

**CITY OF WILLCOX
REQUEST FOR COUNCIL ACTION**

Agenda Item: _____

Tab Number: _____

Date: 3-18-2013

Date Submitted:
2-14-13
Date Requested:
3-18-13 & 4-1-13

Action:
 Resolution
 Ordinance
 Formal
 Other

**Subject: Sewer Rates
and Budgets For FY14**

TO: MAYOR AND COUNCIL

FROM: City Manager

DISCUSSION: The Rates for the utilities are required to be reviewed by the Council annually as per City Code 13-8-22.

The four (4) Enterprise Funds (Gas, Sewer, Solid Waste, and Water) are designed to be supported by the rates charged to the users of the service (much like a private business operation).

In order to measure whether the City Operation of the Enterprise Fund is offering an equitable service for the price paid, the Enterprise Funds make the same payments to the General Fund as a private Organization would be required to make if a franchise were granted.

The goal in setting of the rates is to assure the users will have safe and dependable service at a reasonable cost. This means that the rates should include sufficient monies to allow the necessary operational and capital expenses be paid for in a timely manner. There should be sufficient cash reserves to address normal fluctuations in the income and expense stream; address unexpected emergencies; allow some capital accumulation; provide for major capital expense through long term debt issuance (to match the expense with the rates charged); and provide for stable rates (rather than widely fluctuating rates from year to year). While each Enterprise Fund is to be self-supporting, the cumulative impact of changes in all four Funds will be considered since the rate payers see one bill not four separate bills and the goal is to have small incremental changes rather than widely fluctuation changes.

In order to accomplish these goals a reasonable cash reserve equal to three months of annual operating expenses is established by City Ordinance.

The indirect costs, and costs incurred in other Funds (usually the General Fund), are charged back to each Enterprise Fund.

A Capital Fund is set up for each Enterprise Fund (except Solid Waste) to separate Capital expenses from Operating expenses: this also allows for accumulating capital and paying for large capital items over two or more fiscal years. This also allows for the accounting for long term capital assets and recording them properly on the fiscal records of the Enterprise Fund.

Long range projections are made on each of the Enterprise Funds to allow the long term impacts on the rate structure and implement proper planning for significant changes in the fiscal condition of the Enterprise Fund.

Attached are three (3) sheets: the first sheet is a monthly comparison of the cash income and the expenses of the Sewer Enterprise Fund. What this comparison shows is that the income and expense track very closely. This is important to ensure that there is always enough cash in the bank to pay ongoing bills. The City Code requires that the Sewer Enterprise Fund maintain a Reserve (Opening Balance Operations [OBO]) equal to three (3) months operating expense. Currently there is an adequate reserve. An additional reason for the operating reserve is to be able to address disaster repairs to the system. This area does experience earthquakes and fissures. These are infrequent and normally do not require large capital investment. The largest problem facing the Sewer Enterprise Fund is the expected very large increase in costs associated with the development and construction of a Waste Water Treatment Plan (WWTP) adequate to handle the volumes and toxicity of the Waste water (sewage) delivered to the WWTP, purify the waste water to acceptable standards and reuse it in a beneficial manner.

The City has been working in conjunction with various Federal and State agencies to develop and construct such a WWTP. It is anticipated that construction will begin during FY14 with completion in FY15. The funding for the future WWTP is planned to be a combination of grant and loans. The loans will be paid from the revenue stream of the Sewer Enterprise Fund. The amount of grant money is not known at this time: the grant amount will be based upon the City of Willcox Sewer rate structure as compared with similar communities. For the purpose of making the rate projections it has been assumed that the City will borrow \$5,000,000 during FY14 and start payment on this borrowing during FY15. This borrowing will result in a very large increase in annual expenditures from the Sewer Enterprise Fund (estimated \$300,000/yr). This increase expenditure has the effect of rapidly using up of the cash reserves within the Sewer Enterprise Fund (even with 5% rate increase each year the OBO is negative in FY20). **Therefore this requires adequate rate increases to offset the increased expenditure.**

The second attached sheet titled; "Analysis of Income to the Sewer Fund" provides an explanation of how the rate structure is established and adjusted within the Sewer Fund. The top portion of the sheet provides a narrative on the components of the Sewer rates; Fixed Monthly Rate and the Variable Rate.

The Center Box on the second attached sheet shows the current rates and the impact of a 5% increase; this is shown by Fixed Monthly Rate and by Variable Rate.

The Box in the lower left corner of the second attached sheet shows the estimated effect on individual meter sizes of an average bill and compares the estimated current bill with the proposed bill (which incorporates a 5% increase).

The Box in the lower right corner of the second attached sheet shows the cumulative impact of a 5% rate increase on a ¾" meter (standard residential size meter) over 10 year future periods.

