



Pima County Regional Wastewater Reclamation Department

2007/2008 Financial Plan

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Prepared by

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Executive Summary

The Pima County Regional Wastewater Reclamation Department (“Department”) is faced with the unprecedented challenge of being required to invest approximately \$1.4 billion dollars in its wastewater system over the next fifteen years. Failure to make this investment in a timely manner will not only place the Department in jeopardy of violating regulatory requirements, but will also impede its ability to provide the high quality service that customers within the service area have come to expect. In order to meet this challenge, the Department engaged Raftelis Financial Consultants, Inc. (“RFC”) to conduct a comprehensive rate and financial planning study to support the development of the Department’s Fiscal Year (“FY”) 2008 Financial Plan (“Financial Plan”). The primary goals of the study were to develop a consolidated Financial Plan covering the Department’s operating and maintenance (“O&M”) expenses and capital improvement financing for its immediate needs in FY 2007/2008 and FY 2008/2009, as well as its longer term needs over a ten-year planning period. This report documents the results of the study and recommends wastewater rates that the Department should charge its customers for the remainder of FY 2007/2008 and the beginning of FY 2008/2009. For planning purposes, preliminary rate adjustments for future years are also shown.

The purpose of this report is to present a ten-year Financial Plan that will increase the financial stability of the wastewater enterprise while ensuring high quality service. The Financial Plan for the wastewater enterprise will also provide a road-map for funding capital improvement projects and a basis for developing rates and charges that are fair and equitable.

Summary of Findings and Recommendations

The principal findings of the wastewater study are summarized in this section and are as follows:

1. The Department is estimated to currently be serving approximately 259,700 individual wastewater customer accounts within its service area. All accounts are charged based on water used including commercial, institutional, and industrial customers.
2. Budgeted operations and maintenance (O&M) expenses in FY 2007/2008 are approximately \$72.8 million. Projections of O&M costs over the ten-year forecast period are based on the FY 2007/2008 budget and assumptions regarding escalation of specific line items. On average, O&M costs increase at a rate of 4% per year.

3. The Department has developed a proposed wastewater enterprise Capital Improvement Program (“CIP”) that will allow for continued compliance with regulatory requirements and meet the needs of its current and future customers. The estimated cost associated with implementing the CIP is approximately \$1.4 billion in escalated dollars for the fifteen year period from 2008 to 2022. Slightly more than 80 percent of the total planned CIP is to take place in the period from FY 2007/2008 to FY 2014/2015. To meet federal and state effluent requirements, approximately \$717 million (escalated) in projects have been identified through the Department’s Regional Optimization Master Plan (“ROMP”).
4. The Department’s capital program will be financed through a number of sources including transfer of funds from the Department’s System Development Fund (SDF), current year revenue and long-term revenue bonds. It is projected that the Department will be required to use rate revenue and SDF balance to fund approximately \$82 million in projects in the period from FY 2007/2008 through FY 2009/2010. Additionally, in 2009 the Department must seek authorization to issue approximately \$565 million in long-term debt along with the need to seek further authorization for approximately \$400 million in long-term debt in 2012.
5. On average, total costs or revenue requirements are projected to increase by 8% per year over the ten-year forecast period; however, increases of 12%, 16% and 22% occur in FY 2008/2009, FY 2011/2012, and FY 2013/2014, respectively
6. Wastewater enterprise revenue is derived principally from connection fees assessed to new customers, a monthly flat service fee for all customers and a volume charge based on the volume of water used. The volume charge varies by customer class and is based on a high strength factor that the Department has developed for each customer class using high strength components including chemical oxygen demand (“COD”) and total suspended solids (“TSS”) as the basis for the calculation. Other revenue sources include transfers in from other funds and other miscellaneous sources such as interest earned on fund balances, permits, and fees. Future revenue from these sources is predicated on anticipated system growth in terms of number of customers and wastewater flows. To the extent that growth in the service area does not occur at the rates on which the revenue projections are based, larger adjustments to the rates and charges would be required to ensure revenue sufficiency.
7. The current ordinance that limits increases to the service fee results in rate inequity and should be reversed. The service fee should be increased by 9% in January, 2008 and

again by 9.5% in July, 2008. Thereafter, the service fee should be examined at least annually and adjusted, either up or down, as necessary.

8. In order to meet its immediate needs, the Department should implement increases in the volume charge assessed to all customers of 9% in January of 2008 and 9.5% in July of 2008.
9. The Department should also implement the previously approved 6% increase in connection fees in January, 2008 and another 9.5% increase in connection fees in July, 2008.
10. In an effort to improve the Department's financial position and secure its appearance to lenders and rating agencies, the Board of Supervisors should determine an appropriate debt service coverage target and implement a policy that dictates that any time the Board of Supervisors approves the sale of bonds, they automatically authorize the rate adjustments necessary to ensure that the Department meets the predetermined debt service coverage target.
11. The Department has developed a comprehensive CIP, but is currently working to optimize the CIP. Therefore there is some uncertainty regarding the CIP needs. As a result, it is inadvisable to recommend definitive rate adjustments beyond those recommended through July 2008. Efforts to optimize the CIP should allow for a more efficient delivery of the capital program; however, it is unlikely that efforts to optimize the CIP will have a dramatic impact on the Department's total CIP needs, but the timing of those needs will likely change. Therefore, it is apparent that a series of significant rate increases will be required to generate the revenue required to operate the system and construct capital projects necessary to meet regulatory requirements and increasing customer demands.
12. In addition to implementing the rate adjustments recommended in January 2008, the Department should give further consideration to the following items:
 - Implementation of an environmental fee designed to recover the costs associated with meeting new regulatory requirements;
 - Issuing debt with repayment periods of 20 to 30 years;
 - Utilizing short-term debt instruments to help reduce dependence on cash reserves; and
 - Establishing financial policies that provide guidance with respect to such issues as reserve fund balances and capital structure.

Schedule ES-1 shows the proposed long-term Financial Plan in an abridged format. It is apparent that the significant increases in debt service to fund the CIP will necessitate consistent rate increases through the forecast period; however, the exact amount and timing of these future rate increases cannot be accurately determined until the CIP and, in particular, the ROMP projects, have been finalized. However, it is not likely that optimization of the CIP will have a dramatic impact on the magnitude of the projected adjustments.

The Financial Plan presented in this report recommends significant rate increases to meet the Department's immediate needs and indicates that large increases will be required over the course of the ten-year forecast period in order to sustain reliable operation of the wastewater system and implement capital projects needed to meet new regulatory requirements and provide capacity for growth. Failure to implement the needed rate increases would likely result in the Department's failure to meet regulatory deadlines and would place the Department in a precarious financial position.

Schedule ES-1: Financial Plan (Abridged)

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Revenue					
Operating Revenue	\$ 81,997,015	\$ 98,572,705	\$ 112,715,025	\$ 127,462,964	\$ 144,243,458
Non-Operating Revenue	31,068,553	32,865,116	35,709,128	38,871,219	42,430,417
Interest Income (1)	2,232,600	2,411,626	2,325,903	2,205,750	4,049,322
Total Revenue	\$ 115,298,168	\$ 133,849,447	\$ 150,750,056	\$ 168,539,933	\$ 190,723,197

Revenue Requirements (2)					
O&M Expenses	\$ 72,791,971	\$ 75,967,744	\$ 78,868,579	\$ 81,884,026	\$ 85,018,795
Net Revenue Available for Debt Service	42,506,197	57,881,703	71,881,477	86,655,907	105,704,402
Debt Service	\$ 26,200,089	\$ 26,215,381	\$ 43,394,151	\$ 43,429,957	\$ 75,826,172
Total Transfers From Reserves	(14,500,000)	(22,000,000)	-	-	-
Annual Capital Outlay	27,997,347	53,346,078	14,643,608	21,009,845	12,566,289
Total Revenue Requirements	\$ 112,489,407	\$ 133,529,203	\$ 136,906,338	\$ 146,323,828	\$ 173,411,256

Operating Fund Balance					
Net Cash Balance	\$ 2,808,761	\$ 320,244	\$ 13,843,718	\$ 22,216,105	\$ 17,311,940
Beginning Operating Fund Balance	-	2,808,761	3,129,005	16,972,723	29,188,828
Transfer To Capital Reserve	\$ -	\$ -	\$ -	\$ (10,000,000)	\$ (9,000,000)
Ending Operating Fund Balance	\$ 2,808,761	\$ 3,129,005	\$ 16,972,723	\$ 29,188,828	\$ 37,500,768
Minimum Desired Balance	\$ 9,099,000	\$ 9,495,970	\$ 9,858,570	\$ 10,235,500	\$ 10,627,350
Debt Coverage	162%	221%	166%	200%	139%

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Revenue					
Operating Revenue	\$ 161,176,383	\$ 179,589,886	\$ 186,856,151	\$ 199,337,081	\$ 206,039,438
Non-Operating Revenue	45,658,111	49,587,498	50,082,373	53,045,234	53,574,687
Interest Income (1)	4,711,760	5,437,781	6,501,710	5,675,438	6,495,943
Total Revenue	\$ 211,546,254	\$ 234,615,165	\$ 243,440,234	\$ 258,057,753	\$ 266,110,068

Revenue Requirements (2)					
O&M Expenses	\$ 88,277,793	\$ 92,788,579	\$ 98,258,135	\$ 102,108,028	\$ 105,527,714
Net Revenue Available for Debt Service	123,268,461	141,826,586	145,182,099	155,949,725	160,582,354
Debt Service	\$ 75,312,089	\$ 108,663,150	\$ 109,297,972	\$ 124,576,903	\$ 116,332,440
Total Transfers From Reserves	-	-	-	-	-
Annual Capital Outlay	7,969,388	8,163,393	8,363,703	8,570,524	8,784,066
Total Revenue Requirements	\$ 171,559,270	\$ 209,615,122	\$ 215,919,810	\$ 235,255,455	\$ 230,644,220

Operating Fund Balance					
Net Cash Balance	\$ 39,986,985	\$ 25,000,043	\$ 27,520,424	\$ 22,802,298	\$ 35,465,849
Transfer To Capital Reserve	\$ (30,000,000)	\$ (25,000,000)	\$ (25,000,000)	\$ (25,000,000)	\$ (30,000,000)
Beginning Operating Fund Balance	37,500,768	47,487,752	47,487,795	50,008,219	47,810,517
Ending Operating Fund Balance	\$ 47,487,753	\$ 47,487,795	\$ 50,008,219	\$ 47,810,517	\$ 53,276,366
Minimum Desired Balance	\$ 11,034,720	\$ 11,598,570	\$ 12,282,270	\$ 12,763,500	\$ 13,190,960
Debt Coverage	164%	131%	133%	125%	138%

(1) Includes interest earnings from both restricted and unrestricted reserves.

(2) Based on CIP dated 10/24/07

PIMA COUNTY REGIONAL WASTEWATER RECLAMATION DEPARTMENT FY 2007/2008 FINANCIAL PLAN

Introduction

The Department provides wastewater service throughout Pima County. The Department is directly responsible for the operation and maintenance of the wastewater system. The wastewater system is operated as a self-supporting enterprise and costs are accounted for separately under the wastewater enterprise fund.

In providing wastewater services, the Department incurs expenses related to its ongoing operating and capital needs. Recognizing the importance of financial planning to meet capital costs associated with replacement, expansion, and improvements while meeting the annual O&M expenditures of the wastewater enterprise, the Department engaged RFC to conduct a comprehensive wastewater rate and financial planning study. The study includes an analysis of revenue requirements, reserve fund balances for the capital and operating funds, costs of service, and rates for the wastewater enterprise.

The Financial Plan presented in this report addresses the ten-year planning period from fiscal year ending June 30, 2008 (FY 2007/2008) through the fiscal year ending June 30, 2017 (FY 2016/2017). During this period the Department is expected to incur annual O&M expenses and capital costs associated with repairing, replacing and improving the facilities that comprise the wastewater system. Of particular importance during this period is the necessity to improve a significant portion of the system in order to comply with more stringent effluent quality standards imposed by State and federal regulators. The projects necessary to comply with these new regulatory requirements were identified during the development of the ROMP that was developed recently by the Department with the assistance of engineering and financial consultants. The total cost of the ROMP projects is currently estimated to be approximately \$536 million in 2006 dollars or \$717 million in escalated dollars. A description of the ROMP process and the results of the ROMP study are presented in the report titled "Pima County Regional Optimization Master Plan" that was prepared by the consultant team that assisted the Department with the development of the ROMP. These projects are in addition to the other treatment and conveyance projects throughout the rest of the system associated with repairing, replacing, improving and/or expanding the wastewater facilities. The cost of the non-ROMP projects during the course of the planning period is approximately \$700 million, resulting in a total CIP of approximately \$1.4 billion.

The Department is currently in the process of optimizing the ROMP projects as well as the rest of its CIP in an effort to deliver the needed projects in the most cost effective manner. For instance, the Department is exploring such options as the use of chlorine for disinfection instead of the ultraviolet disinfection that is included currently in the ROMP, as well as examining the potential benefits that alternative project delivery methods may have. As such, the CIP, and therefore a major component of the Department's expenses, is still in a state of flux. Therefore, while the Financial Plan addresses the entire ten-year forecast period, definitive recommendations with respect to rate adjustments are only provided for the second half of FY 2007/2008 and the first half of FY 2008/2009.

Financial Plan

Schedule 1 in the Appendix shows a Financial Plan that projects revenue and expenses for the Department over a ten-year forecast period from FY 2007/2008 through FY 2016/2017.

As noted previously, while this report addresses the Financial Plan for a ten-year planning period and includes projected rate increases that will likely be necessary during that period, the report only includes definitive rate adjustment recommendations for January and July of 2008. Actual rate adjustments that will be necessary for the remainder of the forecast period will differ from those provided in this Financial Plan. However, it is unlikely that changes to the CIP or other costs will allow for rate adjustments that are much less than those currently being projected.

The following sections of this report provide further explanation of the components of the Financial Plan.

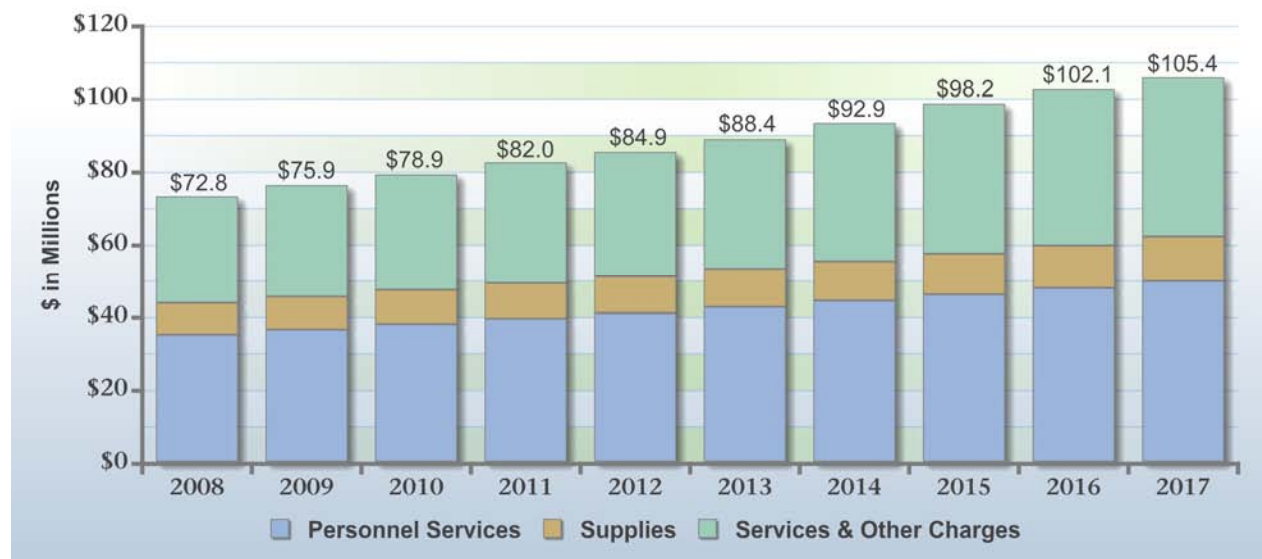
Expenses

The expenses that the County needs to recover through its rates and charges are categorized as either O&M or capital expenses. O&M expenses are listed in detail in the Department's FY 2007/2008 annual comprehensive financial budget ("budget"). Capital expenses are also addressed in the budget and are represented by annual capital outlays or cash funded (SDF) capital for funding the CIP, both of which are addressed in the capital expense section of the Financial Plan.

Operations and Maintenance Expenses

The Department has separated the O&M expenses in its budget into three major categories: Personnel Services, Supplies, and Services and Other Charges less depreciation expense, capital outlay and debt service. The total budget amount for FY 2007/2008 is \$72.8 million. Figure 1 below Schedule 2 in the Appendix summarize the budgeted O&M expenses of the Department.

Figure 1: Operations and Maintenance Expenses



Personnel Services

The Personnel Services category addresses personnel costs for the Department staff related to salaries, wages, and benefits. Included are line items such as salaries and wages, overtime, premium pay, benefits, and interdepartmental salaries totaling \$34.7 million for FY 2007/2008. All of these line items are projected to escalate 4% annually over the forecast period. Salaries and budgeted benefits comprise approximately 68% and 24% of the budgeted Personnel Services expenses for FY 2007/2008, respectively. The non-Departmental staff line item addresses the time and effort expended on behalf of the Department by members of other County staff and comprises approximately 7% of the Personnel Services expenses.

Supplies

The Supplies category includes those items and supplies necessary for the Department to operate in a safe and efficient manner on a daily basis. Included are line items such as office supplies, software, medical and lab supplies, chemicals, repair and maintenance supplies, and small tools and office equipment totaling approximately \$8.7 million for FY 2007/2008. All of these line items are projected to escalate by 4% annually over the forecast period. The two most significant line items of the supplies category are chemicals and repair and maintenance supplies which comprise approximately 50% and 30% of the budgeted supplies expenses for FY 2007/2008, respectively.

Services and Other Charges

The Services and Other Charges category is divided into two subcategories. The first subcategory, for the most part, addresses costs for services required for the Department to operate on a daily basis that are provided by non-Department entities such as professional services, utilities and the O&M needs of the Department's machinery and equipment and other fixed assets. Included are line items such as non-medical professional services, electricity, natural gas, machinery and equipment, and buildings and grounds totaling approximately \$26.8 million. These line items are escalated 3% annually over the forecast period with the exception of utility services such as electricity and natural gas which are escalated 4% annually. In FY 2013/2014 and FY 2014/2015, electricity expenses are projected to increase by 27% and 34%, respectively, as the improvements at the Ina Road Water Pollution Control Facility ("Ina Road WPCF") and the new Water Reclamation Campus ("WRC") at the Roger Road site come on line during this time frame. Non-medical professional services and utilities (including electricity, natural gas, telephone, solid waste, and water and sewer) are 27% and 35%, respectively, of the FY 2007/2008 costs in this subcategory.

The second Services and Other Charges subcategory includes costs related to other services that the Department requires and is comprised mostly of administrative expenses. Included are line items for administrative overhead, laundry and linen services, and dues and memberships totaling approximately \$2.6 million. These line items are escalated 3% annually over the forecast period. Administrative overhead is 80% of the costs in this subcategory.

Capital Expenses

Capital expenses typically consist of expenses that do not occur on an annual basis and can be cash funded from rate revenue or SDF balances or funded through the issuance of debt. The Department's capital expenses include non-operating costs in the FY 2007/2008 budget such as cash funded capital outlays for items that typically cost less than \$100,000, cash funded (SDF) capital improvement projects, and debt service on existing debt obligations. An additional capital expense that is included in the Financial Plan is debt service related to the proposed

issuance of debt used to cover a portion of the costs of the Department's CIP. Schedule 2 in the Appendix shows the portion of the budget attributed to capital and other non-operating expenses projected for the forecast period.

