

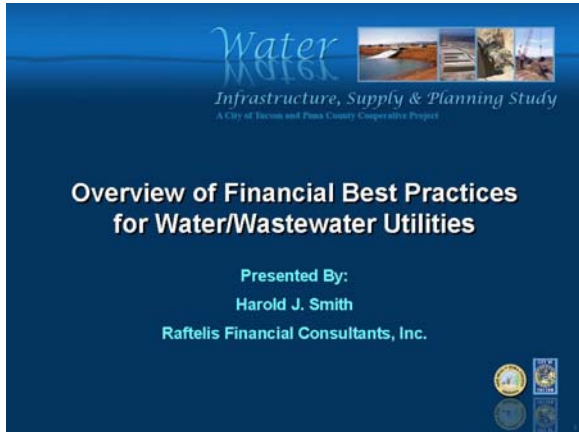
## TRANSCRIPT OF AUGUST 13, 2008

*List of Presenters:*

- 1. Harold Smith, Raftelis Financial Consultants, Inc.: Overview of Financial Best Practices for Water/Wastewater Utilities*
- 2. David Cormier, Interim Finance Director, City of Tucson: Tucson Water Financial Planning*
- 3. Jeff Nichols, Deputy Director of Administrative and Financial Services Division, Pima County Regional Wastewater Reclamation Department: Pima County Regional Wastewater Reclamation Department Financial Planning*

MR. NICHOLS: Good morning, my name is Jeff Nichols. I am the Deputy Director of Finance and Administration for Pima County Wastewater Reclamation. The first person speaking this morning is Harold Smith. He's with Raftelis Consultants, Incorporated. They're a firm based out of Charlotte, and they've assisted us with our financial planning model going on the second year now. We're in the process of doing it again this year and they were the ones that put together our '07/'08 Financial Plan. So, Harold, if you would.

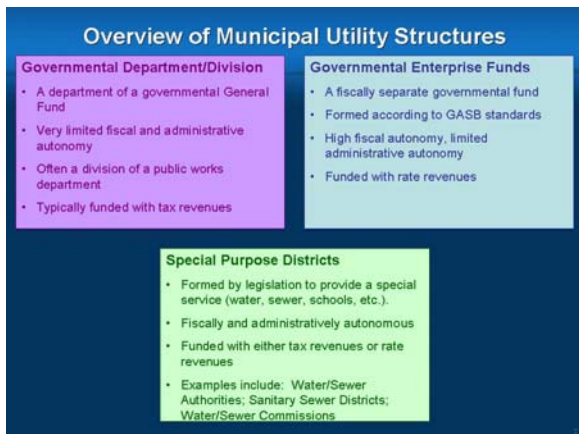
**Presenter #1**  
**HAROLD SMITH, RAFTELIS FINANCIAL CONSULTANTS, INC.:**  
**OVERVIEW OF FINANCIAL BEST PRACTICES FOR**  
**WATER/WASTEWATER UTILITIES**



MR. SMITH: Hello. As Jeff said, I'm Harold Smith with Raftelis Financial Consultants. We do water and wastewater financial consulting across the United States. We've done a lot of work with Pima County Wastewater Reclamation Department in the past couple years; involved in the ROMP Project and developing financial plans.

But, like I said, we - we work for hundreds of utilities across the country and, as a result of that experience, we see firsthand what utilities are dealing with on a day-to-day basis, the challenges that they deal with, and we also see some of the things that they are doing to address these challenges; that, when they work, they become best practices, basically. And the word spreads that these are the things that we've done that will help you overcome these challenges, and the other utilities then jump onboard and try to do the same thing.

So, what I'm going to do today - what I was asked to do - is talk about some of the challenges utilities face, and a couple of the best practices. There's not a book out there that says, "Here's the best practices," but things we've seen that work for utilities in dealing with these challenges.



In starting out - just a little background about how we typically see utilities organized; they're really basically three different structures. There's one where they're a department of a municipal or a county government, in which case they are not their own separate business entity so to speak; they're part of the - like the Police Department and the Fire Department and the Water Department, and they're typically funded through the - the

municipality's or county's general fund. As a result, they don't have a whole lot of fiscal autonomy. The - the governing body of the municipality makes most of the big decisions about what they are going to do, and they're typically funded with tax revenues. We don't see as many of these as there were in the past; and, typically, they're for very small municipalities that don't have a huge service area.

The most common structure we see is the utility enterprise fund; and, basically, this is a separate fund; it's really almost an accounting construct where all of the revenues and expenses for a water utility are accounted for under a separate set of books. But, what it means is they operate really as a separate business entity from the government as a whole, and they have a high level of fiscal autonomy. Now, they aren't totally autonomous because, typically, the governing body of the municipality or county makes the decisions as far as what our rates are going to be, which drives your revenue stream. So, there is, on one side, how much they're spending tends to be somewhat autonomous, but how much they actually can collect to cover those costs is they're holding to somebody else on that account. And, in most cases, these are funded with rate revenues, so they set a water or sewer rate and that generates revenues they need to - to fund their activities.

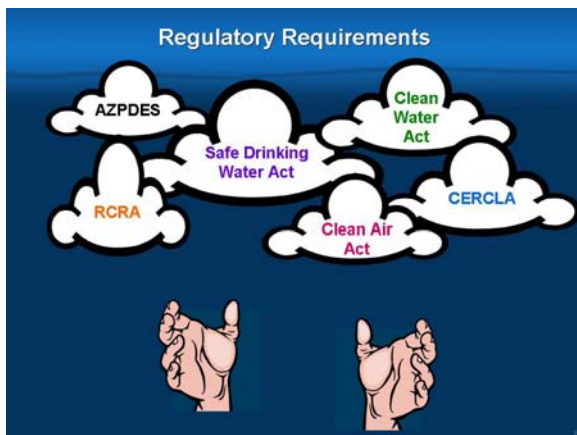
And then we also have Special Purpose Districts. These are things like Water Authorities . . . Sanitary Sewer Districts, Water Commissions; these are legislatively-created bodies that are created to form a specific purpose: water service, sewer service, school districts. And these are - well, they are fiscally and administratively autonomous, where that sometimes gets a little sketchy is in the creation of the board that - that - that runs these things. Sometimes they are appointed by members of the Board of Supervisors or the City Council, so there's a certain level of - of, you know - where they - they aren't quite as autonomous as you'd like them to be. But, in these cases, they're funded with either tax revenues, either they've been giving tax - given taxing authority as part of the legislation that created them, or they recover it through water and sewer rates. So, just a little background; that's how we see utilities organized across the country.



Now, all of these, regardless of how they're organized - I hope you've been watching the Olympics lately - I tried to do a little Olympic theme to my presentation - have different challenges that we see are fairly common across the country; that they have to deal with on a day-to-day basis. Sometimes individual challenges prevent more - present more of a problem than others. But,

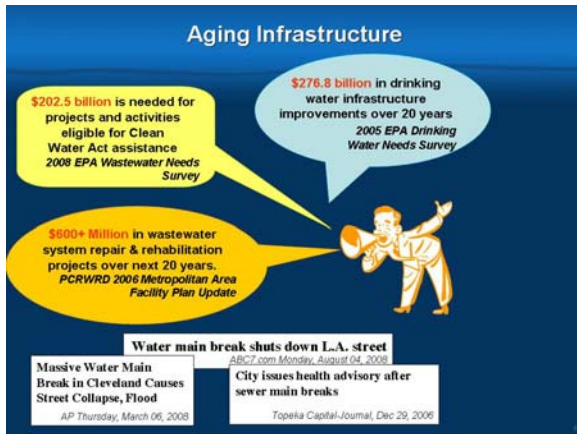
basically, what we're looking at regulatory requirements; the - the requirements that each utility has to meet in terms of water quality, effluent quality, air quality, that sort of thing, on a - on a day-to-day basis. They're - have challenges related to the local economies that relate to their customers' ability to pay for the service they're provided.

Aging Infrastructure. When you think that a lot of the infrastructure that was put in place across the country is getting to be nearly 100 years old today, it's starting to fall apart, and more and more utilities are faced with incredible cost in replacing or repairing that infrastructure. As anybody that's been involved in water and sewer in any county in any state across the country realizes, politics always play - is always a challenge that the utility has to recognize as they're making their plans for the future. And then limited resources, there's not - a lot of times, not enough water to serve the population, or anticipated population, of the service areas.



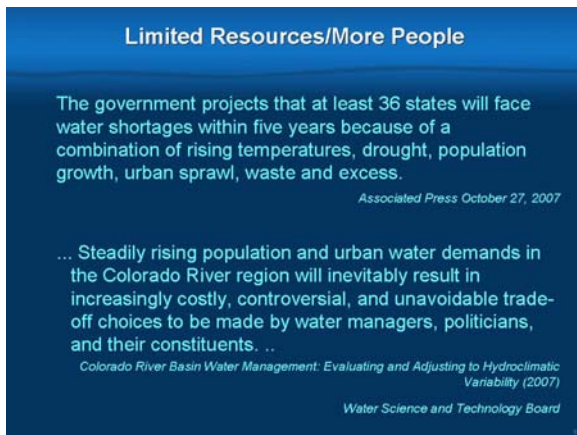
So, looking at each one of these. Back in the '70s when the Safe Drinking Water Act and the Clean Water Act were passed, that was really the beginning of the regulatory environment in the United States. And each day utilities are faced with the challenge of making sure they have the assets and the operating staff in place to meet those requirements. Now, the problem

is as - on a day-to-day basis they think they've got it figured out, but it's a moving target and they have difficulty in making sure that they're able to meet the challenges on a day-to-day basis.



