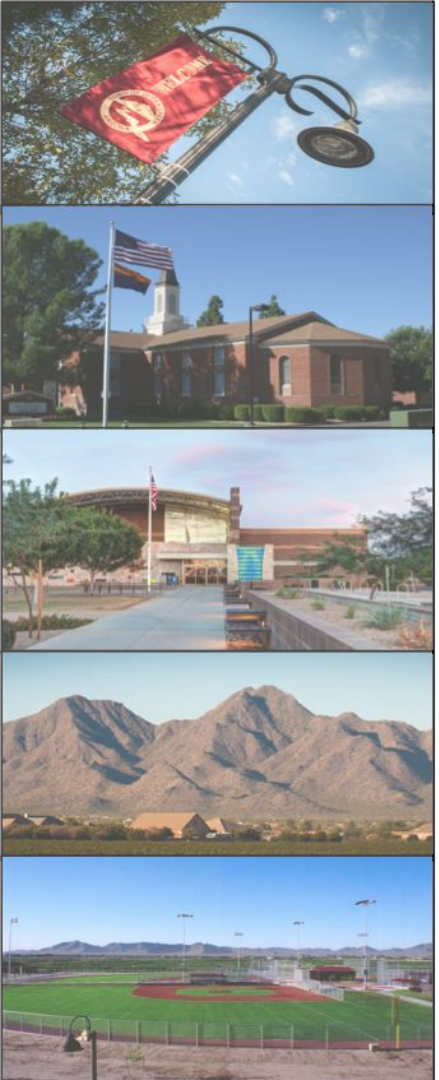
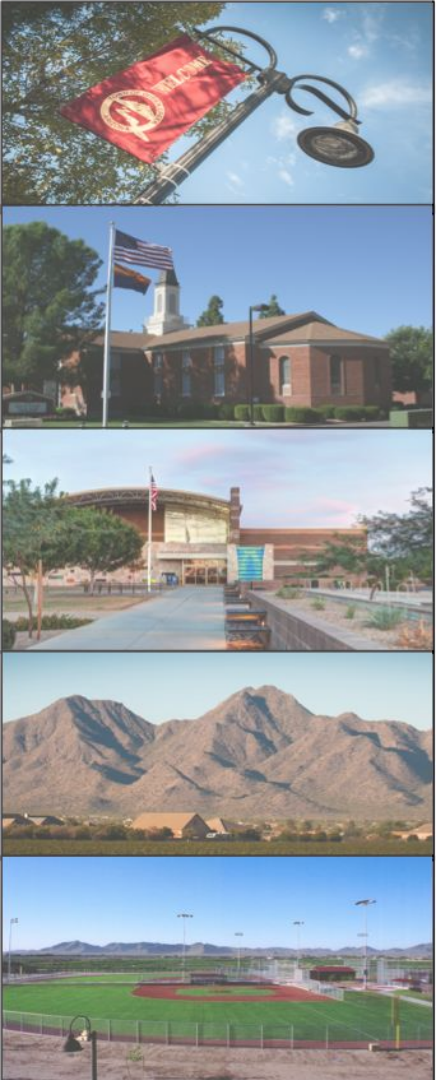


Water and Wastewater: Financial Policy Recommendations

Town Council Meeting

June 5, 2019

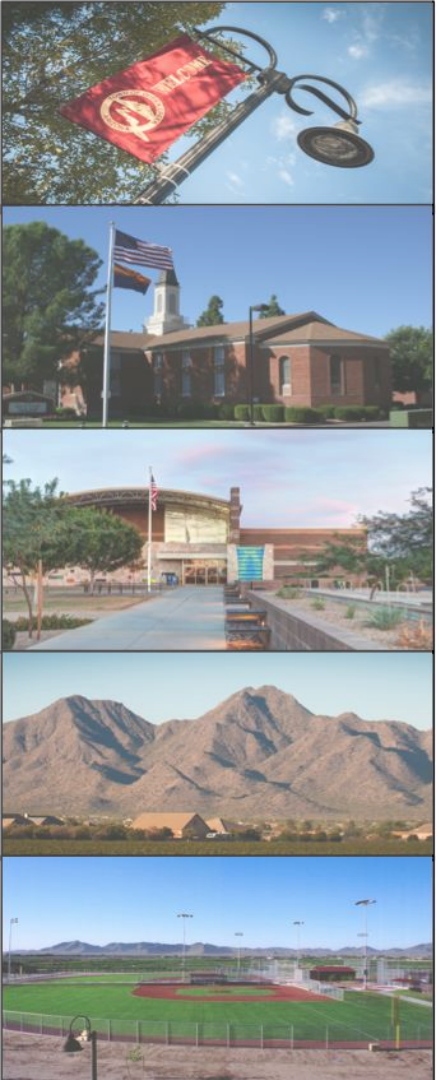


Purpose of Presentation

1. Release $6.5M WIFA Loan Reserves
2. Payoff $20.8M Wastewater Loan
3. Reduce Water and Wastewater Capacity Fees
4. Adopt Treated Wastewater Effluent Purchase Policy
5. Update Water and Wastewater Reserve Policies
6. Reduce Monthly Wastewater Rates

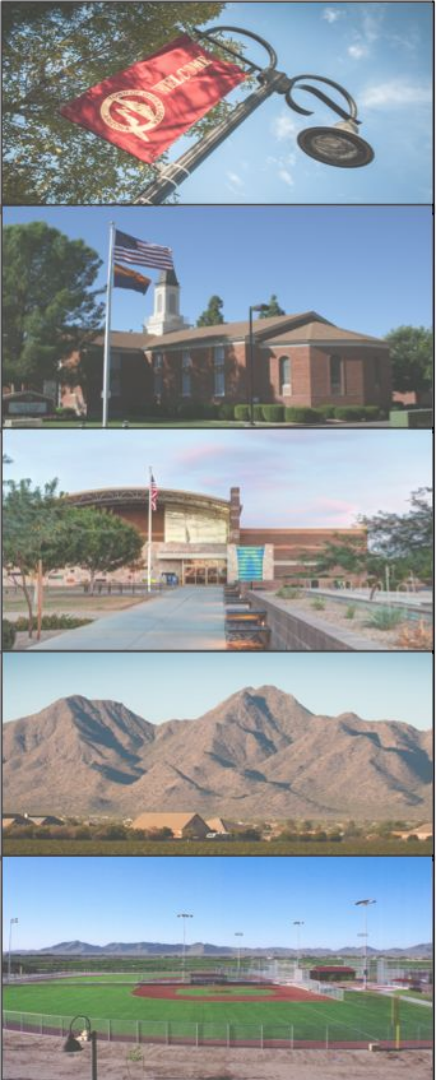



#1
Release $6.5M WIFA Loan Service Reserves



Background

- Reserves Represents Annual Debt Service Amounts
- Required by Lender (WIFA – Water Infrastructure Finance Authority)
- Ensure Debt Payment Can be Made in Case of Financial Hardship

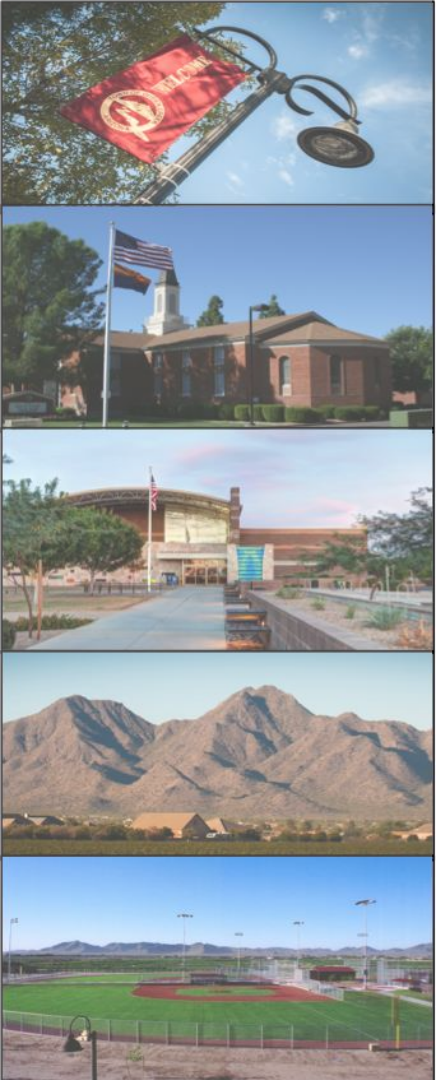


Recommendation

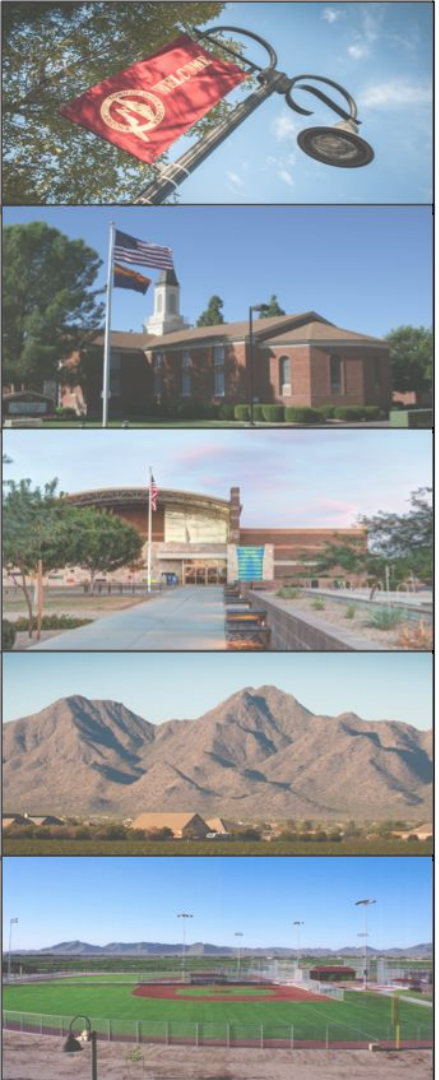
Release $6.5M WIFA Loan Reserves

- Have Never Been Used to Make Debt Payment
- Financial Condition of Water and Wastewater Utilities Have Improved