Capital Outlay

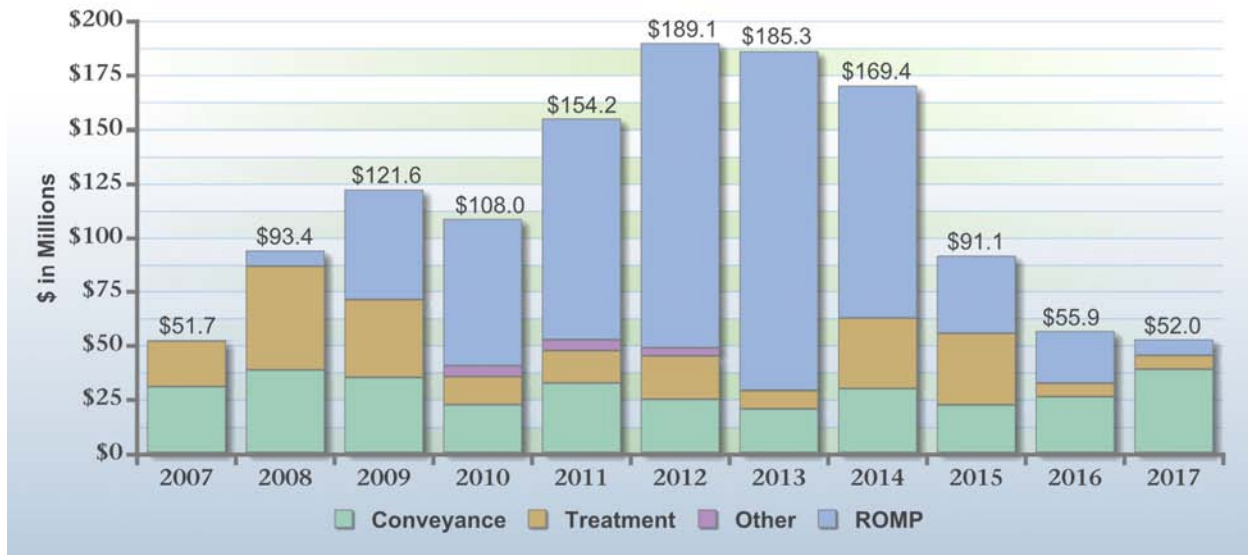
The Department's capital outlays address equipment related to maintenance, construction, and office and are separated according to the level of cash funding. Included are line items for maintenance and construction equipment costing \$5,000 or more; software, office equipment, and computers between \$1,000 and \$5,000; and motor vehicles costing \$5,000 or more totaling approximately \$5.1 million in FY 2007/2008. The line items are escalated 3.25% annually over the forecast period.

Capital Projects (CIP)

The Department has developed a CIP that spans the period from FY 2007/2008 through FY 2021/2022. The projects have been separated into four categories: ROMP, Conveyance, Treatment and Other. ROMP projects include improvements at the Ina Road WPCF, the WRC at Roger Road and the Interconnect between the two facilities. Conveyance projects include all planned conveyance projects that are not included in ROMP and Treatment projects include additional treatment capacity and improvements to existing locations other than Roger Road and Ina Road. Projects in the Other category are those projects that do not fit into any of the other three project categories.

The costs associated with these projects were developed in 2006 dollars and then escalated to the year in which projects costs were expected to be incurred. The annual escalation rate applied to the project costs is 5%. This escalation factor is based on historical analysis of material and construction cost indices and recognizes inflation of material and labor costs. A summary of total project costs is provided in Figure 2.

Figure 2: Summary of Capital Needs

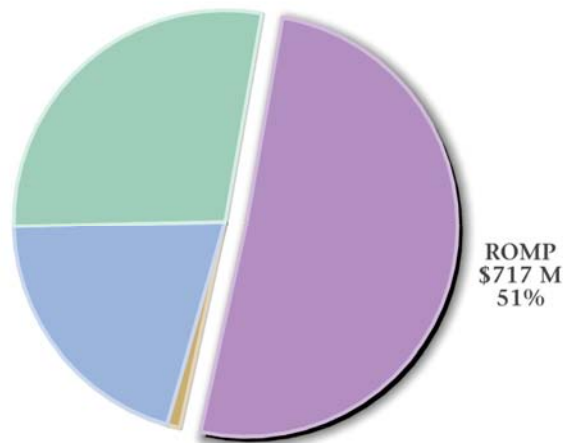


The following sections provide a more detailed summary of the components of the CIP.

Regional Optimization Master Plan (ROMP) Projects

The ROMP projects are those projects that address the environmental needs and requirements of the Department in order to meet new State and federal effluent regulations and guidelines. The ROMP projects are listed on Schedule 3 in the Appendix for the period from FY 2006/2007 through FY 2029/2030. A more detailed description of these projects and an implementation plan can be found in the previously referenced ROMP report.

Figure 3A: Summary of Costs by Project Type-ROMP



As shown in Figure 3A, the total cost for the ROMP projects is approximately \$717 million, or slightly over half of the Department’s capital budget for the capital planning period. This

amount represents the estimated cost of these projects escalated to the year in which costs for the different projects are expected to be incurred.

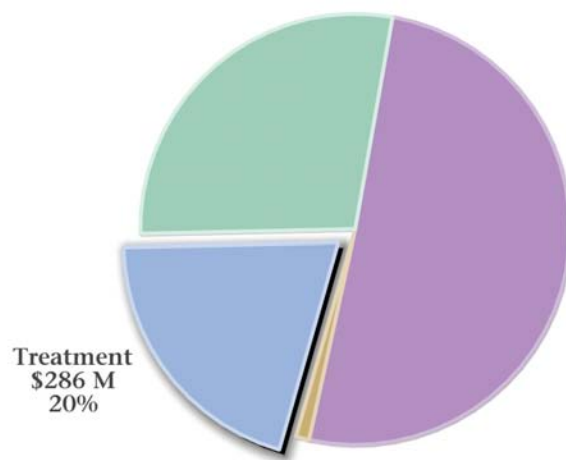
Timely implementation of ROMP projects is critical. The schedule of ROMP projects that drives the costs shown in Schedule 3 was developed during the ROMP study such that the Department could meet the regulatory deadlines imposed by the Arizona Department of Environmental Quality (“ADEQ”). Failure to meet these deadlines could result in fines against the Department or potentially in moratoriums on sewer connections. Such moratoriums would have a significant adverse effect on development within the service area. As such, from a financial perspective, it is critical that sources of funding for these projects be identified and that the process of accessing these funding sources begins immediately.

Treatment

The projects listed in Schedule 4 in the Appendix address the repair, replacement, improvement and expansion of the Department’s non-ROMP wastewater treatment facilities. In some respects, these projects, coupled with the Conveyance projects discussed below, represent the “baseline” CIP in that most of these projects would be required even if the regulatory requirements that are being addressed by the ROMP projects were not being imposed. These projects will allow the Department to continue to provide high quality, reliable service to its existing customers and meet the wastewater treatment needs of a growing community. Therefore, the funding and implementation of these projects is every bit as critical as the delivery of the ROMP projects.

As shown in Figure 3B, the escalated cost of the Treatment projects in the CIP is approximately \$286 million or 20% of the total CIP.

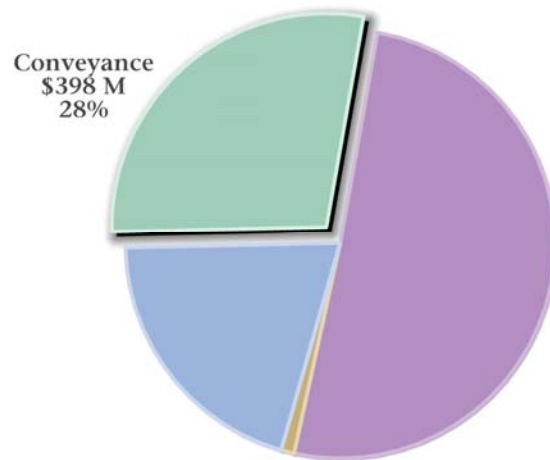
Figure 3B: Summary of Costs by Project Type-Treatment



Conveyance

The projects listed in Schedule 5 in the Appendix address the repair, replacement, improvement and expansion needs of the Department's wastewater conveyance facilities.

Figure 3C: Summary of Costs by Project Type-Conveyance

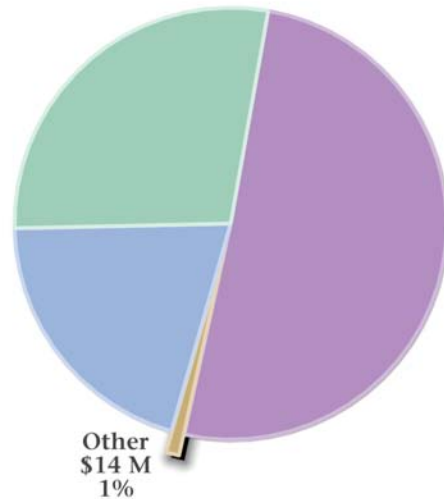


As shown in Figure 3C, Conveyance projects account for 28% of the total capital costs or \$398 million. These projects have been identified as being necessary to ensure the safe and reliable transport of wastewater from individual customers to the Department's treatment facilities. Similar to the treatment projects discussed earlier, these projects represent the "baseline" capital needs of the Department's conveyance system such that the Department can provide reliable service. Failure to fund the appropriate investment in the repair, replacement, improvement and expansion of the series of pipes and pumping facilities that comprise the conveyance system can result in an increased number of sanitary sewer overflows, main breaks and releases of untreated wastewater into the environment.

Other

As mentioned previously, projects in the Other category do not fit into the other project categories of ROMP, Conveyance and Treatment. These projects include engineering studies and projects that involve both Conveyance and Treatment. As shown in Figure 3D, projects in this category represent approximately 1% of the CIP.

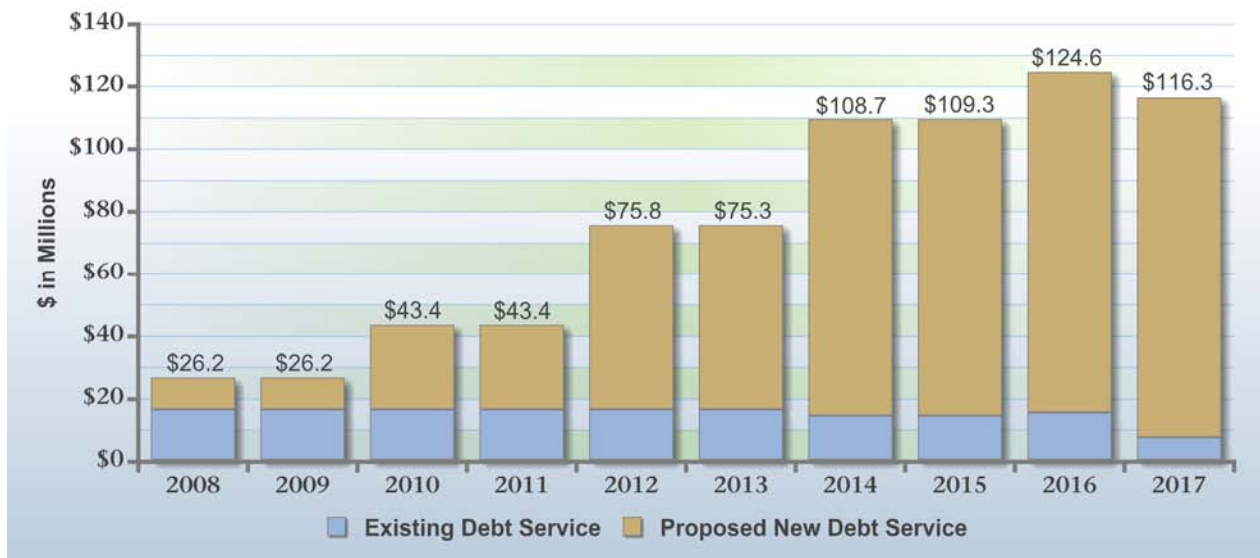
Figure 3D: Summary of Costs by Project Type-Other



Debt Service

Debt service is the principal and interest payments that the Department makes to the holders of the bonds issued to fund the Department’s capital program. Currently, the Department’s debt service obligations are approximately \$16 million per year. However, as discussed in the following section of this report, the Department will be required to rely much more heavily on debt to fund the CIP. As a result, the Department’s debt service obligations will increase significantly over the next ten years to approximately \$116 million in FY 2016/2017. Annual debt service is shown on the following page in Figure 4.

Figure 4: Annual Debt Service



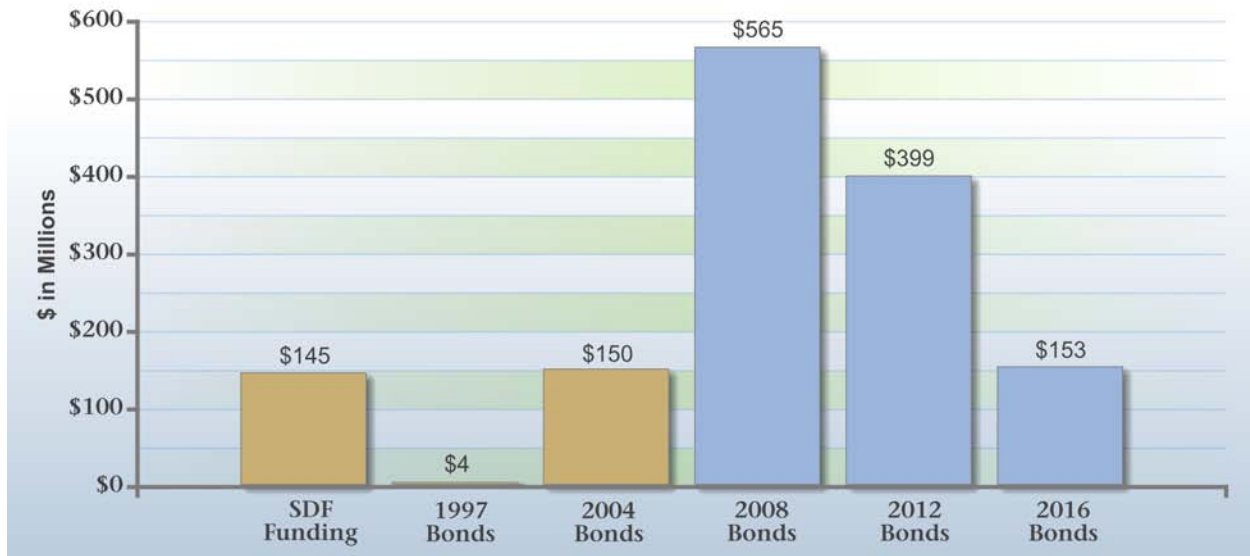
Calculations of projected debt service on proposed debt assume a 5.25% interest rate and equal annual payments. It is likely that the actual interest rate on revenue bonds will vary slightly from this assumption depending on market conditions at the time the debt is issued. Additionally, the Department will have some flexibility with respect to the timing and size of its annual debt service payments.

Capital Funding Plan

As discussed earlier, the Department's cost structure is comprised of both O&M and capital costs. Ensuring that the Department can cover both of these components of cost is the goal of the Financial Plan. However, at this point in time, ensuring the timely funding of the Department's \$1.4 billion capital program, and particularly the ROMP projects, is the primary driver of the Financial Plan. Therefore, as part of the ROMP study, RFC was asked to identify and analyze a variety of options for funding the ROMP program specifically, and the Department's entire CIP in general. The ROMP report includes a detailed description of this process and the results of the analysis; but in general, the study involved the examination of both traditional and non-traditional options for funding capital projects. Traditional public sector financing tools that were examined include long-term general obligation and revenue bonds; short-term debt instruments such as bond anticipation notes and certificates of participation; the use of state revolving funds; and the use of rate revenue and cash balances, among others. The examination of non-traditional financing methods focused primarily on the use of private sector financing; however, the use of innovative charges such as environmental fees was also explored.

The results of the ROMP financing study indicated that for the most part, the issuance of long-term revenue debt is the most viable alternative to fund the bulk of the projects in the CIP. However, it is the County's intention to utilize a significant portion of its existing SDF balances to fund certain projects. Additionally, the County may consider the use of loans from the State of Arizona's Water Infrastructure Finance Authority ("WIFA") as well as short-term debt instruments. Schedule 6 in the Appendix and Figure 5 below show the current proposed sources of funding for the Department's CIP. The following sections of this report provide additional discussion related to each funding source.

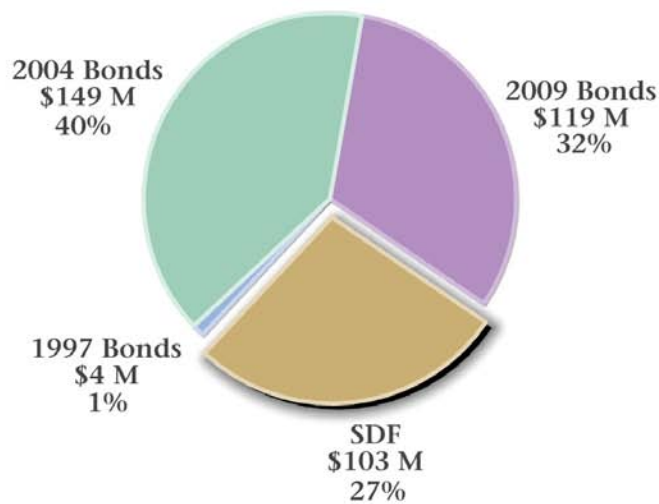
Figure 5: Proposed CIP Funding Plan



SDF Funding

As shown in Figure 6 on the next page, it is the Department’s intent to fund almost one-third of the capital costs in the period from FY 2006/2007 through FY 2009/2010 with cash from the Department’s SDF. Schedule 7 in the Appendix shows those projects that the Department anticipates funding in this manner.

Figure 6: Proposed CIP Funding Plan-FY 2006/2007 - FY 2009/2010



The SDF is funded with surplus revenue that has been generated over the past years or will be generated in the future. The purpose of the SDF is to fund capital projects or meet other expenses on an as needed basis. Of the approximately \$102.5 million in cash and cash balance funding identified from FY 2006/2007 through FY 2009/2010, \$70 million will be expended in

FY 2007/2008 and FY 2008/2009. Of this \$70 million, approximately \$35.5 million is from existing SDF cash balance and the remainder is cash that will be generated primarily from rates and charges. While the use of cash to fund these projects is a low cost means of funding in that the Department will not incur any of the costs of borrowing associated with debt financing; the use of these funds all but exhausts the Department's cash balances, leaving only \$4.2 million in the SDF in addition to \$10 million in an emergency reserve to address any unforeseen circumstances. However, since as described in the following section, all of the \$150 million remaining from the 2004 bond authorization will be used to fund other projects and proceeds from the proposed early 2009 bond authorization will not be available in time to fund these projects, the Department must use this cash unless another source is identified.

It should be noted that the preliminary forecast of rates for FY 2010/2011 through FY 2016/2017 generates surplus revenue that are currently used to fund a capital reserve, but that could be used to fund capital projects that may be designated currently as bond funded projects. As such, the CIP financing plan, like the CIP itself, is subject to change as the Department identifies opportunities that will allow it to deliver the CIP in the most cost effective manner.

2004 Bonds

The Department was authorized to issue up to \$150 million in 2004 revenue bonds. The Department plans to use the 2004 authorization to fund the projects shown in Schedule 8 in the Appendix. The projects cover the period from FY 2006/2007 through FY 2010/2011.

It is anticipated that the proceeds from the 2004 revenue bonds will be made available to the Department in FY 2006/2007 through FY 2010/2011. It is assumed that the interest rate on debt issued under the 2004 bond authorization is 5.25% with a 3% issuance cost. The issuance costs include fees paid to financial advisors, bond counsel and underwriters as well as other costs associated with the sale of bonds.

2009 Bonds

Schedule 9 in the Appendix shows those projects that will be funded through the 2009 bond authorization. Bonds authorized in early 2009 will be issued during the period from FY 2008/2009 through FY 2014/2015.

