

**TOWN OF PRESCOTT VALLEY
REQUEST FOR COUNCIL ACTION
Date: April 9, 2015**

SUBJECT: Modified Water & Wastewater System Capacity and Water Resource Charges

SUBMITTING DEPARTMENT: Utilities

PREPARED BY: Neil Wadsworth, Director

AGENDA LOCATION: Comments/Communications , Consent , Work/Study ,
New Business , Public Hearing , Second Reading

ATTACHMENTS: (a) 2015 Raftelis Water & Wastewater System Capacity Charges Report, (b) Report Re Modification of Water Rate Components, and (c) Notice of Intent

SUMMARY/BACKGROUND: On Dec 19, 2013, the Town of Prescott Valley contracted with Raftelis Financial Consultants, Inc. to perform a study of the Town's Water & Wastewater System Capacity Charges in order to update those charges. Staff asked Raftelis to consider, in the process, combining the Water System Capacity Charges for both the Town and the former Prescott Valley Water District service areas and to explore changing the way the Water & Wastewater System Capacity Charges are administered. Eventually, Raftelis made a recommendation as to administration of Water & Wastewater System Capacity Charges which staff now proposes to also apply to administration of the Water Resource Charge.

Water & Wastewater System Capacity Charges (and the Water Resource Charge) are one-time charges paid by new customers for utility system capacity (and related water resources) when structures are connected to the Town's water and wastewater systems. The Town has collected such Charges since 1996. In Arizona two different statutes are the basis for such one-time charges. ARS §9-463.05 is part of municipal subdivision regulations and provides for development fees to offset costs associated with providing necessary public services to new developments,. And, ARS §9-511.01 is part of authority for municipalities to engage in businesses of a public nature and provides for assessing water or wastewater rates or rate components, fees or service charges in the domestic water or wastewater business. Town Water & Wastewater System Capacity Charges are based on ARS §9-511.01. This was initially for historical reasons since monthly utility rates authorized under that statute were the initial source for repaying bonds to purchase water and wastewater improvements for existing customers. It followed that subsequent one-time charges for new customers (also used to pay off bonds) would be adopted under the same statutory process. Moreover, the charges under this latter statute have been distinguished from development fees adopted under the former statute in that they have looked backward and charged new customers for that increment of the remaining capacity in current public resources that those customers are using up. Development fees, on the other hand, typically look forward and charge residents of new developments for their share of facilities expected to be needed because of the new developments. In the end, both types of one-time payments finance new improvements (and related resources) for new customers. But, utility system capacity charges start by attempting to recover "lost opportunity costs" for already-built facilities or already-available resources.

The current Prescott Valley Water Resource Charge was established back in Dec 2004, and the Water & Wastewater System Capacity Charges were established back in Aug 2006 when two separate water systems served the area within the Town limits (a Town system and the PV Water District system). Each maintained separate charges and rates based on historical financing needs. When the PV Water District was dissolved in 2008 (and its system combined into the Town system), the Water Resource Charge was

the same but the monthly water rates were not, nor were the Water System Capacity Charges. Therefore, the Town embarked on a process of combining the remaining charges and rates. The Town has accomplished that goal with regard to the monthly water rates. The Raftelis study now proposes to combine the Water System Capacity Charges.

A summary of the existing and proposed Water & Wastewater System Capacity Charges is provided in Table 1 below using Single-Family Residential units as the basis of comparison.

	Current Charges	Proposed Charges	Change		Current Charges	Proposed Charges	Change
Water	\$1,570	\$1,491	<\$79>		\$1,311	\$1,491	+\$180
Wastewater	\$3,162	\$3,014	<\$148>		\$3,162	\$3,014	<\$148>
Total	\$4,732	\$4,505	<\$227>		\$4,473	\$4,505	+\$32

In terms of administering (calculating) Water & Wastewater System Capacity Charges, this is currently done in a number of different ways based on customer type (as summarized in Table 2 below).

Customer Type	Current Method	Proposed Method
Residential	Flat Charge (fixed)	Meter Size
Multi-Family Duplex, Triplex, Fourplex Apartment / Condo Hotels / Motels	Percentage of residential 85% 80% 50%	Meter Size
Commercial	Fixture Units 25 fixture units = 1 residential unit	Meter Size
Undefined	Meter Size	Meter Size

Raftelis now proposes that calculation of the Water & Wastewater System Capacity Charges be based going forward on water meter size. And, although the Water Resource Charge was not studied in the Raftelis Report, it noted that there is no reason why that charge should also not be administered in the same way as the Water & Wastewater System Capacity Charges (i.e. based on water meter size). Since that will have the effect of modifying (and, in some cases, increasing) the amount of the Water Resource Charge applied to some categories of users (e.g. multi-family uses), a separate Report re Modification of Water Rate Components has also been filed in the office of the Town Clerk for public review. The separate Report supplements the Raftelis Report by noting how this change in administration of Water & Wastewater System Capacity Charges may also change those Charges for certain categories of users.

In accordance with the requirements in ARS §9-511.01 et seq, on this date final versions of the Raftelis Report and the supplemental Report have been filed in the Office of Town Clerk for public review. It is also proposed that the Town Council adopt a NOTICE of its intent to modify (and, in some cases, increase) the Water & Wastewater System Capacity and Water Resource Charges (as set forth in said

Reports), and set a public hearing on said proposal beginning at 5:30 p.m. on Thursday, May 14, 2015. Said NOTICE will then be published in the Prescott *Daily Courier* at least 20 days prior to the hearing. If these Charges are eventually adopted by resolution (no sooner than 30 days after the filing of the Reports and after adoption of the NOTICE), it is proposed that the Charges become effective on and after Wednesday, Jul 1, 2015.

OPTIONS ANALYSIS: Council may adopt the proposed NOTICE of Intent to modify (and, in some cases, increase) the Water & Wastewater System Capacity and Water Resource Charges as set forth in the Reports, and set a public hearing date to consider the proposal, OR Council may defer such action until a later date.

ACTION OPTION: Motion to adopt the attached NOTICE under ARS §9-511.01 to modify (and, in some cases, increase) Water & Wastewater System Capacity and Water Resource Charges and set a public hearing date to consider said proposal, **OR** Motion to defer said action until a later date. **VOTE.**

RECOMMENDATION: Staff recommends adopting the attached NOTICE under ARS §9-511.01 to modify (and, in some cases, increase) Water & Wastewater System Capacity and Water Resource Charges and set a public hearing date to consider said proposal.

FISCAL ANALYSIS: Considerable study and review has taken place over the past several months regarding the adequacy of Town Water & Wastewater System Capacity and Water Resource Charges and how they are administered. The conclusion is that they be modified (and, in some cases, increased) in order for the Town water and wastewater systems to remain viable for the long-term benefit of the Town.

REVIEWED BY:

Management Services Director _____

Town Clerk _____

Town Attorney _____

Town Manager _____

COUNCIL ACTION:

Approved Denied Tabled/Deferred Assigned to _____