

MINUTES
ORO VALLEY WATER UTILITY COMMISSION
REGULAR SESSION
MONDAY, JULY 12, 2010
HOPI CONFERENCE ROOM
11000 N. LA CAÑADA DRIVE

CALL TO ORDER - AT OR AFTER 6:00 P.M.

ROLL CALL

PRESENT: Dave Powell, Chair
Richard Davis, Vice Chair
John Hoffmann, Commissioner
Robert Milkey, Commissioner
Richard Reynolds, Commissioner
Elizabeth Shapiro, Commissioner
Winston Tustison, Commissioner

STAFF PRESENT: Philip C. Saletta, Water Utility Director
Shirley Seng, Utility Administrator
David Ruiz, Engineering Division Manager

CALL TO AUDIENCE - At this time, any member of the public is allowed to address the Water Utility Commission on any issue not listed on today's agenda. Pursuant to the Arizona Open Meeting Law, individual Commissioners may ask Town Staff to review the matter, ask that the matter be placed on a future agenda, or respond to criticism made by speakers. However, the Water Utility Commission may not discuss or take legal action on matters raised during "Call to Audience." In order to speak during "Call to Audience" please specify what you wish to discuss when completing the blue speaker card.

Mr. Adler, Oro Valley resident spoke on the importance of the community's relationship with water. He also voiced his concerns about the drought and water table declines. Mr. Adler felt a strong need to educate the new town officials regarding the concept of recharge and recovery, storage and water distribution issues. Mr. Adler expressed his concerns about the community's water consumption and landscaping practices. He felt the need for a more concerted and aggressive action on the part of the Commission and Staff. Chair Powell thanked Mr. Adler for his comments.

1. **APPROVAL JUNE 14, 2010 MINUTES** Discussion and/or possible action.

MOTION: A **Motion** was made by Commissioner Milkey and **Seconded** by Commissioner Shapiro approve the June 14, 2010 minutes.

MOTION carried, **7-0**.

2. UPDATE ON IGA WITH TUCSON WATER FOR CAP DELIVERY (P. Saletta)
Discussion and/or possible action regarding the recent Cost of Service Study with Tucson Water and Metro Water regarding Tucson Water delivery (wheeling) of Oro Valley's Central Arizona Project Water. This discussion may also include discussion on the possible arrangement or future proposed Intergovernmental Agreement for CAP delivery on a short term interim basis.

Mr. Saletta gave an update on the recent activities regarding the Tucson Water delivery (wheeling) of Oro Valley's Central Arizona Project water. Staff will be meeting July 13th with Tucson Water, Metro Water and CH2M Hill to discuss the Cost of Service Study to determine CAP O&M charges.

Some of the topics will include:

-How will the analysis be performed and how will our water be delivered through Tucson Water's system and should it be a system wide approach to the cost analysis.

Mr. Saletta indicated that Tucson Water's cost analysis was very extensive and a rigorous process. Mr. Saletta explained Tucson's recharge facilities, recovery wells, treatment plant, reservoir and delivery to A-zone. Oro Valley would receive CAP water from A-zone to E-zone and pumping costs must be included.

-Capital Component: Oro Valley will not own any long-term assets if a short term agreement is established. We will need to establish what are the appropriate levels of capital charges within the pricing structure. There are also retail/wholesale and excess capacity wheeling approaches and all these concepts must be discussed.

The Cost of Service Study is expected to be completed by this fall. Once it is completed a draft agreement will be developed. In addition, we would need to move forward with any required infrastructure to facilitate delivery. If all three components are completed, CAP wheeling could take place the middle to end of next year.

The IGA will be presented to the Renewable Water Subcommittee for their review. It will be presented to the Commission for recommendation and approval prior to Council's approval.