Issue Year / Purpose	Water	Wastewater
2008 QC Water Co. Acquisition	$3.0M	
2014 H2O Water Co. Acquisition	$1.0M	
2005 Wastewater Treatment Plant	-	$2.5M
TOTAL	$4.0M	$2.5M

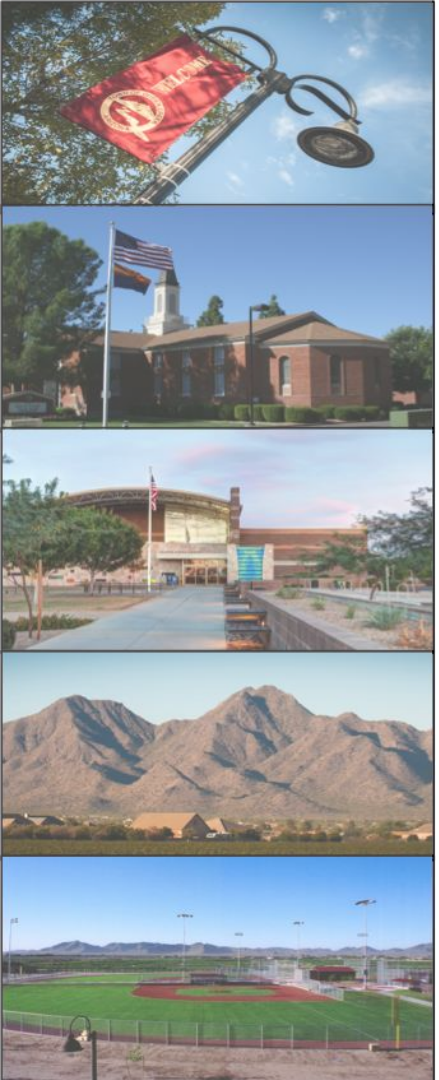


#2
Payoff $20.8M Outstanding Wastewater Loan



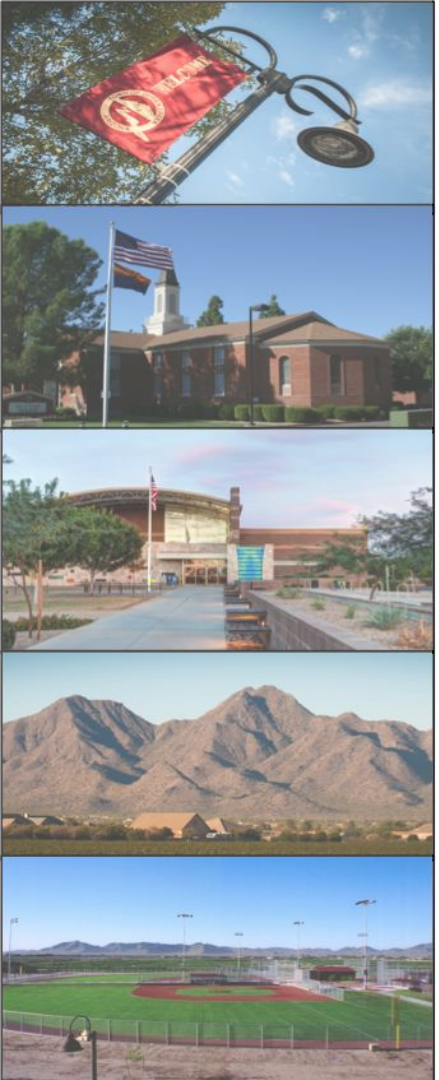
Background
2005 WIFA Loan

- Issued in 2005
- $34M Issued for Town's Share to Buy Into Jointly Owned Treatment Plant with Mesa and Gilbert
- $20.8M Outstanding Today
- $2.5M Annual Debt Service Paid from Wastewater Operating Revenues



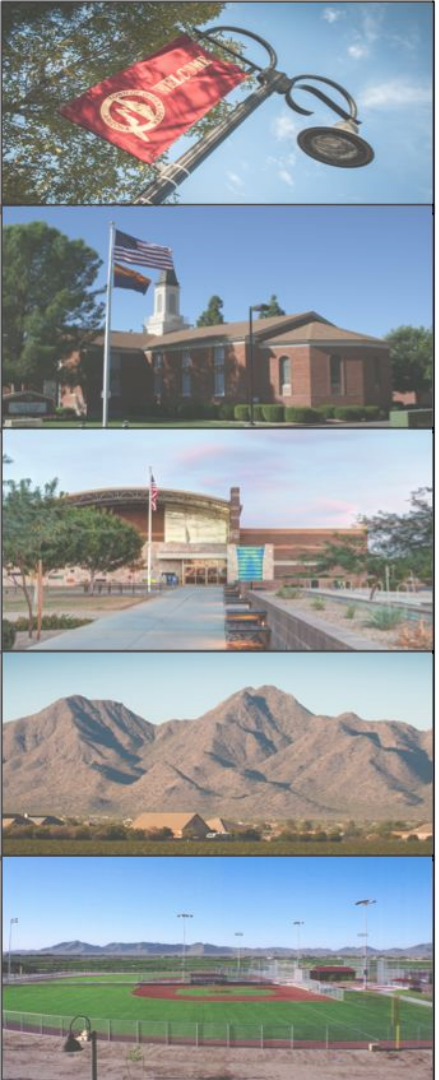
Sources for Payoff

Sources	Amount
1. Release of WIFA Debt Service Reserve	$2.5M
2. Accumulated Capacity Fee Cash Balance	$17.0M
3. Wastewater Fund Operating Cash	$1.3M
TOTAL	$20.8M

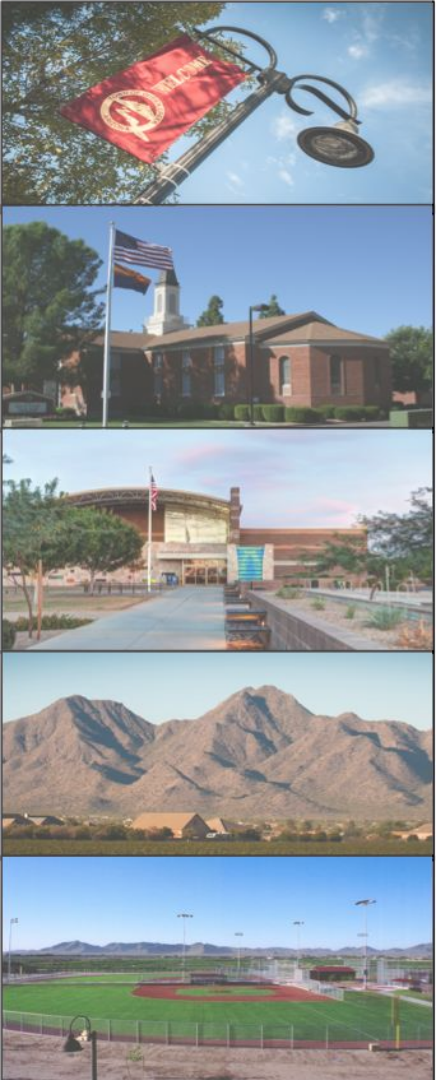


Effect of Payoff

1. $3.7M Saved from Future Interest Payments
2. Reduces Capacity Fee
3. Eliminates $2.5M Annual Debt Payment which Helps Allow for Monthly Rate Reduction (Item #5)