In order to make this component of the Financial Plan possible, the Department must seek authorization from both the Board of Supervisors and the voters to issue approximately \$565 million in long-term debt. As shown in Schedule 9, most of the \$565 million in the proposed 2009 bond authorization will be used to fund ROMP projects. Since meeting a regulatory compliance deadline is dependent upon completion of the ROMP projects, it is imperative that this authorization be forthcoming such that funds will be available to begin construction of the

ROMP projects in a timely manner. As discussed earlier, the consequences of failing to implement the ROMP projects and thereby failing to comply with the compliance deadlines are dire. Therefore, if the 2009 bond authorization is not approved, funding for ROMP projects would need to be diverted from other projects for which regulatory deadlines are not the primary driver. While this scenario would help ensure that the ROMP projects are implemented, it would do so at the expense of other projects that are necessary to provide safe, reliable service to existing and future customers of the Department.

It is assumed that the cost of debt issued under the 2009 bond authorization will have an interest rate of 5.25% with 3% issuance costs.

2012 Revenue Bonds

The Financial Plan also anticipates the need for a bond authorization of approximately \$400 million dollars in 2012. Of the \$400 million, approximately \$227 million will be used to fund the completion of the ROMP projects that were started with the proceeds from bonds issued under the proposed 2009 authorization. The remainder of the bonds made available by the proposed 2012 authorization would be used to fund various other treatment and conveyance projects to be constructed between FY 2012/2013 and FY 2016/2017 as shown in Schedule 10 in the Appendix.

As is the case with any exercise that attempts to predict future events, the level of certainty of the anticipated project needs and cost estimates for the period in which the proceeds from the bonds authorized in 2012 are planned to be used is less than the level of certainty associated with projects to be funded with the 2009 bonds. Therefore, it is likely that the exact amount of the authorization requested in 2012 will be different from the current expectation; particularly, if as mentioned earlier, SDF cash balance generated from rates are available to fund some of the projects identified to be funded through the 2012 authorization. Regardless, the authorization requested in 2012 represents a reasonable approximation of the Department's anticipated needs for the 2012 Revenue Bonds.

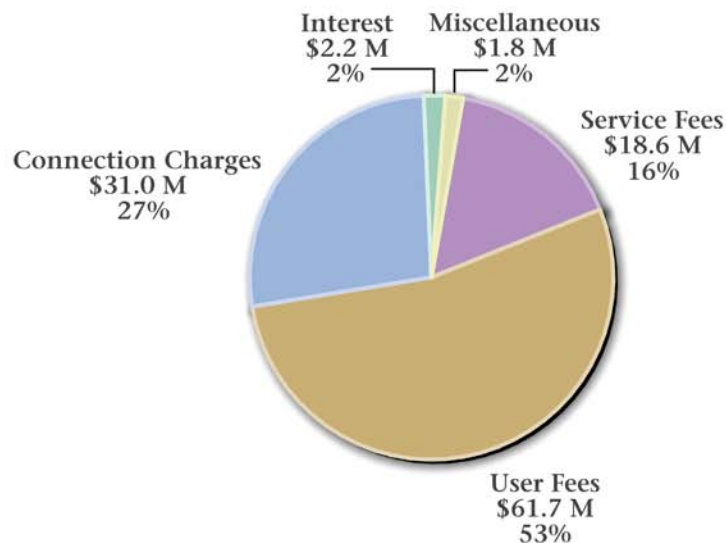
Revenue

In order to remain financially sound, a utility's revenue must, over the course of time, be equal to or greater than its expenses. Therefore, as a utility's costs increase, so must its revenue. Consequently, the utility must increase the rates and charges that generate its revenue. Failure to do so results in a utility being unable to provide safe, reliable service to its existing customers and also being unable to support the economic development of the community it serves.

The revenue for the Department is generated primarily by user fees and connection fees. User fees are designed to recover costs, or revenue requirements, less other forms of revenue and transfers from reserve funds. Connection fees are used to recover the costs associated with providing the facilities needed to serve new customers, whether they be existing or new facilities. In addition to user fees and connection fees, the Department also has other sources of revenue such as miscellaneous fees, interest on reserves, grants and contributions.

Figure 7 below shows the current breakdown of revenue by source.

Figure 7: Current Revenue by Source



The following sections of the report address each of the Department's primary sources of revenue and provide recommendations pertaining to adjustments to the drivers of these revenue sources.

User Charges

It is essential that the Department generates revenue sufficient to meet revenue requirements on an annual basis. As such, the primary focus of the analysis of user charges was to ensure revenue sufficiency, although specific attention was also given to rate equity and adherence to cost of service principles. The Department's user charges are currently comprised of two components: the Service Fee and the Volume Charge.

Service Fee

The service fee is comprised of a flat monthly fee that applies to all customers served by the Department. Currently the service fee is \$5.72 per month, regardless of the volume or strength of the wastewater discharged. The service fee is designed to recover a portion of the Department's costs that do not fluctuate based on the volume or strength of wastewater discharged to and treated by the system. These include costs associated with measuring and billing for service and some of the costs associated with providing the facilities necessary to provide service.

As discussed previously, most of the costs of the Department, including those associated with measuring and billing for service, are projected to increase as a result of both inflationary pressures and increases in demand. Consequently, the charge that recovers these costs should also increase. However, in 2005 an ordinance was passed stipulating that the service fee be raised to its current level, but that it not be changed for a period of four years. In keeping with this ordinance, an analysis was performed that assumed that this charge would only be adjusted every four years. This analysis indicated that in order for this charge to recover the costs it was designed to recover, an increase on the order of 24% would be required in FY 2009/2010 and another increase on the order of 20% would be required in FY 2013/2014. These large increases, particularly if they are coupled with significant increases to other charges, would result in dramatic increases in customer's bills during a short period of time. The potential increases would be more significant for those customers that discharge a relatively small volume of wastewater since the service fee constitutes the majority of their total bill. Additionally, if the service fee is not set at a level to cover some of the cost increases that occur over the four year period, these increased costs must be recovered through other charges such as the volume charge or connection fees.

Our analysis indicates that keeping this charge at a level that is below the cost of service based level places a greater cost recovery burden on the volume charge. To correct this inequity, we recommend that the service fee ordinance be revised to allow for a 9% increase in the service fee in January 2008 and a 9.5% increase in July 2008. While these increases are not strictly in keeping with the cost of service analysis, they are consistent with our recommendations for increases to the volumetric charge as will be discussed in the next section of the report.

Additionally, we recommend that in the future, the service fee be analyzed and adjusted as necessary, at the same time as the volume charge is analyzed and adjusted or at least on an annual basis. The Financial Plan presented in this report assumes that the service fee will be adjusted on an annual basis at the beginning of each fiscal year.

The anticipated level of revenue to be generated by the proposed service fee over the forecast period is shown on Schedule 11 in the Appendix. To account for the fact that new customers are connecting to the system, the number of bills per month is escalated at a rate of 2% annually for all customer classes.

Volume Charge

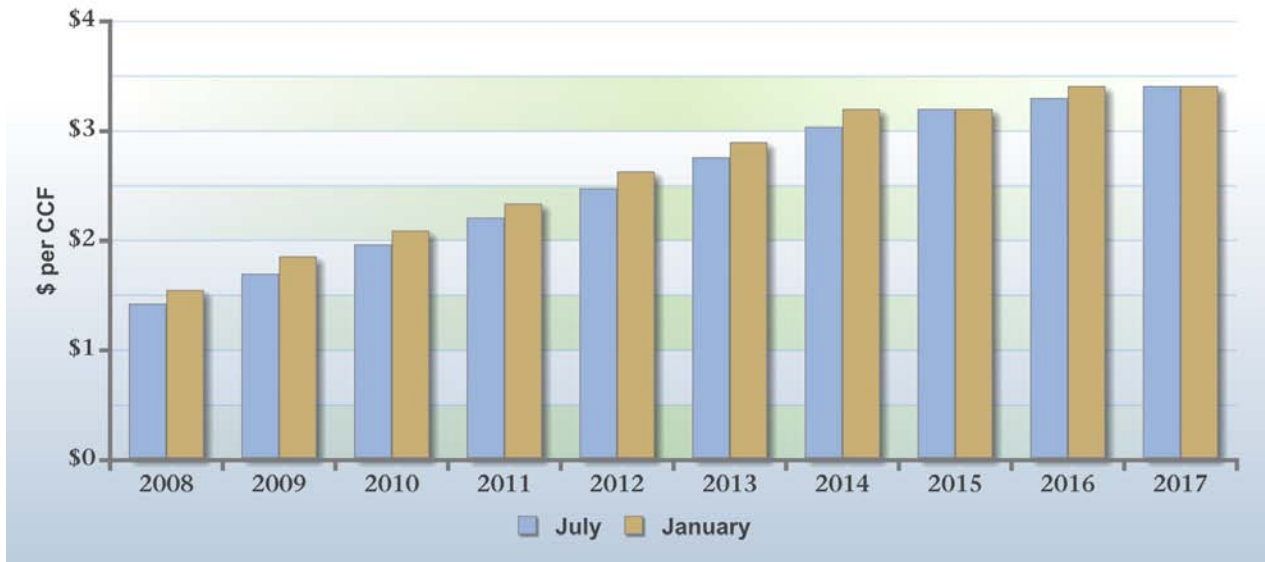
The volume charge is designed to recover those costs that vary depending upon either the volume or the strength of wastewater discharged as well as portions of the Department's fixed costs such as labor and debt service. The volume charge is comprised of a volume component and two strength components: chemical oxygen demand ("COD") and total suspended solids ("TSS"). A high strength factor has been calculated by the rate and financial planning model for each customer class and is applied based on assumed wastewater characteristics to the volume charge assessed to different customer types in order to appropriately recover costs from high strength users. The existing high strength factors are applied to the calculated volume charge in order to determine the volume charge for each customer class.

As discussed previously, inflationary pressures and the need to fund the Department's \$1.4 billion CIP result in significant increases in the Department's annual costs, including those costs that are allocated to the volume charge. Consequently, the volume charge must be increased in order to ensure that revenue is sufficient to cover those costs. Therefore, in keeping with recent history, we are recommending semi-annual adjustments to the volume charge with the increases occurring on July 1st and January 1st of each fiscal year. Specifically, we recommend a 9% increase to the volume charge in January 2008 and a 9.5% increase in July 2008.

Schedule 12 in the Appendix shows the recommended increases in January and July of 2008 along with preliminary projections of the increases that would likely be required in subsequent years. Figure 8 shows the rate per hundred cubic feet (CCF) that results from the recommended increases and the preliminary projected increases. As discussed earlier in this report it is inadvisable to make definite recommendations on rate adjustments past the current fiscal year. As such, the rate adjustments shown for January 2009 and beyond are for informational purposes only. However, the fact that the Department must continue to comply with existing regulatory requirements, adhere to new effluent standards and continue to meet the needs of a rapidly growing community, dictates that the Department's costs must increase. Therefore, it is likely that increases on the order of those shown will be required. Once the Department has

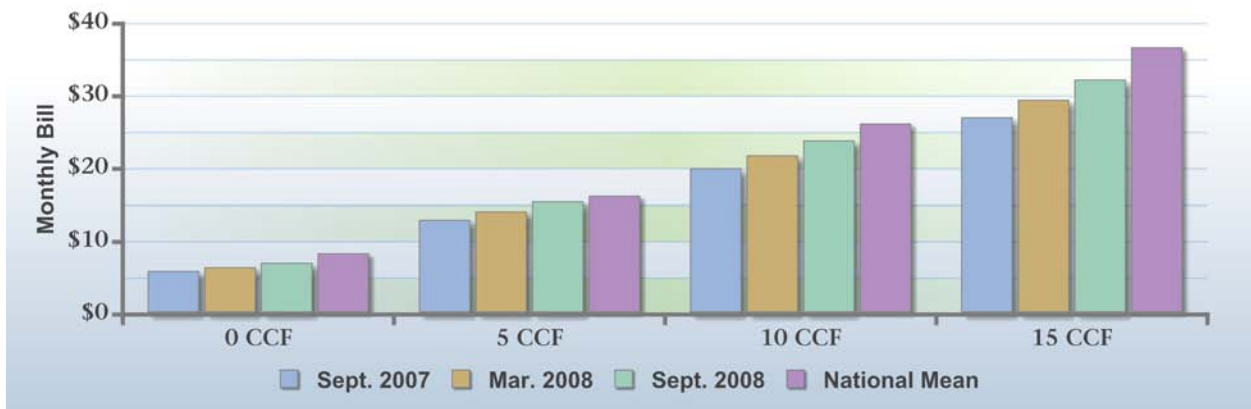
completed the process of optimizing its CIP, definitive recommendations for rate adjustments can be developed. It is anticipated that the ROMP implementation plan will be finalized before the end of this calendar year which should allow for the development of rate adjustment recommendations for the remainder of FY 2008/2009, FY 2009/2010 and possibly subsequent fiscal years, by late fall of calendar year 2008.

Figure 8: Projected User Fees



The impacts of the recommended increase in January 2008 and July 2008 on a residential customer under varying levels of wastewater flow are shown on Figure 9 on the following page and in Schedule 13 in the Appendix by comparing hypothetical monthly sewer bills for months before and after the proposed increases. Figure 9 also shows the national mean monthly wastewater bill for the respective flow levels as derived from the RFC/AWWA 2006 Water and Wastewater Rate Survey.

Figure 9: Monthly Sewer Bill Comparison



Connection Fees

Connection fees are charges assessed to new customers of the system to recover costs associated with providing the capacity needed to serve them. Connection fee revenue is used to offset costs that would otherwise need to be recovered from user charges to help ensure that growth pays for itself and that the existing customer base is not burdened inordinately with growth related costs. Revenue generated from connection fees is dependent on the annual building starts in the service area. As such, projections of building activity in the region are critical in the calculation of required adjustments to the connection fees. Our analysis considered building start projections developed by the University of Arizona's Eller College of Management, as well as more recent data relating to actual building starts to develop a set of building start projections for the forecast period. Our projections indicate an anticipated decrease in the number of building starts from FY 2007/2008 through FY 2010/2011, a gradual leveling off after FY 2010/2011, and then a slight increase in the latter part of the ten-year forecast period. Our building start assumptions are included on Schedule 14 in the Appendix.

Obviously, if actual growth within the service area is significantly less than is assumed in the model, connection fee revenues would be lower than the current projections and other rates and charges would need to be increased to make up for the decline in connection fee revenue. However, it should also be noted that a significant decline in growth might also allow the Department to delay or cancel some of the expansion projects it currently has in its CIP, thereby reducing the total costs that must be recovered through rates and charges. Therefore, it is difficult to predict with any degree of accuracy the impact on rates and charges of a decline in growth that is greater than the decline that is currently anticipated in the model.

In FY 2005/2006 the Board of Supervisors approved a program of adjustments to the connection fees, with the last adjustment in that program being a 6% increase in January 2008. It is also our understanding that the Board of Supervisors' recent policy has been to adjust connection charges twice a year and that adjustments to connection fees have generally been commensurate with increases in user charges. Therefore, we recommend the previously approved 6% increase to the connection charges in January 2008 and an increase to the connection charge of 9.5% in July 2008. As is the case with the projected increases to user fees beyond July 2008, projections of the anticipated increases in connection fees that will most likely be required have also been calculated and are shown for informational purposes. We recommend that definitive decisions on these future adjustments be made after the Department has made more progress in its efforts to optimize the CIP.

Schedule 14 in the Appendix shows the proposed semi-annual increases in connection fees and the revenue anticipated to be generated through the proposed connection fees.

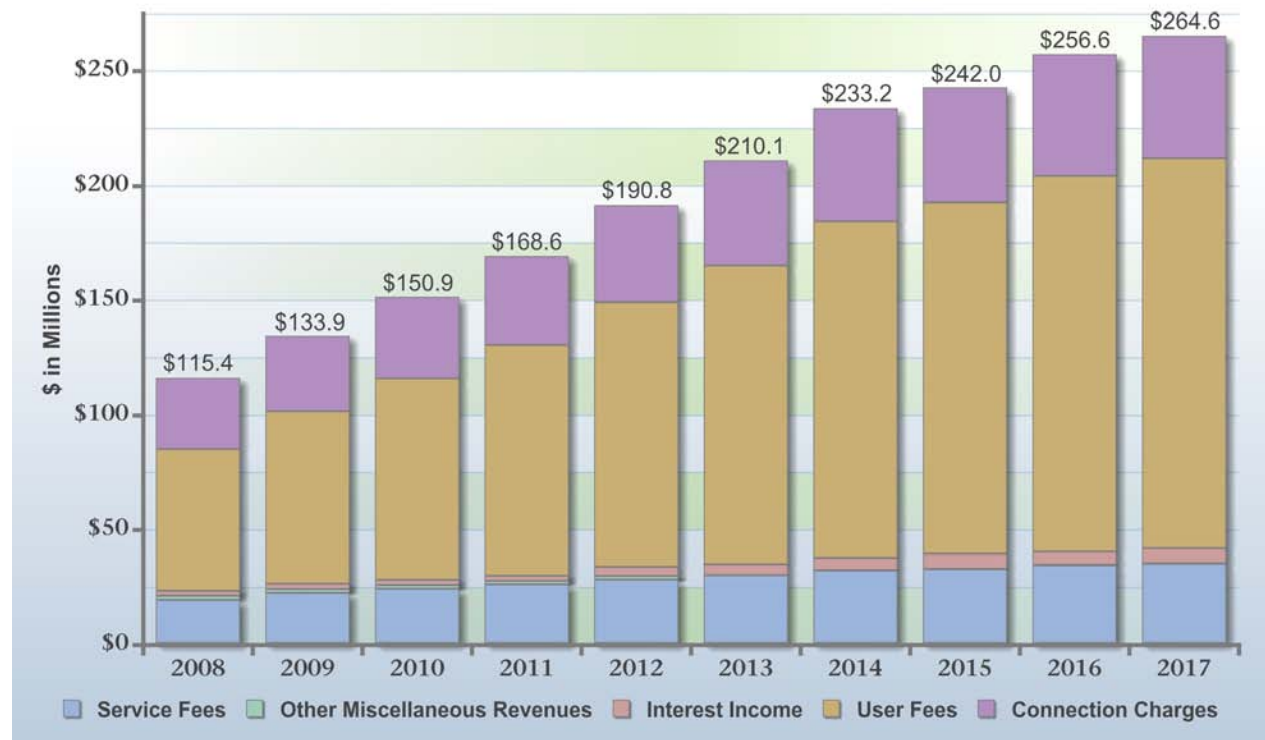
Miscellaneous Charges

Miscellaneous charges include those charges that are not necessarily Department specific but are charges that are associated with services provided by the Department from which the Department receives a portion of the revenue. Such charges in the Financial Plan include general government fees, business licenses and permits, sanitation fees, and other fines. In order to provide a conservative estimate, it is anticipated in the Financial Plan that the revenue generated from these charges will not fluctuate during the forecast period with the exception of revenue generated by sanitation fees which is correlated with the projection of building starts. We recommend that a careful analysis of these charges and the costs they are designed to recover be performed during the preparation of the Department's Financial Plan for FY 2008/2009.

Schedule 15 in the Appendix shows the projected revenue generated from the existing miscellaneous charges.

Figure 10 and Schedule 16 in the Appendix show the breakdown of projected revenue between the various sources assuming the Department implements the recommended rate adjustments and the preliminary rate adjustments that the model indicates will be required.

Figure 10: Summary of Projected Revenue



It should be noted that the revenue projections shown in Figure 7 and Schedule 11 are based on rates and charges that are significantly higher than those that are in effect today. As a result, if the rates and charges on which these revenue projections are based are not implemented, actual revenue will be different from that shown. To the extent that the rates and charges that are put into effect are lower than those anticipated in the Financial Plan, it is likely that revenue would be less than expenses.

Additional Recommendations

In addition to the adjustments to rates and charges discussed above, RFC also makes the following recommendations.

Debt Service Coverage Policy

Generally speaking, a utility's debt service coverage ratio is the ratio of annual net revenue (gross revenue minus operating expenses) to annual debt service requirements and is used as an indicator of the utility's ability to pay back money it has borrowed from others. Both lenders and rating agencies place a great deal of emphasis on a borrower's debt service coverage ratio when they are negotiating the terms of a borrowing and most government revenue bonds include covenants that require the issuer to maintain a specific debt service coverage, typically ranging between 1.1 and 1.5 times annual debt service. The covenants also typically provide specific formulas regarding the determination of revenue that can be applied towards the coverage ratio. In the case of Pima County, outstanding bonds that have been used to fund wastewater projects stipulate that wastewater revenue must provide coverage of 1.2 times annual debt service.