Commissioner Shapiro asked when we have our own delivery system for CAP wheeling, will we be able to use the same infrastructure and pipelines for CAP water at some point? Mr. Saletta explained Oro Valley plans to have Tucson Water deliver CAP water to the C-zone reservoir at Naranja and Shannon. Mr. Saletta also explained that any future infrastructure built for CAP wheeling can still be used for CAP water deliveries. There are no stranded costs involved. Mr. Ruiz also indicated that the infrastructure must be able to accommodate Oro Valley's future CAP delivery system.

There were no further questions, Mr. Saletta ended his report. **No Action was requested or taken on this item.**

3. [UPDATE ON NORTHWEST WATER PROVIDERS](#) (P. Saletta) Discussion and/or possible action regarding the concept of delivering our Central Arizona Project Water through recharge and recovery. The discussion will include information regarding a study currently underway to evaluate and prepare cost estimates for various alternatives for the development of Central Arizona Project water.

Mr. Saletta reported that staff would be meeting with the Bureau of Reclamation, Tucson Water, Metro Water, Town of Marana and Flowing Wells to discuss how recharge and recovery can include reliability. Mr. Saletta also discussed Metro Water's plans to deliver their CAP water through Avra Valley's recharge facility and recovery wells.

Mr. Saletta indicated that staff is taking Metro Water's analysis and modifying it to include all the other water providers.

Carollo Engineers is also working on this process for us and they are on schedule. They will meet with Metro Water later this month for a status report. They have set out a conceptual plan for a well field in and around the Lower Santa Cruz recharge facility very similar to Metro Water's routing, pipeline alignment and sizing plans. Once Oro Valley and the other water providers have looked at the various alternatives for recharge and recovery we will review the report and present it to the Commission in October or November.

Mr. Saletta also mentioned that the discussions were very extensive because CAP was also looking at recovery planning. The Central Arizona Water Conservation District (CAWCD) has a requirement to also build recovery wells for CAP water.

Mr. Saletta explained that Oro Valley has permits in place to store water in the Lower Santa Cruz, Avra Valley or Pima Mine Road facilities but the Lower Santa Cruz area seems the best option in terms of location and recovery wells.

Mr. Saletta discussed some of the reliability component possibilities and recharge delivery options. If we decide that recharge and recovery is feasible there may be some valid options for reliability and for us to continue working with the NW Water Providers and CAP staff.

Mr. Saletta reported that he will learn more about the recovery planning at the next meeting and will report back to Commission.

There were no questions, Mr. Saletta ended his report. **No Action was requested or taken on This Item.**

4. [UPDATE ON THE RECLAIMED WATER IGA](#) (P. Saletta) Discussion and/or possible action regarding the Reclaimed Water Intergovernmental Agreement with the City of Tucson and the proposed time extension.

Mr. Saletta reported the following:

Packet Information: Draft Addendum to Tucson Water Reclaimed Water Agreement.

This amendment gives Oro Valley time to discuss all the costs and charges associated with reclaimed water deliveries.

Background Information

The originally approved Reclaimed Water Intergovernmental Agreement designates Oro Valley to be charged the Interruptible Rate or Environmental Rate. Tucson Water will then deliver Oro Valley's wastewater effluent to its Thornydale & Tangerine facility.

Initially the lower rate, known as the Interruptible Rate, was approved for five years but without interruption. Mr. Saletta gave several examples of possible interruptible services such as shortage of treatment at the Sweetwater plant and electrical outages.

Mr. Saletta explained if we do not renew this agreement we could continue with service but if Tucson has problems delivering its water, we could be interrupted. He also explained the differences between the Interruptible versus the Non-Interruptible rates.

The IGA extension gives us at least 3 years to discuss what Tucson's Water CAP Wheeling charges will be. Staff plans to meet with Tucson Water July 20th. Mr. Saletta mentioned that Tucson Water may feel that 3 years is too long. However, staff is comfortable with a 2 year extension.

The Council, Commission and Staff must decide whether to continue with the Non-Interruptible Rate. If the Town experiences any interruptions we will have to meet our demands by using potable water.