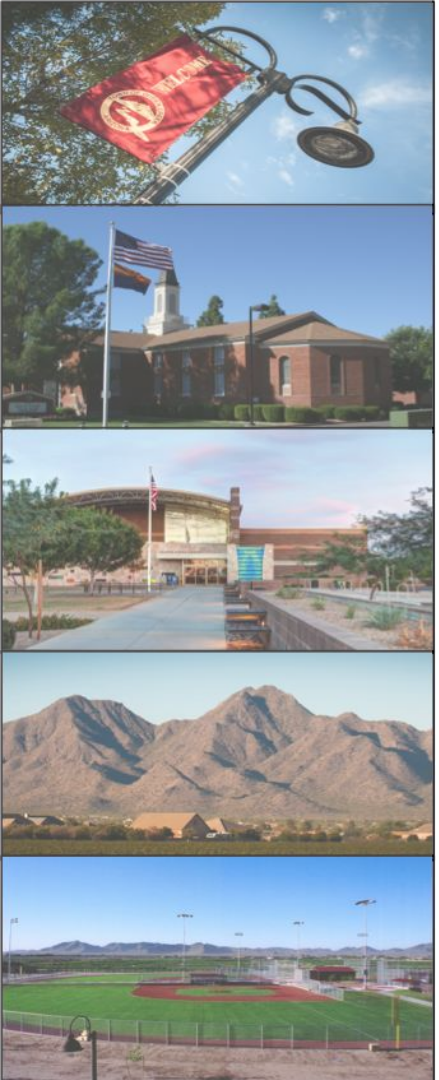


#3
Reduce Water and Wastewater Capacity Fees



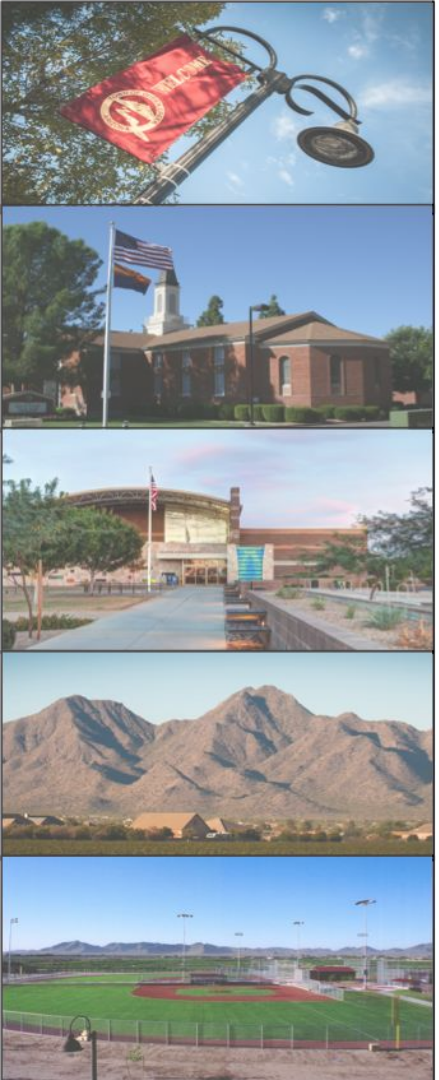
Capacity Fees

- One-Time Fees Intended to Recover the Infrastructure Costs Associated with New Development
- Funds System Level Infrastructure
  - Excludes On-Site or Site-Specific Infrastructure
- Last Updated in 2014
- Fees Charged Based on Water Meter Size



Water Capacity Fees

- Based on Adopted Water Master Plan
- 10-Year Project List: $105.8M
  - Adding 17.6 Million Gallons of Peak Day Capacity
    - Wells, Pipes, etc.
- Calculation Method: “Forward Looking”
  - 44% Builtout Today
  - 70% Builtout in 10 Years



Water Project Summary

	Growth	Non Growth	Total IIP
10-Year Projects	$54.7M	$51.1M	$105.8M
Allocation Percentage	48%	52%	

Proposed Water Capacity Fees

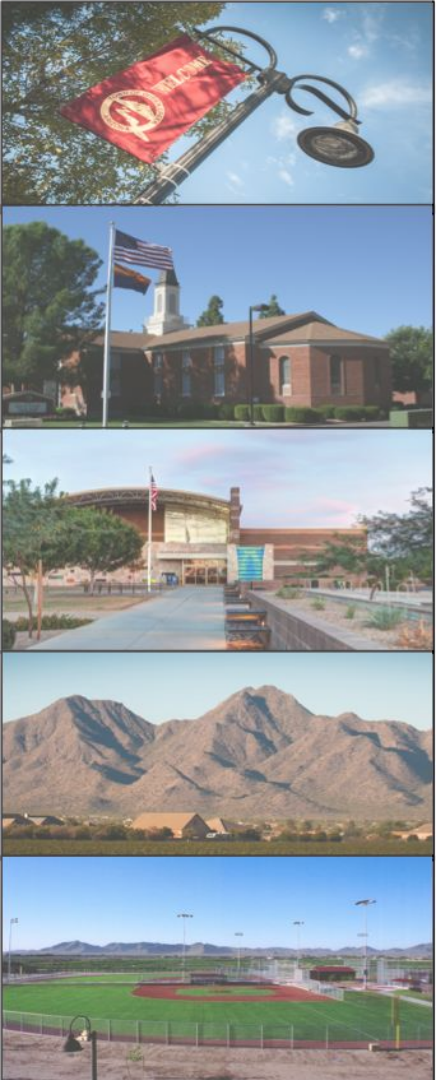
Growth Projects: $54.7M

	Current Fee	Draft Fee	$ Change	% Change
¾-inch	$4,014	$2,382	($1,632)	(41%)
1-inch	$6,806	$3,978	($2,828)	(42%)
1 ½ - inch	$13,189	$7,933	($5,256)	(40%)
2-inch	$21,166	$12,697	($8,469)	(40%)

- Removed $11M Debt for H20 Company Purchase
- Growth Costs Recovered from Capacity Fees Increased $40.5M (from $14.2M to $54.7M)

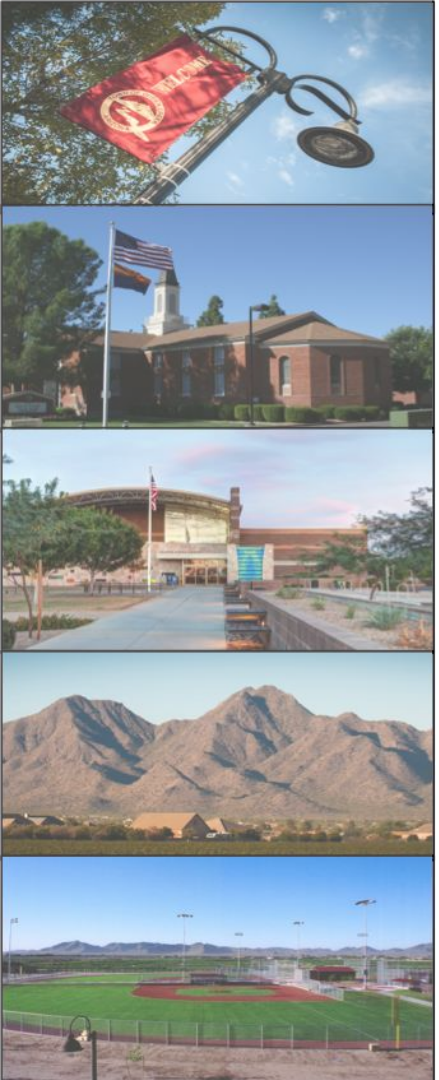
Divided By

10-Year EDU Projection Increased (from 5K (5 Years) to 23K)



Wastewater Capacity Fees

- Based on Adopted Wastewater Master Plan
- 10-Year Project List: $67.6M
  - Adding 1.8 Million Gallons of Capacity
    - Transmission and Treatment Plant Expansion
- Calculation Method” “Forward Looking”
  - 68% Builtout Today
  - 94% Builtout in 10 Years



Wastewater Project Summary

	Growth	Non Growth	Total IIP
10-Year Projects	$31.0M	$36.6M	$67.6M
Allocation Percentage	46%	54%	

Wastewater

Growth Projects: $31M

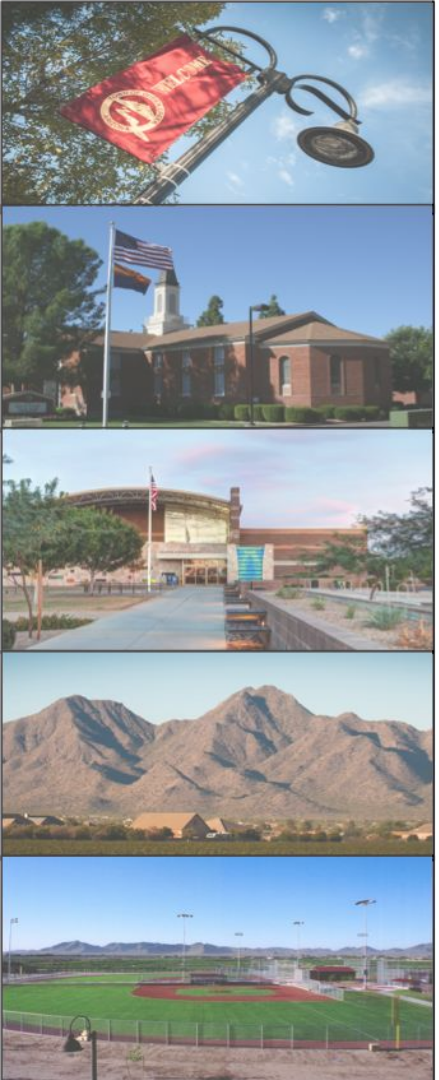
	Current Fee	Draft Fee	$ Change	% Change
¾-inch	$5,082	$2,901	($2,181)	(43%)
1-inch	$8,629	$2,901	($5,728)	(66%)
1 ½ - inch	$16,738	$9,660	($7,078)	(42%)
2-inch	$26,875	$15,462	($11,413)	(42%)