Aging Infrastructure. As you can see, these are some projections that were produced by the EPA; \$202 billion needed for water projects over the next 20 years; \$277 billion in wastewater projects. Pima County, in their - the facility plan update, tentatively had over \$600 million earmarked for system repair and rehabilitation. Basically, the infrastructure is getting old and

falling apart and more money needs to be spent on that to keep it working on a day-to-day basis; otherwise, you run into problems like we see in these communities: water main break shuts down L.A. street, city issues health advisory after sewer main breaks. So, there is a lot of cost associated with this, but failing to do it results in other things that none of us want to deal with.



Limited resources and more people. These are just a couple of quotes I pulled off the internet looking around at various different news articles over the past year or so. "Projects that 36 states will face water shortages in the next five years" - that was from AP article in October, 2007. And then a little bit closer to home, the Colorado River Basin Water

Management Evaluating and Adjusting to Hydroclimatic Variability, a report done by the - some of you've probably seen this already - basically says that the Colorado River Water is not going to be sufficient to meet the growing population of the area that that - where that water is used. So, as we grow, our water demands grow and, unfortunately, water is a limited resource.

## Local Economies

- Number of building permits in US is down 32% since June 2007.
- In the past 12 months, the national unemployment rate has risen by 1.0% to 5.7%.
- Unemployment rate in Tucson has risen from 3.5% in June 2007 to 4.8% in June 2008.

Sources: Bureau of Labor Statistics and National Home Builders Association

**As the cost of providing water and sewer services increases, the ability of customers to pay for service is declining.**

Local economies, some more statistics. I hate to be so pessimistic about this, but I - we see building permits are down, unemployment's up. Locally, unemployment has risen from 3-1/2% in June of 2007, to 4.8% in June of 2008. Basically, what this tell us is, as the cost of providing water and sewer services increases, the ability of customers to pay for it is

declining. As people lose their jobs, they aren't as - as capable of paying for the services you provide to them. And the decision-makers recognize it and they're less likely to give you the resources you need to properly operate your utility.

## Politics



- Local leaders are resistant to increasing water and sewer rates to pay for rehabilitation, expansion and upgrades.
- Federal leaders reluctant to provide funding options for needed infrastructure improvements.
- Political subdivisions compete for available water resources.
- Competition among regulatory agencies for control of limited water resources.

Politics. Government decision-makers, City Councilors, Board of Supervisors, they don't want to raise rates because their constituents don't want their rates raised. The Federal Government is reluctant to provide funding. In the past, when the Clean Air Act, back in the '70s, was passed, there was a lot of money available from the Federal Government to pay for the

infrastructure needed to meet those new regulatory requirements. That money's not there - and people argue both ways, whether or not it's appropriate for the Federal Government to fund it - but, the fact of the matter is: that money's not there.

And then you have political subdivisions competing for water and - so that that - because they recognize that water is a necessity if they're going to meet their growth expectations, so you have different - you have neighbors fighting over the limited resource. And then you even have regulatory agencies fighting over who should dictate what is done with those limited resources.

And we do a lot of work in Rhode Island and right now they're going through a big process trying to decide - the Department of Environmental Health is fighting with the Division of Water Resources about who is it that should tell people how they can use these resources? So, politics plays a big part.



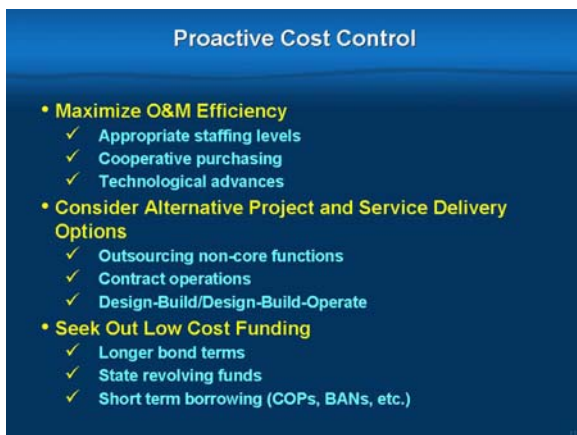
Now, as I said, I'd like to talk - the - the second half of my presentation will be about what utilities have done -

CHAIRMAN JIM BARRY:

Five minutes.



MR. SMITH: All righty. What utilities have done to meet these challenges. All right. Practice Proactive Cost control, Practice Sound Asset management, Maintain Adequate Reserve Fund Balances, and Establish and Maintain Appropriate Rates and Charges.



What do I mean by Cost Control? Obviously, this is a no-brainer. You want to reduce your costs, because that makes it cheaper to operate your utility. How do you go about doing it? These are some of the things we've seen utilities do across the country. Maximize O&M efficiency. Make sure you've got the right number of people, because labor is one of your largest utility costs.

So, having too many people on staff is meaning you're spending too much money.

Cooperative purchasing is something we've seen, particularly with respect to power and water treatment chemicals. Utilities within a region will pool their resources and get together and develop cooperative bar- - purchasing agreements with local utilities to reduce their costs.

And now, obviously, you want to take advantage of any technological advances that makes your process more efficient,

most cost-effective. Consider alternative project and service delivery options, out-sourcing non-core functions, things like janitorial services, landscape maintenance. And in - one big thing we see that's - people don't recognize, most utilities out-source the majority of their engineering work, so their design engineering work. They don't maintain a huge staff of design engineers, but they out-source that out because that is a more cost-effective way of doing that function.

Contract Operations. Many utilities have found that private companies whose core business is water and sewer utility operations are able to operate their facilities more cost-effectively. And then implementing alternative project delivery methods, such as Design-Build and Design-Build-Operate. We've seen utilities, say, reduce project costs by as much as 15 or 20% by going with an alternative project delivery method, such as a Design-Build, or a Design-Build-Operate.

Seek out Low-Cost Funding. Now, this is not simply just low-cost. What I mean by Cost Control is not only reducing your costs, but managing your costs so that it has a smaller impact on a day-to-day or year-to-year basis.

Longer-term bonds. While the overall payout for a longer-term bond is greater, you're able to spread your costs over a period of time that's more consistent with the life span of the asset you're funding. So, if you're building a water treatment plant that's going to last you 50 years, then you would probably want to use a 20- or 30-year bond to pay for that, because it aligns the cost, the recovery of costs, with the actual service the - the asset's providing.

Obviously, taking advantage of the State Revolving Funds; that's really, today, the only reliable source of federal assistance available to utilities is the State Revolving Funds that - the water infrastructure finance agency is the - the vehicle for that in Arizona. Typically, you can get funding at - as much as two or three percentage points lower than the market rate.

And then short-term borrowing is one of those long-term cost control mechanisms that I was talking about. Instead of spending cash on projects, you can fund those with short-term borrowings and spread the payback of that over a three to five-year period, as opposed to paying for it one lump sum in one year, so you're managing your costs.



Sound Asset Management. I don't know how many of you have heard asset manage- - this is kind of the buzz word in the industry over the past five years - but, basically, what it's doing is taking care of the facilities that are necessary for you to provide service. Now, this is a layout of how we have seen utilities do this effectively. Basically, what they do is they

determine what is the level of service that they and their customers expect them to provide? Obviously, it would great if we could provide service that guaranteed that absolutely every day you would turn on your water and it would come out and there would never be any problems, there would never be any main breaks, there would never be any sewer collapses, but the cost associated with that level of service is phenomenal.

So, what we have to do is establish realistic service standards that we and our customers can live with, and that becomes the basis of our Asset Management Program. We then manage our assets to achieve those service levels. And the way we do that is first of all we have to determine what our assets are and what condition they are in, so we know - and, as we do that, we got to determine what the consequences of failure of those assets. So, obviously, the failure of an eight-inch sewer main is far less consequential than failure of a 64-inch sewer main. So, we've got to determine - and that helps us prioritize our Asset Management Program and our capital repair and replacement program.

So, basically, what we have to do is establish the standards, determine our asset conditions, and prioritize our capital plan based on - that aligns our program with meeting our service standards. And then, obviously - I - I don't want to ignore predictive and preventative maintenance; this is maintenance that's done predictively and preventively, because it's been proven that that kind of maintenance is far more cost-effective than fixing something when it breaks.

## Adequate Reserve Fund Balances

- **Operating reserve fund**
  - ✓ 45 days of O&M expenses (12.5% of annual O&M)
- **Capital reserve fund**
  - ✓ 50% of average annual capital costs
- **Rate stabilization fund**
  - ✓ 10% to 20% of annual revenues

Adequate Reserve Fund Balances. Now, this is one that we don't see many utilities really achieving these targets, but the fact that they have these targets in place align - positions them - puts them in a better financial position.