Staff requests that the Commission approve moving forward with the negotiations on the amendment and when finalized bring it to Council. Staff is requesting a motion from the Commission.

A question and discussion session occurred:

-Do we know the differences between the Interruptible and Non-Interruptible rates? (Commissioner Reynolds). Mr. Saletta indicated that the Interruptible Rate was at \$322 per AF; however he did not know what the differences would be between the two rates. During the past five years the Utility has not experience any interruptions but if Tucson Water sets pricing too high it will create a situation that Oro Valley will have to evaluate.

Mr. Ruiz explained that if we do not renew our agreement for the Interruptible Rate the water stands unclaimed and we risk the chance of possibly losing our reclaimed water delivery through the Tucson Water System to another user.

-How does the Non-Interruptible Rate delivery of 3.75 mgd compare to our storage capacity if Tucson Water is out of service 2-3 days? (Commissioner Reynolds)

Mr. Saletta indicated that Tucson Water has a 4 million gallon reservoir at Thornydale.

Mr. Ruiz indicated that the golf courses use their ponds as storage as well. He also explained that during peak season the golf courses were using about 1.0 mgd per day. Storage in the ponds varies between 2 MG to 6 MG and with that amount they could go several days without resupply.

In answer to Commissioner Reynolds question, Mr. Saletta explained that Tucson Water's effluent comes from their Sweetwater facility. Mr. Saletta indicated that the Roger Road Wastewater Plant belongs to Pima County Wastewater and is at its maximum. Pima County plans to take Roger Road wastewater to their Ina Road facility. However there is still adequate effluent wastewater to supply the 10 mgd requirement at the Sweetwater Reclaimed Water Plant. Mr. Saletta pointed out that Tucson Water's system also recharges effluent and they can also pump from their recovery wells.

Commissioner Tustison requested a review of the changes in the IGA Addendum.

Mr. Saletta outlined several of the changes in the section entitled Charges for Interruptible Reclaimed Water - Sections 3B - 4A & 4B. The change extends the IGA an additional three (3) years. Section 3B Initiation of IGA reads 5 years with a start date of October 31, 2005. The Addendum will now read 8 years for deliveries of Oro Valley's Reclaimed Water.

Commissioner Hoffmann requested clarification about the non-interruptible versus interruptible supply. Mr. Saletta explained the biggest risk of interruption could be if Tucson Water chooses to deliver its effluent to another customer. This is a management risk that we would accept if we chose to go with an Interruptible Rate. Mr. Saletta gave several examples of Tucson Water's interruptible and non-interruptible services.

Commissioner Hoffmann asked are we currently competing with entities that have Non-Interruptible water? Mr. Saletta stated no not at this time because Dove Mountain is not at its fullest demand but in the future the risks could increase.

Mr. Ruiz indicated if Oro Valley chooses an interruptible rate we could still have a contract committing the water to us, however we could be interrupted during water outages or pump failures or other emergency situations.

Chair Powell asked, would we have first right of refusal under the Interruptible rate because it's our effluent? Mr. Saletta explained if we do not get this extension and negotiate a firm rate with Tucson Water Oro Valley would automatically be on an Interruptible Rate service. Mr. Saletta explained some of the details in the 2003 original agreement.

Commissioner Milkey felt it was important to negotiate the 3 year extension and to figure out what the rate differences would be under the Interruptible or Non-Interruptible terms and perhaps attach conditions as to what interruptions would be allowable.

In answer to Commissioner Shapiro's question, Mr. Saletta responded that Oro Valley's effluent portion going to Sweetwater could not be sold to anyone else. He also explained it is our wastewater effluent which is delivered as reclaimed water to us. If Tucson Water needs wastewater effluent to deliver to other customers it would have to come out of their own wastewater effluent.

A discussion occurred regarding Dove Mountain non-interruptible service with Tucson Water and Oro Valley's non-interruptible service after the 3 year period.