Changed to the Same Fee

- $20.8M Debt for Treatment Plant Eliminated due to Payoff
- Growth Costs Recovered from Capacity Fees Increased $17M (from $14M to $31M)

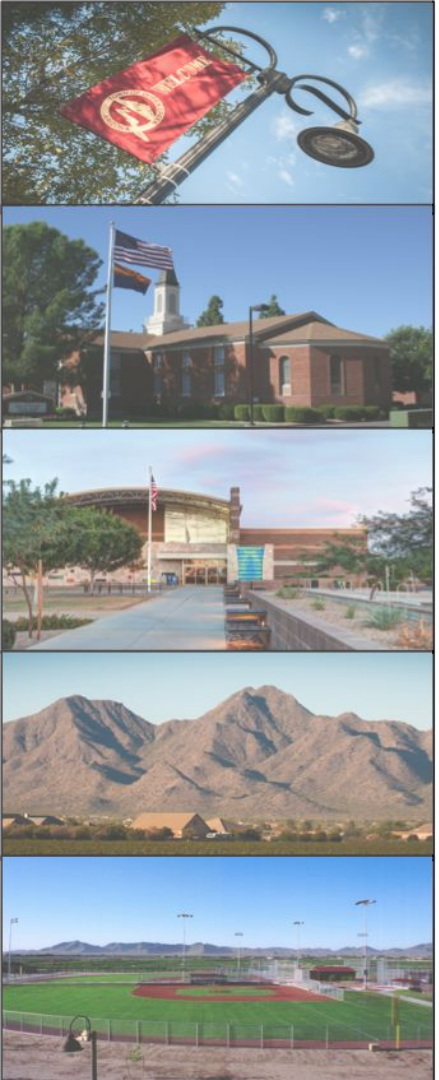
Divided By

10-Year EDU Projection Doubled (from 7K to 10.7K)

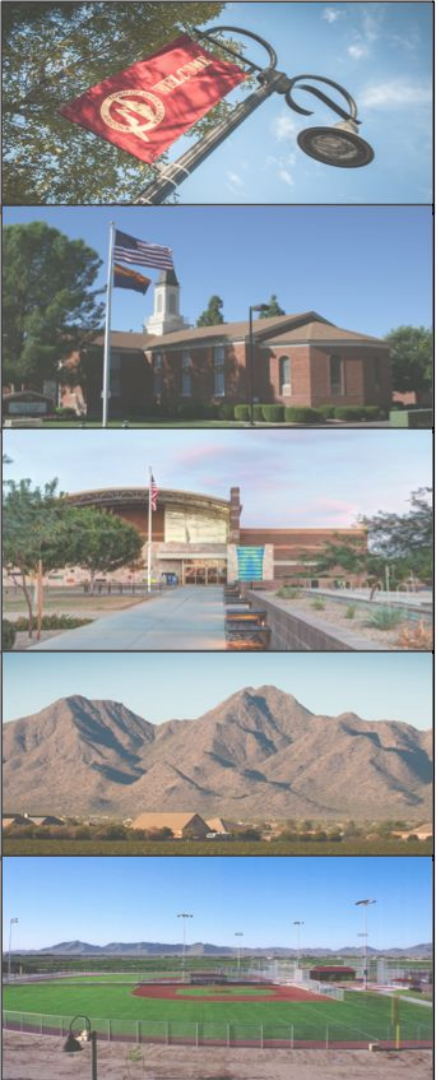


Recommendation

- Reduce Water and Wastewater Fee Effective July 1, 2019

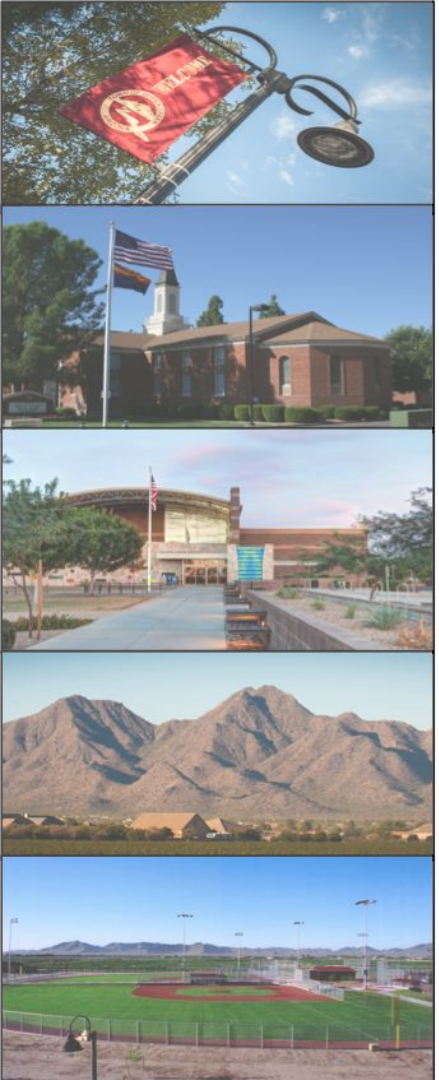


#4
Adopt Treated Wastewater Effluent Purchase Policy



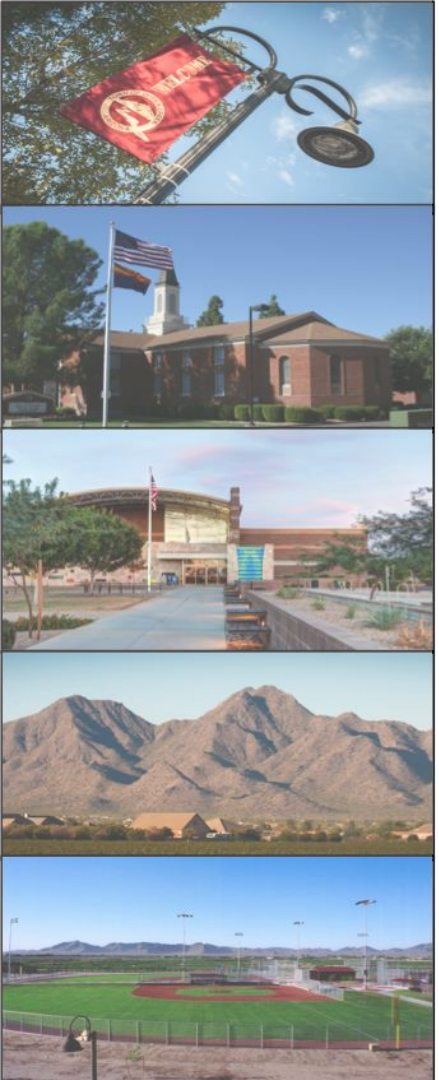
Background

- Treatment Process Returns Wastewater to a Usable Condition to be Recharged Into the Ground
- Water System is Required to Meet 100-Year Assured Water Supply Requirements
- Recharged Water Has Value: $700K Annually
- Water and Wastewater Utilities are Separate and Distinct

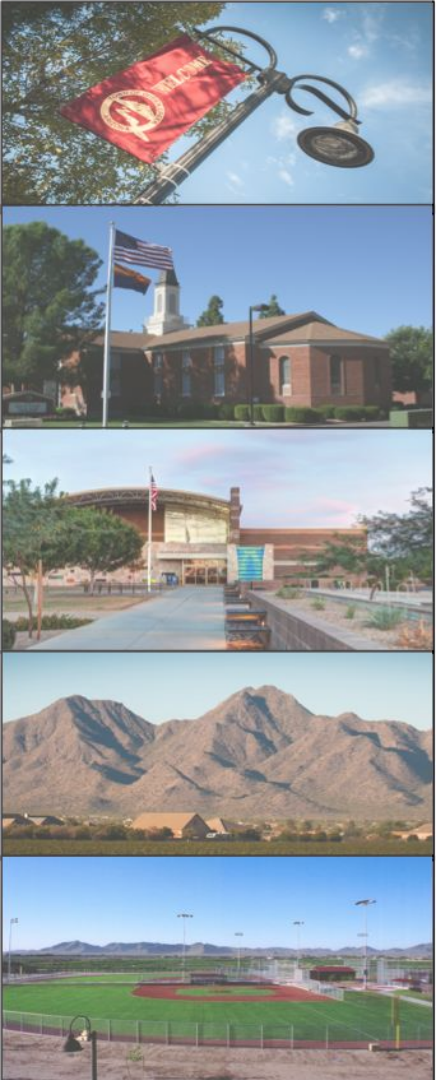


Recommendation

- Adopt a Financial Policy in Which the Water Fund Purchases the Treated Effluent from the Wastewater Fund