Operating a Reserve Fund. Basically, this is a Reserve Fund that's used to meet either unexpected O&M costs, or

it helps you in a situation when your water sales are down and, therefore, your revenue stream is smaller than expected. And we're seeing that happen more and more as utilities go to conservation rate structures which promotes conservation of water resources, and what that's really doing is telling their customers to buy less of their products, so their revenue streams are lower, and they sometimes get in the position where their revenues can't meet their expenses, so these Reserve Funds are used to - to cover the slack periods, and we look at 45 days of O&M expenses.

Capital Reserve Funds. These are used for those emergency situations that always come about, a large sewer main break or a water main break, a failure of a major component of a treatment plant. This allows you to fund that on a quick, readily-available basis, and it's much cheaper than going out and issuing bonds to fund a project that might not - that - that has to be done now.

And then we see many utilities using a Rate Stabilization Fund, where they have money set aside to use to offset the need for higher-than-usual rate increases. So, if cash needs require that you would increase your rates by 15% in one year, instead of doing that, you can have a 6% rate increase and draw down your Rate Stabilization Fund to meet the difference.

## Appropriate Rates and Charges

- **Should Recover All Costs**
  - ✓ O&M
  - ✓ Pay as you go capital
  - ✓ Debt service
  - ✓ Indirect costs
- **Consistent With Utility's Pricing Objectives**
  - ✓ Revenue sufficiency
  - ✓ Conservation/demand management
  - ✓ Affordability
  - ✓ Growth pays for growth
  - ✓ Rate stability
  - ✓ Legality
- **Updated Annually**

I'm almost done. The last, and not least, is establishing appropriate rates and charges. This is how utilities pay for what they do, and they've got to be sufficient to meet their costs. So, they - the rates should recover all costs, including your operation and maintenance costs, your - what we call "pay-as-you-go capital costs," which is the - the minor

capital projects you do on a yearly basis, the Debt Service on the bonds you issue to fund your major capital projects, and also the indirect costs, the costs associated with the services that, say, the County or City Legal Department provides to the utility, or the services that the IT Department, the County or City IT Department provides in terms of the billing system to the utility, needs to recover all costs.

And the most important thing, it has to be consistent with the utility's pricing objectives. Before we do any rate study for a utility, we have them define what their - what are they trying to do? What is the most important thing to them with respect to rates? Obviously, revenue sufficiency is high on the list of most people. We've got to have enough revenues to cover our costs. But then you have other - conservation demand management has been very high on a lot of people's lists over the past couple years. We want a rate structure that promotes responsible water use, but we also want it to be affordable.

We recognize we have customers that are economically disadvantaged and we want to make sure that there's some way that we can ensure that they're capable of paying their fair share. So, they have to be consistent with your pricing objectives. And, most importantly, they have to be updated annually, and this is not saying that you have to have a rate increase every year, but you have to look at your rates every year and compare them to your anticipated costs and make sure that the revenues you're getting in are going to be sufficient to cover your costs; and, if they're not, you need to figure out a way to make that - those two come into alignment.



Now, any questions?

CHAIRMAN JIM BARRY:

Let me make a suggestion, please. It's - it's 8:15 and we want to be out of here by 9:00. Can - can we hold all questions until all three presentations are over? And can we forget our five-minute break and just go right into Tucson Water and then Wastewater and try to be done by 9:00? Okay. Thank you.

MR. SMITH: Thank you.

CHAIRMAN JIM BARRY: Thank you, Harold. Very Good. (Applause.)

CHAIRMAN JIM BARRY: Okay. The next presenter is David Cormier. David was Finance Chief for Tucson Water for 700 years, or a long time, and he's been trying to retire, but they brought him in as Interim Finance Director for the City of Tucson. And we allocated 35, but will you cut it back to 22?

MR. CORMIER: I'll - I'll do my best.

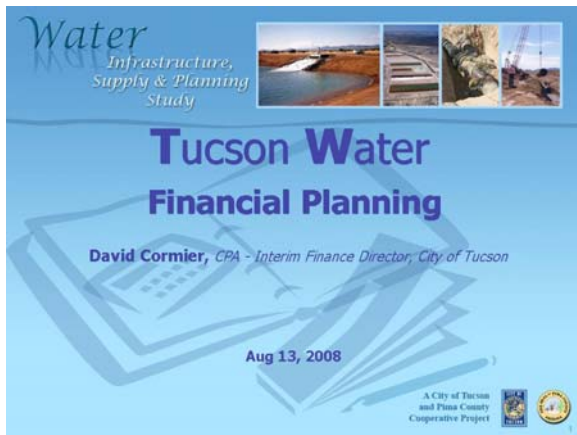
CHAIRMAN JIM BARRY: Okay. David is great at whizzing through this stuff.

MR. CORMIER: Yeah, I'll take -

CHAIRMAN JIM BARRY: Let me - let me say something: This is stuff that we can revisit, so we don't have to get it all done today. But, David, please . . .

**Presenter #2**

**DAVID CORMIER, INTERIM FINANCE DIRECTOR, CITY OF  
TUCSON: TUCSON WATER FINANCIAL PLANNING**



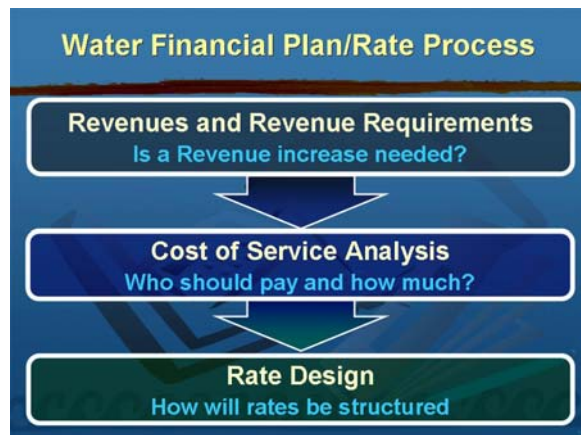
MR. CORMIER: All right. Good morning. Thank you for giving me the opportunity to share some information with you. I did want to start off by saying I will go through this relatively quickly. At best, I hope to give you a flavor of the Financial Plan process, the rate-making process that we go through; that'll enable you, I think, to ask some questions in the future.

Before I start, a little bit of information you may have heard numerous times at these meetings, but to just you a little bit of background on how Tucson Water operates in the financial world: It is a municipal-owned utility of the City. You just heard the - the various types of set-ups for water utilities. By a "municipally-owned utility," it means that all of the costs of doing business are to be provided for by revenues of that utility. It's a large utility. We have about 230,000 customer accounts, over 730 (sic) customers behind those meters. We serve customers within the City of Tucson and without - outside the City limits; about a third of customer base is in the County.

Mayor and Council serve as a sort of Board of Directors; they approve our Financial Plan; they set policies and they set rates. Two very important supporting pillars to that direction come from our Citizen Water Advisory Committee, a very active and very involved and very influential group of - of customers, 15 members appointed by Mayor and Council and the City Manager. And a less-important, but important nonetheless, Customer Rate Design Group, a group of folks that get together once a year representing different customer classes that provide input on Cost of Service and Rate Design.

And, finally, when Tucson Water considers a revenue increase, we have to follow State statutes, the State law tells

us what must be done in order to install or - or generate a rate increase.



We're calling this the Financial Plan or Rate Process. We're going to focus mostly on the Financial Plan. But, what is a Financial Plan? Very simply: It's how are we planning on covering our costs with our revenues? We have to make that work.

My co-workers in the room here from Tucson Water would say when we embark on the Financial Plan process we're saying, "What do we need to do in terms of increasing revenues to cover our needs?" We start out that way. By the time we end, we're pretty much saying, "How can we control costs to allow revenues to remain within an affordable level?" By "affordable" I mean what is deemed acceptable within the political environment, and what is affordable to our customers?

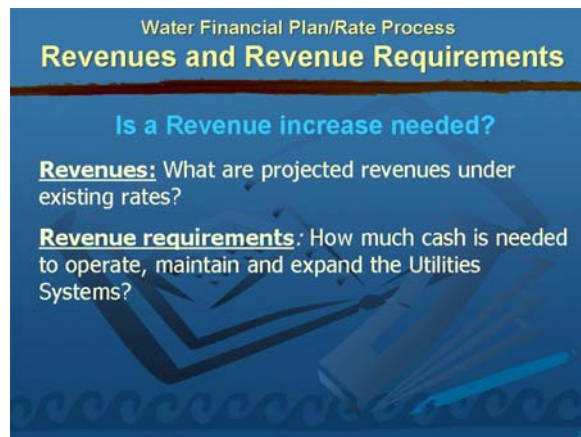
We have three main components to this process: The first, revenue and revenue requirements. The question is: Is a revenue increase needed? The second: Cost of service analysis. We look at that revenue increase and the underlying cost and we say, "Who should pay and how much?" And, finally, Rate Design. How will rates be structured?

The first phase is really the Financial Plan. The second is where we parse out the costs of doing business to our different customer classes. And, finally, we tell you how we're going to affect your pocketbook as an individual customer.

As I said, the first process is - is development of the Financial Plan. The first question is: What are our revenues? What are they projected to be under existing rights? And when we say "existing rights," we don't just mean what were they last year? We mean what do we think they will be in the next - during the period of the Financial Plan - which, by the way, is a six-year rolling plan - the year in which we're in and the five future years.

