

**CITIZENS' WATER ADVISORY COMMITTEE (CWAC)  
Finance Subcommittee**

Thursday, August 17, 2022, 2:00 p.m.

Virtual Meeting via MS Teams

**Legal Action Report and Meeting Minutes**

**1. Call to Order/Roll Call**

The meeting was called to order at 2:00 p.m. by Chair Washburn. Those present and absent were:

Present:

Steven Washburn, Chair	Representative, City Manager
Rory Juneman	Representative, City Manager
Mark Stratton	Representative, City Manager
Val Little	Representative, City Manager

**2. Announcements – None**

**3. Review & Approval of May 24, 2022, Legal Action Report and Meeting Minutes –**

Member Stratton moved to approve the Legal Action Report and Meeting Minutes; member Little duly seconded the motion. The motion passed on a roll-call vote of 4 – 0.

**4. Five-Year Financial Plan FY23 - FY27 and Initial Cost of Service Results –** Silvia Amparano, Deputy Director, opened the discussion. Amber Kerwin, Tucson Water, Rates Manager, presented the Financial Plan and Cost of Service results. Those items reviewed and discussed were:

a. Financial Planning Objectives and Key Metrics

- Annual revenue to cover:
  - forecasted annual O&M and debt service costs
  - annual projected CIP requirements - approximately \$85M
- Positive annual net revenue to maintain or exceed the following:
  - Cash on hand to cover 120 days of O&M expense
  - Cash on hand to cover 100 days of O&M cost, excluding consideration of the infrastructure fund.
  - Maintain a \$20M infrastructure fund balance set aside to cover the following:

- a water quality issue or need that is imminent and urgent
  - a major infrastructure failure
  - an opportunity to acquire an additional water resource
- Maintain debt coverage as required by Ordinance 6347:
  - Net revenue of any FY must equal or exceed 175% of the Senior Lien annual debt service requirement for that FY.
  - Net revenue of any FY must equal or exceed 175% of net revenues available after operations and Senior Lien debt service payments for that FY.
- b. Financial Plan Assumptions
  - Many factors play into financial forecasting and modeling:
    - Water consumption
    - Service account count
    - Operating and Maintenance costs
      - Personnel costs
      - Service and commodity costs
      - CAP commodity and capital costs
    - Capital costs
    - Policy direction
  - What is not included:
    - Additional costs related to broader PFAS remediation/clean-up
- c. Consumption
  - Many factors are at play that is making the forecast difficult and uncertain:
    - The two-year trend of increasing consumption
      - FY20: 2% over FY19
      - FY21: 9% over FY20
      - Compared to the historical average of a 1% annual decrease
    - Unprecedented early FY22 monsoon season rainfall impacted FY22 consumption – a decrease of 9.4% relative to FY21
    - The full impact of differential rates on consumption unknown
    - Unknown impacts of Tier 1 declaration and recent Tier 2 declaration on consumption trends.
- d. Account Growth
  - Consumption and Account Forecasting
    - All classes except for commercial is forecasted to decrease from the 1% growth in FY21 as follows: .6% FY23; .5% FY24; .4% FY25; .3% FY26 and future
    - Commercial account growth is forecasted as follows: .5% FY23; .4% FY24; .3% FY25 and future
  - Consumption growth/decline
    - Inside:
      - Classes except for commercial: FY23 and a future annual decrease of -.1%

- Commercial: FY23-FY24 increase of .30% (based on after pandemic recovery); FY25 and future 0% growth
  - Outside:
    - Classes except for commercial: FY23 and a future annual decrease of -.2% (based on impacts of differential rates)
    - Commercial: FY23-FY24 increase of .30% (based on after pandemic recovery); FY25 and future 0% growth
- e. Expenditures
  - Operating and Maintenance costs
    - Personnel costs – 3%
    - Service and commodity costs – 1%
    - CAP commodity and capital costs
    - Tier 2A shortage starting in CY23
  - Capital costs
    - Reset base target at \$85M, which was previously \$70M
    - Annual Inflation – 3%
    - Increased investment
- f. Financial Plan and Recommendations
  - Key Components:
    - Increase CAP Surcharge to \$1.00/ccf starting 1/1/2023
      - Change the name of the surcharge to Water Resource Fee to allow flexibility to use for the purchase of any water resource
    - 5.5% increase each of the next four years starting 7/1/2023
    - Issue revenue bonds in the amount of \$60M to help cover capital costs for three years until revenue flow increases to match annual operating and capital demand.
  - Additional Considerations:
    - Balancing customer impacts based on City-wide rate increases, particularly related to Environmental Services
    - Evolving the Colorado River dynamic might require revisiting the CAP surcharge at a later time
- g. COS initial results
- h. Next Steps and Timeline
  - 8/18 CWAC Finance Subcommittee Review of Initial COS outcomes
  - 9/7 CWAC Review of Final Rate Design Recommendation
  - 9/13 M&C Adoption of Aligned Rates
  - 9/13 M&C Study Session on Proposed Rates and Fees
  - 9/27 M&C Notice(s) of Intent for each Rate/Fee Type
  - October – Public and Stakeholder Outreach
  - 11/29 M&C Public Hearing(s) and Adoption
  - January 2023 CAP Surcharge increase takes effect
  - July 2023 rate increases take effect

No action was taken on this item.

5. **Call to Audience** – Billie Hayes, Water Finance Manager, commented on the material delays for projects and the reduction to the Capital Improvement Project (CIP) has 40 million in projects pending to fill any reduction.
6. **Future agenda items** – Member Juneman requested to address declines in future water usage reductions due to conservation and how consumption affects the rate process.
7. **Adjournment** – The meeting was adjourned at 3:14 p.m.