Commissioner Milkey asked do we know what the firm rate would be and are you asking us for a motion?

Mr. Saletta indicated that he did not know the rate at this time. Staff would like a motion to continue negotiations and forward it to Council for approval.

MOTION: A **Motion** was made by Commissioner Milkey and **Seconded** by Commissioner Tustison to move to recommend that Water Utility Staff continue negotiations with Tucson Water Staff regarding an amendment to extend the date of the Addendum to the Reclaimed Water Intergovernmental Agreement and when the Amendment is finalized to forward it to Council to request approval.

MOTION carried, **7-0**.

5. [**WATER RATES ANALYSIS**](#) (Commissioner Tustison & S. Seng) Discussion and/or possible action regarding the upcoming Water Rates Analysis. Discussion will include a review of comments from last year, proposed schedule and concepts for proposed scenarios.

Commissioner Tustison reported that the Finance Subcommittee met July 8th to discuss the beginning of the Water Rate Analysis cycle. We also discussed what our preliminary goals will be and agreed to meet twice in August after Ms. Seng develops some preliminary rate scenarios. The Finance Subcommittee will meet 8/3 and 8/24/2010.

Ms Seng reported the following:

Packet information - Finance Subcommittee Action Summary Minutes. At the request of Commissioner Milkey staff has provided all public comments received from last year's rate increase.

Reviewed comments:

-Mr. William VanDam: Control and reduce water consumption, any rate increases should be tied solely to the commodity rates rather than increasing the base rates. In the commodity rates he includes the tiered rates, the GPF and construction water rates in his example.

-Joseph Barr provided two separate comments: -Performing rate analysis backward. Ms. Seng explained that the Utility reviews all revenue requirements and there is a large

portion of the budget which we have little control such as debt service personnel, capital & power costs. Once we accumulate these costs we can work on our rate structure and determine what revenue is needed. Typically a rate increase within the current year facilitates cost needed in future years.

-Concerns about reducing costs. Ms. Seng explained that the Utility has reduced its cost over the last 3 years.

-Mr. Bill Adler: Supports rate increases to continue to encourage water conservation education and expanding water audits with the ultimate goal to achieve a sustainable environment.

-Public letter of support: Occasionally we receive the public's support on rate increases.

Commissioner Tustison commented that considering the number of water users, we have a very small number of complaints. He explained that there is a real misconception among the community that the Water Utility is like a small retail business and when times are difficult all we need to do is cut expenses. The public does not understand that the Utility is complex and has more requirements and annual expenses. We must keep this in mind and keep promoting these issues in a positive manner to our customers.

Commissioner Milkey commented that a significant amount of comments were based on costs and lack of understanding the Arizona groundwater laws and our future water requirements. We need to stress public education and educate our new Council on water rates. They need to understand the environment we work in and factors such as uncontrollable cost for chemicals and electricity.

Mr. Saletta discussed budget issues in FY 10-11.

Reducing Costs

-Debt reduction was due to refunds as far back to 2007, Redemption of 1999 bonds and defeasance of Bond Series 2001. These bond redemptions reduced the Utility's budget significantly.

-Used funds from cash balance to purchase groundwater extinguishment credits which build our groundwater allowance account and minimizes our payments to the Central Arizona Groundwater Replenishment District.

-Operation staff: Distribution and Operation Superintendents worked very hard to reduce operational costs.

Mr. Saletta indicated that the budget was very tight but the Utility is in a very good financial position. These items will benefit the Utility, because preliminary calculations show that we may have a Debt Service Coverage ratio that is higher going in FY 10/11. The Debt Service coverage ratio is one of our main drivers for our rates. The estimated coverage is 1.8 going at the end of next fiscal year which is significantly high.

Ms. Seng reported the following:

Proposed Scenario

-Perform a 5 year rate analysis. At the Finance Subcommittee meeting the group discussed what the preliminary scenario for FY 2010-11 should be.

