial Plan and recommended rate increases at an earlier date, we would need to start the public notice process earlier. For example, if a November 22, 2016, date is anticipated, we would need to start the public notice process no later than September 23, 2016. We are willing and able to make this happen, as directed.

Attached

c: Tom Burk, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management Department
Jennifer Coyle, Special Assistant to the Director, Regional Wastewater Reclamation Department

Timeline of Action Items
Board of Supervisors Review of the 2016 Financial Plan
Regional Wastewater Reclamation Department

Revised 9/7/16

Action Item/Dates of Importance	Due Date
10:00 a.m. Deadline Public Meetings notice submitted to Territorial #1	Tuesday, November 15, 2016
RWRAC November Meeting 9:00 a.m. Water Campus	Thursday, November 17, 2016
Deadline PC & RWRD Website 60-Day Public Notice of BOS Hearing	Friday, November 18, 2016
Public Meetings Notice runs in Territorial #1	Friday, November 18, 2016
10:00 a.m. Deadline Public Meetings notice submitted to Territorial #2	Monday, November 21, 2016
10:00 a.m. Deadline Public Meetings notice submitted to AZ Daily Star #1	Tuesday, November 22, 2016
Public Meetings Notice runs in Territorial #2	Friday, November 25, 2016
Public Meetings Notice runs in AZ Daily Star #1	Sunday, November 27, 2016
10:00 a.m. Deadline Public Meetings notice submitted to AZ Daily Star #2	Wednesday, November 30, 2016
Public Meetings Notice runs in AZ Daily Star #2	Sunday, December 4, 2016
Facebook Public Meetings notice	Thursday, December 8, 2016
Press Release on Public Meetings to Media	Friday, December 9, 2016
Public Meeting #1 6:00 p.m. Parks and Rec 3500 W Raven Rd	Monday, December 12, 2016
10:00 a.m. Deadline Public Hearing notice submitted to Territorial #1	Tuesday, December 13, 2016
Press Release on Public Meeting #2 to Media	Tuesday, December 13, 2016
10:00 a.m. Deadline Public Hearing notice submitted to AZ Daily Star #1	Wednesday, December 14, 2016
Facebook Public Meeting #2 notice	Wednesday, December 14, 2016
Public Mtg #2 8:00 a.m. BOS Hearing Room, 130 W. Congress, First Floor	Thursday, December 15, 2016
RWRAC December Meeting 9:00 a.m. BOS Hearing Room	Thursday, December 15, 2016
Compile Agenda materials & signed RWRAC recommendation letter	Thursday, December 15, 2016
Public Hearing Notice runs in Territorial #1	Friday, December 16, 2016
Deadline Compile Agenda materials & signed RWRAC recommendation letter	Friday, December 16, 2016
Public Hearing Notice runs in AZ Daily Star #1	Sunday, December 18, 2016
Deadline Agenda materials due to Deputy County Administrator	Monday, December 19, 2016
Deadline Agenda materials due to County Administrator	Wednesday, December 21, 2016
10:00 a.m. Deadline Public Hearing notice submitted to Territorial #2	Tuesday, December 27, 2016
Public Hearing Notice runs in Territorial #2	Friday, December 30, 2016
Deadline Clerk of the Board Agenda Submittal	Tuesday, January 3, 2017
10:00 a.m. Deadline Public Hearing notice submitted to AZ Daily Star #2	Wednesday, January 4, 2017
Public Hearing Notice runs in AZ Daily Star #2	Sunday, January 8, 2017
BOS 9:00 a.m. Anticipated review of Recommended Rate Increases	Tuesday, January 17, 2017
RWRAC January Meeting 9:00 a.m. Water Campus	Thursday, January 19, 2017
Rate Increases Effective	Thursday, February 16, 2017