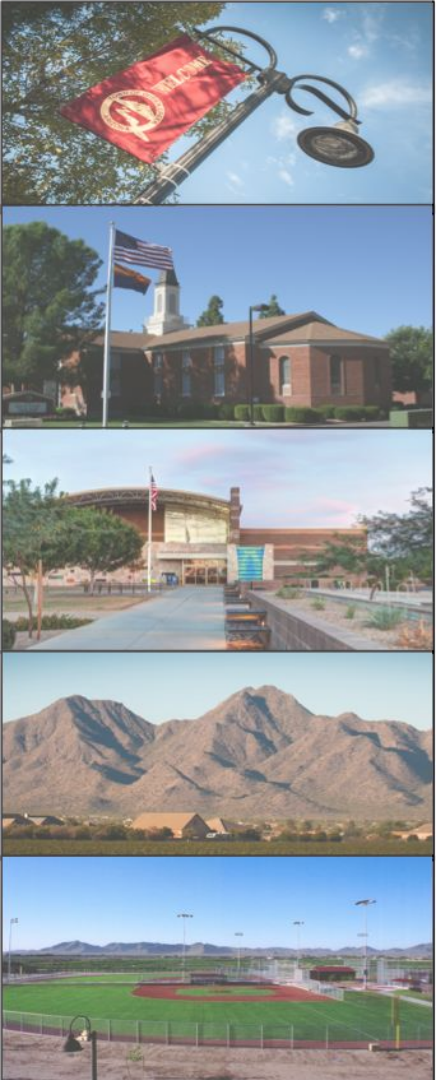


#5
Increase Water and Wastewater Reserves



Background

- Financial Complexity of Water and Wastewater Utility Has Increased
- Larger Reserves are Appropriate
- Appropriate Reserves Represent a “Best Practice” Intended to Provide Liquidity and Rate Stability
  - Bond Rating Agencies
  - Governmental Finance Officers Association (GFOA)



Recommendation

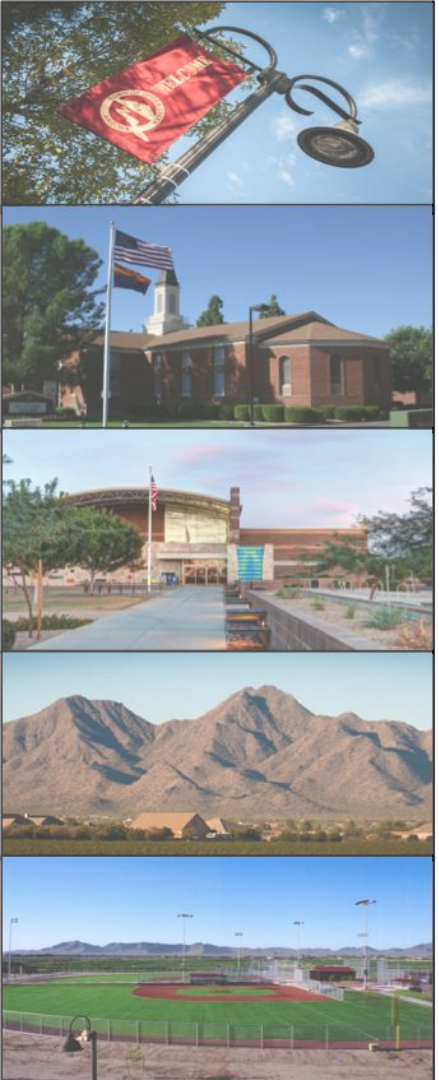
- Adopt Financial Policy to Set Reserve Targets as Presented on the Next Two Slides
  - Expected to Take Up to 5 Years to Meet New Reserve Targets

Operating Reserves

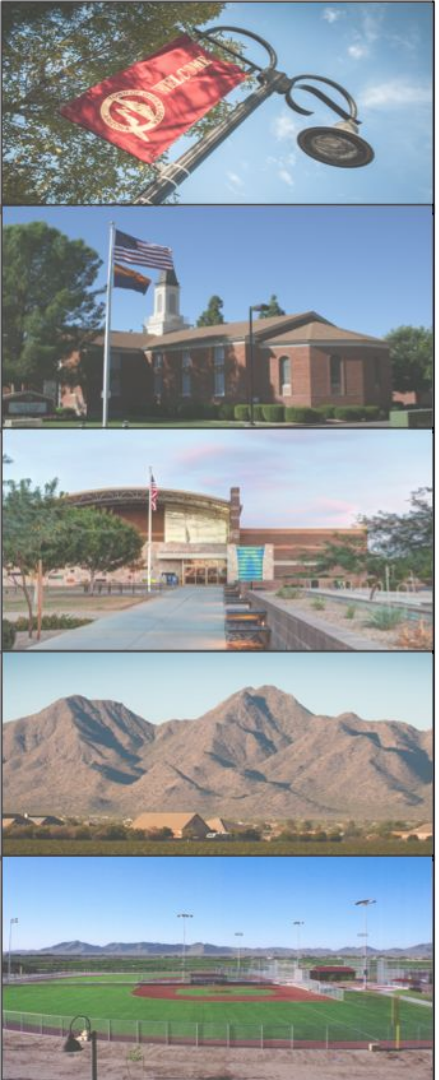
	Water	Wastewater
Existing	$2.5M (10% of Revenues)	$0.7M (10% of Revenues)
Recommended	$22.5M (100% of Expenses)	$4.2M (100% of Expenses)
INCREASE	+ $20M	+ $3.5M

R&R Reserves

	Water	Wastewater
Existing	No Policy	No Policy
Recommended	$3.4M (1.5x Annual Depreciation)	$4.1M (1.5x Annual Depreciation)

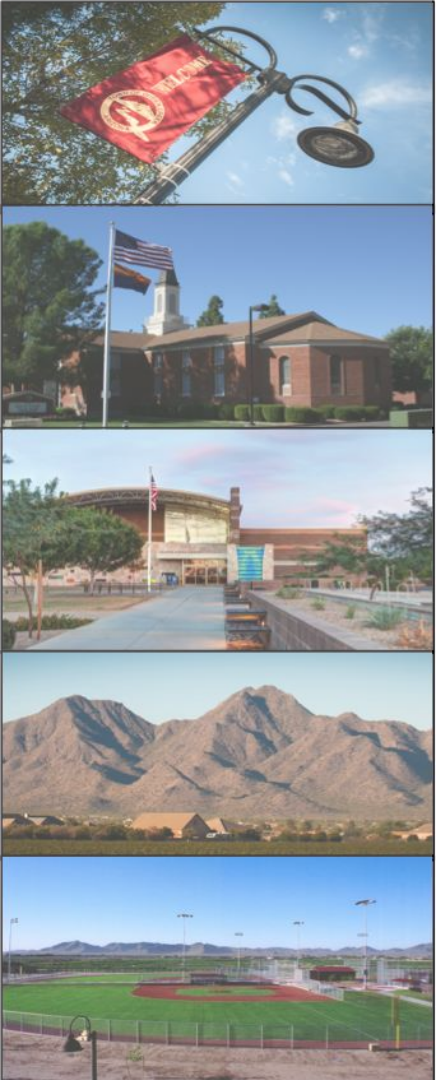


#6
Reduce Monthly Wastewater Rates



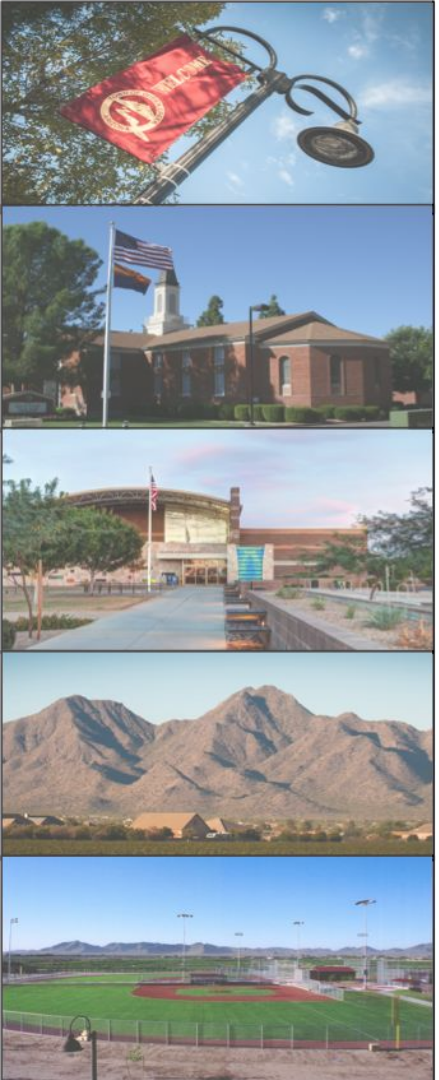
Wastewater Utility Overview

- Service Area: 33 Square Miles (Town Limits)
- Infrastructure
  - Jointly Own Treatment Plant with Mesa and Gilbert
  - Transmission Infrastructure within Town Limits
- Number of Accounts
  - Residential: 12,300
  - Non-Residential: 280



Financial Overview

- FY 18-19 Operating Budget
  - Annual Revenues: $8M
  - Annual Expenses: $4M
- Debt
  1. $20.8M Treatment Plant (Recommendation to Payoff – Item #2)
     - Annual Cost: $2.5M
  2. $3.8M Treatment Plant Expansion
     - Annual Cost: $400K
     - Earliest Payoff Date: 2024