To date, the Department has not violated the coverage requirements of its outstanding debt, in large part due to the fact that its debt service requirements have been relatively small when compared to the utility's total revenue requirements. However, as discussed above, the Department is faced with the need to issue significant quantities of debt over the next ten years in order to fund a large portion of its \$1.4 billion capital program. As a result, the Department's debt service coverage ratio will take on more importance in the near future, not only with respect to complying with the covenants of the bonds the County will be issuing, but also in relation to the bond ratings offered by the rating agencies and the terms under which funds are loaned to the County. Rating agencies look favorably on utilities that maintain appropriate debt service coverage and are thus inclined to give them more favorable bond ratings. These favorable ratings can result in lower interest rates on bonds thereby reducing the Department's cost of debt.

Therefore, in addition to the recommendations for rate adjustments that have been presented throughout this report, RFC recommends that the Board of Supervisors determine an appropriate debt service coverage target and then adopt a policy stipulating that anytime the Board of Supervisors approves the issuance of revenue bonds it will also authorize wastewater rates and charges that will generate revenue sufficient to meet the debt service coverage target. At a minimum, the debt service coverage target should be 1.2; the requirement of the Department's outstanding debt. However, in the financial planning model a ratio of 1.25 has

been assumed in an effort to strengthen the Department's financial position and cushion against the potential volatility in connection fee revenue.

Issues for Further Consideration

As discussed earlier, this report provides definitive recommendations for adjustments to some of the Department's rates and charges in January and July of 2008 that are necessary to meet the Department's immediate needs. Providing recommendations for rate adjustments beyond that timeframe is premature given that there is still considerable work to be done to fully optimize the Department's CIP, particularly those components of the CIP related to the ROMP projects. In addition, there are several other items that need to be taken into consideration by the Department, the Wastewater Management Advisory Committee ("WMAC") and the Board of Supervisors that may have an impact on the type and magnitude of rate adjustments that will be required in future years. Therefore, we recommend that the items addressed in the following section be given careful consideration prior to making definitive decisions for future rate adjustments past July of 2008.

Environmental Fee

As the magnitude of the costs associated with the ROMP projects demonstrate, the costs associated with meeting more stringent regulatory requirements can be quite substantial and have a dramatic impact on the amount that customers pay for sewer service. In an effort to communicate the impact that regulatory requirements have on the cost to provide service more effectively, the Department has requested that RFC look into the establishment of an environmental fee that would be assessed to customers for the purpose of recovering costs associated specifically with meeting new regulatory requirements. This type of fee has been implemented successfully by utilities in Arizona and other parts of the country and while it does not reduce the amount that customers pay for service, it does help customers gain a better understanding of the factors that are driving the increases in their bills. While the Financial Plan presented in this report does not rely on the implementation of an environmental fee, the financial planning and rate model on which the plan is based has the flexibility to calculate such a fee.

The process of calculating an environmental fee involves an allocation of costs associated with meeting new regulatory requirements to the environmental fee. For instance, since the primary driver of the ROMP program is compliance with more stringent treatment requirements imposed by ADEQ, much of the ROMP capital costs, both cash capital and debt service, could be allocated justifiably to the environmental fee and thereby reduce the total costs that need to be recovered from user charges and connection fees. Additionally, any incremental increases in O&M costs attributable to the more stringent requirements could also be allocated to this fee.

Once the appropriate costs have been allocated, a fee to recover these costs is calculated. At this time it is recommended that the environmental fee be a fixed fee similar to the existing service fee. This type of fee recognizes that most of the costs allocated to this fee, particularly the ROMP project costs, are relatively fixed in that they must be incurred by the Department regardless of the volume of wastewater that is discharged to the system. However, as more analysis of the environmental fee is performed, it may become apparent that these costs would be recovered more appropriately through a volumetric charge. Once the analysis of this fee is complete, a specific recommendation can be provided.

If the County decides to implement an environmental fee, RFC will work closely with Department staff to identify those costs that should be allocated to this fee and then proceed to calculate a fee using the periodic fixed fee approach. Results will be presented to the Department, the WMAC and the Board of Supervisors for their review and approval.

Extended Term for Revenue Bonds

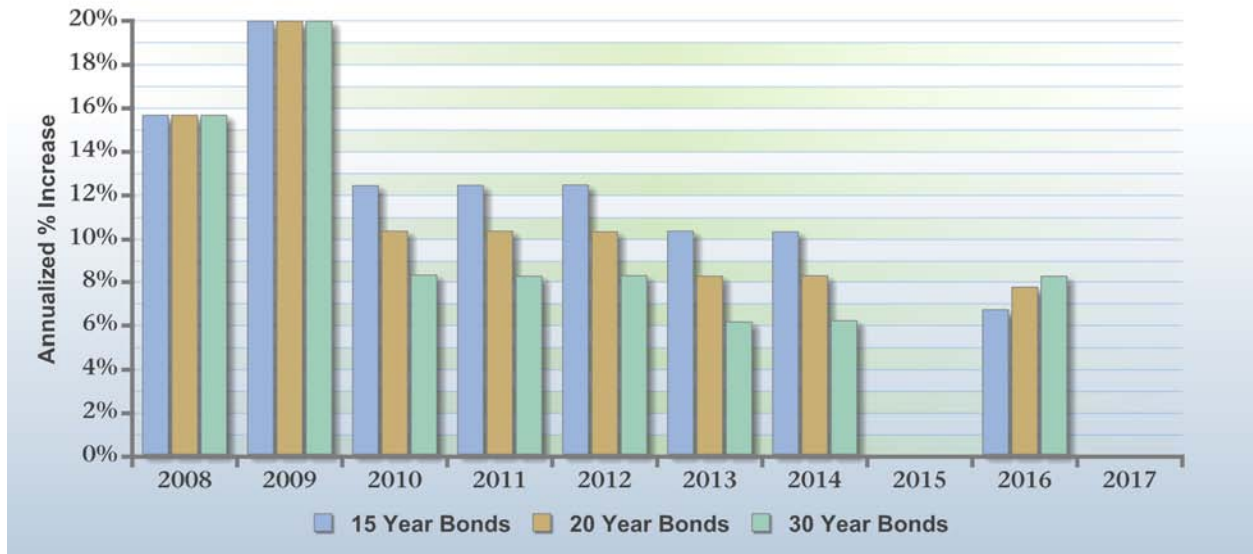
The County's current policy with respect to revenue bonds is to issue bonds with a maximum term for repayment of fifteen years. It is the County's position that this approach provides the County with a greater capability to address unknown future needs in that the relatively short repayment term results in a quick pay back of debt thereby freeing up debt capacity more quickly. While this approach has merits, issuing debt with a fifteen year term can result in the need for rather large rate increases due to the fact that the annual debt service on fifteen-year debt is greater than annual debt service on bonds of the same value with a term of 20 to 30 years. These impacts are especially apparent in situations when large amounts of debt are being issued in a short period of time as is the case in Pima County to support the ROMP program.

We have found that many of our clients have recently been issuing debt with terms of 20 to 30 years and longer. While the total payback amount for longer term bonds is greater since interest is accrued over a longer period of time, longer term bonds have two primary advantages. First, the impact on rates resulting from the debt service on the longer term bonds is less when compared to the impact resulting from fifteen-year bonds. This is due to the fact that the payback of the principle is spread over a longer period and therefore each principle payment is smaller. Second, longer term bonds are more consistent with the principle of intergenerational equity which stipulates that it more equitable to all ratepayers to match the payback period on an asset with the useful life of the asset. In this way a larger number of the customers that receive the benefit of an asset pay for the asset as opposed to only those that benefit during the period in which the bonds used to fund the asset are being repaid.

We recommend that the County continue to fund projects with useful lives of fifteen years or less with bonds with a fifteen year term, and that the County should consider issuing debt with

terms of twenty to thirty years for those projects in the CIP whose useful lives are in excess of fifteen years. Figure 11 and Schedule 17 in the Appendix show the preliminary projected rate increases that would be required if the County were to issue debt with terms of twenty years or thirty years as opposed to the fifteen-year debt that is used in our primary analysis.

Figure 11: Comparison of Volume Charge Increases Under Different Bonds Terms



As shown, the use of bonds with a 20-year term could result in annual rate increases that are approximately 2% lower than those that are anticipated when bonds with a fifteen year term are used. The use of 30-year bonds could decrease the required rate increases by an additional 2%.

Short-term Debt Instruments

The County has the ability to issue short-term debt to fund some of the Department’s CIP, but does not currently take advantage of this option. The use of short-term debt instruments such as certificates of participation and bond anticipation notes can allow the Department to use debt to fund projects that would otherwise require the use of rate revenue or cash reserves. The potential benefits of short-term debt instruments to the Department is described in detail in the ROMP report, but the primary benefit is that these financing tools can be used to reduce rate impacts associated with capital projects in that they can reduce the annual cash needs associated with these projects. Additionally, they can be used as interim funding for projects that are out of synch with the County’s revenue bond issuance schedule thereby providing greater flexibility with respect to financial planning.

It is our understanding that the Department and the County’s Finance Department is seriously considering the use of certificates of participation to fund some of the projects that are scheduled for the initial two years of the current CIP. RFC recommends that the County

continue to consider the use of these short-term debt instruments. Many of these projects are programmed to be funded with existing reserves, but by doing so, the Department is dramatically decreasing the amount of reserve funds available to meet emergency needs. The use of short-term instruments would allow the Department to maintain a more significant balance in reserves during the initial years of the forecast period.

Establish Financial Policies

The establishment of policies that dictate certain actions removes a great deal of uncertainty from the financial planning process. For instance, establishing a policy to maintain an operating reserve fund balance equal to 45 days of O&M costs helps ensure that funds will be available to pay expenses in situations when wastewater volume charge revenue is down due to decreased customer flows.

RFC recommends that the Department, the WMAC and the Board of Supervisors work together to develop a set of financial policies that will help ensure a sound financial future for the utility. Policies that should be considered include: reserve fund policies; debt service coverage policies; and a capital structure policy.

Conclusions and Summary of Recommendations

The Pima County Regional Wastewater Reclamation Department is faced with the unprecedented challenge of being required to invest approximately \$1.4 billion dollars in its wastewater system over the next fifteen years. In an effort to face this challenge, the Department has developed a Financial Plan that will provide financial guidance over the next ten years. The Financial Plan incorporates the Department's cost, both capital and O&M, and its revenue sources, and presents a plan that should allow its revenue to cover its expenses and provide adequate reserves to address unforeseen circumstances as they arise, thereby placing the Department on sound financial footing such that it can continue to provide high quality, reliable service to its customers at the lowest possible cost.

The Financial Plan anticipates that the cost of providing service will increase over time as a result of inflationary pressures, but also as a result of more stringent regulatory requirements to implement approximately \$717 million dollars in capital projects primarily for the purpose of complying with these requirements. These projects, in conjunction with the capital projects necessary to sustain the existing system and to provide capacity to serve a growing customer base, comprise the Department's \$1.4 billion dollar CIP over a fifteen year period.

In order to meet these rising costs, the Department recognizes that it must adjust its rates and charges. As such, the Financial Plan includes definitive recommendations for rate adjustments in January and July, 2008 and a preliminary indication of the rate adjustments that will be required in each year of the ten-year forecast period. By the same token, the Department recognizes that any actions it can take to reduce costs will lessen the severity of future rate adjustments. Therefore, it is carefully evaluating each component of its O&M budget and CIP in an effort to identify cost saving opportunities. In particular, the Department is actively exploring its options with respect to the ROMP projects which are designed specifically to allow the Department to comply with more stringent effluent standards imposed by State and federal regulators. As potential costs saving options that result from this process are incorporated into the CIP, the Department will be better able to predict the impact that the CIP will have on rates and charges. In the interim, the Financial Plan incorporates the following definitive recommendations:

- The Department should use a combination of rate revenue, cash reserves and the proceeds from revenue bonds to fund projects in the Department's CIP. In support of this financing plan, the Department must receive authorization from the Board of Supervisors and voters in 2009 to issue \$565 million dollars in debt;

- The Department should request that the Board of Supervisors reverse the ordinance that limits increases to the service fee and seek approval for increases to the service fee of 9% and 9.5% in January and July of 2008, respectively;
- The Department should seek approval for a 9% increase in the volumetric component of the user charge for all customer classes to become effective in January, 2008 and a 9.5% increase in the volumetric charges to become effective in July, 2008;
- The Department should implement in January, 2008 the previously approved 6% increase in connection fees and seek approval to implement a 9.5% increase in connection fees in July, 2008; and
- The Board of Supervisors should determine an appropriate debt service coverage target and then implement a policy that stipulates that anytime the issuance of revenue bonds is approved, an increase in rates will be implemented such that revenue will be sufficient to meet the debt service coverage target.

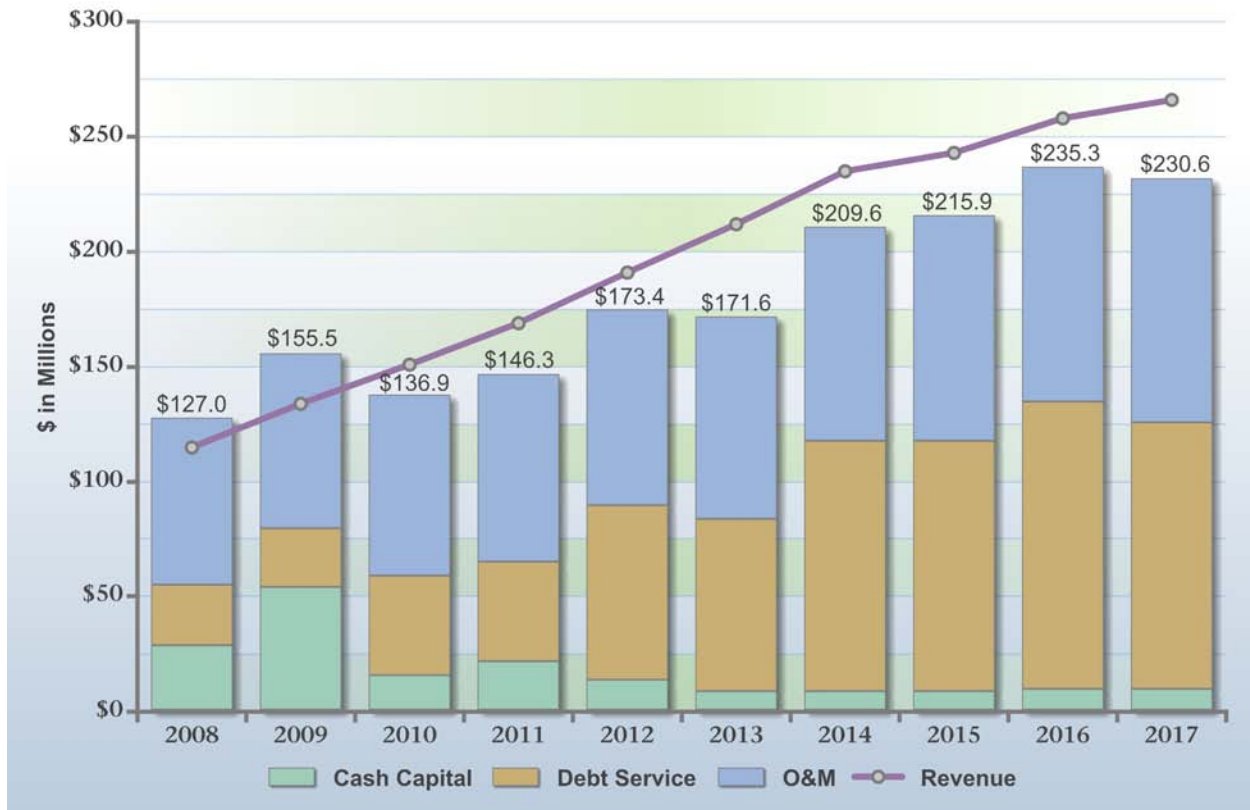
In addition to the recommendations summarized above, RFC also recommends that the Department, the WMAC and the Board of Supervisors take the following items into consideration.

- Consider the implementation of an environmental fee that specifically recovers costs associated with meeting new regulatory requirements;
- Consider issuing qualifying debt with repayment terms of 20 to 30 years;
- Proactively incorporate the use of short-term debt instruments into the financing plan; and
- Proactively develop a set of financial policies that will guide the Department into the future.

Figure 12 on the following page shows annual revenue requirements and projected revenues with the proposed increases in January and July and the preliminary projection of increases needed for the remainder of the forecast period.

A cash flow summary predicated on the implementation of the rate adjustments recommended in this report and the preliminary adjustments provided for future years is provided in the Appendix as Schedule 18.

Figure 12: Summary of Revenue Requirements and Revenues



Failure to implement the recommended rate increases will place the Department in a precarious position with respect to regulatory deadlines imposed by ADEQ. If these regulatory deadlines are not met, the Department could be subject to fines or possibly a moratorium on sewer connections. As Schedule 20 shows, the implementation of these recommendations should allow the Department to meet its immediate needs and put the Department on sound financial footing such that it is better prepared to meet the financial challenges presented by increasing O&M costs and a \$1.4 billion CIP.

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Schedule 1: Department Financial Plan (FY 2007/2008 – FY 2011/2012)

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Revenue					
Operating Revenue					
Service Fee	\$ 18,636,072	\$ 21,710,712	\$ 23,474,271	\$ 25,398,901	\$ 27,458,593
User Fees	61,704,143	75,345,813	87,731,771	100,559,376	115,280,178
Environmental Fees	-	-	-	-	-
Other Operating Revenue	1,656,800	1,516,180	1,508,983	1,504,687	1,504,687
Total Operating Revenue	\$ 81,997,015	\$ 98,572,705	\$ 112,715,025	\$ 127,462,964	\$ 144,243,458
Non-Operating Revenue					
Connection Fee Revenue	\$ 30,968,553	\$ 32,765,116	\$ 35,609,128	\$ 38,771,219	\$ 42,330,417
Miscellaneous Non-Operating Revenue	-	-	-	-	-
Cash Reimbursements (1)	100,000	100,000	100,000	100,000	100,000
Total Non-Operating Revenue	\$ 31,068,553	\$ 32,865,116	\$ 35,709,128	\$ 38,871,219	\$ 42,430,417
Interest Income					
Interest from Unrestricted Reserves (2)	\$ 2,232,600	\$ 1,263,203	\$ 762,638	\$ 645,098	\$ 1,185,995
Interest from Restricted Reserves (3)	-	1,148,423	1,563,265	1,560,652	2,863,327
Total Interest Income	\$ 2,232,600	\$ 2,411,626	\$ 2,325,903	\$ 2,205,750	\$ 4,049,322
Total Revenue	\$ 115,298,168	\$ 133,849,447	\$ 150,750,056	\$ 168,539,933	\$ 190,723,197
Revenue Requirements (4)					
O & M	\$ 72,791,971	\$ 75,967,744	\$ 78,868,579	\$ 81,884,026	\$ 85,018,795
Net Revenue Available For Debt Service	42,506,197	57,881,703	71,881,477	86,655,907	105,704,402
Debt Service					
Existing Debt	\$ 16,230,914	\$ 16,246,206	\$ 16,349,519	\$ 16,385,325	\$ 16,382,456
Proposed Debt	9,969,175	9,969,175	27,044,632	27,044,632	59,443,716
Total Debt Service	\$ 26,200,089	\$ 26,215,381	\$ 43,394,151	\$ 43,429,957	\$ 75,826,172
Total Transfers From Reserves	(14,500,000)	(22,000,000)	-	-	-
Annual Capital Outlay	27,997,347	53,346,078	14,643,608	21,009,845	12,566,289
Total Revenue Requirements	\$ 112,489,407	\$ 133,529,203	\$ 136,906,338	\$ 146,323,828	\$ 173,411,256
Operating Fund Balance					
Net Annual Cash Balance	\$ 2,808,761	\$ 320,244	\$ 13,843,718	\$ 22,216,105	\$ 17,311,940
Transfer To Capital Reserve	\$ -	\$ -	\$ -	\$ (10,000,000)	\$ (9,000,000)
Beginning Operating Fund Balance	-	2,808,761	3,129,005	16,972,723	29,188,828
Ending Operating Fund Balance	\$ 2,808,761	\$ 3,129,005	\$ 16,972,723	\$ 29,188,828	\$ 37,500,768
Minimum Desired Balance (5)	\$ 9,099,000	\$ 9,495,970	\$ 9,858,570	\$ 10,235,500	\$ 10,627,350
Debt Coverage (6)	162%	221%	166%	200%	139%

NOTE

- (1) Represents miscellaneous cash reimbursements.
- (2) Represents interest earnings from unrestricted reserves in the Operating Fund, Capital Reserve Fund, and Emergency Reserve Fund.
- (3) Represents interest earnings from bond proceeds
- (4) Based on CIP dated 10/24/07
- (5) Estimated at 12.5% of annual operation and maintenance expense.
- (6) Includes interest on Reserve Funds.