-Debt service projected to be 1.8 at the end of FY 2010-11

The budget included an increase in the GPF of .20 cents per 1,000 gallons. The GPF repays debt for the Reclaimed Water System and costs associated with future delivery of CAP water.

-The budget did not include increases in the base rate or commodity rate based on the fact that the Utility could meet all its revenue requirements and maintain a 1.8 debt service covered ratio by the end of the year and also have a 45% cash reserve balance compared to budget expenditures.

As discussed at the Finance Subcommittee we would have the first scenario show no base rate or commodity increases in year one but an increase in the GPF. We also have a \$5.0 million debt service payment in year five and a \$1.0 million Operations and Maintenance expenditure associated with the debt and delivery costs for CAP Water. The O&M expenses are not included in the five year projection; however CAP Wheeling infrastructure and O&M costs from Tucson Water will be included.

Discussion and answer question occurred.

Commissioner Milkey felt comfortable with Staff's approach. However, he did not know what the long term effects would be until the full 5 years were worked out even with reasonable CAGR rates plus CAP Wheeling costs. He suggested a scenario minimizing increases in the base rate even if the tiered rate increased he felt it signaled increases in conservation. Ms. Seng agreed that Commissioner Milkey's scenario and Mr. Van Dam suggestion could be worked out.

Commissioner Tustison felt it was important to keep the proposed scenarios as simple as possible by performing just two scenarios.

In answer to Commissioner Shapiro comment Ms. Seng agreed that the majority of the residential customers use less than 10,000 gallons a month. We probably cannot get away without increasing tier one but we can decrease tiers 2-4. We will not meet our revenue requirement in tier 4 but we need to send a message. If we raise the base rate everyone shares the increase regardless their consumption.

Vice Chair, Davis Rick felt that checking the base rate and the customer's demand usage was very important. Ms. Seng understood but indicated that water budgets had its complexities.

Chair Powell mentioned whether Mr. Barr's comment was based on the Utility's operation expenses or finance structure. Ms. Seng indicated they were based solely on reducing costs. She emphasized that the Utility has reduced its O&M and Capital budgets.

Mr. Saletta emphasized we need to economize and have accomplished it with budget reductions. Our obligation is to deliver safe water to the public and this is a huge commitment.

Chair Powell felt it was important to educate customers about the water bills and that sewer fees were also included.

Commissioner Milkey felt strongly that the Utility was running itself quite responsibly. He also felt additional cost cutting to the Utility would be risky and perhaps catastrophic.

Ms. Seng reviewed the preliminary work schedule and dates for the Finance Subcommittee meetings:

-9/13: WUC Meeting -final recommendation on water rates

-10/6: Council asked to adopt Notice of Intent

Ms. Seng indicated that we also need to review our service fees, credit card convenient fees, Plan Review and Inspection fees and water meter prices. We are looking at the possibility of no security deposit refunds to tenant and commercial customers after 1 year however the Water Code must be reviewed before implementing any changes.

-10/12: Council Study Session on water rates

-11/17: Public Hearing to consider water rates

-12/8: If adopted, new rates become effective. Customers will see an increase in January bills.

There were no further questions, Ms. Seng ended her report. **No Action was requested or taken on this Item.**

6. [TOWN COUNCIL MEETINGS/COMMUNICATIONS](#) (Council Member Gillaspie)

Councilmember Gillaspie was not present.

7. [SUBCOMMITTEE/COMMISSIONER REPORTS](#)

a. [Finance Subcommittee](#) (Commissioner Tustison)

Commissioner Tustison had no report.

b. [Conservation Subcommittee](#) (Commissioner Davis)

Vice Chair, Davis reported that there was no official meeting however we have been working with the Planning Department with regards to the implementation of the landscape ordinance.

- c. [Renewable Water Resources Subcommittee](#) (Commissioner Hoffmann)
Commissioner Hoffmann had no report.