The third attached sheet is the "Sewer Fund Projections". The upper portion of the sheet shows the actual data for two years of operations, one half year of actual and one half year of projected data on operations and thirteen years of projected data on operations.

The center portion of the third attached sheet shows the "Sewer Capital fund" with the same data as listed above.

The lower portion of the third attached sheet provides narrative on the data above.

These projections are to assist in the financial planning for the Sewer Enterprise. One of the City's goals for the Enterprise funds is to avoid "Rate Shock" (this is a sudden and large change in the rate structure which is disruptive to individuals and business wallets and operations). By using the projections it is easier to see the future impacts of current decisions.

In this Sewer Enterprise Fund the City is aware of the need to make a very large Capital Investment in a new WWTP to economically and safely provide for the handling of the sewage and disposal of the treated waste water (effluent) in a legal and environmental safe manner which will conserve and not pollute the existing water supplies.

The "Service Fees" in FY 12 & FY 13 are and have been adequate to cover the "Total Operating Costs"; this is positive. For FY 14 there is a slight deficit, this is probably due to having to set the budgets high to meet the State law requirement that if it is not budgeted it cannot be spent: staff has typically underspent the budget. For FY 15 and beyond a large deficit appears; this is the direct result of the increase in Debt Service (DS) which is marked in **bold** on the attachment. The increase in DS is a result of the new debt to pay for the construction of the WWTP.

It is unknown at this time how much the WWTP will cost to design and built: for the purposes of these projections it is assumed that the cost will be \$10,000,000. The money to pay for the new WWTP is planned to come from a combination of grant and loan money. The amount of grant money will be dependent upon the City's Waste Water Rates compared with similar Cities. It is not known at this time how much will be received in grant money and how much will be required to be borrowed. For the purposes of these projections it is assumed that \$5,000,000 will be borrowed. An estimate of the cost of DS on \$5,000,000 being paid back over 30 years is 6% of the borrowed amount each year (i.e. 6% of \$5,000,000 equals \$300,000/yr). If the amount of money borrowed increases (probably due to cost overruns or less grant funding) the DS will increase: if the amount of money decreases (probably due to greater grant funding or lower cost of

construction) the amount of DS should decrease. It is assumed that the construction will occur during FY 14 and that the full amount of DS will be paid in FY15. Each of these assumptions has an impact on the future financial picture of the Sewer Enterprise Fund.

The projections assume a 5% increase in Sewer Rate throughout the entire attachment. If all of the cost projections in the sheet are correct then 5% each year is **not** adequate to maintain a financially sound Sewer Enterprise Fund.

There are a large number of variables which may positively impact on the projections. The operating costs have typically been lower than projected; the grant amount may be higher than projected; the total cost of construction may be lower than projected, and the DS (due to currently low interest rates) may be less than projected. Even if all of these are positive there will still need to be rate increases.

RECOMMENDATION: Staff recommends that the Sewer Rates be increased by 5% for FY14.

FISCAL IMPACT: Estimated total income to the Sewer Enterprise Fund is \$753,861 (excluding grant and borrowing of \$10,000,000) and Expense is \$742,689 (excluding Capital Construction of \$10,000,000).

Prepared by: Pat McCourt

Approved by: _____


City Manager

The Sewer rates are made up of two (2) components; a "Fixed Monthly Rate" each month based upon the size of the meter and a "Variable Charge" based upon the water usage measured in a three month period (December, January, and February).
The amount collected by the Fixed Monthly Rate is intended to provide a stable base of income and assure coverage of "fixed cost" of operation. This is adjusted by the Council or COL.
The Variable Charge is intended to distribute the cost of operation to the users based upon the amount of service they require.

The Variable Charge also has two (2) components; the "Usage Rate" per thousand and the "Volume" of usage.
The three month period is used to minimize (not eliminate) the impact of irrigation. This is the adjustment for "Volume" of usage.
The adjustment to the monthly bill for "Volume" is normally made in April each year.
The chart below does not attempt to reflect the changes in systemwide volume made in April, but assumes a constant systemwide volume.

The second component is a "Usage Rate" per thousand Gallons of water used during the measurement period. This is adjusted by the Council or the COL.
The adjustments to the "Fixed Monthly Rate" and the "Usage Rate" per thousand, are normally made in July of each year.
The total systemwide volume may change year to year and it is important to watch for "trends"; for the purpose of this chart it is assumed to be equal to the previous year's volume.
The number of customers in each Size Meter listed below changes constantly; the average remains the same and is used to make the projections listed below.

The adjustments to the "Fixed Monthly Rate" and the "Usage Rate" per thousand Gallons of water used during the measurement period. This is adjusted by the Council or the COL.
The total systemwide volume may change year to year and it is important to watch for "trends"; for the purpose of this chart it is assumed to be equal to the previous year's volume.
The number of customers in each Size Meter listed below changes constantly; the average remains the same and is used to make the projections listed below.