Schedule 1 (Continued): Department Financial Plan (FY 2012/2013 – FY 2016/2017)

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Revenue					
Operating Revenue					
Service Fee	\$ 29,384,068	\$ 31,480,866	\$ 32,110,483	\$ 33,811,587	\$ 34,487,819
User Fees	130,287,628	146,590,055	153,212,281	163,977,541	169,988,955
Environmental Fees	-	-	-	-	-
Other Operating Revenue	1,504,687	1,518,965	1,533,387	1,547,953	1,562,664
Total Operating Revenue	\$ 161,176,383	\$ 179,589,886	\$ 186,856,151	\$ 199,337,081	\$ 206,039,438
Non-Operating Revenue					
Connection Fee Revenue	\$ 45,558,111	\$ 49,487,498	\$ 49,982,373	\$ 52,945,234	\$ 53,474,687
Miscellaneous Non-Operating Revenue	-	-	-	-	-
Cash Reimbursements (1)	100,000	100,000	100,000	100,000	100,000
Total Non-Operating Revenue	\$ 45,658,111	\$ 49,587,498	\$ 50,082,373	\$ 53,045,234	\$ 53,574,687
Interest Income					
Interest from Unrestricted Reserves (2)	\$ 1,778,916	\$ 2,638,400	\$ 3,613,205	\$ 4,401,012	\$ 5,155,853
Interest from Restricted Reserves (3)	2,932,844	2,799,381	2,888,505	1,274,426	1,340,090
Total Interest Income	\$ 4,711,760	\$ 5,437,781	\$ 6,501,710	\$ 5,675,438	\$ 6,495,943
Total Revenue	\$ 211,546,254	\$ 234,615,165	\$ 243,440,234	\$ 258,057,753	\$ 266,110,068
Revenue Requirements (4)					
O & M	\$ 88,277,793	\$ 92,788,579	\$ 98,258,135	\$ 102,108,028	\$ 105,527,714
Net Revenue Available For Debt Service	123,268,461	141,826,586	145,182,099	155,949,725	160,582,354
Debt Service					
Existing Debt	\$ 15,868,373	\$ 13,826,169	\$ 14,460,991	\$ 15,310,827	\$ 7,066,364
Proposed Debt	59,443,716	94,836,981	94,836,981	109,266,076	109,266,076
Total Debt Service	\$ 75,312,089	\$ 108,663,150	\$ 109,297,972	\$ 124,576,903	\$ 116,332,440
Total Transfers From Reserves	-	-	-	-	-
Annual Capital Outlay	7,969,388	8,163,393	8,363,703	8,570,524	8,784,066
Total Revenue Requirements	\$ 171,559,270	\$ 209,615,122	\$ 215,919,810	\$ 235,255,455	\$ 230,644,220
Operating Fund Balance					
Net Annual Cash Balance	\$ 39,986,985	\$ 25,000,043	\$ 27,520,424	\$ 22,802,298	\$ 35,465,849
Transfer To Capital Reserve	\$ (30,000,000)	\$ (25,000,000)	\$ (25,000,000)	\$ (25,000,000)	\$ (30,000,000)
Beginning Operating Fund Balance	37,500,768	47,487,753	47,487,795	50,008,219	47,810,517
Ending Operating Fund Balance	\$ 47,487,753	\$ 47,487,795	\$ 50,008,219	\$ 47,810,517	\$ 53,276,366
Minimum Desired Balance (5)	\$ 11,034,720	\$ 11,598,570	\$ 12,282,270	\$ 12,763,500	\$ 13,190,960
Debt Coverage (6)	164%	131%	133%	125%	138%

NOTE

- (1) Represents miscellaneous cash reimbursements.
- (2) Represents interest earnings from unrestricted reserves in the Operating Fund, Capital Reserve Fund, and Emergency Reserve Fund.
- (3) Represents interest earnings from bond proceeds
- (4) Based on CIP dated 10/24/07
- (5) Estimated at 12.5% of annual operation and maintenance expense.
- (6) Includes interest on Reserve Funds.

Schedule 2: Capital and Non-Operating Expenses (FY 2007/2008 – FY 2016/2017)

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Capital and Non-Operating Costs (1)					
Capital Outlays					
Departmental Capital Outlays	\$ 5,087,208	\$ 5,252,542	\$ 5,423,250	\$ 5,599,506	\$ 5,781,489
Direct CIP Funding (Cash-SDF Projects)	22,910,139	48,093,536	9,220,358	15,410,339	6,784,800
Rate Funded CIP (All Other Projects)	-	-	-	-	-
<i>Subtotal Capital Outlays</i>	<u>\$ 27,997,347</u>	<u>\$ 53,346,078</u>	<u>\$ 14,643,608</u>	<u>\$ 21,009,845</u>	<u>\$ 12,566,289</u>
Debt Service					
Existing Debt Service	\$ 16,230,914	\$ 16,246,206	\$ 16,349,519	\$ 16,385,325	\$ 16,382,456
Proposed Debt Service					
Series 2004 Revenue Bonds	\$ 9,969,175	\$ 9,969,175	\$ 15,005,200	\$ 15,005,200	\$ 15,138,449
Short Term Financing (COPs-SDF Funded Projects)	-	-	-	-	-
Short Term Financing (COPs-All Other Projects)	-	-	-	-	-
Series 2008 Revenue Bonds	-	-	12,039,432	12,039,432	44,305,267
Series 2008 Revenue Bonds (WIFA Loan)	-	-	-	-	-
Series 2012 Revenue Bonds	-	-	-	-	-
Series 2016 Revenue Bonds	-	-	-	-	-
Additional Borrowing Requirements	-	-	-	-	-
<i>Subtotal Debt Service</i>	<u>\$ 26,200,089</u>	<u>\$ 26,215,381</u>	<u>\$ 43,394,151</u>	<u>\$ 43,429,957</u>	<u>\$ 75,826,172</u>
Total Non-Operating Expenses	<u>\$ 54,197,436</u>	<u>\$ 79,561,459</u>	<u>\$ 58,037,759</u>	<u>\$ 64,439,802</u>	<u>\$ 88,392,461</u>

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Capital and Non-Operating Costs (1)					
Capital Outlays					
Departmental Capital Outlays	\$ 5,969,388	\$ 6,163,393	\$ 6,363,703	\$ 6,570,524	\$ 6,784,066
Direct CIP Funding (Cash-SDF Projects)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Rate Funded CIP (All Other Projects)	-	-	-	-	-
<i>Subtotal Capital Outlays</i>	<u>\$ 7,969,388</u>	<u>\$ 8,163,393</u>	<u>\$ 8,363,703</u>	<u>\$ 8,570,524</u>	<u>\$ 8,784,066</u>
Debt Service					
Existing Debt Service	\$ 15,868,373	\$ 13,826,169	\$ 14,460,991	\$ 15,310,827	\$ 7,066,364
Proposed Debt Service					
Series 2004 Revenue Bonds	\$ 15,138,449	\$ 15,138,449	\$ 15,138,449	\$ 15,138,449	\$ 15,138,449
Short Term Financing (COPs-SDF Funded Projects)	-	-	-	-	-
Short Term Financing (COPs-All Other Projects)	-	-	-	-	-
Series 2008 Revenue Bonds	44,305,267	56,797,353	56,797,353	57,020,741	57,020,741
Series 2008 Revenue Bonds (WIFA Loan)	-	-	-	-	-
Series 2012 Revenue Bonds	-	22,901,179	22,901,179	37,106,886	37,106,886
Series 2016 Revenue Bonds	-	-	-	-	-
Additional Borrowing Requirements	-	-	-	-	-
<i>Subtotal Debt Service</i>	<u>\$ 75,312,089</u>	<u>\$ 108,663,150</u>	<u>\$ 109,297,972</u>	<u>\$ 124,576,903</u>	<u>\$ 116,332,440</u>
Total Non-Operating Expenses	<u>\$ 83,281,477</u>	<u>\$ 116,826,543</u>	<u>\$ 117,661,675</u>	<u>\$ 133,147,427</u>	<u>\$ 125,116,506</u>

(1) Based on CIP dated 10/24/07

Schedule 3: ROMP Projects

	Fiscal Year Ending June 30				Total
	2007 - 2010	2011 - 2015	2016 - 2020	2020 - 2030	
ROMP Projects (in escalated dollars) (1)					
Roger Road WWTP to Ina Road WPCF (plant interconnect)	\$ 26,431,942	\$ -	\$ -	\$ -	\$ 26,431,942
Ina Road & Roger Road NDN Design	14,412,919	-	-	-	14,412,919
50 MGD at Ina Road (NDN)	66,051,709	236,318,511	-	-	302,370,220
32 MGD at Roger Road (NDN)	20,003,648	272,468,917	31,524,724	-	323,997,289
Ina Road Electrical	-	35,000,000	-	-	35,000,000
Class A Sludge at Ina Road	-	-	15,001,496	-	15,001,496
Total	\$ 126,900,218	\$ 543,787,428	\$ 46,526,220	\$ -	\$ 717,213,866

(1) Based on CIP dated 10/24/07

Schedule 4: Treatment Projects

	Fiscal Year Ending June 30				Total
	2007 - 2010 (1)	2011 - 2015	2016 - 2020	2020 - 2030	
Treatment Projects (in escalated dollars) (2)					
Roger Road WWTP Rehabilitation	\$ 10,287,076	\$ -	\$ -	\$ -	\$ 10,287,076
Roger Road Odor Control	9,712,924	-	-	-	9,712,924
Marana WWTF Expansion	20,830,913	-	-	-	20,830,913
Avra Valley BNROD Expansion to 4 MGD	54,264,782	58,000	-	-	54,322,782
SCR Basin Ina/Roger Road Ndn Implementation Study/ROMP	2,587,081	-	-	-	2,587,081
Ina Road Rehabilitation	4,753,448	-	-	-	4,753,448
Ina Road WPCF Process Change and Expansion to 37.5 MGD	1,038,114	-	-	-	1,038,114
Ina Road WPCF Improvements	-	2,299,714	-	-	2,299,714
Treatment Facility Capacity & Rehabilitation					
Green Valley BNROD	15,000,000	14,000,000	-	-	29,000,000
Marana BNROD	-	20,000,000	-	-	20,000,000
Sewer Rillito Vista to Marana WWTF	-	3,500,000	3,000,000	-	6,500,000
Water Reclamation Facilities	-	47,250,000	-	-	47,250,000
Outlying Solids	-	15,750,000	-	-	15,750,000
SCADA and Control Systems	-	5,389,194	10,270,181	-	15,659,375
Expansion of Marana WWTF BNROD	-	-	13,000,000	-	13,000,000
Canoa Ranch	-	1,000,000	-	-	1,000,000
Water Reclamation Facilities	-	-	31,500,000	-	31,500,000
Corona de Tucson BNROD	-	-	1,000,000	-	1,000,000
Total	\$ 118,474,338	\$ 109,246,908	\$ 58,770,181	\$ -	\$ 286,491,427

(1) Projects completed during 2007 are included to illustrate the funding requirements of the 1997 and 2004 revenue bond authorizations.

(2) Capital project costs as of 10/24/07

Schedule 5: Conveyance Projects

Fiscal Year Ending June 30				Total
2007 - 2010 (1)	2011 - 2015	2016 - 2020	2020 - 2030	

Conveyance Projects (in escalated dollars) (2)

Tanque Verde Interceptor: Craycroft to Tucson Country Club	\$ 8,263,252	\$ 411,500	\$ -	\$ -	\$ 8,674,752
Arivaca Junction Wastewater Treatment Facility Sewer Extension	912,000	-	-	-	912,000
Miscellaneous Conveyance System Repair & Rehabilitation	15,000,000	-	-	-	15,000,000
Santa Cruz Interceptor, Prince to Franklin	36,092,062	-	-	-	36,092,062
Additional Non-ROMP Interconnect	5,129,794	-	-	-	5,129,794
Marana Regional Airport Sewer Connection	2,800,000	-	-	-	2,800,000
Mt. Lemmon Sewer System	6,297,669	902,331	-	-	7,200,000
Miscellaneous CIP Conveyance Projects	21,906,239	13,087,830	-	-	34,994,069
Tanque Verde Interceptor: Craycroft to Tucson County Club	-	3,588,500	-	-	3,588,500
Marana-Honea Heights Colonia	729,798	-	-	-	729,798
Federal Prison Sewer System	6,701,733	-	-	-	6,701,733
Capital Planning Studies	10,731,120	10,000,000	10,000,000	4,000,000	34,731,120
Conveyance Rehabilitation/Capacity (2008)	3,475,163	11,524,837	-	-	15,000,000
South Campbell and Kino Parkway - 18th to Broadway	-	3,288,936	-	-	3,288,936
Mission Road and West Valencia Road	-	179,586	-	-	179,586
Park Avenue - Drexal to Irvington	-	4,417,988	-	-	4,417,988
Roger Road - Prince to River	-	61,410	-	-	61,410
Manhole 9910-21 Diversion	-	162,889	-	-	162,889
Miscellaneous Lift Station Rehabilitation	1,200,000	3,200,000	-	-	4,400,000
Park & 18th Capacity Expansion	5,000,000	30,000,000	-	-	35,000,000
Future Conveyance/Rehabilitation	-	9,000,000	3,000,000	-	12,000,000
Conveyance Rehabilitation/Capacity (2012)	-	1,734,456	189,633	-	1,924,089
I-19 and Irvington	-	1,498,245	-	-	1,498,245
Pantano Parkway - Harrison to Golf Links	-	240,662	5,054,664	-	5,295,326
Manhole 9910-21 Diversion	-	3,113,043	-	-	3,113,043
Mission Road and W Valencia Road	-	7,379,587	-	-	7,379,587
3 Large and 1 Small Interceptor Rehabilitation	-	20,000,000	20,000,000	-	40,000,000
Sewer Fairground to Corona de Tucson	-	200,000	2,750,000	-	2,950,000
CRRPS 2nd line or Marana Study - design	-	750,000	-	-	750,000
CRRPS 2nd line or Marana Plant Expansion - construction	-	-	7,000,000	-	7,000,000
Miscellaneous Lift Station Rehabilitation	-	2,300,000	2,100,000	-	4,400,000
Future Conveyance/Rehabilitation	-	-	9,000,000	-	9,000,000
Conveyance Rehabilitation/Capacity (2016)	-	-	1,408,903	-	1,408,903
Houghton Road & I-10	-	-	16,887,608	-	16,887,608
7th - Park to Main	-	-	28,058,052	-	28,058,052
Tanque Verde Road and Sabino Canyon	-	-	1,317,223	-	1,317,223
Ina Road at LaCholla	-	-	1,767,905	-	1,767,905
Other Lift Stations	-	-	3,400,000	1,000,000	4,400,000
Outlying Rehabilitation	-	-	20,000,000	10,000,000	30,000,000
Total	\$ 124,238,830	\$ 127,041,800	\$ 131,933,988	\$ 15,000,000	\$ 398,214,618

(1) Projects completed during 2007 are included to illustrate the funding requirements of the 1997 and 2004 revenue bond authorizations.

(2) Capital project costs as of 10/24/07

Schedule 6: CIP Funding Summary

	Fiscal Year Ending June 30				Total
	2007 - 2010 (1)	2011 - 2015	2016 - 2020	2021 - 2030	
CIP Funding Summary (in escalated dollars) (2)					
SDF Funding	\$ 102,769,521	\$ 28,195,139	\$ 10,000,000	\$ 4,000,000	\$ 144,964,660
Rate Funded	-	-	-	-	-
Short Term Financing (COPs-SDF Funded Projects)	-	-	-	-	-
Short Term Financing (COPs-All Other Projects)	-	-	-	-	-
Series 1997 Revenue Bonds	3,945,440	-	-	-	3,945,440
Series 2004 Revenue Bonds	148,686,169	1,313,831	-	-	150,000,000
Series 2008 Revenue Bonds	119,292,255	445,707,745	-	-	565,000,000
Series 2008 Revenue Bonds (WIFA Loan)	-	-	-	-	-
Series 2012 Revenue Bonds	-	313,809,421	84,889,202	-	398,698,623
Series 2016 Revenue Bonds	-	-	142,341,187	11,000,000	153,341,187
Total	\$ 374,693,385	\$ 789,026,136	\$ 237,230,389	\$ 15,000,000	\$ 1,415,949,910

(1) Projects completed during 2007 are included to illustrate the funding requirements of the 1997 and 2004 revenue bond authorizations.
(2) Capital project costs as of 10/24/07

Schedule 7: Projects Funded By SDF

	Fiscal Year Ending June 30				Total
	2007 - 2010	2011 - 2015	2016 - 2020	2020 - 2030	
SDF Funded Projects (in escalated dollars) (1)					
Ina Road Rehabilitation	\$ 4,753,448	\$ -	\$ -	\$ -	\$ 4,753,448
Miscellaneous Conveyance CIP Projects	21,906,239	5,798,639	-	-	27,704,878
Ina Road WPCF Process Change and Expansion to 37.5 MGD	1,038,114	-	-	-	1,038,114
Arivaca Junction Wastewater Treatment Facility Sewer Extension	641,312	-	-	-	641,312
Marana WWTP Expansion	62,035	-	-	-	62,035
Marana WWTP Expansion	10,768,878	-	-	-	10,768,878
Avra Valley BNRD Expansion to 4 MGD	29,264,782	58,000	-	-	29,322,782
Santa Cruz Interceptor, Prince to Franklin	11,092,062	-	-	-	11,092,062
Tanque Verde Interceptor: Craycroft to Tucson County Club	-	3,588,500	-	-	3,588,500
Ina Road & Roger Road NDN Design	-	-	-	-	-
Marana-Honea Heights Colonia	729,798	-	-	-	729,798
Federal Prison Sewer System	6,701,733	-	-	-	6,701,733
Highway Related Jobs	80,000	-	-	-	80,000
Capital Planning Studies	10,731,120	10,000,000	10,000,000	4,000,000	34,731,120
Other SDF Funded Projects	5,000,000	8,750,000	-	-	13,750,000
Total	\$ 102,769,521	\$ 28,195,139	\$ 10,000,000	\$ 4,000,000	\$ 144,964,660

(1) Based on CIP dated 10/24/07

Schedule 8: Projects Funded By 2004 Revenue Bonds

	Fiscal Year Ending June 30					Total
	2007	2008	2009	2010	2011	
2004 Bond Projects (in escalated dollars) (1)						
Roger Road WWTP Rehabilitation	\$ 4,171,073	\$ 6,116,003	\$ -	\$ -	\$ -	\$ 10,287,076
Roger Road Odor Control	2,811,764	6,301,160	600,000	-	-	9,712,924
Miscellaneous Conveyance System Repair & Rehabilitation	6,184,257	3,194,473	4,000,000	1,621,270	-	15,000,000
Santa Cruz Interceptor, Prince to Franklin	4,770,666	20,229,334	-	-	-	25,000,000
Roger Road WWTP to Ina Road WPCF (plant interconnect)	324,945	2,703,000	6,370,206	8,472,055	-	17,870,206
Additional Non-ROMP Interconnect	-	-	5,129,794	-	-	5,129,794
Tanque Verde Interceptor: Craycroft to Tucson Country Club	-	-	500,000	4,088,500	411,500	5,000,000
Marana Regional Airport Sewer Connection	230,000	1,594,920	975,080	-	-	2,800,000
Marana WWTP Expansion	4,770,666	5,229,334	-	-	-	10,000,000
Avra Valley BNRD Expansion to 4 MGD	2,981,571	19,485,665	2,532,764	-	-	25,000,000
Mt. Lemmon Sewer System	347,669	250,000	2,500,000	3,200,000	902,331	7,200,000
Ina Road & Roger Road NDN Design	-	4,500,000	9,912,919	-	-	14,412,919
SCR Basin Ina/Roger Road NDN Imp Study/ROMP	2,187,043	400,038	-	-	-	2,587,081
Total	\$ 28,779,654	\$ 70,003,927	\$ 32,520,763	\$ 17,381,825	\$ 1,313,831	\$ 150,000,000

