

TOWN OF PRESCOTT VALLEY

REPORT OF PROPOSAL TO REVISE CERTAIN WATER AND WASTEWATER RATES, FEES AND SERVICE CHARGES PER ARS §9-511.01

July 14, 2011

The Town of Prescott Valley (“Town”) proposes to revise the water and wastewater rates, fees and service charges discussed below. This Report as to the nature and background of such proposed revisions is submitted for public review and comment prior to a public hearing and possible adoption of the same by the Town Council at its regular meeting to be held on Thursday, September 22, 2011, in the Prescott Valley Library Auditorium/Council Chambers located at 7401 East Civic Circle, Prescott Valley, beginning on or after 5:30 p.m.

Background

The Town was incorporated by order of the Yavapai County Board of Supervisors on August 28, 1978. The Town began with a population of 1,521 citizens. At that time, the Town provided very few services and all utilities were provided by private companies. However, within three years the population had grown to 3,116 and the Town Council began considering acquisition of the private water utility, which provided water service to the Town and surrounding areas. An election was held on November 6, 1984, where the voters authorized the Town to operate its own domestic water system. Unfortunately, acquisition of the water system proved more difficult than expected and nearly 12 years passed before the Town actually began providing water service to a new subdivision. The private water company which provided water service to most of the Town and surrounding areas was not acquired until January 1999, and that water system was placed under a water district (Prescott Valley Water District), separate from the Town.

At the time of incorporation, all wastewater in the Town was handled by private septic systems. However, rapid population growth raised concerns about potential pollution of the groundwater aquifer if septic systems continued to be used. This led to a concerted effort, beginning in 1989, to build a public wastewater collection and treatment system. An election was held on November 6, 1990, where the voters authorized the Town to operate its own wastewater system. By the end of 1994, the first phase of the wastewater treatment plant was constructed and became operational, and about half of the Town's residential areas were connected. By mid 1995, much of the commercial areas were connected. By the end of 1996, the second phase of the treatment plant was constructed and became operational, and most of the remainder of the community was connected to the system.

The Town has attempted to keep its utility operation costs low by contracting with private companies to operate and maintain the utility systems. It also attempted to keep account administration costs low by initially relying on a coupon book system and flat rates for the wastewater system, and contracting between the Town and the Water District to combine account administration of the Town and District water systems. In July 2000, the Town and the Water District together entered into a consultant agreement with Rick Giardina & Associates, Inc. to assist them in reviewing and revising their respective rates, fees and service charges to ensure that they were adequately covering service costs and were efficiently meeting Town and District service goals. Giardina worked with a citizens review committee and, on July 25, 2001, said committee voted to recommend certain revisions to Town and District rates, fees and service charges. This included changing from the flat wastewater treatment rate to a volume-based rate and removing the Town's general fund subsidy of the wastewater collection and treatment system. After a public hearing on the proposed recommendations held August 30, 2001, the Town Council formally

adopted revised wastewater treatment rates by Resolution No. 1033, effective September 29, 2001 (with the proviso that the new rates for the residential classification would not be effective until the April 2002 billing period). The Council also adopted revised water system connection charges and water service rates by Resolution No. 1034, effective September 29, 2001. The Prescott Valley Water District Board made similar revisions to its water rates, fees and charges in its budgeting process.

Part of Giardina's work was to provide Town staff with tools for conducting subsequent in-house studies of utility rates, fees and charges to determine when they might need further adjustment. With these tools, staff has since monitored utility revenues and developed multi-year financial projections. Staff also evaluated whether existing rates, fees and service charges were covering the cost of utility services. Factors considered were the need to encourage water conservation, the need to ensure uninterrupted water and wastewater services to the steadily increasing number of Town customers, and the need to keep the costs of water and wastewater services competitive with other communities in the region that provide those services. Staff also identified new water resources which may be needed for growth and development in the community (consistent with the management goals of the Prescott Active Management Area and the regulations of the Arizona Department of Water Resources). These included effluent recharge credits, retired agricultural rights, surface water rights and certain groundwater available for transport from outside of the Active Management Area.

Each year since, staff has conducted in-house studies of District water and Town water and wastewater rates, fees and service charges. Staff has presented the results of their combined water and wastewater rate study at special joint work/study sessions of the Council/Board.

On March 13, 2008, the Town Council adopted Resolution No. 1570 which assumed all obligations of the Prescott Valley Water District. On the same date, the Prescott Valley Water District Board adopted Resolution No. 70 which approved the dissolution of the District and the Prescott Valley Water Company, and the conveyance of all property of the Company to the Town. Thus, the two water systems were essentially combined into one operated by the Town. However, the rate structures applicable to the two areas remained separate and it was the goal of the staff to recommend rate changes that would combine the rate structures with the next year.