Size Meter	# of Cust	Fixed Monthly Rate	Fixed Monthly Revenue	Increase of 5%	Est monthly use	Usage Rate /thousand	Monthly Usage Revenue	Increase of 5%	Est Monthly Revenue	Cumulative increase 5%	Est Yearly Revenue	Revenue with Increase
3/4"	1043	19.94	\$20,797.42	\$21,837.29	4.6	2.72483	\$13,073.18	\$13,726.85	\$33,870.61	\$35,564.14	\$406,447.31	\$426,769.68
1"	2	27.11	\$54.22	\$56.93	4.6	2.72483	\$25.07	\$26.32	\$79.29	\$83.25	\$951.46	\$999.03
Mult Units	187	19.94	\$19.94	\$20.94	4.6	2.72483	\$12.53	\$13.16	\$32.47	\$34.10	\$389.69	\$409.18
3/4" com	12	28.99	\$5,421.13	\$5,692.19	19.5	2.72483	\$9,936.09	\$10,432.90	\$15,357.22	\$16,125.08	\$184,286.67	\$193,501.00
1" com	9	36.18	\$434.16	\$455.87	19.5	2.72483	\$637.61	\$669.49	\$1,071.77	\$1,125.36	\$12,861.24	\$13,504.30
1 1/2"	40	54.26	\$488.34	\$512.76	19.5	2.72483	\$478.21	\$502.12	\$966.55	\$1,014.88	\$11,598.57	\$12,178.50
2"	2	75.93	\$3,037.20	\$3,189.06	19.5	2.72483	\$2,125.37	\$2,231.64	\$5,162.57	\$5,420.70	\$61,950.81	\$65,048.35
3"	2	144.66	\$269.32	\$303.79	19.5	2.72483	\$106.27	\$111.58	\$395.59	\$415.37	\$4,747.06	\$4,984.41
4"	4	235.2	\$940.80	\$987.84	19.5	2.72483	\$212.54	\$223.16	\$1,153.34	\$1,211.00	\$13,840.04	\$14,532.04
4" ind	0		\$0.00	\$0.00			\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	1300		\$31,482.53	\$33,056.66			\$26,606.88	\$27,937.22	\$58,089.41	\$60,993.88	\$697,072.86	\$731,926.50

In order to meet the Projections on the accompanying Chart: a 5% increase is recommended for FY 14.

Size Meter	Fixed Monthly Rate	Increase 5%	Usage Rate /thousand	Increase 5%	Current estimated usage	Estimated Usage cost with 5%	Estimated current monthly cost	Estimated new monthly cost	Residential rate 5% increase per year
3/4"	19.94	20.94	2.72483	2.86107	\$12.53	\$13.16	\$32.47	34.10	\$34.10
1"	27.11	28.47	2.72483	2.86107	\$12.53	\$13.16	\$39.64	41.63	\$35.80
Mult Units	19.94	20.94	2.72483	2.86107	\$12.53	\$13.16	\$32.47	34.10	\$37.59
3/4" com	28.99	30.44	2.72483	2.86107	\$53.13	\$55.79	\$82.12	86.23	\$39.47
1" com	36.18	37.99	2.72483	2.86107	\$53.13	\$55.79	\$89.31	93.78	\$41.45
1 1/2"	54.26	56.97	2.72483	2.86107	\$53.13	\$55.79	\$107.39	112.76	\$43.52
2"	75.93	79.73	2.72483	2.86107	\$53.13	\$55.79	\$129.06	135.52	\$45.69
3"	144.66	151.89	2.72483	2.86107	\$53.13	\$55.79	\$197.79	207.68	\$47.98
4"	235.2	246.96	2.72483	2.86107	\$53.13	\$55.79	\$288.33	302.75	\$50.38
4" ind	235.2	246.96	2.72483	2.86107	\$53.13	\$55.79	\$288.33	302.75	\$52.90

3/4" meter	Residential rate 5% increase per year
FY 2014	\$34.10
FY 2015	\$35.80
FY 2016	\$37.59
FY 2017	\$39.47
FY 2018	\$41.45
FY 2019	\$43.52
FY 2020	\$45.69
FY 2021	\$47.98
FY 2022	\$50.38
FY 2023	\$52.90

CITY OF WILLCOX
SEWER UTILITY ATTACHMENT 1

CASH FLOW 4-YEAR MONTHLY AVERAGE, FEB 2009-JAN 2013
REVENUES AND EXPENSES BY MONTH

SEWER UTILITY 4 YEAR AVERAGE REVENUE/EXPENSE

