



Staff Report

Agenda Item: **WORKSESSION TO DISCUSS PROPOSED INCREASES TO THE WATER UTILITY RATES** – Discussion regarding the criteria staff has evaluated in developing the rate proposal, and guidance from the Council on how they would like to move forward with water utility rate adjustments.

Submitted By: Town Manager Gayle Mabery

Meeting Date: April 27, 2010

Background: The Town's current water rates were established in January, 2006, upon the initial purchase of the water system from a private owner, and have not been increased since that time. The water utility was set up as an enterprise fund from its inception, which requires the system revenues to be set at an amount to cover all the system costs. The initial rates were based on a number of criteria, some of which were fixed and others that were the best estimates at the time. Those criteria included:

- Annual Operations and Maintenance Costs
- Repayment of the loan that was taken out to purchase the water company
- Repayment of the loan that was taken out to fund the first 3 years of a 10 year system improvement plan
- Costs to meet the new federal standards for arsenic removal
- Coverage for system replacement over time

It has been apparent for several years that, while our initial rate structure was providing a revenue stream to effectively cover most of the above criteria, we are not generating sufficient revenues to cover the costs for system replacement (depreciation costs).

Recognizing that rate increases were imminent, the Council developed two strategic priorities in the past several years that they wanted implemented before we considered a rate increase. The first, placing the water billing function as an internal Town process (we contracted for this service from the City of Cottonwood initially), was accomplished in March, 2008. The second priority was to take over all the system operations and maintenance responsibilities as an internal Town process (again, we had contracted for this service from Cottonwood). This priority was accomplished in July, 2009. Taking on both these functions allows the Town to better analyze our operational costs, and allowed us to reduce operating expenses. Although the expense reductions we've implemented have helped our bottom line, our rates still do not allow for sufficient resources to be dedicated for system replacement (depreciation). During the Trial Budget Workshops and Council Budget Worksessions in 2009, it was clearly stated that a water rate increase would have to be implemented in 2010.

During the February 23, 2010 Council meeting, the Town's Annual Financial Report was given to the Council by our auditor. Although the auditors gave the Town a "clean opinion" or an "unqualified opinion" which is the highest opinion that an auditor can give to any type of entity, the auditor cautioned the Council about the need to increase revenues in the enterprise funds (water and wastewater) so that we can appropriately budget for depreciation in those funds. The auditor's recommendation was to annually budget \$270,000 for depreciation in the water utility, noting that budgeted depreciation is one way to ensure unrestricted cash resources have been set aside for future replacement or purchase of major infrastructure.

During the Council's annual Strategic Planning Session on February 26, 2010, the Council again took up the discussion of the Town's water rates. In recognition of our continued inability to set aside adequate funds for depreciation (system replacement and improvements), the Council asked the staff for recommendations on water rates, with the following parameters:

- Investigate the creation of additional tiers within the rate structure to encourage water conservation
- Incentivize low water use and ensure that the lowest water users are the least impacted by water rate increases
- Develop a long term plan to address the inadequacies in the depreciation fund
- Evaluate the possibility of establishing a rate structure that rewards customers who meet a target gallons per capita per day (gpcpd)

Staff has been analyzing rate structure proposals since the 2010 Strategic Planning Session, and have developed a rate proposal that addresses a number of the parameters set by the Council in February. The proposal before the Council tonight includes the following provisions:

- Establishes four new tiers to encourage closer monitoring for water conservation
- Establishes a "System Replacement Fund" and implements a monthly surcharge that is dedicated for depreciation and system replacement costs
- Limits the rate impact to our lowest water users (who use under 1,000 gallons per month) to the system replacement surcharge
- Implements increases in per thousand gallon water pricing in each tier (except the under 1,000 gallon tier), with lowest percentage increases for lower tiers, and highest percentage increase in highest tiers
- Establishes a pricing incentive for single-meter, multi-family users that meet low water use criteria
- Provides 50% of the annual funding recommended by the Town's auditor for system replacement (depreciation)
- Relies on presumption that debt will be incurred in the future for the remaining 50% of system replacement

- Relies on the presumption that any undedicated system revenues at the end of a fiscal year will continue to be transferred to the system improvement funds

The recommended tier structure referenced above is as follows:

Current Tier Structure	Proposed Tier Structure
0-1,000 gallons per month – Included in Base Rate	0-1,000 gallons per month – Included in Base Rate
1,001 – 10,000 gallons per month	1,001 – 5,000 gallons per month
10,001 – 20,000 gallons per month	5,001 – 10,000 gallons per month
Over 20,000 gallons per month	10,001-15,000 gallons per month
	15,001-20,000 gallons per month
	20,001-25,000 gallons per month
	25,001 – 30,000 gallons per month
	Over 30,000 gallons per month

The recommended System Replacement Surcharge is 8.5% of the monthly base rate per meter, and is recommended as follows:

Meter Size	Current Monthly Base Rate	System Replacement Surcharge
5/8"	\$23.50	\$2.00
1" *	\$39.00	\$3.32
1.5"	\$78.00	\$6.63
2"	\$125.00	\$10.63
3"	\$250.00	\$21.25
4"	\$395.00	\$33.58
6"	\$790.00	\$67.15
8"	\$1,248.00	\$106.08

*A customer having a 1" meter solely to service a mandated residential fire sprinkler system will be charged a 5/8" System Replacement Surcharge

Current Tier Structure	Current Rate/Thousand Gallons Used	Proposed Tier Structure	Proposed Rate/Thousand Gallons Used
0-1,000 gallons per month – Included in Base Rate		0-1,000 gallons per month – Included in Base Rate	
1,001 – 10,000 gallons per month	\$4.00	1,001 – 5,000 gallons per month	\$4.35
		5,001 – 10,000 gallons per month	\$4.45
10,001 – 20,000 gallons per month	\$5.60	10,001-15,000 gallons per month	\$6.25
		15,001-20,000 gallons per month	\$6.50
Over 20,000 gallons per month	\$7.84	20,001-25,000 gallons per month	\$9.25
		25,001 – 30,000 gallons per month	\$9.45
		Over 30,000 gallons per month	\$9.60
		Single Meter, Multi-Family User @ up to 5,000 gallons per household/unit	\$8.53

Proposed Tier Structure	Average Total % Increase for Customers in this category (including System Replacement Surcharge and Tier Increases)	Average Dollar Increase per month for Customers in this Category
0-1,000 gallons per month – Included in Base Rate	7.11%	\$2.19
1,001 – 5,000 gallons per month	7.79%	\$4.10
5,001 – 10,000 gallons per month	9.54%	\$7.11
10,001-15,000 gallons per month	10.48%	\$12.85
15,001-20,000 gallons per month	14.27%	\$21.87
20,001-25,000 gallons per month	16.62%	\$40.73
25,001 – 30,000 gallons per month	19.10%	\$55.00
Over 30,000 gallons per month	21.65%	Depends on volume
Single Meter, Multi-Family User @ up to 5,000 gallons per household/unit	8.78%	Depends on volume

Water Usage by Tier for Clarkdale Customers (average water use per month is 6,400 gallons)		
Tier	Percentage of Total Customers	Percentage of Water Usage
0-1,000 gallons per month – Included in Base Rate	10%	1.65%
1,001 – 5,000 gallons per month	45%	19.11%
5,001 – 10,000 gallons per month	29%	27%
10,001-15,000 gallons per month	9%	13.78%
15,001-20,000 gallons per month	3%	7.1%
20,001-25,000 gallons per month	1.5%	4.3%
25,001 – 30,000 gallons per month	.5%	2.17%
Over 30,000 gallons per month	1.6%	24.90%

As you can see from the above chart, 84% of our water customers fall in the tiers that are less than 10,000 gallons of water used per month. Those customers use 47.76% of our water sold. The remaining 16% of our customers use 52.24% of the water sold. The average customer use in Clarkdale in 2009 was 6,400 gallons per month. The following table compares the current rate structure for a customer using 6,400 gallons per month to the proposed rate structure:

Customer Using 6,400 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$25.60	\$28.48		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 4.68	\$ 5.14		
Total	\$58.76	\$64.10	\$5.34	9.08%

Sample bills for various other amounts of water usage are attached at the end of this staff report.

