AGENDA ITEM:

CITY OF CASA GRANDE
REQUEST FOR COUNCIL ACTION

Date Submitted: 5/14/2014  Date Requested: 6/16/2014

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RECOMMENDATION:

Hold a public Hearing on the proposed water and wastewater rates in accordance with ARS 9-511.01 these increases are proposed in two phases with a phase I effective date of August 1, 2014 and a phase II effective date of July 1, 2015.

DISCUSSION:

The City of Casa Grande Water and Wastewater services are 100% user fee funded. The rates to provide this funding are reviewed annually to ensure the revenue is sufficient to pay for all expenditures of the funds.

On May 5th council adopted a Notice of Intent to increase Water and Wastewater rates. Following the adoption of the NOI this public hearing was advertised in the paper, on our website and posted at various City facilities along with the corresponding Water and Wastewater Rate reports. In addition a public information flyer was mailed or emailed to every billed customer of the two systems announcing the proposed rate increase, the council work session on rates held on June 2, 2014 and this public hearing. Following the council work session on June 2nd a revised informational flyer was posted on the website and in the Finance Department letting customers know of the discussed revision lowering the proposed annual increase. Copies of the fee reports and these public notices are included in the agenda packet.

Wastewater:
The main driver of the rate increase for wastewater is the requirement to repay the debt for the wastewater treatment plant expansion. At the time the expansion was planned, it was assumed that growth would pay more than 50% of the debt service based on the construction costs for new capacity in relation to upgrading existing systems. Growth has not maintained the rate anticipated and the Operating Fund is required to make up the difference under the terms of the loan agreement with the Water Infrastructure Financing Authority. Although established as a loan there is no anticipation that the rate of growth will increase to the point that this loan may be repaid from Impact Fees generated in the near future.
Based on current projections additional rate increases will be required on an annual basis to maintain operations, provide for limited capital infrastructure investment and cover existing debt service. Based on current projections the wastewater fund is utilizing existing savings to offset ongoing expenditures as rate increases are phased in over the five-year period. Not until FY2019 are annual revenues sufficient to cover annual expenditures. In developing the proposed rate maintaining some level of fund balance is a critical component, in all scenarios fund balance falls until FY2019. As projections get further out in time the assumptions utilized become less and less reliable. As such council is being asked to adopt a two phase rate increase for wastewater which will allow for predictability in rates for our customers, predictability in revenue collections for the system and the ability to continue to monitor and forecast economic changes which will impact future revenue requirements.

Water:
The main drivers of the rate increase for water are operational requirements and federal mandates regarding Nitrate removal. Ongoing capital repairs to the system are projected to be $50,000 annually and in FY2015 there is a large capital investment related to federally mandated Nitrate removal. Any increase to this projection will have a substantial impact on the required level of rates

Based on current projections additional rate increases will be required on an annual basis to maintain operations and cover existing debt service. Based on current projection the water fund is utilizing existing savings to offset ongoing expenditures as rate increases are phased in over the five-year period. Beginning in FY2018 annual revenues will be sufficient to cover annual expenditures. In developing the proposed rate maintaining some level of fund balance is a critical component, with the proposed rates for the water fund the fund balance does not fall below an acceptable standard to handle system emergencies.

**FISCAL IMPACT:**

The FY2015 budget has been prepared utilizing the fee amounts included in this consolidated rate table. Modifications to any specific fee or rate may have a direct impact on revenue collections and the provision of a particular service. Actual adoption of the rates will occur with the consolidated fee schedule - The rates in the attached fee schedule reflect those that were originally proposed and advertised. In the consolidated fee schedule the rate increase for residential wastewater has been decreased.

Reviewed by
Finance Director: Doug Sandstrom
Reviewed by
City Attorney: Brett Wallace

**ALTERNATIVES**

Council may consider any combination of rate adjustments that are at or below the amount proposed in the Water and Wastewater rate reports. Revenue requirements will not change and any change to the rate has a direct impact on the amount of fund balance that is utilized to offset ongoing operational costs of the fund.

Prepared by: Doug Sandstrom
Recommended by: Larry Rains
Approved by:
| Doug Sandstrom | Finance Director | Finance Director | City Manager |