So, we look at revenues, we adjust them for increases in growth that we anticipate, we adjust them for newly-established fees. We also take into look (sic) what impact new programs might have on those revenues. For example, this year a new effort in conservation was imposed; hopefully, that program will be successful. What is the result of that

success? Decreased consumption; thereby, impacting revenues. So, all that is taken into consideration.



Water Financial Plan/Rate Process  
**Revenues and Revenue Requirements**

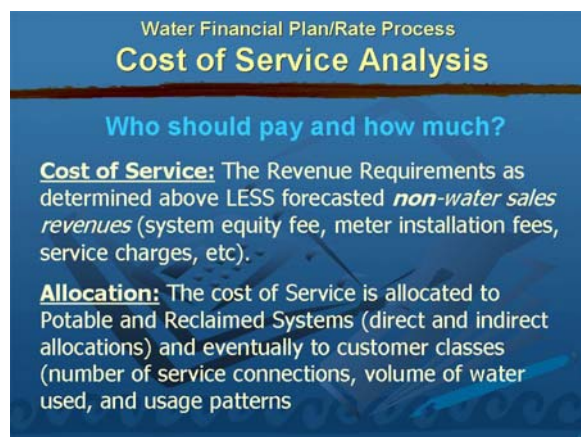
**Is a Revenue increase needed?**

**Revenues:** What are projected revenues under existing rates?

**Revenue requirements:** How much cash is needed to operate, maintain and expand the Utilities Systems?

When we talk about revenue requirements, we're talking about how much cash is needed to operate and maintain and expand the utilities systems, both our Reclaimed and our Potable System. Basically, the way I look at it, revenues are - are, basically, a projection of where we think we'll be in terms of cash in the door. Revenue requirements, typically, you think of those as budgets, the Capital Improvement

Budget, and the O&M Budget.



Water Financial Plan/Rate Process  
**Cost of Service Analysis**

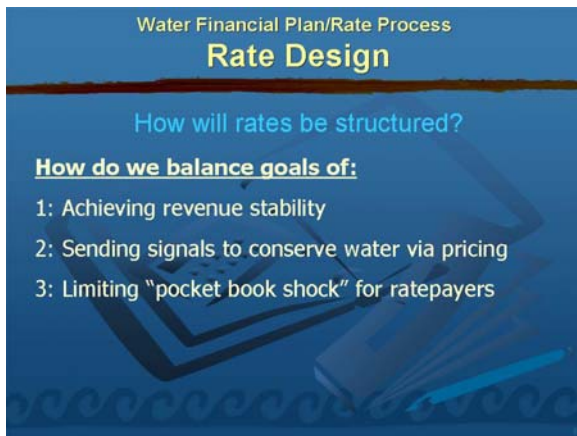
**Who should pay and how much?**

**Cost of Service:** The Revenue Requirements as determined above LESS forecasted *non-water sales revenues* (system equity fee, meter installation fees, service charges, etc).

**Allocation:** The cost of Service is allocated to Potable and Reclaimed Systems (direct and indirect allocations) and eventually to customer classes (number of service connections, volume of water used, and usage patterns)

Cost of Service Analysis. We boil it down to, basically, two sentences here: The cost of service is the revenue requirements or the cash needs determined in the Financial Plan itself, less non-water sales revenues. In other words, how much do we need to recover via water rates? That's what we're talking about when we're talking about a rate process.

We allocate those costs to first our Potable and our Reclaim System and then, eventually, to the various customer classes within our Potable System. Very simple, you can put it in two sentences; it's a very complicated process. People talk about Cost of Service as a science, as something very exact. Yes, you get absolute numbers out of it, but it's based on many, many assumptions; many, many allocations. For those few that are interested, we have multiple, multiple-page worksheets which, basically, do that allocation.



Rate Design. This is where most people finally get involved; this is where they - they see how we're going to impact their individual bill. As the prior speaker mentioned, there's some goals here. We want to, as a financial part of the utility, make sure that our revenue is somewhat stable. We also want to send signals to conserve via the pricing of water, and we want to

limit the pocketbook shock for ratepayers. Those do not always go in the same direction. What's the best way to achieve revenue stability? A flat monthly fee for every connection. That's very much against conservation. What's a good way to encourage conservation? Our inclining block for our residential customer, "The more you use, the more you pay per unit," very, very good for conservation; not the best for stability. So, we have to balance those and that's the role that both CWAC and the Rate Design Group play in making recommendations to Mayor and Council.



Couple financial policies of - you just heard some of the best goals, some of the benchmarks throughout the utility. We have two basic financial policies. I want to start with one, however, that's not on there, and that's how do we finance our Capital Improvement Program? Mayor and Council financial policy is that that will be done with a combination of revenue, bond

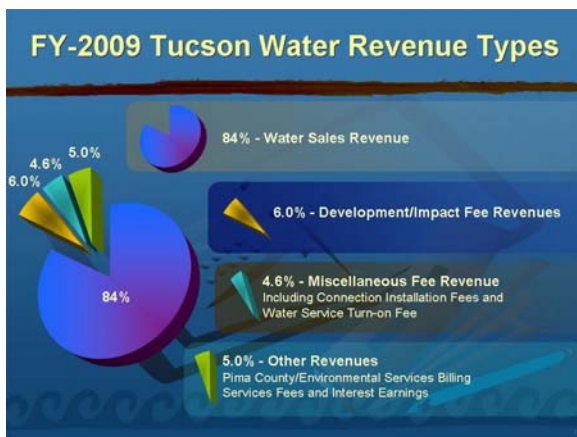
proceeds, and pay-as-you-go or - or revenues. What that, basically, forces us to do in a - in a good way is establish these other two reserve require- - or financial policies.

The first - or the second I'm going to talk about first - Debt Service Coverage. What is that? Debt Service is, basically, the payment on all of our revenue bond debt of principal and interest; it's very much the same as a mortgage payment you may have on your house. We make those payments annually.

The Debt Service Coverage is a bond covenant requirement. When we sell our bonds, we tell our bond holders

we're going to operate the utility in such a fashion that after we pay our operating expense in a given year, we're going to exceed what we owe them, in terms of principal and interest payment by 75%. So, we've got cash in, we've covered our O&M, we've now covered our Debt Service, there's still 75% left over. What do we do with that? Two things. One, we can allow that to go to reserves. I'll talk about that policy in a minute. But, most importantly, we use that excess to fund our Capital Program; that means, in a given year, we average about 60% funding of our CIP with bonds, and about 40% with the pay-as-you-go revenue.

Our Reserve requirement, our official policy adopted by Mayor and Council is 5% of our annual water sales, would be about \$10 million, or about \$5 million a year of - in the recent years when Financial Plans have been adopted. They've set a level of 10% - at least our goal is to get to a 10% reserve over the five-year period of the plan.



Here's a quick look at our Revenue Types; it's no surprise, water revenue sales, both potable and reclaimed are the big player there, 84%. Over the last four or five years, Developer Impact Fees have been becoming more important, about 6% of our revenues. We have a couple of Development Fees, the biggest is our System Equity Fee, which is a buy-in fee, you pay to buy into

the assets of the system; it is a backward-looking fee; it's updated every two years to pull into that inventory, additions to the system infrastructure.

We have a Water Resource Fee that was just implemented a bit over a year ago; that's to recover from our customers the costs that this utility has invested in buying the rights to Colorado River Water. And we have two small isolated System Development Fees which are hybrid fees, they're both a backward-looking and a future-looking fee.

We do know that we do need to expand our - our vision on Development Fees and, in the future, look at making our System Equity Fee, or the buy-in fee, a hybrid, looking to the future as well.

Miscellaneous fees, those are fees for various services, such as connections to the system, various billing fees, turn-on fees, about 4.6%, and then everything else, 5%. One of the biggest players there is our agreement with Pima

County and City of Tucson Environmental Services to utilize a combined billing system. We do a significant portion of Pima County's billing; it's a win/win for both the - the County and the City.

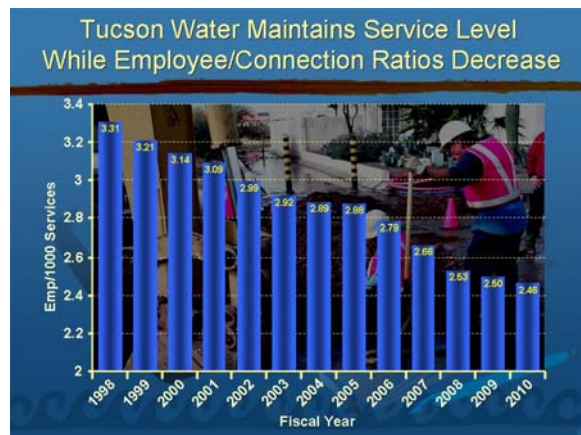
**Improvements/Efficiencies**

- **MMP – Predictive Maintenance**
- **Efficiency – More Services/fewer Employees**



Talked a bit about cost control, and I wanted to take a slight detour before we talk about our CIP and O&M. As mentioned, a focus on predictive maintenance is - is very important. Tucson Water actually started that effort back in 2000. We've been working aggressively over the last several years on a Maintenance Management Program which does exactly what Harold mentioned. As we look at - we created an inventory asset. We looked at process control. We looked at what type of maintenance needs to be done to ensure longevity of our assets. And also we looked at ways to depress this improvement using our resources to do more with less folks. Now, this is good and bad impact on the short-term Financial Plan.