The purpose of this worksession is to discuss the criteria the staff has evaluated in developing this rate proposal, and seek guidance from the Council on how they would like to move forward with water utility rate adjustments. The rates presented above are estimated to generate approximately \$135,000, or 50% of the total amount necessary to fully fund system replacement/depreciation. The Council should keep in mind that the process to enact a rate adjustment takes a minimum of 90 days.

Staff Recommendation – Staff is seeking direction from the Council on moving forward with the process to adjust the water rates.

**Sample Bills Comparing Current Rate Structure
to Proposed Rate Structure**

1,000 Gallons Per Month Customer

Customer Using 1,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$ 0.00	\$ 0.00		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 2.29	\$ 2.48		
Total	\$30.77	\$32.96	\$2.19	7.11%

5,000 Gallons Per Month Customer

Customer Using 5,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$20.00	\$21.75		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 4.16	\$ 4.51		
Total	\$52.64	\$56.74	\$4.10	7.79%

10,000 Gallons Per Month Customer

Customer Using 10,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$40.00	\$44.50		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 6.03	\$ 6.64		
Total	\$74.51	\$81.62	\$7.11	9.54%

15,000 Gallons Per Month Customer

Customer Using 15,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$84.00	\$93.75		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 10.14	\$ 11.24		
Total	\$122.62	\$135.47	\$12.85	10.48%

20,000 Gallons Per Month Customer

Customer Using 20,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$112.00	\$130.00		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 12.76	\$ 14.63		
Total	\$153.24	\$175.11	\$21.87	14.27%

25,000 Gallons Per Month Customer

Customer Using 25,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$196.00	\$231.25		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 20.61	\$ 24.10		
Total	\$245.09	\$285.83	\$40.73	16.62%

30,000 Gallons Per Month Customer

Customer Using 30,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$235.20	\$283.50		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 24.28	\$ 28.98		
Total	\$287.96	\$342.96	\$55.00	19.10%

40,000 Gallons Per Month Customer

Customer Using 40,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$313.60	\$384.00		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 31.61	\$ 38.38		
Total	\$373.69	\$452.86	\$79.17	21.19%

60,000 Gallons Per Month Customer

Customer Using 60,000 gallons of water per month:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$23.50	\$23.50		
Water Use Charge	\$470.4	\$576.00		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 2.00		
Local, Cty, & State - Sales Tax (9.35%)	\$ 46.27	\$ 56.33		
Total	\$545.15	\$662.81	\$117.66	21.58%

100,000 Gallons Per Month Customer

Customer Using 100,000 gallons of water per month with 2" meter:				
	Current Rates	Proposed Rates	Difference	Percentage Increase
Base Fee	\$125.00	\$125.00		
Water Use Charge	\$784.00	\$960.00		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 10.63		
Local, Cty, & State - Sales Tax (9.35%)	\$ 85.08	\$ 102.53		
Total	\$999.06	\$1,203.14	\$204.08	20.43%

Single Meter, Multi-Family Customer

Single Meter, Multi-Family Customer				
Using 635,000 gallons of water per month for 127 units, 2" meter				
Which meet the 5,000 gallons or less per unit incentive program:				
	Current Rates	Proposed Rates- Incentive	Difference	Percentage Increase
Base Fee	\$125.00	\$125.00		
Water Use Charge	\$4978.40	\$5416.55		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 10.63		
Local, Cty, & State - Sales Tax (9.35%)	\$ 477.26	\$ 519.22		
Total	\$5,585.64	\$6,076.38	\$490.74	8.79%

Single Meter, Multi-Family Customer				
Using 640,000 gallons of water per month for 127 units, 2" meter				
Which exceed 5,000 gallons per unit:				
	Current Rates	Proposed Rates- Standard	Difference	Percentage Increase
Base Fee	\$125.00	\$125.00		
Water Use Charge	\$5,017.60	\$6,144.00		
WAC Fee	\$.32	\$.32		
Gila River Adjudication Fee	\$.41	\$.41		
Water Conservation	\$.25	\$.25		
Resource Development	\$ 4.00	\$ 4.00		
System Replacement	\$ 0.00	\$ 10.63		
Local, Cty, & State - Sales Tax (9.35%)	\$ 480.92	\$ 587.24		
Total	\$5,628.50	\$6,871.85	\$1,243.35	22.09%