



BOARD OF SUPERVISORS AGENDA ITEM SUMMARY

Requested Board Meeting Date: March 9, 2010

ITEM SUMMARY, SPECIAL CONSIDERATIONS AND RECOMMENDATIONS:

SUMMARY

The Financial Plan was presented at three meetings of the Regional Wastewater Reclamation Advisory Committee which heard comments from the public at its February 9, 2010 meeting. A summary of all of the motions taken at these meetings is included on pages 24 and 25 of the Financial Plan. Relative to the rate increases, the Advisory Committee adopted a motion recommending that the Board approve the Financial Plan as recommended by staff with rate increases for the next four fiscal years with the understanding that the Committee will conduct an annual review of the rates and actual financial conditions.

The attached Financial Plan identifies the projected revenues and expenses of Wastewater for the remainder of this fiscal year and the next four fiscal years, through Fiscal Year 2013-14. The County has commenced a \$974 million capital program necessary to meet the County's permitting requirements for environmental compliance and to do ongoing maintenance of the conveyance and treatment systems. The County will expend \$812 million by the end of Fiscal Year 2013-14 and an additional \$162 million within the five years thereafter. The County will need to borrow most of these funds through long term borrowing in order to finance this capital program. To be able to borrow such funds, the County must plan for adequate revenues to meet the increase in debt service payments which will increase from the current level of \$24 million annually to approximately \$128 million annually over the coming years. The plan contains a recommendation that the Board of Supervisors adopt a series of user fee rate increases and connection fee rate increases to become effective at the beginning of each of the next four fiscal years. The County will not be able to acquire reasonably priced long term financing of such a large capital program without the ability to assure lenders and investors that there will be sufficient revenues to repay the loans. The current rate structure provides sufficient revenues only for current operating and maintenance expenses and current debt service payments. Adoption of all four of the proposed rate increases (one in each of the next four fiscal years) is necessary to provide adequate assurance that revenues will be sufficient for the current capital program. Failure to adopt a multi-year rate plan would substantially increase the County interest rate needed to successfully offer these bonds and would in all probability lower the County's existing bond rating, thus limiting the availability of financing.

The Financial Plan also proposes that the Board of Supervisors increase the emergency reserve it approved in prior years from the existing \$10 million by an additional \$5 million in Fiscal Year 2010-11 and again in Fiscal Year 2011-12 to increase the reserve fund to \$20 million. The fund would be used to address unexpected emergency repairs, similar to the one experienced by the County in 2002 with the Northwest

Outfall sewer line rupture. Additionally, the proposed rates, after the first three years, are expected to produce additional cash reserves which can then be used to reduce existing debt.

The department has experienced significant increases in operating expenditures during the past 5 years, with annual expenditure increases averaging 12% over the last four fiscal years. Over the five-year forecast period, the operations and maintenance budget is forecasted to grow by approximately 3.4% annually (excluding depreciation and debt service payments). In order to meet the projected net revenues needed for funding the capital program, the Department will need to control its operating expenditures.

RECOMMENDATIONS

1. As explained in the Financial Plan, and as recommended by the Regional Wastewater Advisory Committee, staff recommends that the Board of Supervisors adopt Ordinance No. 2010-___ adopting four annual rate increases effective each July 1 of 2010, 2011, 2012 and 2013, at the following series of rate increases:
 - a. Increase User Fee Volume Rate by 10.0%
 - b. Increase the Standard Service Fee by 6.5%
 - c. Increase the Connection Fee by 6.5%
2. Limit annual increases in the Regional Wastewater Reclamation Department operating expenditures to 3.4% of the previous year's actual expenditures.
3. Direct the Finance and Risk Management Department to use available unrestricted cash generated from the rate increases to pay down the principal of existing debt.
4. Direct the Finance and Risk Management Department to report by March 31 each year to the Board of Supervisors of the annual review and analysis of the rates and financial status of the Regional Wastewater Enterprise Fund with recommendations for maintaining or altering the adopted rates.

CLERK OF BOARD USE ONLY: BOS MTG. _____

ITEM NO. _____

PIMA COUNTY COST: ___ and/or REVENUE TO PIMA COUNTY: ___

FUNDING SOURCE(S): _____
(i.e. General Fund, State Grant Fund, Federal Fund, Stadium D. Fund, etc.)

Advertised Public Hearing:

| | | | | |
|--|-------------------------------------|-----|--------------------------|----|
| | <input checked="" type="checkbox"/> | YES | <input type="checkbox"/> | NO |
|--|-------------------------------------|-----|--------------------------|----|

Board of Supervisors District:

| | | | | | | | | | | | |
|---|--------------------------|---|--------------------------|---|--------------------------|---|--------------------------|---|--------------------------|-----|-------------------------------------|
| 1 | <input type="checkbox"/> | 2 | <input type="checkbox"/> | 3 | <input type="checkbox"/> | 4 | <input type="checkbox"/> | 5 | <input type="checkbox"/> | All | <input checked="" type="checkbox"/> |
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IMPACT:

IF APPROVED:

Approval of the Ordinance increasing the rates will:

1. Provide the ability to finance the upcoming \$812 million in capital costs through Fiscal Year 2013-14.
2. Increase the Emergency Reserve Fund by \$10 million to \$20 million over two years.
3. Increase the Operating Reserve Fund from 45 days to 90 days of O&M expenses.
4. Fund the required Debt Service Reserve Fund.

IF DENIED:

The County will not be able to secure funding to complete construction of capital requirements in its existing permits to operate the Ina Road and Roger Road treatment facilities. This would result in permit violations and would put the County at risk of significant monetary penalties and, potentially, a court order or consent decree to complete these capital improvements.

DEPARTMENT NAME: Regional Wastewater Reclamation Department
and Finance and Risk Management Department

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