Less employees, certainly, you have an immediate O&M benefit. MMP, what that does is put a dollar amount and an identification on the reinvestment in the systems that are needed; that means that, in the short-run, you very well may need to invest more in the system. So - but, nonetheless, it gives you more data on which to make decisions.



And, finally, just a quick chart here to show that Tucson Water over the last ten years has done what we think - more with fewer folks - this is just a chart showing service levels employ- - employees per 1,000 connections, and you'll see that that has steadily declined over the years from about 3.31 employees in 1998 to under 2.5 we predict we'll be in, in 2010.



CIP, again, this is similar to the slide you saw in the previous presentation; it is a challenge to balance all of these of - of various considerations. System needs, legal mandates, resources, both financial and staffing, as well as contractor availability.

I would also say another piece of this puzzle is the political landscape, both that in terms of financial

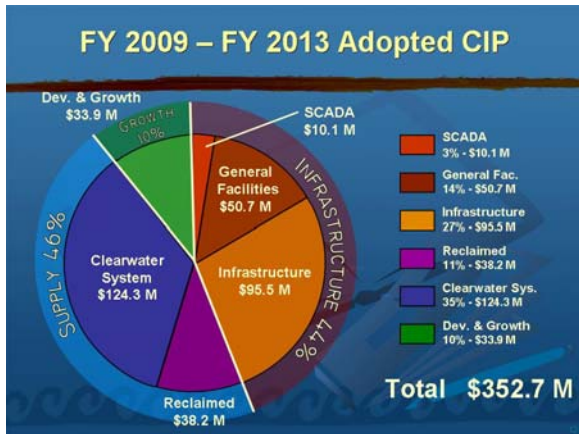
considerations, what is acceptable in terms of the impact on the customer and, also, consideration of treatment or source development, all of that comes into play in looking at a short- and long-term CIP.



Go through this very quick, since we're short on time. This is a high-level look at our CIP development process. This process is done every year. Our Financial Plan is a rolling activity. This actually starts in about May for a rate increase that may be implemented a year from the following May. We look at our projects. We categorize them. We have a team of Division

Administrators and Engineer Managers that look at those requests. The highest priority projects are selected.

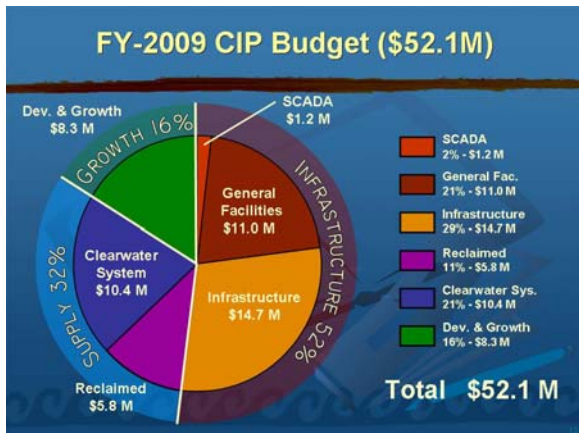
A Financial Plan. This is a first-guess Financial Plan because, again, the Financial Plan needs to look at the revenues, the CIP and the O&M, but we look at it, based on the information at a certain point in time. We evaluate affordability. What does that mean? How much is it going to cost in terms of an overall rate increase? We look at that. The - the decision- -decision-makers decide that percentage is acceptable or not. If it's not, we take the red arrow back and start over; that process in a typical Financial Plan process happens as many as ten times. You're looking at, basically, making ends meet. Finally, once you get a final Financial Plan together, it's presented to CWAC with much discussion and, finally, it goes on to Mayor and Council asking them for adoption.



A quick look at the CIP for the next five years. No surprise that the investment in infrastructure is the biggest - well, take that back - Clearwater System, no surprise there, that includes money infrastructure items that we would consider separately. Tucson Water has focused for the last ten years on purchasing, recharging, and using 100% of its CAP allocation. We

need to invest - continue to invest in that infrastructure to enable us to do that. For the five years, Clearwater remains the biggest component.

Infrastructure, that's everything else; that's the other transmission, distribution mains, boosters, reservoirs, and general facilities. We have a small sliver there in for growth, and that is strictly growth for system expansion into new areas. We do know that the Clearwater System, for example, is - a growth component to it as well, but we've chosen just to block it out in this manner for this presentation.

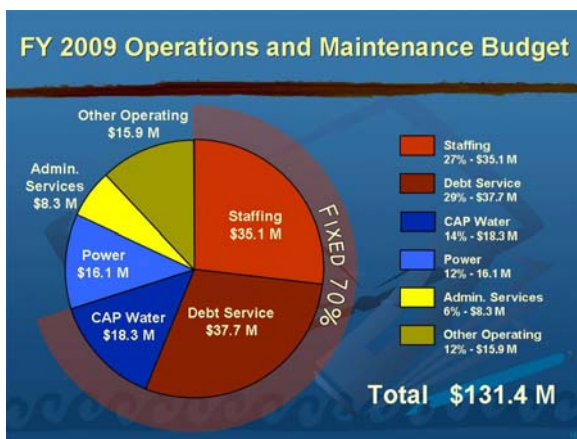


Another look - this is for fiscal year '09 - our - our total CIP of about \$52 million, a very similar outlook; perhaps, a little less investment in the Clearwater System for this year, expanded or - or - or invigorated investment in the following four years.



O&M, a very similar process, the various divisions put together, they're - they're budget models, they worked with targets that are set. The divisions used those targets to put together their requested budget. We have divisional reviews, departmental modifications, often many. Again, the Financial Plan is - is put together this time with the recommended CIP element, evaluate

affordability again, and back to a presentation to CWAC, and adopted by Mayor and Council. If Mayor and Council adopts the Financial Plan, we proceed to the next step, which is the Cost of Service analysis. You can't do Cost of Service until you know what costs you're allocating, and finally Rate Design.

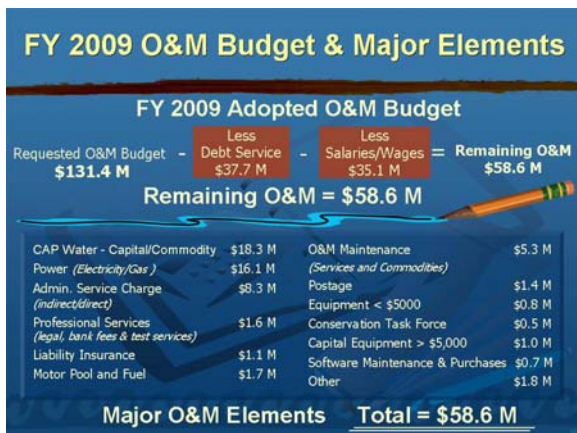


A quick look at O&M; this is for fiscal year 2009. One thing that we often like to point out is: How fixed our costs are, at least how - how they're fixed in the period of 12 to 18 months. Staffing, limited availability to do a lot of staff reductions within a 12-month period, \$35 million of that total budget of \$131 million.

Debt Service, that's what I spoke about earlier, that's our mortgage payments, basically, \$37, \$38 million. CAP Water, we're considering that fixed. Why? Because it's the policy of the Department that we're going to take that water and recharge it, whether we need it to meet demand in a given year or not we want to keep that allocation, we want to purchase it and guarantee our hold, our legal hold on that water right into the future.

A variable cost is power. Certainly, it takes a lot of money, \$16 million, to move that water around our system, to pump it out of the ground to get it to a booster, to boost it up and to push it through our Distribution System.

Admin Services, that's what this utility pays to the City of Tucson for all its support services, about \$8.3 million - and then everything else is relatively minor - \$60 million of that picture.



And consideration of time, here's another quick look at - at the O&M basically showing you'd strip out Debt Service and wages and salaries, about \$58.6 million is left, and then we've got 13 items that basically account for that remaining difference. Again, the big three elements there are CAP Water, power, and the administrative service charge.

Because my - my good friend, Mr. Barry, asked that I talk a little bit about the Financial Plan, let me take two minutes on that, it's in front of you. This is the Financial Plan that was approved by Mayor and Council; it was the Financial Plan that was ultimately used for Cost of Service and which generated the water rates that went into effect the first week in July.

Just quickly to tell you how it works. It's a cash flow, basically, focused Financial Plan. Line 1 shows our cash balances, our working capital balance, at the beginning of the year. Line - Line 14 shows the total requirements, and Line 15 shows where we think we'll be from a cash standpoint at the end of the year. It, basically breaks our cash requirements - our - our cash flow in terms of revenues - you'll see that summarized - on Line 6(a). On Line 14, again, it shows where we think we'll going to be spending all that money; and, finally, showing the projected ending balance. We show cash reserves ending this year at about 5% - or, excuse me - this year at about 6%. Again, our goals is to build to 10% if you look on Line 16 - or 15. You'll see at about \$18 million at the end of fiscal year 2013, which equates to what's shown on 16(b), about 10% of our annual revenues.