(1) Capital project costs as of 10/24/07

Schedule 9: Projects Funded By 2009 Revenue Bonds

Fiscal Year Ending June 30				
2007	2008	2009	2010	2011

2009 Bond Projects(in escalated dollars) (1)

Treatment Facility Capacity & Rehabilitation					
Green Valley	\$ -	\$ -	\$ 2,000,000	\$ 13,000,000	\$ 9,500,000
Marana	-	-	-	-	5,000,000
Canoa Ranch	-	-	-	-	500,000
Ina Road WPCF Improvements	-	-	-	-	-
Roger Road WWTP to Ina Road WPCF (plant interconnect)	-	-	-	8,561,736	-
50 MGD at Ina Road (NDN)	-	-	26,232,793	39,818,916	64,087,451
32 MGD at Roger Road (NDN)	-	-	8,657,963	11,345,685	23,224,116
Future Conveyance/Rehabilitation	-	-	1,900,000	1,575,163	3,469,000
Campbell and Kino Pkwy - 18th to Broadway	-	-	-	-	162,889
Mission Rd and W Valencia Rd	-	-	-	-	-
Park Ave - Drexal to Irvington	-	-	-	-	162,889
Roger Road - Prince to River	-	-	-	-	61,410
Manhole 9910-21 Diversion	-	-	-	-	162,889
Fairground Ponds - Study Shifting Flow	-	-	-	-	-
Rillito Ponds - Study Shifting Flows	-	-	-	-	-
Miscellaneous Lift Station Rehabilitation	-	-	100,000	1,100,000	1,100,000
Park & 18th Capacity Expansion	-	-	-	5,000,000	15,000,000
Ina Road Electrical	-	-	-	-	15,000,000
Total (FY 2006/2007 - FY 2010/2011)	\$ -	\$ -	\$ 38,890,756	\$ 80,401,500	\$ 137,430,644

Fiscal Year Ending June 30				Total
2012	2013	2014	2015	

2009 Bond Projects(in escalated dollars) (1)

Treatment Facility Capacity & Rehabilitation					
Green Valley	\$ 4,500,000	\$ -	\$ -	\$ -	\$ 29,000,000
Marana	15,000,000	-	-	-	20,000,000
Canoa Ranch	500,000	-	-	-	1,000,000
System Wide Odor Control	-	-	-	-	-
Ina Road NDN - (2004 Bonds Design Roger 24 & Ina 50 MGD Plants)	-	2,299,714	-	-	2,299,714
Roger Road WWTP to Ina Road WPCF (plant interconnect)	-	-	-	-	8,561,736
50 MGD at Ina Road (NDN)	62,950,676	78,745,367	-	-	271,835,203
32 MGD at Roger Road (NDN)	63,016,849	21,058,734	-	-	127,303,347
Future Conveyance/Rehabilitation	-	5,141,015	8,000,000	2,204,013	22,289,192
Campbell and Kino Parkway - 18th to Broadway	3,126,046	-	-	-	3,288,936
Mission Road and West Valencia Road	179,586	-	-	-	179,586
Park Avenue - Drexal to Irvington	1,920,740	2,334,358	-	-	4,417,988
Roger Road - Prince to River	-	-	-	-	61,410
Manhole 9910-21 Diversion	-	-	-	-	162,889
Fairground Ponds - Study Shifting Flow	-	100,000	-	-	100,000
Rillito Ponds - Study Shifting Flows	-	100,000	-	-	100,000
Miscellaneous Lift Station Rehabilitation	1,100,000	1,000,000	-	-	4,400,000
Park & 18th Capacity Expansion	15,000,000	-	-	-	35,000,000
Ina Road Electrical	15,000,000	5,000,000	-	-	35,000,000
Total (FY 2011/2012 - FY 2014/2015)	\$ 182,293,897	\$ 115,779,188	\$ 8,000,000	\$ 2,204,013	\$ 565,000,000

(1) Capital project costs as of 10/24/07.

Schedule 10: Projects Funded By 2012 Revenue Bonds

	Fiscal Year Ending June 30						Total
	2013	2014	2015	2016	2017	2018	
2012 Bond Projects (in escalated dollars) (1)							
32 MGD at Roger Road (NDN)	\$ 52,037,020	\$ 76,910,466	\$ 36,221,732	\$ 24,138,504	\$ 7,386,220	\$ -	\$ 196,693,942
50 MGD at Ina Road (NDN)	-	30,535,016	-	-	-	-	30,535,016
Expansion of Marana WWTF BNROD	-	-	-	-	-	-	-
Future Conveyance/Rehabilitation	3,000,000	3,000,000	3,000,000	3,000,000	-	-	12,000,000
Conveyance Rehabilitation	-	1,635,016	99,440	44,803	144,830	-	1,924,089
I-19 and Irvington	-	109,144	1,389,101	-	-	-	1,498,245
Pantano Parkway - Harrison to Golf Links	-	-	240,662	3,592,034	1,462,631	-	5,295,327
Manhole 9910-21 Diversion	-	2,337,379	775,664	-	-	-	3,113,043
Mission Road and West Valencia Road	6,331,952	1,047,636	-	-	-	-	7,379,587
3 Large and 1 Small Interceptor Rehabilitation	-	10,000,000	10,000,000	10,000,000	10,000,000	-	40,000,000
Sewer Rillito Vista to Marana WWTF	-	500,000	3,000,000	3,000,000	-	-	6,500,000
Sewer Fairground to Corona de Tucson	-	-	200,000	2,750,000	-	-	2,950,000
CRRPS 2nd line or Marana Study - design	-	-	750,000	-	-	-	750,000
CRRPS 2nd line or Marana Plant Expansion - construction	-	-	-	3,000,000	4,000,000	-	7,000,000
Miscellaneous Lift Station Rehabilitation	100,000	1,100,000	1,100,000	1,100,000	1,000,000	-	4,400,000
Water Reclamation Facilities	4,500,000	22,500,000	20,250,000	-	-	-	47,250,000
Outlying Solids	1,500,000	7,500,000	6,750,000	-	-	-	15,750,000
SCADA and Control Systems	70,355	2,216,183	3,102,656	3,257,789	3,420,679	3,591,713	15,659,375
Total	\$ 67,539,326	\$ 159,390,840	\$ 86,879,255	\$ 53,883,130	\$ 27,414,360	\$ 3,591,713	\$ 398,698,624

(1) Capital project costs as of 10/24/07

Schedule 11: Revenue from Proposed Service Fee

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Annualized Service Fee (\$/Bill) \$	5.98	6.83	7.24	7.68	8.14
Total Number of Annual Bills	3,116,400	3,178,728	3,242,303	3,307,149	3,373,292
Revenue from Service Fee \$	18,636,072	21,710,712	23,474,271	25,398,901	27,458,593

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Annualized Service Fee (\$/Bill) \$	8.54	8.97	8.97	9.26	9.26
Total Number of Annual Bills	3,440,757	3,509,573	3,579,764	3,651,359	3,724,386
Revenue from Service Fee \$	29,384,068	31,480,866	32,110,483	33,811,587	34,487,819

Schedule 12: Residential Volume Charges and Semi-Annual Increases

Fiscal Year Ending June 30				
2008 (1)	2009	2010	2011	2012

Residential Volume Charge

Volume Charge (\$/Ccf) Previous Year	\$ 1.326	\$ 1.533	\$ 1.839	\$ 2.066	\$ 2.322
First Semi-Annual Increase (%)	6.00%	9.50%	6.00%	6.00%	6.00%
Volume Charge (\$/Ccf) First Half of Year	\$ 1.406	\$ 1.679	\$ 1.949	\$ 2.190	\$ 2.462
Second Semi-Annual Increase (%)	9.00%	9.50%	6.00%	6.00%	6.00%
Volume Charge (\$/Ccf) Second Half of Year	\$ 1.533	\$ 1.839	\$ 2.066	\$ 2.322	\$ 2.610
Annualized Increase (%)	15.61%	19.93%	12.37%	12.39%	12.40%

Fiscal Year Ending June 30				
2013	2014	2015	2016	2017

Residential Volume Charge

Volume Charge (\$/Ccf) Previous Year	\$ 2.610	\$ 2.879	\$ 3.175	\$ 3.175	\$ 3.386
First Semi-Annual Increase (%)	5.00%	5.00%	0.00%	3.25%	0.00%
Volume Charge (\$/Ccf) First Half of Year	\$ 2.741	\$ 3.023	\$ 3.175	\$ 3.279	\$ 3.386
Second Semi-Annual Increase (%)	5.00%	5.00%	0.00%	3.25%	0.00%
Volume Charge (\$/Ccf) Second Half of Year	\$ 2.879	\$ 3.175	\$ 3.175	\$ 3.386	\$ 3.386
Annualized Increase (%)	10.31%	10.28%	0.00%	6.65%	0.00%

(1) First increase of FY 2008 was implemented in July 2007

Schedule 13: Residential Customer Impacts

Volume Discharged	Monthly Sewer Bill				Monthly Sewer Bill			
	Sept. 2007	Mar. 2008	\$ Increase	% Increase	Mar. 2008	Sept. 2008	\$ Increase	% Increase
0	5.72	6.23	0.51	9.0%	\$6.23	\$6.83	\$0.59	9.5%
5	12.75	13.90	1.15	9.0%	\$13.90	\$15.22	\$1.32	9.5%
10	19.78	21.56	1.78	9.0%	\$21.56	\$23.62	\$2.05	9.5%
15	26.81	29.23	2.42	9.0%	\$29.23	\$32.01	\$2.78	9.5%

Schedule 14: Revenue from Connection Charges

	Fiscal Year Ending June 30				
	2008 (1)	2009	2010	2011	2012
Connection Charge Revenue					
First Semi-Annual Increase (%)	6.00%	9.50%	6.00%	6.00%	6.00%
Second Semi-Annual Increase (%)	6.00%	9.50%	6.00%	6.00%	6.00%
Annualized Increase (%)	9.18%	14.70%	9.18%	9.18%	9.18%
Building Starts (%)	-6.50%	-8.90%	-0.50%	-0.30%	0.00%
Effective Revenue Increase (%)	2.68%	5.80%	8.68%	8.88%	9.18%
Revenue (\$)	\$ 30,968,553	\$ 32,765,116	\$ 35,609,128	\$ 38,771,219	\$ 42,330,417

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Connection Charge Revenue					
First Semi-Annual Increase (%)	5.00%	5.00%	0.00%	3.25%	0.00%
Second Semi-Annual Increase (%)	5.00%	5.00%	0.00%	3.25%	0.00%
Annualized Increase (%)	7.63%	7.63%	0.00%	4.93%	0.00%
Building Starts (%)	0.00%	1.00%	1.00%	1.00%	1.00%
Effective Revenue Increase (%)	7.63%	8.63%	1.00%	5.93%	1.00%
Revenue (\$)	\$ 45,558,111	\$ 49,487,498	\$ 49,982,373	\$ 52,945,234	\$ 53,474,687

(1) First semi-annual increase of FY 2008 was implemented in July, 2008

Schedule 15: Miscellaneous Charge Revenue

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Miscellaneous Charge Revenue					
General Government Fees	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000
Business Licenses and Permits	5,000	5,000	5,000	5,000	5,000
Sanitation Fees	1,580,000	1,439,380	1,432,183	1,427,887	1,427,887
Other Fines	58,800	58,800	58,800	58,800	58,800
Total Miscellaneous Revenue	\$ 1,656,800	\$ 1,516,180	\$ 1,508,983	\$ 1,504,687	\$ 1,504,687

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Miscellaneous Charge Revenue					
General Government Fees	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000
Business Licenses and Permits	5,000	5,000	5,000	5,000	5,000
Sanitation Fees	1,427,887	1,442,165	1,456,587	1,471,153	1,485,864
Other Fines	58,800	58,800	58,800	58,800	58,800
Total Miscellaneous Revenue	\$ 1,504,687	\$ 1,518,965	\$ 1,533,387	\$ 1,547,953	\$ 1,562,664

Schedule 16: Summary of Revenue

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Summary of Revenue					
<u>Operating Revenue</u>					
Service Fees	\$ 18,636,072	\$ 21,710,712	\$ 23,474,271	\$ 25,398,901	\$ 27,458,593
User Fees	61,704,143	75,345,813	87,731,771	100,559,376	115,280,178
Environmental Fees	-	-	-	-	-
Miscellaneous Operating Charges	1,656,800	1,516,180	1,508,983	1,504,687	1,504,687
Total Operating Revenue	\$ 81,997,015	\$ 98,572,705	\$ 112,715,025	\$ 127,462,964	\$ 144,243,458
<u>Non-Operating Revenue</u>					
Connection Charges	\$ 30,968,553	\$ 32,765,116	\$ 35,609,128	\$ 38,771,219	\$ 42,330,417
Grants and Contributions	100,000	100,000	100,000	100,000	100,000
Interest Income	2,232,600	2,411,626	2,325,903	2,205,750	4,049,322
Miscellaneous Non-Operating Charges	-	-	-	-	-
Total Non-Operating Revenue	\$ 33,301,153	\$ 35,276,742	\$ 38,035,031	\$ 41,076,969	\$ 46,479,739
Total Revenue	\$ 115,298,168	\$ 133,849,447	\$ 150,750,056	\$ 168,539,933	\$ 190,723,197

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Summary of Revenue (Continued)					
<u>Operating Revenue</u>					
Service Fees	\$ 29,384,068	\$ 31,480,866	\$ 32,110,483	\$ 33,811,587	\$ 34,487,819
User Fees	130,287,628	146,590,055	153,212,281	163,977,541	169,988,955
Environmental Fees	-	-	-	-	-
Miscellaneous Operating Charges	1,504,687	1,518,965	1,533,387	1,547,953	1,562,664
Total Operating Revenue	\$ 161,176,383	\$ 179,589,886	\$ 186,856,152	\$ 199,337,081	\$ 206,039,438
<u>Non-Operating Revenue</u>					
Connection Charges	\$ 45,558,111	\$ 49,487,498	\$ 49,982,373	\$ 52,945,234	\$ 53,474,687
Grants and Contributions	100,000	100,000	100,000	100,000	100,000
Interest Income	4,711,760	5,437,781	6,501,710	5,675,438	6,495,943
Miscellaneous Non-Operating Charges	-	-	-	-	-
Total Non-Operating Revenue	\$ 50,369,871	\$ 55,025,279	\$ 56,584,083	\$ 58,720,672	\$ 60,070,630
Total Revenue	\$ 211,546,254	\$ 234,615,165	\$ 243,440,235	\$ 258,057,753	\$ 266,110,068

Schedule 17: Comparison of Volume Charge Increases Under Different Bonds Terms

Volume Charge	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Annualized % Increase 15 year bonds	15.61%	19.93%	12.37%	12.39%	12.40%
Annualized % Increase 20 year bonds	15.61%	19.93%	10.31%	10.31%	10.28%
Annualized % Increase 30 year bonds	15.61%	19.93%	8.24%	8.19%	8.22%

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Annualized % Increase 15 year bonds	10.31%	10.28%	0.00%	6.65%	0.00%
Annualized % Increase 20 year bonds	8.19%	8.21%	0.00%	7.69%	0.00%
Annualized % Increase 30 year bonds	6.09%	6.15%	0.00%	8.19%	0.00%

Schedule 18: Cash Flow Summary (FY 2007/2008-FY 2011/2012)

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Revenue					
Operating Revenue	\$ 81,997,015	\$ 98,572,705	\$ 112,715,025	\$ 127,462,964	\$ 144,243,458
Non-Operating Revenue	31,068,553	32,865,116	35,709,128	38,871,219	42,430,417
Interest Income (1)	2,232,600	2,411,626	2,325,903	2,205,750	4,049,322
Total Revenue	\$ 115,298,168	\$ 133,849,447	\$ 150,750,056	\$ 168,539,933	\$ 190,723,197
Expenses					
O&M Expenses	\$ 72,791,971	\$ 75,967,744	\$ 78,868,579	\$ 81,884,026	\$ 85,018,795
Net Revenues Available for Debt Service	\$ 42,506,197	\$ 57,881,703	\$ 71,881,477	\$ 86,655,907	\$ 105,704,402
Debt Service	26,200,089	26,215,381	43,394,151	43,429,957	75,826,172
Net Revenues Available After Debt Service	\$ 16,306,108	\$ 31,666,322	\$ 28,487,326	\$ 43,225,950	\$ 29,878,230
Sources and Uses					
Sources:					
Net Revenues Available After Debt Service	\$ 16,306,108	\$ 31,666,322	\$ 28,487,326	\$ 43,225,950	\$ 29,878,230
Total Transfers from Reserves	14,500,000	22,000,000	-	-	-
1997 Revenue Bond Proceeds	479,688	2,095,191	1,000,000	-	-
2004 Revenue Bond Proceeds	70,003,926	32,520,763	17,381,825	1,313,831	-
2008 Revenue Bond Proceeds	-	38,890,756	80,401,500	137,430,644	182,293,899
Total Sources	\$ 101,289,722	\$ 127,173,032	\$ 127,270,651	\$ 181,970,425	\$ 212,172,129
Uses:					
Annual Capital Outlays	\$ 27,997,347	\$ 53,346,078	\$ 14,643,608	\$ 21,009,845	\$ 12,566,289
Bond Funded Capital Improvement Projects	70,483,614	73,506,710	98,783,324	138,744,475	182,293,899
Total Uses	\$ 98,480,961	\$ 126,852,788	\$ 113,426,932	\$ 159,754,320	\$ 194,860,188
Net Sources Over Uses	\$ 2,808,761	\$ 320,244	\$ 13,843,719	\$ 22,216,105	\$ 17,311,941
Beginning Cash Balance	\$ 47,952,400	\$ 36,261,161	\$ 14,581,405	\$ 28,425,123	\$ 50,641,227
Transfers for Capital Projects	(14,500,000)	(22,000,000)	-	-	-
Net Sources Over Uses	2,808,761	320,244	13,843,719	22,216,105	17,311,941
Projected Ending Cash Balance	\$ 36,261,161	\$ 14,581,405	\$ 28,425,124	\$ 50,641,228	\$ 67,953,168
Emergency Reserve Cash	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Projected SDF Funds Available	\$ 26,261,161	\$ 4,581,405	\$ 18,425,124	\$ 40,641,228	\$ 57,953,168
Debt Coverage	162%	221%	166%	200%	139%

Schedule 18 (continued): Cash Flow Summary (FY 20012/2013-FY 2016/2017)