Management Services staff has been meeting regularly to compile a rate study model for the combined water system. On June 16, 2011, staff met with the Town Council in a work/study session and gave an overview of the results of the study. The next step in considering whether to revise the rates, fees and charges is for the Town Council to publicly express its intent to make the revisions and to set a public hearing date. After holding a public hearing on the proposed revisions, the Council could adopt them (or any lesser increases) by resolution. Any increases become effective 30 days after adoption.

After a public hearing, the most recent revisions were approved by the Town Council on September 23, 2010 by Resolution No. 1716 (water rates) and Resolution No. 1715 (wastewater rates) effective with the first billing after November 1, 2010. The approval of Resolution No. 1716 has made volume rates the same for both the Municipal and District water systems.

Adoption and Revision of Utility Rates, Fees and Service Charges

In the operation and maintenance of its wastewater and water systems, the Town is exercising its "proprietary function" as a matter of "local concern", and the Town Council is thereby empowered to meet such requirements as the business at hand requires [Gardner v. Industrial Commission, 72 Ariz. 274 (1951)]. Such authority includes (but is not limited to) the ability to recover the costs of operating and maintaining the systems through various rates, fees and service charges paid by those who connect to the systems and are

benefited thereby. ARS §9-240(B)(28) authorizes the Town Council to enact ordinances necessary to carry into effect such powers vested in the municipal corporation.

ARS §9-511.01 further provides that municipalities intending to increase any water or wastewater rate or rate component, fee or service charge, must first publicly express an intent to make the increase and make available a written report or supply data supporting the same. Such report or data must be available for public review at least 30 days prior to a public hearing on the increase. After holding the public hearing, the municipality may adopt the proposed rate or rate component, fee or service charge increase or any lesser increase. Such increase becomes effective 30 days after adoption. [Note: If the revisions in this Report are adopted on the same date as the public hearing, the proposed changes would be effective on November 1, 2011.]

The Town Council has publicly expressed its proposed intent to make the revisions to rates, fees and service charges listed in this Report (including certain increases) at its regular meeting on July 14, 2011. On or before that date, this "Report of Proposal to Revise Certain Water and Wastewater Rates, Fees and Service Charges per ARS §9-511.01" will have been made available for public review in the Office of the Town Clerk and the Town Manager. The Council has also set a public hearing on these proposed revisions for its regular meeting to be held on September 22, 2011, to consider public comments. If the Council decides not to pursue these proposed revisions to rates, fees and service charges, then the Report will be pulled from the Office of the Town Clerk and Town Manager, and there will be no public hearing on September 22, 2011.

Proposed Revisions to Rates, Fees and Service Charges

1. Wastewater Volume Rate (\$/1,000 gallons):

	<u>Current Rate</u>	<u>Proposed Rate</u>
Residential, Multi-Family Classifications	\$3.94	\$4.48
Commercial/Industrial Classifications	\$3.94	\$4.48

2. New Account Fees – Water And Wastewater

<u>Deposits</u> ¹	<u>Current Amount</u>	<u>Proposed Amount</u>
Wastewater Residential Classification	\$40.00	\$50.00
Commercial, ² Industrial, Multi-Family ³		
Wastewater Classifications	\$40.00	\$50.00
Water Residential Classification	\$90.00	\$100.00

¹ Deposits paid by customers shall be returned or credited after twelve (12) months of no delinquencies or upon closing of the account (net of any outstanding balances) whichever is sooner. No interest shall be paid on deposits.

² Commercial deposits are calculated on the basis of two (2) times the estimated monthly average billing when there is existing usage at the premise. Otherwise deposits are calculated on the number of Fixture Units at the premise.

³ Multi-Family deposits, formerly calculated like residential deposits, will be calculated like Commercial Deposits.

3. Arizona Department Water Resources Fee

The Town has been assessed a yearly charge from the Arizona Department Water Resources (ADWR) in the amount of \$54,105.00. The fee was mandated by the state legislature to cover certain operational costs for ADWR. The Town, in turn, will invoice this fee on a pro-rata basis among the approximately 18,000 active water customer accounts on a monthly basis. Additional programming costs to enhance the utility billing system allowing the Town to bill this fee have added to the total amount that will be invoiced. The total billed monthly fee invoiced that will be invoiced to customers equals \$.46 per customer per month. The per customer fee amount will show as a separate line item on the bills.

Conclusion

After considerable staff review and internal discussion, it is believed that the above-described revisions to Town rates, fees and service charges (including certain increases) will have the overall effect of improving the efficiency and effectiveness of the Town's administration and operation of its water and wastewater systems.

Questions may be directed to the Customer Accounts Division Manager of the Management Services Department at 928-759-3011, or the Management Services Director at 928-759-3127.