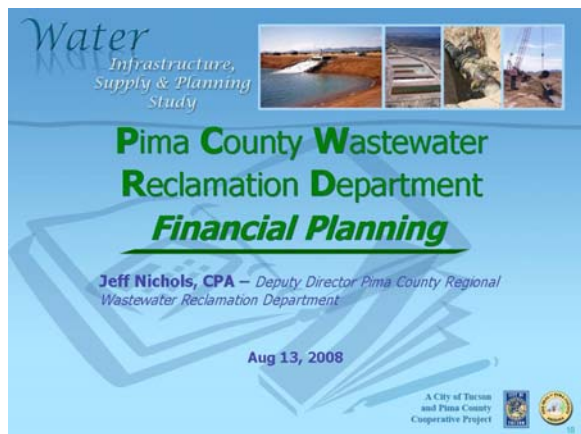


CHAIRMAN JIM BARRY: Thank you, David. We'll hold questions. Jeff Nichols - we'll going to hold questions, sir, please. No, we're going to hold it until all the presentations are over. Then - then you can talk. Thank you.

Jeff Nichols has already introduced himself from Pima County Wastewater.

**Presenter #3**

**JEFF NICHOLS, DEPUTY DIRECTOR OF ADMINISTRATIVE AND FINANCIAL SERVICES DIVISION, PIMA COUNTY REGIONAL WASTEWATER RECLAMATION DEPARTMENT: PIMA COUNTY REGIONAL WASTEWATER RECLAMATION DEPARTMENT FINANCIAL PLANNING**



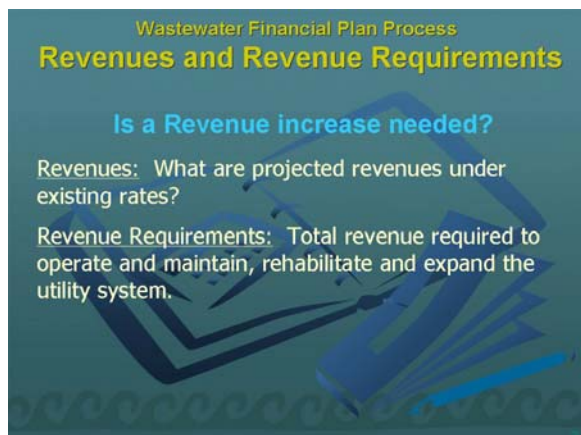
MR. NICHOLS: Yes, and to keep Jim happy, and after David's presentation - I'll just say, "Ditto," okay? But -

CHAIRMAN JIM BARRY:  
Thank you, Jeff.



MR. NICHOLS: - but, truthfully, you'll see very similar processes between Pima County and the City of Tucson Water Department. When we show this first slide, we talk about revenues and revenue requirements. The first thing we do is calculate the revenues that would be produced under our current rate structures and we see how that looks; that's the first step. So, we don't

automatically assume a rate increase.



Stepping through these three a little bit more you'll see the revenue requirements: what our projected revenues are under the existing rates and then what the requirements are. And these are Cost of Service analyses. And when we say "required to operate and maintain," those are Conveyance and Treatment Systems. To rehabilitate, that would be along the line of capital

improvements to rehabilitate the existing systems, and to expand the utilities, which would be covered under connection fees to expand the utilities.

Wastewater Financial Plan Process  
**Cost of Service Analysis**

Who should pay and how much?

**Cost of Service:** The revenue requirements as determined above less depreciation.

**Allocation:** The cost of service is allocated to wastewater system customers (current and future) based upon a ratio of existing and future wastewater system requirements.

The Cost of Service is the revenue requirements as determined above through that process, less depreciation. We do not recover depreciation; it's not in our rate structure; however, it is a cost. One thing that we have done recently is that we finally reached a point within Pima County where our Debt Service is fairly equal to our depreciation on an annual basis,

and what that's telling the people that read the statements is that we're investing as much in our infrastructure as it's deteriorating on an annual basis, and that's an important thing, to maintain your infrastructure.

For the allocation, the Cost of Service is allocated among Wastewater System customers, both current and future, and this gets to be what is sometimes referred to in the practice as "Inter-Generational Equity," and that's that those who benefit from the improvements are going to pay for them.

Also what we do in the wastewater business is we have two "strength of sewage factors." In the residential area, the ratio is 1.0, and we consider that our baseline, and then what we do is, through a laboratory process, we test certain customer classes out within the community for total suspended solids and biological oxygen demand, and those two elements pretty much determine the amount of money we're going to have to spend to treat that wastewater to meet our permit requirements for either discharge or reuse.

Wastewater Financial Plan Process  
**Rate Design**

How will rates be structured?

**Achieving revenue (rate) stability:** Normalized and predictable rate increases are planned for allocated to the customer class responsible for them.

**Meeting regulatory requirements:** At minimum rates must be sufficient to allow department to meet permit requirements (CMOM, ISO, etc.).

**Limiting "pocket book shock" for customers:** To the extent possible, forecast operation and maintenance and capital infrastructure requirements to minimize significant rate increases.

So, under Rate Design, how will rates be structured? We talk about stability. We do want normalized and predictable rates.

I need to note in 2004, Pima County's Wastewater Reclamation Department was the lowest wastewater rate in the nation. Now, some people might think that's a really good thing; other people might say, "Well, maybe that's why we had an

instance like the Speedway sinkhole," you know, you can cut your costs and cut your costs and, eventually, it's going to come back to bite you.

At a minimum, we need to meet our regulatory requirements. We have permits to operate our Conveyance System, and that's under our CMOM and ISO, and we also have permits to operate each one of our treatment plants. So, at the very least, we need to meet our regulatory requirements on a daily basis.

As far as limiting pocketbook shock for the customers, we do that to the extent possible, and we do that through a planning process in our Financial Plan. We try and go out a number of years so that we can predict what the rate increases will be needed over time.

We also have a program we mirrored after Tucson Water's program - ours is called "SOS" - and it is a program for customers who are economically disadvantaged and may need help with their utility system. We go through a process and we have certain standards and, if they meet those standards, we can give them a discount on their utility rates, up to 75%. So, we do try and make it affordable for our whole community, even those that have difficulty at times.



In our financial policies, we have a Reserve Requirement; it was adopted by the Board just about a year and a half ago; and it requires us to maintain a balance of \$10 million in reserve. And, again, this would be able to be used to fund any unforeseen Operations and Maintenance expenses, if something should happen in the Conveyance System that you'd need

to immediately address or at a treatment plant, above and beyond our normal Operations and Maintenance costs.

We also have Debt Service Coverage Requirements, and those are in our bond indenture; basically, it's a 1.2 bond ratio coverage. If we even get close to that, though, the rating agencies are asking us what we intend to do. They like to see it greater than that; and, personally, I think I would, too.

## Improvements/Efficiencies

- CMOM – Capacity, Management, Operations and Maintenance
- CMMS – Computerized Maintenance Management System
- ROMP – Regional Optimization Master Plan

Some of the improvements and efficiencies that we've made in the department over the years involve a very old plant. I think most people know that. I went by Roger Road this morning and I reported an odor emanating from the plant to the Deputy Director in charge of Treatment. But, we have been trying over the past four years and have made great strides. One of the

strides we've made is CMOM, that's Capacity Management Operations and Maintenance, a Preventative Maintenance Program in our Conveyance Area. And, basically, what we do is we go out and we televise the interceptor lines, the conveyance lines, and we determine, based on a national scale, what those lines' condition are. It's one through five - five means you need to replace as soon as you can, it's a possible failure; one means brand-new pipe, looks great, don't worry about it. We have addressed all the fives within our system. We're now working on the fours; and, of course, we do that as funding is available.

What we do find is that as pipes age and they start deteriorating, it's not a linear deterioration; it kind of increases exponentially when they start deteriorating. So, they can go from four to five very rapidly.

What we're doing at the treatment plants is called a "Computerized Maintenance Management System;" it ties into our new accounts payable system. We write work orders against assets and, hopefully, what this allows us to do is have our maintenance crews look on a week-to-week or month-to-month basis, so they can write out and kind of plan out what they're going to be doing at the plant prior to it failing. In some regards prior to this effort, we were on a reactive maintenance basis; basically, when something broke, we would go out there and fix it.

The department in the past had been criticized for its planning processes. And we've just got through an 18-month planning process called "ROMP" - it's Regional Optimization Master Plan - for our utility, and it basically paves the way over the next 10 to 15 years on everything that we need to do within our system.

Some of you may have heard we're expanding Ina Road significantly, and we're replacing the processes that are currently in place there as well. We're building a plant interconnect between Roger Road and Ina Road, and we're building a new Water Reclamation Campus at Roger Road; those are in the

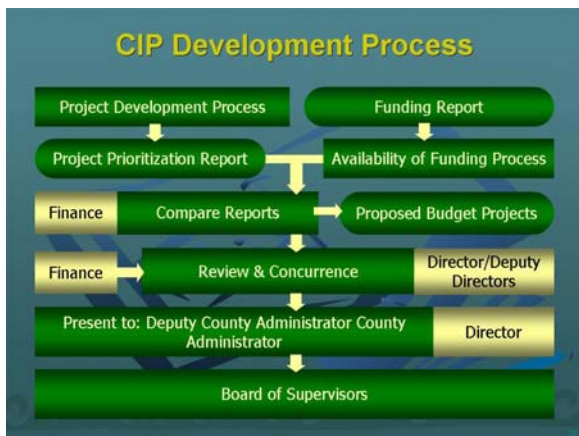
plans right now; that is what we refer to as the "ROMP" when we talk inside the Department.