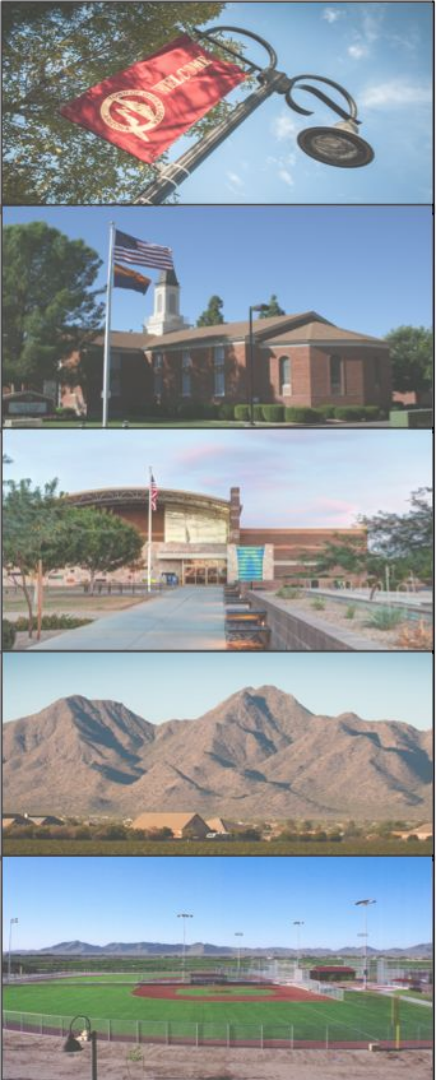


Financial Overview (concluded)

- 10-Year Infrastructure Improvement Plan: $67.6M
  - Transmission: $51.7M
  - Treatment Plant Expansion: $15.9M
- Funding Breakout
  - Rates: $36.6M (54%)
  - Capacity Fees: $31M (46%)

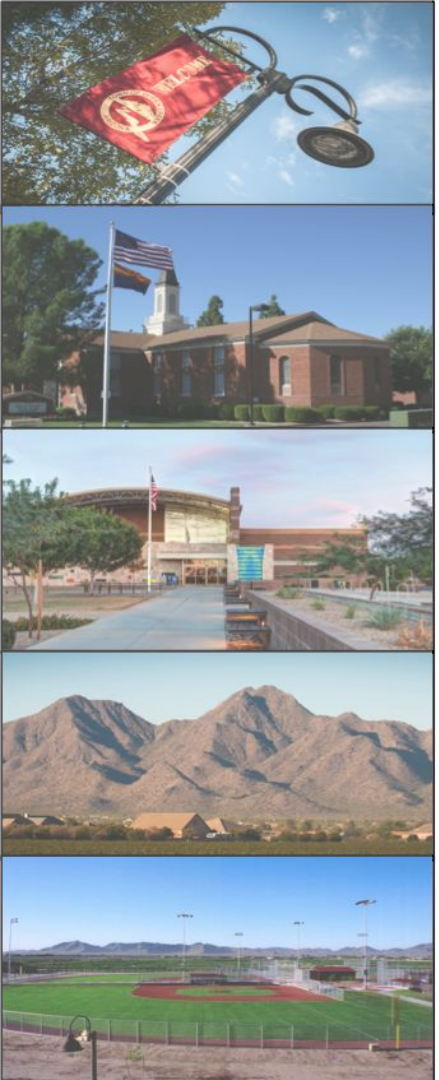
Financial Summary: Customers & Revenue

Customer Types	# of Accounts	FY 18-19 Revenue
RESIDENTIAL		
Builder (Time between building permit and occupancy)	800	$0.14M
New Residential (Flat Amount, Not Yet on “Winter Average”)	2,600	$1.1M
Existing Residential (90% “Winter Average”)	8,900	$4.9M
SUBTOTAL - RESIDENTIAL	12,300	$6.14M
NON RESIDENTIAL		
Landscaping on same meter	50	$0.3M
Landscaping on separate meter	230	$0.9M
SUBTOTAL – NON RESIDENTIAL	280	$1.2M
Total	**12,580**	**$7.34M**



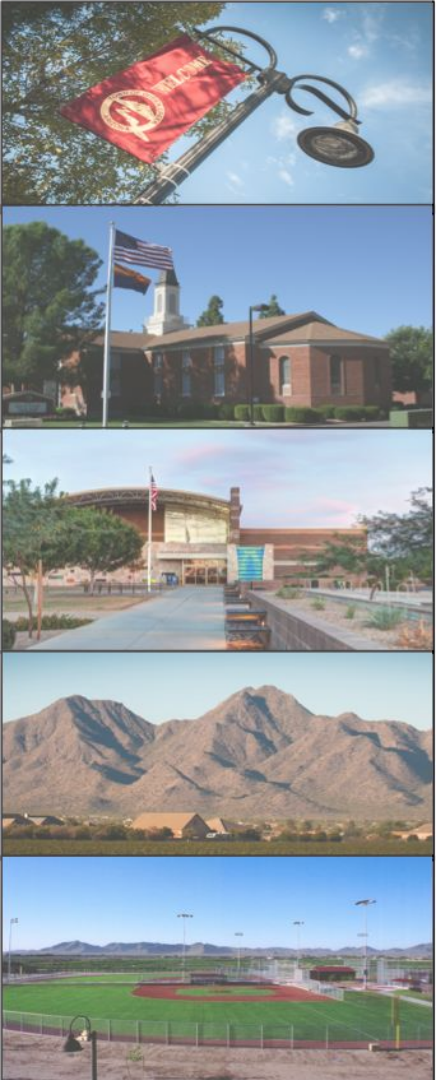
History of Monthly Wastewater Rates

- Last Rate Study: 2010
- Study Results
  - Projected a Capacity Fee Shortfall Due to the Great Recession
  - 2011: Approved 6 Annual 9.5% Rate Increases
    - First Four Implemented (2011 to 2014)
      - 43% Aggregate Rate Increase
    - Last Two Increases Not Enacted by Town Council



2019 Rate Update Objectives

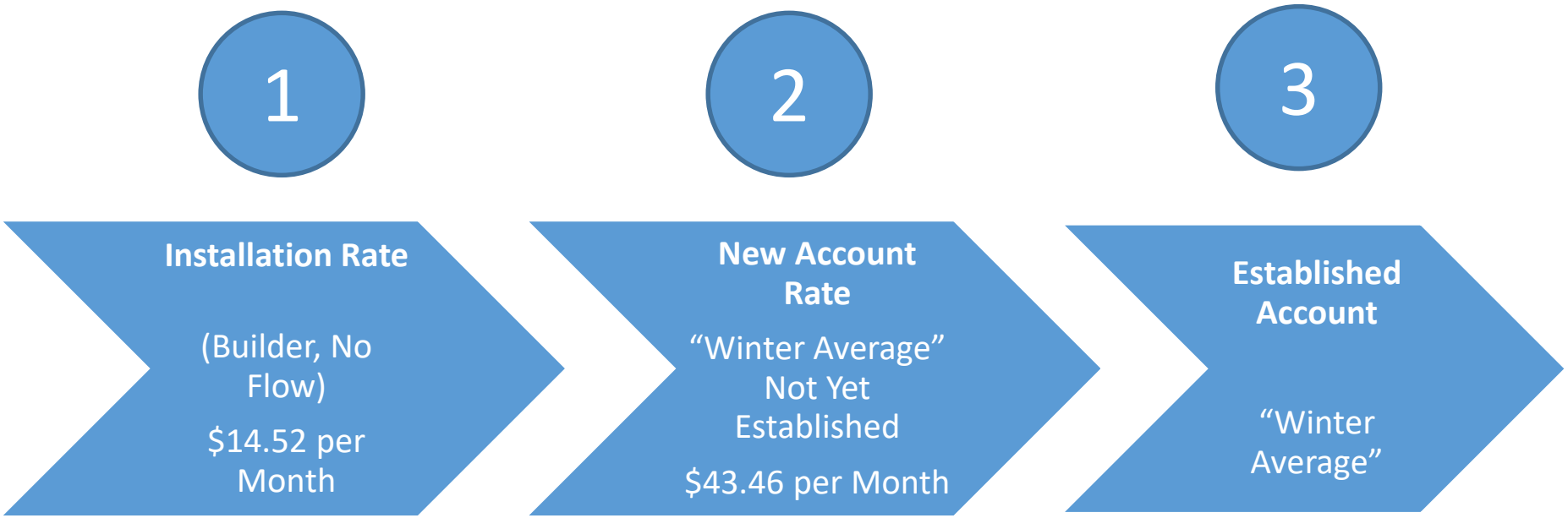
1. Focus on Residential Rates
   - Non-Residential Analysis in 2020
2. Adjust Residential Rates to Reflect Reduced Wastewater Flow to Treatment Plant
3. Improve Data Analysis and Administration