	Fiscal Year Ending June 30				
	2013	2014	2015	2016	2017
Revenue					
Operating Revenue	\$ 161,176,383	\$ 179,589,886	\$ 186,856,151	\$ 199,337,081	\$ 206,039,438
Non-Operating Revenue	45,658,111	49,587,498	50,082,373	53,045,234	53,574,687
Interest Income	4,711,760	5,437,781	6,501,710	5,675,438	6,495,943
Total Revenue	\$ 211,546,254	\$ 234,615,165	\$ 243,440,234	\$ 258,057,753	\$ 266,110,068
Expenses					
O&M Expenses	\$ 88,277,793	\$ 92,788,579	\$ 98,258,135	\$ 102,108,028	\$ 105,527,714
Net Revenues Available for Debt Service	\$ 123,268,461	\$ 141,826,586	\$ 145,182,099	\$ 155,949,725	\$ 160,582,354
Debt Service	75,312,089	108,663,150	109,297,972	124,576,903	116,332,440
Net Revenues Available After Debt Service	\$ 47,956,372	\$ 33,163,436	\$ 35,884,127	\$ 31,372,822	\$ 44,249,914
Sources and Uses					
Sources:					
Net Revenues Available After Debt Service	\$ 47,956,372	\$ 33,163,436	\$ 35,884,127	\$ 31,372,822	\$ 44,249,914
Total Transfers from Reserves	-	-	-	-	-
2008 Revenue Bond Proceeds	115,779,188	8,000,000	2,204,013	-	-
2012 Revenue Bond Proceeds	67,539,326	159,390,840	86,879,255	53,883,129	27,414,360
2016 Revenue Bond Proceeds	-	-	-	-	22,555,955
Total Sources	\$ 231,274,886	\$ 200,554,276	\$ 124,967,395	\$ 85,255,951	\$ 94,220,229
Uses:					
Annual Capital Outlays	\$ 7,969,388	\$ 8,163,393	\$ 8,363,703	\$ 8,570,524	\$ 8,784,066
Bond Funded Capital Improvement Projects	183,318,515	167,390,840	89,083,268	53,883,129	49,970,316
Total Uses	\$ 191,287,903	\$ 175,554,233	\$ 97,446,971	\$ 62,453,653	\$ 58,754,382
Net Sources Over Uses	\$ 39,986,983	\$ 25,000,043	\$ 27,520,424	\$ 22,802,298	\$ 35,465,847
Beginning Cash Balance	\$ 67,953,168	\$ 107,940,151	\$ 132,940,194	\$ 160,460,618	\$ 183,262,916
Transfers for Capital Projects	-	-	-	-	-
Net Sources Over Uses	39,986,983	25,000,043	27,520,424	22,802,298	35,465,847
Projected Ending Cash Balance	\$ 107,940,151	\$ 132,940,194	\$ 160,460,618	\$ 183,262,916	\$ 218,728,763
Emergency Reserve Cash	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Projected SDF Funds Available	\$ 97,940,151	\$ 122,940,194	\$ 150,460,618	\$ 173,262,916	\$ 208,728,763
Debt Coverage	164%	131%	133%	125%	138%

Attachments

Attachment 1: Wastewater Management Advisory Committee (WMAC)
Meeting Minutes, November 8, 2007 Public Meetingpage 47

Attachment 2: Wastewater Management Advisory Committee (WMAC)
Meeting Minutes and Recommendations, November 8/15, 2007page 48

Attachment 3: Amendment to Pima County Code, Title 13, Chapter 20
Sanitary Sewer Construction, Connections and Feespage 49

Attachment 4: Amendment to Pima County Code Title 13, Chapter 24
Sanitary Sewer User Feespage 50

Attachment 1

Wastewater Management Advisory Committee (WMAC)

Meeting Minutes

November 8, 2007 Public Meeting

WASTEWATER MANAGEMENT ADVISORY COMMITTEE
DRAFT PUBLIC MEETING MINUTES
November 8, 2007

Committee Members Present:

Adam Bliven	Brad DeSpain	John Carlson
Marcelino Flores	Barbee Hanson	Mark Stratton
Michael Gritzuk		

Committee Members Absent:

John Carhuff	Sheila Bowen	Steve Halverson
Rob Kulakofsky	Armando Membrila	John Sawyer
Ann Marie Wolf		

Staff Present:

Mike Bunch	Ed Curley	Laura Fairbanks
Mary Hamilton	Suzy Hunt	Rose Hylton
Jeff Nichols	Patsy Ronquillo	Cecilia Vindiola

Other County Staff Present:

Pat Cavanaugh, Executive Aide District 1	Charles Wesselhoft, County Attorney's Office
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- I. CALL TO ORDER.** Chair Adam Bliven, called the meeting of the Wastewater Management Advisory Committee (WMAC) to order at 7:09 P.M. and led the audience in the Pledge of Allegiance. Mr. Bliven explained that the WMAC Committee members were appointed by the Board of Supervisors, and represented various community organizations or individual Supervisors. Mr. Bliven and Committee members introduced themselves.

Mr. Bliven explained that the role of the Committee is to act as the public's voice on issues related to the Regional Wastewater Management Reclamation Department.. He noted that the Committee reviews and makes recommendations on all aspects of the Department, including the FY 2007/08 Financial Plan and proposed rate increases. The Committee will forward a summary of all comments from the Public Meeting and a final recommendation on the Department's proposed FY 2007/08 Financial Plan to the Board of Supervisors for their consideration.

- II. PRESENTATION OF FY 2007/08 FINANCIAL PLAN (Financial Plan).** Mr. Bliven introduced the Department Director, Mr. Michael Gritzuk. Mr. Gritzuk explained that the Department was in a formal process of presenting the FY 2007/08 Financial Plan. The Financial Plan explains all of the Department's financial needs over the next 10 to 15 years and the rate increases the Department needs to support this plan. (Committee members received copies of the FY 2007/08 Financial Plan prior to the meeting. In addition, copies of the FY 2007/08 Financial Plan PowerPoint presentation were provided to all meeting attendees.)

Mr. Gritzuk introduced Mr. Jeff Nichols, Deputy Director and Controller. Mr. Gritzuk noted that the FY 2007/08 Financial Plan builds on the findings and recommendations of the Regional Optimization Master Plan (ROMP).

Mr. Nichols introduced Harold Smith of Raftelis Financial Consultants (RFC), who then presented the 2007/08 Financial Plan. Mr. Smith explained that RFC developed the Financial Plan in cooperation with Department staff, the County Administrator's Office and the

Department of Finance and Risk Management. RFC had been working with the Department on the ROMP for the past 18 months to figure out the financial implementation of ROMP.

Mr. Smith presented some of the key assumptions associated with the Department's FY 2007/08 Financial Plan, including operations and maintenance (O&M) expenses, Capital Improvement Program (CIP) costs, projection of overall revenue requirements, and immediate recommended actions to address those immediate needs.

Mr. Smith reminded Committee members that the Arizona Department of Environmental Quality (ADEQ) has imposed more stringent standards, on the effluent that is discharged from the Department's wastewater treatment facilities. In order to determine the best way to address these enhanced standards, the Department conducted the ROMP over the past two years. The goal of the ROMP was to try to identify the most effective, efficient way of addressing these enhanced standards, but also included a verification of the rest of the Department's Capital Improvement Program needs. Based on this analysis, a \$1.4 billion Capital Improvement Program was identified between now and 2030, including the ROMP Program and other Department CIP needs, with the majority of the program occurring within the next 10-15 years. With this in mind, the Department also decided it needed to develop a financial plan that addressed the long-term financial needs of the Department.

Mr. Smith then reviewed the ROMP Recommended Plan which includes: the Plant Interconnect; the significant process changes and expansion at the Ina Road facility; a new water reclamation campus adjacent to the existing Roger Road facility, all at a cost of \$536 million in 2006 dollars. It should be noted, however, that due to anticipated inflation the actual total cost of these projects will be closer to \$717 million.

Mr. Smith then pointed out that, in addition to the ROMP projects, the Department has additional capital needs to rehabilitate, meet regulatory compliance, improve and/or expand its treatment and conveyance facilities.

Treatment projects in the CIP include expansions to the Avra Valley, Green Valley and Marana treatment facilities as well as upgrades to other treatment facilities and interim rehabilitation to the Roger Road and Ina Road facilities. The total cost in escalated dollars for current treatment plant CIP projects is \$286.5 million.

In addition, projects associated with the rehabilitation, improvement and expansion of the conveyance system will cost an additional \$400 million. Finally, the total cost of several projects that include components of treatment and conveyance as well as detailed capital planning studies for sub-regions of the system is \$14.0 million.

As an outcome of the ROMP planning, RFC and Department staff developed a baseline financing plan and rate model. The baseline financing plan includes funding sources from the remaining 1997 Bonds of \$4 million, the \$150 million in 2004 Bonds (\$36 million of which would be for the ROMP) and System Development Funds (SDF) of \$144.5 million). Looking into the future, the FY 2007/08 Financial Plan includes three separate voter bond authorizations that will be required to implement the proposed financing plan. This includes voter bond authorization needs of approximately \$565 million in FY 2008/09 - of which \$445 million is for ROMP projects. The Department also will require authorization in 2012 to issue \$400 million in bonds and authorization in 2016 for \$153 million in bonds.

Mr. Smith indicated that as a result of relying more heavily on debt to fund the CIP, the Department's debt service would also increase from approximately \$16 million currently to approximately \$116 million in FY 2016/17.

The FY 2007/08 Financial Plan focuses on the Department's immediate needs because those needs are known with a relatively high level of certainty. The Plan also provides a preliminary indication of the types of rate adjustments that would potentially be required in future years, but since the actual costs in future years are uncertain, RFC has not developed definite recommendations for future rate adjustments

Mr. Smith reviewed the FY 2007/08 Financial Plan's immediate recommendations. These include:

- o Increase Sewer User Fee (Volume Charge) rates 9.0 percent in January 2008 and 9.5 percent in July 2008.
- o Revise the User Fee Ordinance to allow for annual review and adjustment of the Service Fee. The current ordinance that limits increases to every four years places an undue burden on the volume charge
- o Increase the Service Fee by 9.0 percent in January 2008 and 9.5 percent in July 2008.
- o The Board of Supervisors previously authorized implementation of a 6.0 percent increase to Connection Fees in January 2008. The Financial Plan recommends implementation of an additional 9.5 percent increase to Connection Fees in July 2008.
- o Support for the 2008/09 Bond Election of \$565 million.
- o Endorsement by the Board of Supervisors of a debt service coverage policy on bond issuance. When the Department sells sewer revenue bonds, it would like the Board to take action to increase the rates incrementally enough to service the debt on that issuance.

Mr. Smith pointed out that although typical customer bills will increase as a result of the recommended rate increases, a typical residential customer in Pima County will still pay less than the national (and Arizona) average for wastewater service.

Mr. Smith then presented the preliminary rate increases that will be required in the future. At this time it appears that additional semi-annual increases ranging from 3% to 9.5% will be required.

Mr. Smith also presented the Committee with significant financial policy issues that the Department, the Committee and the County need to consider over the coming year. These issues include:

- Extending the term on revenue bonds from 15 year to 20 or 30 years;
- The use of short term debt instruments;
- The development of an environmental fee that better communicates to customers the costs associated with regulatory compliance; and
- The establishment of reserve fund policies

In closing, Mr. Smith reiterated the importance of implementing a financial plan that will allow for the timely completion of the projects in the CIP. Failure to do so could result in fines or new housing construction moratoriums associated with non-compliance as well as a possible decline in service.

Mr. Nichols noted that RFC, as a member of the ROMP Consultant Team, has a good knowledge of the Department and its programs. RFC will continue to work with the Department on the financial planning for the ROMP over the next year. Most recently, on September 17, 2007, RFC and Department staff met with County Administration to review financing alternatives and options for the ROMP.

Discussion followed.

Mr. Carlson noted that Mr. Smith said that the County's bond covenants require it to maintain a 1.20 revenue-to-debt ratio. He asked if that ensured that the Department had a lesser interest rate on the bonds. Mr. Smith responded in the affirmative and said that a good revenue-to-debt ratio helps get better bond terms. Mr. Carlson asked if that lower bond rate was reflected in the Financial Plan. Mr. Smith responded that the Financial Plan assumes 5.25 percent interest which reflects a good revenue-to-debt ratio. Mr. Smith noted that due to the debt service coverage ratio requirement in the bond covenants, the Department will generate significant System Development Funds in the latter years of the Financial Plan. Mr. Carlson asked what is done with excess funds when they are generated by the 1.20 revenue-to-debt ratio requirement. Mr. Smith responded the money goes into reserve and it can be used as it builds up. Some of the projects earmarked for the 2012 and 2016 bond authorizations could be funded with those reserves that were being built up to meet the bond ratio coverage requirements.

Mr. Stratton asked if the Financial Plan took into account debt service that is being retired from previous bond sales in the 1990s that are reaching their 15-year life span. Mr. Smith responded in the affirmative.

Mr. Stratton said there is an ADEQ regulatory requirement that the Department has to meet, and that the bonds need to be authorized. He asked if the bonds are not authorized by the voters or if the Board of Supervisors does not approve the Financial Plan's recommended rate increases (knowing that the Department has a regulatory "flag" hitting it in 2014 and 2015), what is the alternative? Mr. Smith responded that, if the Department is going to meet its regulatory deadline and the voters do not approve the bonds, the Department will have to fund these projects with cash which will mean even greater rate increases than currently being recommended. If the voters issue the authorization to fund the bonds, but the Board of Supervisors does not authorize the increase in rates, then the Department will not have enough money to both implement the Financial Plan and cover its cash funding requirements.

Mr. Gritzuk said it was important to stress that the ROMP is a regulatory-driven program. The Department is required by ADEQ mandate to improve the quality of the effluent discharged into the Santa Cruz River within a specified period of time. If the Department went back to the ADEQ and said that it could not meet these requirements because it could not raise the revenue, the Agency would likely initiate enforcement – most likely a consent decree – against the Department.

Mr. Carlson asked if the bond holder's income from bonds is tax exempt. Mr. Smith responded in the affirmative – bonds are exempt from federal and state taxes. Mr. Carlson asked further whether the alternative short-term financing is tax exempt. Mr. Smith responded certificates of participation and bond anticipation notes would all be tax exempt debt instruments. Private financing would not be tax exempt.

Mr. Bliven said when Pima County issued the ROMP "Expressions of Interest," one of the options discussed was build-own-operate-finance. He asked if an outside firm is financing some of this construction, what that would do to the Financial Plan recommendations? Mr. Smith said that would depend on how that transaction would be structured. He felt the County would not pursue this type of option if it made costs increase. He said, overall, the private financing costs are significantly more, but the private firms believe some of the efficiencies they bring to the design, build, and operate components can counteract the additional financing costs. Mr. Bliven asked if the Department would still need the User Fee Volume Charge, Service Fee and Connection Fees to pay that private entity. Mr. Smith responded in the affirmative.

Ms. Barbee Hanson asked for further clarification on how detrimental it would be to the Department if it did not meet ADEQ's mandated compliance schedule. Mr. Gritzuk responded that if the Department got in the position of non-compliance there would be litigation costs that the Department would have to fund and there would be penalties it would have to pay. As an example, he informed Committee members that when the City of Atlanta did not move ahead with rehabilitation/repair of its wastewater system, the City got into non-compliance and initially paid a fine in the millions of dollars, and then was forced to enter into a consent decree which required construction of the system improvements subject to stipulated penalties. He noted that this resulted in millions of dollars per year in additional costs.

Mr. Smith added that just raising rates to meet the ROMP and ADEQ's regulatory requirements is not enough. The Department still has to maintain, rehabilitate, and expand the capacity of the existing sewer system where/when necessary.

Mr. Carlson asked about the status of the Department's Emergency Reserve Fund which was implemented as a result of a WMAC recommendation. Mr. Smith responded that the Department has a \$10 million emergency reserve in its budget that it holds for emergencies. In addition, Mr. Carlson asked if the emergency reserve gets used - how would the Department replenish it. Mr. Smith said the Financial Plan recommends that the Board of Supervisors develop policies regarding the establishment and funding of reserve funds. These could include an operating reserve fund, a capital improvement fund, a repair and replacement fund, and rate stabilization fund policies. Establishing these types of policies adds predictability to the financial planning process and helps stabilize rates.

III. PUBLIC QUESTIONS AND COMMENTS. At this point in the meeting, Mr. Bliven asked for comments/questions from the audience. There being no comments/questions from the audience, Mr. Bliven adjourned the meeting.

IV. ADJOURNMENT. The meeting adjourned at 8:33 P.M.

Attachment 2

Wastewater Management Advisory Committee (WMAC)

Meeting Minutes and Recommendations

November 8/15, 2007

WASTEWATER MANAGEMENT ADVISORY COMMITTEE
DRAFT MEETING MINUTES
November 8, 2007

Committee Members Present:

Adam Bliven	Brad DeSpain	John Carlson
Marcelino Flores	Barbee Hanson	Mark Stratton
Michael Gritzuk		

Committee Members Absent:

John Carhuff	Sheila Bowen	Steve Halverson
Rob Kulakofsky	Armando Membrila	John Sawyer
Ann Marie Wolf		

Staff Present:

Mike Bunch	Ed Curley	Laura Fairbanks
Mary Hamilton	Suzy Hunt	Rose Hylton
Jeff Nichols	Patsy Ronquillo	Cecilia Vindiola

Other County Staff Present:

Pat Cavanaugh, Executive Aide District 1	Charles Wesselhoft, County Attorney's Office
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- I. **CALL TO ORDER.** Chair Adam Bliven, called the meeting of the Wastewater Management Advisory Committee (WMAC) to order at 8:23 PM. As a quorum was not present, no votes could be taken. The meeting was continued until 7:45 AM, November 15, 2007.

WASTEWATER MANAGEMENT ADVISORY COMMITTEE
DRAFT MEETING MINUTES
November 15, 2007

Committee Members Present:

Adam Bliven	John Carlson	Brad DeSpain
Marcelino Flores	Steve Halverson	Barbee Hanson
Rob Kulakofsky	Mark Stratton	Ann Marie Wolf
Michael Gritzuk		

Committee Members Absent:

Sheila Bowen	John Carhuff	Armando Membrila
John Sawyer		

Staff Present:

Mike Bunch	Ed Curley	Sandy Current
Laura Fairbanks	Mary Hamilton	Suzy Hunt
Jackson Jenkins	Mike Kostrzewski	Jeff Nichols
Lorraine Simon	David Smith	John Warner
Eric Wieduwilt		

Other County Staff Present:

Harlan Agnew County Attorney's Office	Chuck Wesselhoft County Attorney's Office
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- II. CALL TO ORDER.** Chair, Adam Bliven, called the meeting of the Wastewater Management Advisory Committee (WMAC) to order at 7:52 A.M.
- III. APPROVAL OF MINUTES.** The Committee approved the minutes of the October 18, 2007 WMAC meeting.
- IV. DISCUSSION**

A. Old Items/Updates

1. **Draft Fiscal Year 2007/08 Financial Plan (Draft Plan).** Mr. Bliven reminded Committee members that they received presentations of the Draft Plan at the October 18, 2007 WMAC meeting and at the November 8, 2007 WMAC Public Meeting from Department staff and Mr. Harold Smith of Raftelis Financial Consultants (RFC). Committee members also received copies of the Draft Plan prior to the meeting. The Committee members were given the option of listening to the presentation again. All agreed that they were sufficiently familiar with the Draft Plan and did not need another presentation.

Mr. Bliven introduced Jeff Nichols, Deputy Director and Department Controller. Discussion of the Draft Plan followed.

Mr. Steve Halverson asked whether staff had looked into evaluating implementation of a special assessment fee to see if it is a viable option for the Department to raise additional revenue as requested at the October 2007 Committee meeting. Mr. Nichols responded that the idea of a special assessment fee has been presented to the County's Finance Director. He commented further that staff is looking at the difference in the Department's revenues, and said at this point in time the Department has not experienced a downturn in revenues. Projections of connection fee revenue in the Draft Plan assume a near term decline in building starts, but the recommended increases in connection fees would result in the annual increases in connection fee revenue. The Department is still expecting approximately \$33 million in connection fee revenues for FY 2007/08.

A motion was made and seconded to support the Draft Plan and the proposed rate increases. These include:

- For January 2008:
 - o Increase the User Fee (Volume Charge) 9.0 percent
 - o Delete the cap and increase the User Service Fee 9.0 percent
- For July 2008
 - o Increase the User Fee (Volume Charge) 9.5 percent
 - o Increase the User Service Fee 9.5 percent
 - o Increase the Connection Fee 9.5 percent.

Mr. Bliven said he would attend the Board of Supervisors meeting in support of the Draft Plan. Committee members agreed to attend the Board meeting and also to meet one-on-one with their Supervisors in support of the Plan. Mr. Bliven expressed that this is a critical period for the County because it has to come into compliance with ADEQ regulations and must bring an aging sewer system into good condition and operation. He felt the County did not have too many options other than increasing fees in order to cover these costs.