The goal of the CIP development process, certainly, is best fit in its system needs, but we do, again, take a priority approach. We have a process that we go through, and the first being legal mandates; what projects are required by regulatory agencies, and then the second step we would look and say, "Okay, what are our current systems? What do we have to do to rehabilitate those?"

And the last equation would be expansion of the utility and what is needed there. What are we showing for population increases and where? Then we have to balance that with our resources, our financial and staffing resources, and contractor availability.

In the past, we've had difficulty getting contractors to bid on some of our projects. I need to say right now we're getting an excellent response related to our ROMP. We are getting what we consider to be the "A" Teams in both engineering and construction firms, and they are very interested in Pima County and the infrastructure needs within the County, and that is not only within our area of wastewater, but also within the RTA; I think they're getting good responses from those builders as well, for linear construction.



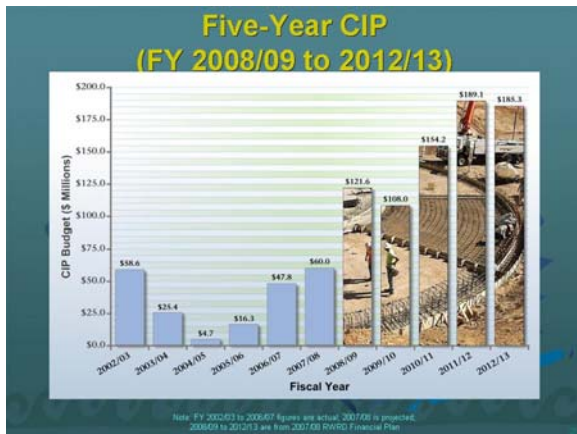
When we go through the CIP development process, what we do is we ask everyone. We don't base it on our resources - and the reason I point this out is we ask people to submit a project request for what is needed. Let's first find out what we need, and then we can prioritize those needs and fit them within our process. So, we take those needs, we match them with the

availability of the funding, and we do a comparative report, and we also have to include in that any Capital Improvement Project that we're going to be building. We have to carry over to the Operation and Maintenance side once we get it built; we have to operate it, so we have to know what those impacts are as well.

We do a review and concurrence. Our principal finance analyst, Diane Bracken, is really the backbone of this process, and she comes forward to the Deputies and the Director, and we review and concur on the rating process.

And, by the way, our rating process isn't done as a group. We have certain individuals that are assigned to this process, and they take the material and they go and they sit down at their desk alone. We're not looking for group think. What we're looking for is synergy within the thought processes, and it's different for an engineer and accountant. Trust me, I work with a lot of engineers.

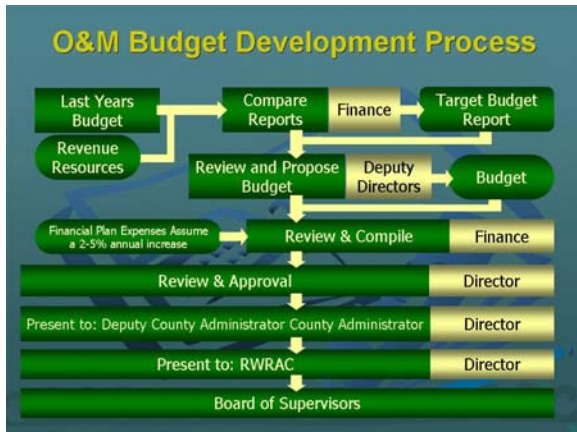
Then we present that to the Deputy County Administrator and the County Administrator, and the Director does that. At that point in time, it becomes the County Administrator's recommended budget and that would go forward to the Board of Supervisors for approval.



Here's our Capital Improvement Program. As you can see, this point in time here was right after the Speedway incident and, needless to say, the Department had - between that and this 3 MGD treatment plant here at Randolph - we had very little money to move forward with the Capital Program. We have since ramped up, and almost doubled, I believe, this '08/'09 budget.

Right now it shows \$121.6 on that slide - I believe that's been adjusted to \$117 million - but still a very significant figure.

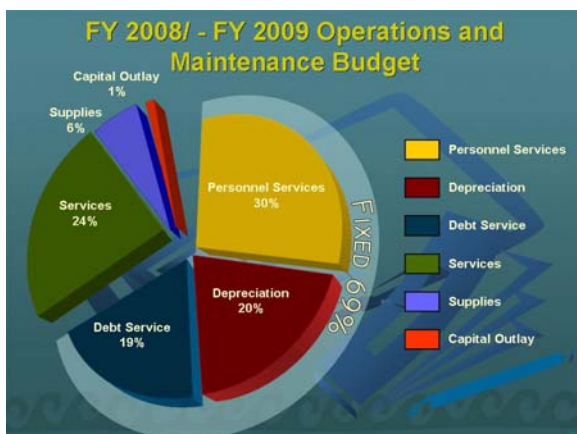
One thing I would like to point out. We've had significant rate increases recently, and what we're doing is we're ramping up our rate increases to pay for the pay-as-you-go capital portion of this program. And once those increases are in effect, and we hopefully receive bond authorization from the community, once we get done at the end of this process, which really ends about in 2015, our ROMP Program should be built out, what we're going to see is significant Debt Service requirements related to those bond issuances. But, hopefully, the rates will already be in place; it will just be instead of focusing them on the CIP, we'll focus them on the Debt Service requirements of the Department.



Here's our O&M budget development process. Above this line right here is really a divisional process. What we do is we give our Deputy Directors in each area target figures for their budget. They go out and they determine what their needs are. And, if they can't live within that target figure, what we require of them is to submit what we call "Supplemental Requests" within

the Department. If the Deputy Director of Treatment says, "I need more money because we just opened up the Avra Valley Plant and it went from 2 MGD to 4 MGD," then we address those needs at that time. And so when it gets down below that level, and we come down here, that's when it comes into my Department, and that's when we start looking at budget-to-actuals from prior years. We look for areas where maybe we can have trade-offs between the divisions. We work well together. If we need to take some funding from Treatment because they were funded at a level higher than we think they need to be, but we need to move it over to the Conveyance area, we do that.

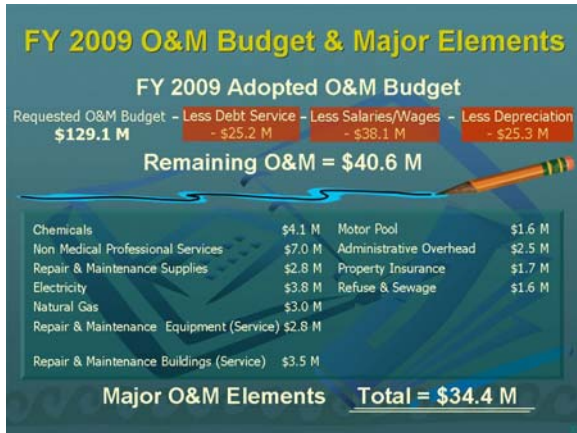
Again, we compile that budget, we forward it to the Director for his review and approval. He presents it to the County Administrator, and the only additional step in here, is then we take forward both that budget and our CIP budget and we take that to our Wastewater Advisory Committee, and we work with them, we explain our thought process, we explain the rationale for what we're asking for and we ask for their concurrence and recommendation in supporting that budget prior to it going to the Board of Supervisors for their consideration.



As you can tell, when you look at our budgets, if you line them up after this, side by side, we're very similar to Tucson Water, and it's not surprising to me. Most of our costs, our personnel services about \$38.1 million, depreciation's \$25 million, Debt Service is about \$25 million, are non-controllable costs in the short-term. Some are controllable for a number of years,

depreciation, which we have to budget for; it's based on the assets that you have and the life that you give them. So,

basically, it's a fixed cost and we're just told what we need to budget. In the services category, some of the large services we have are for chemicals and energy, repair and maintenance of building and grounds, repair and maintenance of the infrastructure, treatment and conveyance infrastructure.



There's some of the line items. When we take out our requested O&M budget, less our Debt Service and salaries and depreciation, basically, that's for our Operations and Maintenance, and those are the major categories. Some of the categories we didn't include, but office supplies and travel or training are very small, but they do add up when you take a look at them,

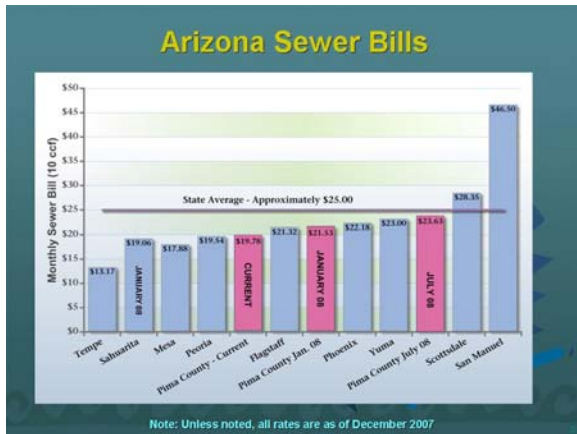
collectively.