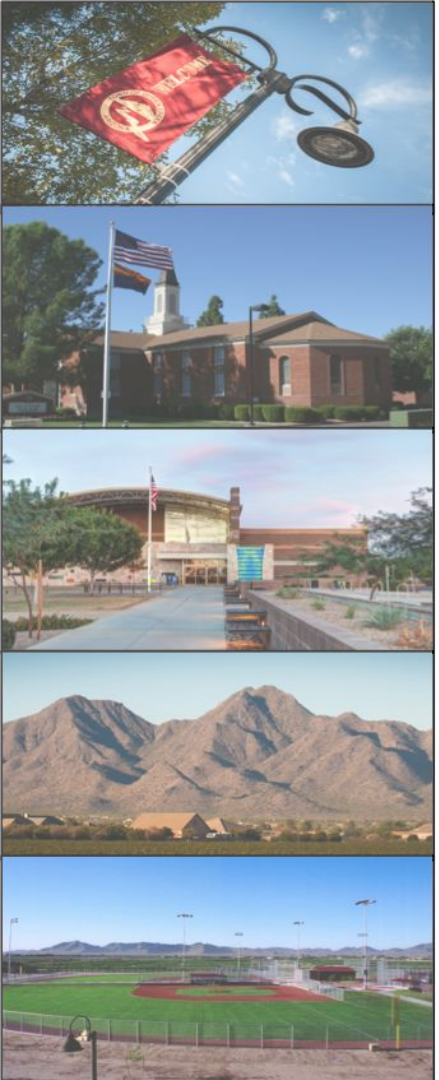


How and Why Have Wastewater Flows Decreased?

- Flows to Treatment Plant Have Decreased
  - 2013 Capacity Fee Study: 231 Gallons per ERU
  - 2016 Master Plan: 168 Gallons per ERU
- Reasons for the Flow Decrease
  - Low Flow Shower Heads
  - Low Flow Toilets
  - Smaller Homes

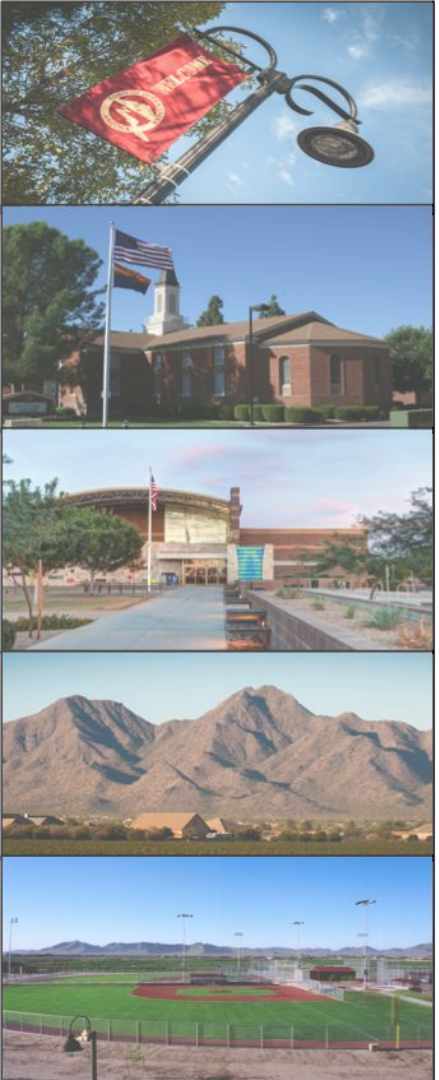
Life of a Residential Sewer Account





What is “Winter Average”?

- Annual Calculation Made to Ensure Residential Accounts are Being “Fairly” Charged for Flow to Treatment Plant
  - Flow to Treatment Plant Not Metered
- Methodology
  - 3-Month Average Water Consumption for December, January, and February
  - Timeframe Representing the Lowest Amount of Outside Water Use



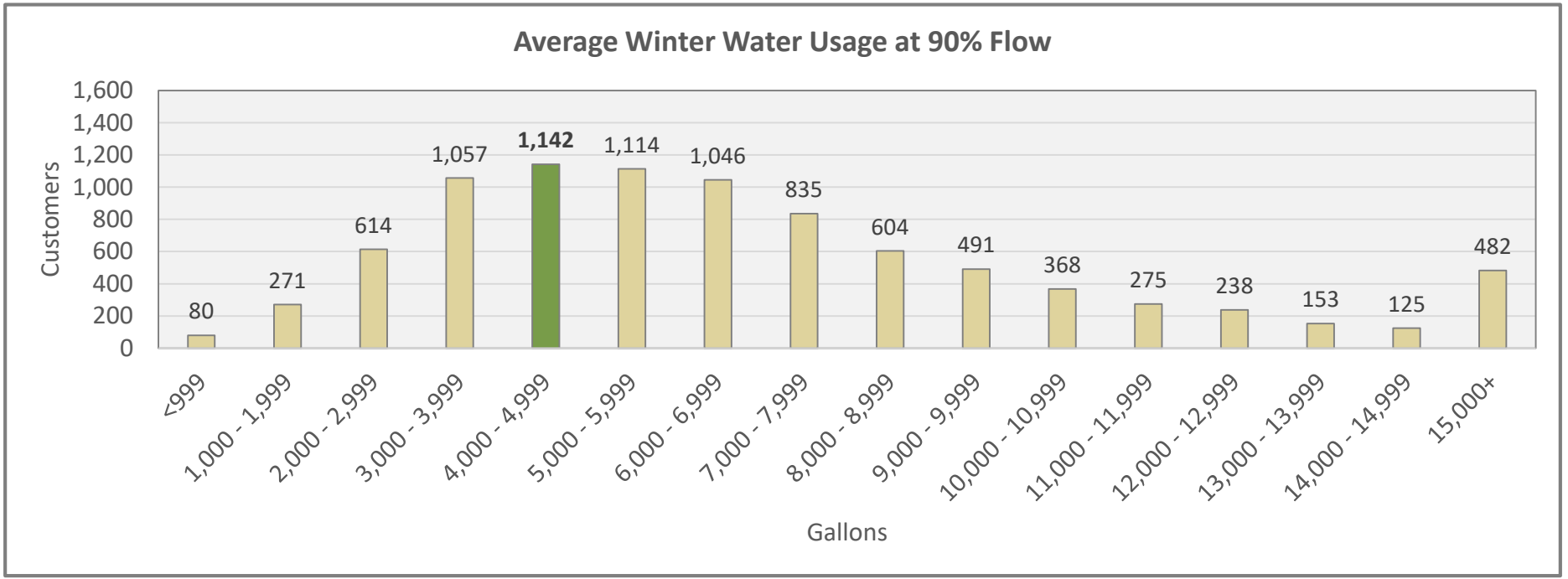
Example Account: "Winter Average"

1. Base Rate	$10.25	$10.25 (30%)
2. Consumption Winter Monthly Average* 90% Flow Factor	 5,500 Gallons* x 90% = 4,950 Gallons	
$4.82 per 1,000 Gallons	$4.82 x 4.95 =	$23.86 (70%)
Monthly Bill		**$34.11**

* December, January, February 3-Month Average

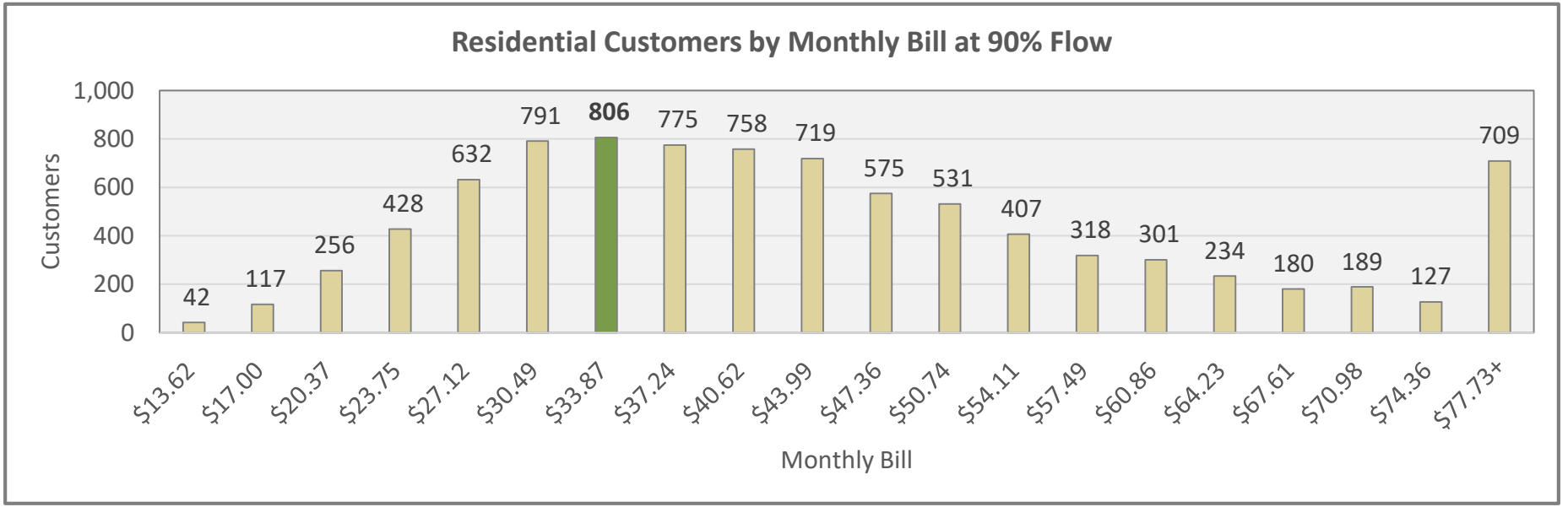
2019 Residential Customer Flows

(Assuming a 90% Flow Factor)



