



Staff Report

Agenda Item: **NOTICE OF INTENT TO SET WATER RATES** – Discussion and consideration of a Notice of Intent to Set Water Rates.

Staff Contact: Wayne Debrosky, Utility Director

Meeting Date: May 11, 2010

Background: A worksession was held at the April 27th Council meeting which presented a proposed water rate structure for the Clarkdale Municipal Water Utility. During that meeting, Council directed the staff to move forward in the process for a water rate increase. On May 3, 2010, the Notice of Intent to Set Water Rates and the report with the data supporting the increase of water rates was submitted to the Town Clerk as required by A.R.S. 9-511.01. The Notice of Intent to Set Water Rates that schedules the required public meeting in order to officially consider a water rate increase is before Council for discussion and consideration as required by A.R.S. 9-511.01.

A.R.S. 9-511.01 governs the process to set rates:

May 3, 2010	File report with data supporting the increase of rates with Town Clerk
May 11, 2010	Council Adopts Notice of Intent to Set Water Rates at a Regular Council meeting.
May 14, 2010	Public Hearing Notice published in newspaper. (Not less than 20 days prior to the public hearing.)
June 22, 2010	Hold Public Hearing & Consider Adoption of Rates by Resolution. (Not less than 30 days after adoption of Notice of Intent.)
July 22, 2010	Rates become effective. (30 days after the adoption of the Resolution)

Recommendation: Approval of the Notice of Intent to Set Water Rates.

NOTICE OF INTENT TO SET WATER RATES

Notice is hereby given that the Clarkdale Town Council will hold a Public Hearing on Tuesday, June 22, 2010 at 3:00 p.m. in the Men's Lounge of the Clark Memorial Clubhouse, 19 N. 9th Street in order receive input from the public with regard to a proposal to increase the Clarkdale Municipal Water Utility's Rates and Fees. Following the Public Hearing, the Town Council may take action during the same meeting with regard to rate increases. The earliest date that the proposed rate structure could take effect is July 22, 2010.

A copy of the "2010 Water Rate Increase Report", which provides detailed information about the rate increase, is available in the office of the Town Clerk, 39 N. 9th Street, Clarkdale, AZ or on the Town's website, <http://www.clarkdale.az.gov>

The current base rates are proposed to remain unchanged. The proposed changes to the Town's rates for water usage under the tier structure are as follows:

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

The recommended System Replacement Surcharge is:

Meter Size	System Replacement Surcharge
5/8"	\$2.00
1" *	\$3.32
1.5"	\$6.63
2"	\$10.63
3"	\$21.25
4"	\$33.58
6"	\$67.15
8"	\$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	



UTILITIES Department

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2010 WATER RATE INCREASE REPORT

Background Information - The Town of Clarkdale'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 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 Town Council developed two strategic priorities in the past several years that they wanted implemented before they considered a rate increase. The first, placing the water billing function as an internal Town process (Clarkdale 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, Clarkdale had contracted for this service from Cottonwood). This priority was accomplished in July, 2009. Taking on both these functions allowed 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 Work Sessions 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 an independent financial 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.

The Town Council set specific parameters during their February, 2010 Strategic Planning Session with regard to possible rate increases. The proposal that follows addresses those parameters, and:

- 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	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

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

**Table Comparing Current Rate Structure
to Proposed Rate Structure**

Gallons Used Per Month	Current Rates	Proposed Rates	Difference	Percentage Increase
1,000 gallons	\$30.77	\$32.96	\$2.19	7.11%
5,000 gallons	\$52.64	\$56.74	\$4.10	7.79%
10,000 gallons	\$74.51	\$81.62	\$7.11	9.54%
15,000 gallons	\$122.62	\$135.47	\$12.85	10.48%
20,000 gallons	\$153.24	\$175.11	\$21.87	14.27%
25,000 gallons	\$245.09	\$285.83	\$40.73	16.62%
30,000 gallons	\$287.96	\$342.96	\$55.00	19.10%
40,000 gallons	\$373.69	\$452.86	\$79.17	21.19%
60,000 gallons	\$545.15	\$662.81	\$117.66	21.58%
100,000 gallons	\$999.06	\$1,203.14	\$204.08	20.43%
Single Meter, Multi-Family User @ up to 5,000 gallons per household/unit per month				Approx. 8.78%