8. [STAFF REPORTS](#)

- a. [Customer Service Report](#) (S. Seng)
[Click here for Item "A"](#)

Ms. Seng reported the following:

Meter Installation as of June 30, 2010

| | |
|--|--------|
| -Total Metered Connections - | 18,441 |
| -Projected Meter Installations for FY 09-10: | 60 |
| -Actual Meter Installations for FY 09-10: | 68 |
| -Projected EDUs for FY 09-10: | 90 |
| -Actual EDUs for FY 09-10: | 87 |
| Total: | 68 |

Ms Seng ended her report.

- b. [Capital Projects](#) (D. Ruiz)

-Well Replacement E-1B: The project is out to bid. The town will open bids August 5th. This project will be under construction beginning October. Completion Date: 4-6 months.

-Lambert Lane Improvements: This project is tied to Public Works roadway improvements at La Canada & Lambert Lane and Highlands. Design review is about 87% complete. To avoid any problems there will be only one contractor minimizing construction delays.

-CAP Water Distribution Study: CH2MHILL will present Phase 1 of Tucson Water Wheeling concept week of 7/19. If the CAP Wheeling agreement is complete and approved by both entities delivery could take place towards the end of year 2011. There is a possibility of getting as much as 3,000 AF of CAP Water into our system.

Mr. Ruiz ended his report.

- c. [Potable and Reclaimed Water System Report](#) (D. Ruiz)
[Click here for Item "c" Potable Water System](#)
[Click here for Item "c" Reclaimed Water System](#)

Mr. Ruiz reported the following:

Potable Water System - 2010

-Total Daily Demand in the month of June ranged between 7.5 - 9.0 (mgd)

-No precipitation events

-Temperatures in the month of June ranged between 95 to 109 degrees.

Overall Reservoir Demand Levels = 6.0 -7.0 (mgd). Potable water system is doing well.

Reclaimed Water System -2010

Reclaim Water user #5 = 10.899 (mgd). This total represents usage for part of the month. Total Demand for the month of June was 95.649 million gallons. The reclaimed system has been able to keep up with demand. Mr. Ruiz ended his report.

9. [DIRECTOR'S REPORT](#) (P. Saletta)
- a. [WIFA Grant application](#)

Mr. Saletta reported recently the Utility applied for a grant from WIFA. The grant was to focus on a study for unaccounted water. This grant was not approved but we are still proceeding with our own study. Mr. Saletta thanked Staff for their efforts in applying for the grant.

- b. [Council Liaison](#)
[Click here for Item "b"](#)

Mr. Saletta mentioned that Councilmember Gillaspie is the Liaison and that Councilmember Hornat will be his alternate.

- c. [Boards & Commissions Term Extension](#)

At the last Council meeting they approved extending the Boards and Commission members' terms to December 2010 for those Board members or Commissioners whose terms were expiring on June 30 and were not eligible for reappointment. This does not affect members of the Water Utility Commission since there were two recently approved reappointments. Council will discuss the concept of having terms on a calendar year (January-December) instead of a fiscal year term. These changes will enable Council to have 6 months for appointments or reappointments for the various Boards and Commissions. Staff will report Council's final decision to the Commission.

- d. [Upcoming Meetings](#)

-7/14: Town Council Study Session
-7/21: Town Council meeting
-No Council meeting in August
-9/16: State of the Town Luncheon

Mr. Saletta gave an update on the USGS Report Water Watch -Current water resources conditions. Mr. Saletta ended his report.

10. [FUTURE AGENDA ITEMS](#)

-Update on Tucson Water CAP Wheeling (Commissioner Shapiro). Chair Powell suggested emailing the update to the Commission.

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At this time there were no public speakers.

NEXT MEETING: The Commission unanimously agreed to cancel August meeting.

ADJOURNMENT

MOTION: A **Motion** was made by Commissioner Shapiro and **Seconded** by Commissioner Hoffmann to adjourn

MOTION carried, **7-0**.

Prepared by,

Iris L. Chaparro
Senior Office Specialist