Here's our revenue sources. Again, user fees being our biggest revenue source, and what we're forecasting for '08/'09 is about \$87.7 million. Connection fees we're forecasting at \$32.8 million. What I would like to point out is we also have to forecast our capital contributions; and what this is, is when developers build infrastructure within our system

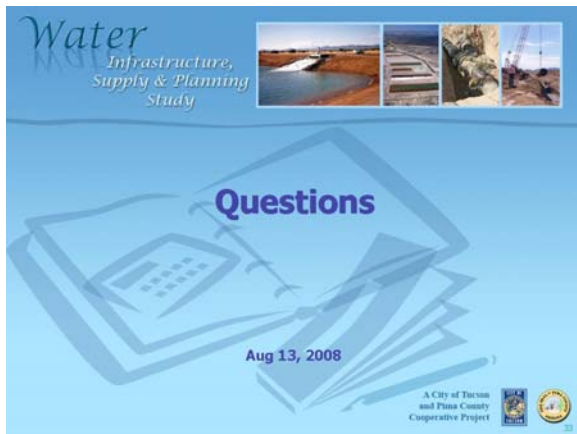
and they deed that infrastructure over to us, we accept that infrastructure and then we maintain it for life, but they are assets that are given to us, but they're in the ground; it's not money we can spend; and it's not really something you can sell on the open market.

So, the majority of our "other" is interest earnings on bonds, which is restricted. The interest earnings on bonds is restricted to those bond projects. The interest earning on just our available cash balance is somewhat less restricted and can be used in other areas besides specific bond projects.



Currently, what we're looking at is our current rate of approximately \$19.78 per month; these are all based on average use of 10 ccf per month. Your sewer bill is based on your water usage. In January of '08, it went up, and in July of '08, so we're at \$23.63; that's still below the state average.

One thing we are seeing is with the infrastructure needs nationwide, many utilities are increasing their rates drastically, not only wastewater, but water utilities as they address their infrastructure needs which have been ignored for quite some time.



And, Jim, that . . .

CHAIRMAN JIM BARRY:

Let me make a suggestion to the Committee, if you have questions, let's put 'em in writing and we'll - we'll get 'em answered and - and get 'em out. It is five to - to 9:00. Some people are gonna have to leave, but at least we will do the rest of the time for Call to the Audience, and if you have questions, you

can use that time to - to ask your question and we will also get it back to you in writing.

\* \* \* \* \*

**CALL TO THE AUDIENCE**

CHAIRMAN JIM BARRY: This gentlemen had his - his cane up, so we'll go to him first.

CLYDE STAGNER: Well, the first thing I'm - the first question I would have is for the gentlemen that just spoke. Several months ago there was a -

UNIDENTIFIED MALE SPEAKER: Who is it?

CLYDE STAGNER: - an applaudatory article in the newspaper about the performance of the Wastewater Management, and it turned out that Wastewater Management paid that per- - that outfit a fee. Is that how our money is being spent?

MR. NICHOLS: I'm not sure which article you're referring to.

CLYDE STAGNER: It was in the *Arizona Daily Star* -

MR. NICHOLS: Okay.

CLYDE STAGNER: - and it was about -

CHAIRMAN JIM BARRY: Jeff, we'll get back to him on that.

CLYDE STAGNER: - a commendation by one of your contractors for your performance.

MR. NICHOLS: I believe, what you're referring to is our ISO Certification -

CLYDE STAGNER: Yes.

MR. NICHOLS: - and that's correct. In order to become ISO-certified, you do have to contract with someone to certify your program. We did the program internally, and we were the first utility in the United States to be certified in all three ISO standards.

CLYDE STAGNER: Yes -

MR. NICHOLS: The -

CLYDE STAGNER: - I -

MR. NICHOLS: - reason for the payment was you can't get certified without being reviewed by someone who is authorized to make those certifications.

CLYDE STAGNER: I would suggest that you go to Wikipedia on the internet and look up the reputation of that organization -

MR. NICHOLS: Okay.

CLYDE STAGNER: - internationally and nationally. Thank you, sir.

MR. NICHOLS: You're welcome.

CHAIRMAN JIM BARRY: Could - could you give us your name for the record?

CLYDE STAGER: My name is Clyde Stagner and I represent Social Security.

I have a comment I wish to make concerning the Citizens' Water Advisory Committee. It concerns the Discretionary Funds they recommend for the Mayor and the Council - and, incidentally, I admire those people for signing the document and taking accountability and responsibility for their actions which, in some government cases, we don't even see from the Directors of our Departments.

I have a recommendation and that is: Tucson Water's up the - going up to about 580 people. I'm going to give you my reasons why we should have, in this County, a Water Quality Department, hopefully, to include Pima County. The reason for calling for such a Department - here is an example from Las Vegas, and they have three wastewater treatment plants of 115 contaminants that they measure and they publish and make available to the public.

If you go the U.S. EPA Safe Water Drinking Information System under Enviro Facts, you will now find over 60 monitoring violations by the Tucson Water Department. In communications with them, there have been indications that their infrastructure is either lacking personnel or the equipment to do what 76% of the remaining water outfits are doing in the United States that have no water monitoring violations. Now, the Tucson AMA has come up with recommendations in 1999 and, again, in 2006 about the contaminants that should be measured in the CAP Water. Tucson Water is not measuring all of them.

In 1962, I walked into a quonset hut at a Nevada test site one night where there were two tables put together and the head was Livermore Radiation Laboratory on the design of nuclear weapons was conducting a meeting about the next morning's nuclear test. Where you're sitting there were representatives of the different agencies of the government. The U.S. weatherman stood up during that meeting and pleaded with them not to detonate the nuclear weapon the next morning because it would go over St. George, Utah. The next morning the weapon was detonated and it went. This data from Las Vegas does not include the effluent run-off which is going into Lake Mead from St. George, Utah, and other places along that route.

CHAIRMAN JIM BARRY: So, could - we - we do ask people to keep their comments to three minutes. Can you -

CLYDE STAGNER: Yes.

CHAIRMAN JIM BARRY: - wrap it up, please?

CLYDE STAGNER: I will end by end by recommending again that we have a Tucson Water Quality Department separate them from the operator. That Tucson Water is a great - and I

applaud at them for qual- - for quantity - let's take care of quality; to justify all of that. Thank you.

CHAIRMAN JIM BARRY: Thank you. I got a card here from James Braithwaite. Again, we try to keep it to three minutes, okay?

JAMES BRAITHWAITE: Yes, I'll keep it even shorter than that.

CHAIRMAN JIM BARRY: Excellent.

JAMES BRAITHWAITE: My name is Jim Braithwaite. I'm an Environmental Engineer. I live in midtown. I don't do any work in Arizona, so I think I'll - I may be the one to raise a sensitive issue.

I - I haven't seen on the Agendas or the list of topics any discussion - there was a question on June 25<sup>th</sup>, I believe, about - from the audience about indirect potable reuse of wastewater. I know it 's a very sensitive topic, and I don't expect any response. But, my California experience is that it takes five to ten years of public interaction, outreach, education before that kind of thing can be brought home, and I think that that ought to be placed in your report, at least as a place holder to get that process started.

You've got some excellent resources at the University of Arizona in Dr. Carruba and Kelly Reynolds who've done wonderful work, published on pathogen control. I'd like to see them make a presentation at one of these meetings about that issue.

And then, secondly, I'd like to associate myself with the comments of the previous gentlemen. I think what's known as emerging contaminants is something that we all ought to be focused on. We've been focused on suspended solids and BOD now for 30 years, 50 years, and there's a whole list of compounds that are in the wastewater and in the water that need to be tested and should be tested for. So, with that, I'll close.

CHAIRMAN JIM BARRY: Thank you, Jim.

Anybody else? Tracy?

TRACY WILLIAMS: Okay. I'm going to keep my comments short today. I'll give you my comments in writing, but I would also like to also ditto the past two speakers in the quality. I'm hearing a lot about quantity and, with sustainability, hopefully, we're going to discuss some of the contaminants that have been alluded to, such as pharmaceuticals and endocrine receptors, and other icky stuff that we want to know about.

CHAIRMAN JIM BARRY: Thank you, Tracy.

Anybody else? Yes, sir.

FRANK POSTILLION: Yes, I'm Frank Postillion with the Regional Flood Control District, and I just had a question for both the Wastewater - the Wastewater representative about the

Debt Service of about \$19 million a year. Does he expect that to go up with ROMP and similar to what's gone on with about \$30 million with the City Water because of the infrastructure improvements? And, if so, what will the resulting rate impacts be?

CHAIRMAN JIM BARRY: Okay. Frank, we'll get back to you in writing on that. Okay. Anybody else?

Anybody want to move for adjournment?

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**CERTIFICATE**

I hereby certify that, to the best of my ability, the foregoing is a true and accurate transcription of the audio recording of Presentation and Call to Audience excerpts of the City/County Water & Wastewater Study Oversight Committee Meeting held on August 13, 2008.

Transcription completed: September 2, 2008.

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DANIELLE L. KRASSOW-TISDALE