Mr. Flores commented that the Plan already supports a sense of urgency that is reflected in terms of having the rate increases and the potential of revenue losses does not eliminate that urgency. Mr. Bliven added that if the uncertainties in the housing market continue and the number of projected new connections to the sewer system decrease in upcoming years, the impact to the rate increases would be greater. Mr. Halverson and Mr. Carlson felt that the Committee's recommendations should include a cautionary note that the slow down in growth might impact projected revenues.

Mr. Kulakofsky felt that Committee members should convey the message to their individual Supervisors that if the Department does not get substantial rate increases now, the County is essentially putting itself into a position similar to holding a sub prime mortgage with a balloon payment. He said that would be unfair to the tax and rate payers.

Mr. Nichols said the Department's message has been consistent that the Regional Optimization Master Plan (ROMP) is regulatory-driven and regardless of whether one more home is added to the sewer system, the ROMP has to go forward.

Mr. Flores suggested that talking points for the Draft Plan be developed for Committee members for their conversations with individual Board members and Committee presentations to the Board.

The Committee voted: YES – 9, NO – 0 for the above motion to support the recommended rate increases and Draft Financial Plan.

The Committee then discussed the Draft Plan policy recommendations which include:

- That the Board of Supervisors consider matching the term of the bonds with the expected longevity of the project using 15 to 30 year terms.

Committee members expressed support for extending the term of the bonds from 15 to 30 years, where appropriate, in regard to the expected longevity of the project. They felt extending the bond term to 30 years had the potential of stabilizing rates going forward.

- That the Board of Supervisors direct the Department to evaluate use of an environmental fee in order to capture ROMP costs in a manner that better educates customers.

The Committee continued to discuss the financial policy recommendations from the Draft Plan for potential inclusion in the Committee's letter of recommendations to the Board of Supervisors. These recommendations included:

- Direct the Department to develop financial policies on the following issues:
 - o Short term debt instruments
 - o Debt service coverage
 - o Reserve funding.

Mr. Kulakofsky felt the Committee should send a recommendation that the Board of Supervisors increase revenue when the County issues bonds so that the bonds are covered. Therefore the County may be able to get a lower rate on those bonds.

Mr. Flores felt with regard to short-term financing, it was important to emphasize the Department is preparing to understand and appreciate how short-term debt instruments add value to the Draft Plan to the Board of Supervisors.

The Committee voted: YES – 8, NO – 0 (One committee member had to leave during this discussion) to include support for all the above financial policy recommendations and issues in their letter of recommendations to the Board of Supervisors.

Mr. Gritzuk informed the Committee members that the Department with assistance from RFC would present the Recommended Financial Plan on December 11, 2007 to the Board of Supervisors.

B. New Items. No new items were presented.

V. FUTURE AGENDA ITEMS. Use of Outside CIP Project Management Services; Recommended Financial Update; Capital Improvement Program Update; Regional Optimization Master Plan and Odor Control Plan Update; 2008 Work Plan; Avra Valley WWTF Tour; and Wastewater Management Strategic Plan.

Mr. Gritzuk suggested that staff present the Odor Control Study report that is being presented to the Board of Supervisors on December 4, 2007 at the Committee's next regular meeting. In addition, he suggested that Mr. Carlson and Ms. Wolf provide a summary of the Citizens' Involvement Committee Report as well.

Mr. Bunch suggested that a future agenda item be an update on the Department's progress on achieving ISO (International Standards Organization) and OHSAS (Occupational Health and Safety Assessment Series) certification of the conveyance system. He informed Committee members that the external auditors would be conducting the final audit for ISO and OHSAS certification of the conveyance system the week of November 19, 2007. The Department did achieve the ISO 9001 certification, and the two auditors for the ISO 14001 and OHSAS 18001 will be here on November 19, 2007. The Department believes it will be the first U.S. enterprise, public or private, to achieve all three certifications at the same time.

VI. CALL TO THE AUDIENCE. Mr. Craig Cannizzaro, an engineer with URS Corporation, referring to talking points for the Board of Supervisors, expressed that he had found that it's hard to explain issues with water and wastewater because as long as you can "flush your toilet and turn on your tap" there is no problem. If you don't do something now, there will be a bigger problem later.

There being no further responses from the audience, Mr. Bliven adjourned the meeting.

VII. ADJOURNMENT. The meeting adjourned at 8:53 A.M.

Attachment 3

Amendment to Pima County Code, Title 13, Chapter 20

Sanitary Sewer Construction, Connections and Fees

ORDINANCE 2007-__

**AN ORDINANCE OF THE BOARD OF
SUPERVISORS OF PIMA COUNTY,
ARIZONA; RELATING TO WASTEWATER;
AMENDING PIMA COUNTY CODE, TITLE
13, CHAPTER 20, SECTION 045,
CONNECTION FEES**

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

SECTION 1. Amendment. The Pima County Code, Title 13, Chapter 20, is hereby amended as follows:

Section 13.30.045

Connection Fees

A. Connection Fee Rates. Except as otherwise provided in this section, persons installing fixtures tributary to the public sanitary sewer system shall pay the following connection fee:

1. Residential:

a. From the effective date of the Ordinance to December 31, 2007, the residential connection fee will be \$201.00 per fixture unit equivalent.

b. From January 1, 2008 to June 30, 2008, the residential connection fee will be \$213.06 per fixture unit equivalent.

c. Beginning July 1, 2008, the residential connection fee will be \$233.30 per fixture unit equivalent.

2. Commercial and Industrial:

a. From the effective date of the Ordinance to December 31, 2008, the commercial and industrial connection fee will be \$402.09 per fixture unit equivalent.

b. From January 1, 2008 to June 30, 2008, the commercial and industrial connection fee will be \$426.22 per fixture unit equivalent.

c. Beginning July 1, 2008, the commercial and industrial connection fee will be \$466.71 per fixture unit equivalent.

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SECTION 2. 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 3. 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 4. 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:

Chairman

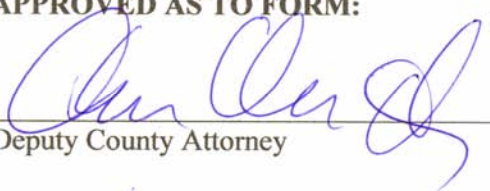
Dated: _____

ATTEST:

Clerk of the Board

Dated: _____

APPROVED AS TO FORM:



Deputy County Attorney

Dated: 11-26-07

APPROVED AS TO CONTENT:



Director, Regional Wastewater Reclamation
Department

Dated: _____

ORDINANCE 2007-__

AN ORDINANCE OF THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA; RELATING TO WASTEWATER; AMENDING PIMA COUNTY CODE, TITLE 13, CHAPTER 20, SECTION 045, CONNECTION FEES

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

SECTION 1. Amendment. The Pima County Code, Title 13, Chapter 20, is hereby amended as follows:

Section 13.30.045

Connection Fees

- A. Connection Fee Rates. Except as otherwise provided in this section, persons installing fixtures tributary to the public sanitary sewer system shall pay the following connection fee:
1. Residential:
 - a. From the effective date of the Ordinance to December 31, 2006~~7~~, the residential connection fee will be \$~~178.89~~201.00 per fixture unit equivalent.
 - b. From January 1, 2007~~8~~ to June 30, 2007~~8~~, the residential connection fee will be \$~~189.62~~213.06 per fixture unit equivalent.
 - c. ~~From July 1, 2007 to December 31, 2007, the residential connection fee will be \$201.00 per fixture unit equivalent.~~
 - d. ~~Beginning January~~July 1, 2008, the residential connection fee will be \$~~213.06~~233.30 per fixture unit equivalent.
 2. Commercial and Industrial:
 - a. From the effective date of the Ordinance to December 31, 2007~~8~~, the commercial and industrial connection fee will be \$~~357.86~~402.09 per fixture unit equivalent.
 - b. From January 1, 2007~~8~~ to June 30, 2007~~8~~, the commercial and industrial connection fee will be \$~~379.33~~426.22 per fixture unit equivalent.
 - c. ~~From July 1, 2007 to December 31, 2007, the commercial and industrial connection fee will be \$402.09 per fixture unit equivalent.~~
 - d. ~~Beginning January~~July 1, 2008, the commercial and industrial connection fee will be \$~~426.22~~466.71 per fixture unit equivalent.

SECTION 2. 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 3. 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 4. 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:

Chairman

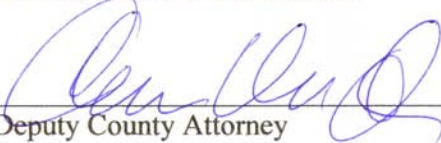
Dated: _____

ATTEST:

Clerk of the Board

Dated: _____

APPROVED AS TO FORM:



Deputy County Attorney

Dated: 11-26-07

APPROVED AS TO CONTENT:



Director, Regional Wastewater Reclamation
Department

Dated: 11/26/07

Attachment 4

Amendment to Pima County Code Title 13, Chapter 24

Sanitary Sewer User Fees

ORDINANCE 2007-__

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

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

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

13.24.030

Fee calculation.

A. A monthly fee shall be levied and collected from all users for the service of sanitary sewage collection, treatment and disposal provided through the wastewater system. User fees are calculated according to the following rate formulas for all customers:

$$\text{Residential Monthly User Fee} = (F \times R) + A$$

$$\text{High Strength Class Monthly User Fee} = F \times (R \times HS) + A$$

Where F = Monthly wastewater flow contribution to the public sanitary sewer equal to:

One hundred percent of the metered monthly water consumption; or

The user class average flow for contributors whose water consumption is not metered; or

One hundred percent of the wastewater flow measured by:

Direct meter reading, or

The difference in direct wastewater flow meter readings, or

A combination of direct wastewater flow meter readings and metered monthly water consumption, or

Other acceptable methods.

Where wastewater flow contribution is based on metered monthly water consumption or user class average flow, this amount shall not exceed the average amount of the months of December, January, and February, computed in the same manner.

HS = High Strength Factor determined and based on the wastewater strength of a given class relative to residential wastewater strength as defined in this chapter.

A = \$5.72* Flat service fee for all users.

R = User fee basic rate.

1. From the effective date of the Ordinance through December 31, 2007, the user fee basic rate (R) per one hundred cubic feet (ccf) of monthly residential wastewater flow contributions = \$1.406. The user fee basic rate will rise to \$1.533 on January 1, 2008 and will rise to \$1.679 on July 1, 2008.

* Staff note: This number will rise to \$6.23 effective January 1, 2008 and will rise to \$6.82 effective July 1, 2008.

B. The monthly volume of discharge for all users served by a private water company is presumed to be one hundred percent of the average water use as reflected by the billings for the months of December, January and February.

C. If neither direct metered wastewater flow data nor metered water use data is available for a user, the discharge shall be estimated using the average unit discharge associated with that user's class.

D. Consistent with governing regulations of the United States Environmental Protection Agency, the Director has determined that certain classes of users discharge wastewater that contains higher concentrations of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharge from all residential users, and that accordingly impose additional costs on the operation and maintenance of the system.

1. A user found to discharge wastewater containing a higher concentration of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharges from residential users and who is currently not assigned to a user class will be assessed a rate based on the concentrations of chemical oxygen demand and suspended solids as these rates are defined in 13.24.180.

E. In addition to any user fees established by this chapter, a user who is detected discharging any toxic wastes into the sanitary sewerage system in violation of Chapter 13.36 of the Pima County Code shall be subject to the increased cost of the treatment of the prohibited substance. This provision shall not preclude the director from imposing the additional penalties provided in Chapter 13.36 of the Pima County Code.

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

13.24.180

Rate schedule-Table.

Monthly bills are computed and charged to wastewater customers by user class as set forth in the table below, and are based on the average wastewater strengths shown:

Class	Class Name	High-Strength Factor	Jul. 1, 2007 Rate (dollars per ccf)	Jan. 1, 2008 Rate (dollars per ccf)	Jul. 1, 2008 Rate (dollars per ccf)
1	Residential/All other customer classes	1.00	\$1.406	\$1.533	\$1.679
1A	Residential/All other customer classes	1.00	0.352	0.384	0.420
1B	Residential/All other customer classes	1.00	0.703	0.766	0.839
1C	Residential/All other customer classes	1.00	1.055	1.150	1.259
3C	Auto body and fender repair	2.10	2.953	3.219	3.526
3K	Mortuary	1.09	1.533	1.671	1.830
3N	Laundromat	1.09	1.533	1.671	1.830
4E	Pet clinic	1.20	1.687	1.840	2.015
4G	Restaurant, with seating and china	2.03	2.854	3.112	3.408
4H	Restaurant, fast food	2.32	3.262	3.557	3.895
5A	Car wash, self-service	1.19	1.673	1.824	1.998
5C	Bottling company	1.68	2.362	2.575	2.821
5F	Printing; copying	1.01	1.420	1.548	1.696
5G	Electrical component manufacturer	1.14	1.603	1.748	1.914

5I	Industrial laundry	1.06	1.490	1.625	1.780
5J	Bakery	3.63	5.104	5.565	6.095
5K	Miscellaneous food processor	2.33	3.276	3.572	3.912
5L	Chemical, Pharmaceutical	1.25	1.758	1.916	2.099
5M	Meat packing	2.38	3.346	3.649	3.996
5S	Car wash, full service	1.23	1.729	1.886	2.065

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SECTION 3. 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 4. 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 5. 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:

Chairman

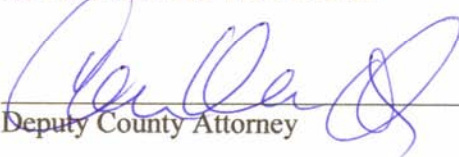
Dated: _____

ATTEST:

Clerk of the Board

Dated: _____

APPROVED AS TO FORM:



Deputy County Attorney

Dated: 11-26-07

APPROVED AS TO CONTENT:



Director, Regional Wastewater Reclamation
Department

Dated: 11/26/07

ORDINANCE 2007-___

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

BE IT ORDAINED BY THE PIMA COUNTY BOARD OF SUPERVISORS:

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

13.24.030

Fee calculation.

A. A monthly fee shall be levied and collected from all users for the service of sanitary sewage collection, treatment and disposal provided through the wastewater system. User fees are calculated according to the following rate formulas for all customers:

$$\text{Residential Monthly User Fee} = (F \times R) + A$$

$$\begin{aligned} \text{High Strength Class Monthly User Fee} = \\ F \times (R \times HS) + A \end{aligned}$$

Where F = Monthly wastewater flow contribution to the public sanitary sewer equal to:

One hundred percent of the metered monthly water consumption; or

The user class average flow for contributors whose water consumption is not metered; or

One hundred percent of the wastewater flow measured by:

Direct meter reading, or

The difference in direct wastewater flow meter readings, or

A combination of direct wastewater flow meter readings and metered monthly water consumption, or

Other acceptable methods.

Where wastewater flow contribution is based on metered monthly water consumption or user class average flow, this amount shall not exceed the average amount of the months of December, January, and February, computed in the same manner.

HS = High Strength Factor determined and based on the wastewater strength of a given class relative to residential wastewater strength as defined in this chapter.

A = \$5.72* Flat service fee for all users ~~to be reviewed every four years beginning in 2009.~~

R = User fee basic rate.

1. From the effective date of the Ordinance through December 31, 2007, the user fee basic rate (R) per one hundred cubic feet (ccf) of monthly residential wastewater flow contributions = \$1.406. The user fee basic rate will rise to \$1.533 on January 1, 2008 and will rise to \$1.679 on July 1, 2008.

* Staff note: ~~This number is the result of increasing the County Administrator recommendation at the June 7, 2005 Board of Supervisors meeting of \$5.30 by eight (8) percent: $5.72 = 5.30 \times 1.08$~~ This number will rise to \$6.23 effective January 1, 2008 and will rise to \$6.82 effective July 1, 2008.

B. The monthly volume of discharge for all users served by a private water company is presumed to be one hundred percent of the average water use as reflected by the billings for the months of December, January and February.

C. If neither direct metered wastewater flow data nor metered water use data is available for a user, the discharge shall be estimated using the average unit discharge associated with that user's class.

D. Consistent with governing regulations of the United States Environmental Protection Agency, the Director has determined that certain classes of users discharge wastewater that contains higher concentrations of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharge from all residential users, and that accordingly impose additional costs on the operation and that accordingly impose additional costs on the operation and maintenance of the system.

1. A user found to discharge wastewater containing a higher concentration of chemical oxygen demand or suspended solids or both when compared to the composite strength of wastewater discharges from residential users and who is currently not assigned to a user class will be assessed a rate based on the concentrations of chemical oxygen demand and suspended solids as these rates are defined in 13.24.180.

E. In addition to any user fees established by this chapter, a user who is detected discharging any toxic wastes into the sanitary sewerage system in violation of Chapter 13.36 of the Pima County Code shall be subject to the increased cost of the treatment of the prohibited substance. This provision shall not preclude the director from imposing the additional penalties provided in Chapter 13.36 of the Pima County Code.

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Rate schedule-Table.

Monthly bills are computed and charged to wastewater customers by user class as set forth in the table below, and are based on the average wastewater strengths shown:

Class	Class Name	High-Strength Factor	Jan. 1, 2007 Rate (dollars per ccf)	Jul. 1, 2007 Rate (dollars per ccf)	Jan. 1, 2008 Rate (dollars per ccf)	Jul. 1, 2008 Rate (dollars per ccf)
1	Residential/All other customer classes	1.00	\$1.326	\$1.406	<u>\$1.533</u>	<u>\$1.679</u>
1A	Residential/All other customer classes	1.00	—	0.352	<u>0.384</u>	<u>0.420</u>
1B	Residential/All other customer classes	1.00	—	0.703	<u>0.766</u>	<u>0.839</u>
1C	Residential/All other customer classes	1.00	—	1.055	<u>1.150</u>	<u>1.259</u>
3C	Auto body and fender repair	2.10	2.627	2.953	<u>3.219</u>	<u>3.526</u>
3K	Mortuary	1.09	1.445	1.533	<u>1.671</u>	<u>1.830</u>
3N	Laundromat	1.09	1.445	1.533	<u>1.671</u>	<u>1.830</u>
4E	Pet clinic	1.20	1.591	1.687	<u>1.840</u>	<u>2.015</u>
4G	Restaurant, with seating and china	2.03	2.692	2.854	<u>3.112</u>	<u>3.408</u>
4H	Restaurant, fast food	2.32	3.076	3.262	<u>3.557</u>	<u>3.895</u>
5A	Car wash, self-service	1.19	1.578	1.673	<u>1.824</u>	<u>1.998</u>

5C	Bottling company	1.68	2.228	2.362	<u>2.575</u>	<u>2.821</u>
5F	Printing; copying	1.01	1.339	1.420	<u>1.548</u>	<u>1.696</u>
5G	Electrical component manufacturer	1.14	1.512	1.603	<u>1.748</u>	<u>1.914</u>
5I	Industrial laundry	1.06	1.406	1.490	<u>1.625</u>	<u>1.780</u>
5J	Bakery	3.63	4.813	5.104	<u>5.565</u>	<u>6.095</u>
5K	Miscellaneous food processor	2.33	3.090	3.276	<u>3.572</u>	<u>3.912</u>
5L	Chemical, Pharmaceutical	1.25	1.658	1.758	<u>1.916</u>	<u>2.099</u>
5M	Meat packing	2.38	3.156	3.346	<u>3.649</u>	<u>3.996</u>
5S	Car wash, full service	1.23	1.631	1.729	<u>1.886</u>	<u>2.065</u>

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SECTION 3. 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 4. 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 5. 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:

Chairman

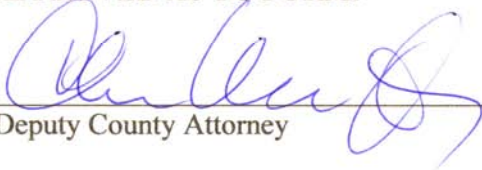
Dated: _____

ATTEST:

Clerk of the Board

Dated: _____

APPROVED AS TO FORM:



Deputy County Attorney

Dated: 11-26-07

APPROVED AS TO CONTENT:



Director, Regional Wastewater Reclamation
Department

Dated: 11/26/07