2019 Residential Customer Bills

(Assuming a 90% Flow Factor)



Recommended: Example "Winter Average"

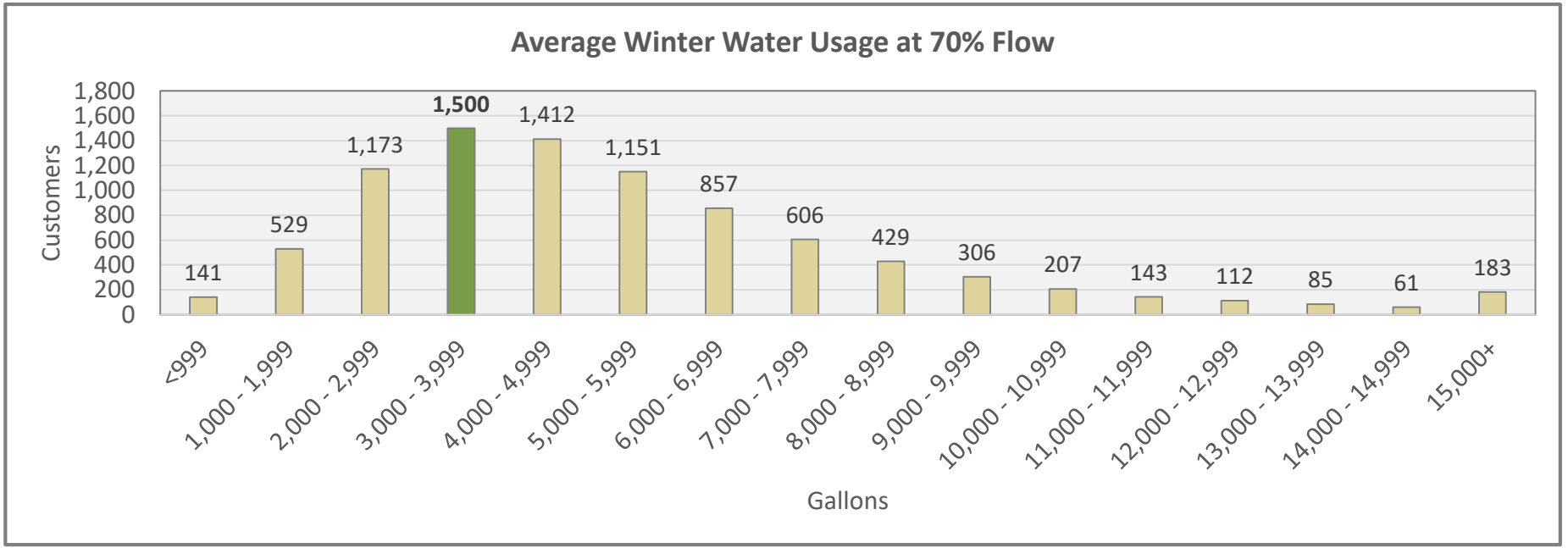
Flow Factor Reduced to 70% from 90%

1. Base Rate	$10.25	$10.25
2. Consumption 2019 Average Winter Water Use* 70% Flow Factor $4.82 per 1,000 Gallons	 5,500 Gallons* x 70% = 3,850 Gallons $4.82 x 3.85 =	 <u>$18.56</u>
Recommended Monthly Bill		**$28.81**
Existing Monthly Bill (previous winter avg. x 90%)		$34.11
Change ($)		**($5.30)**
Change (%)		**(15%)**

* December, January, February 3-Month Average

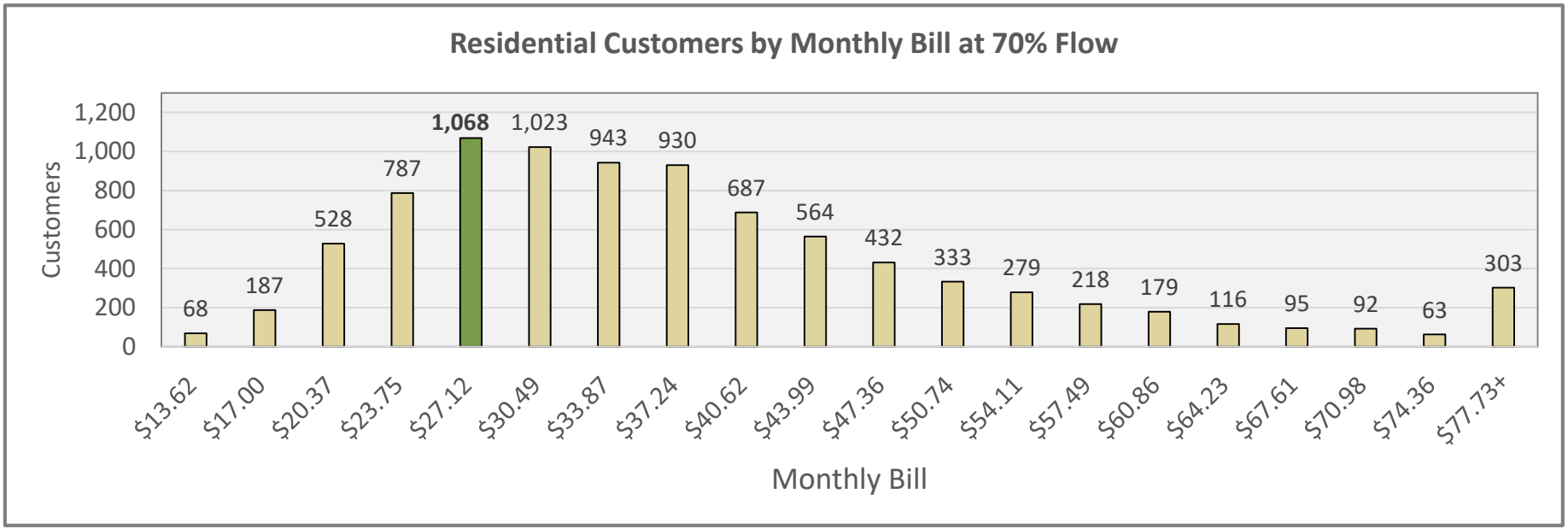
Proposed Residential Flows

(Assuming a 70% Flow Factor)

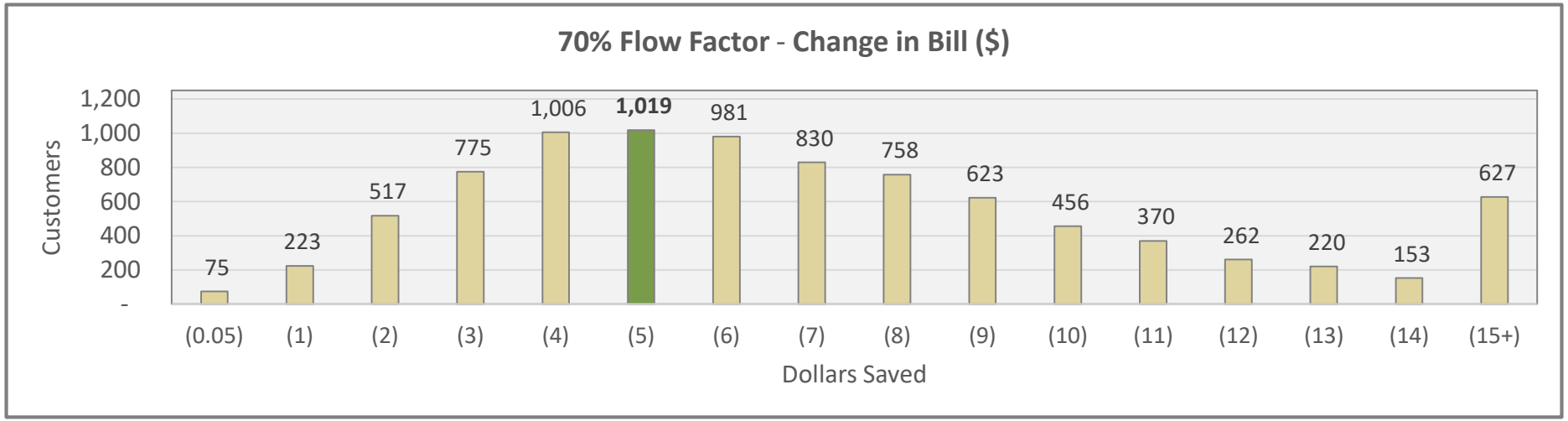


Proposed Residential Bills

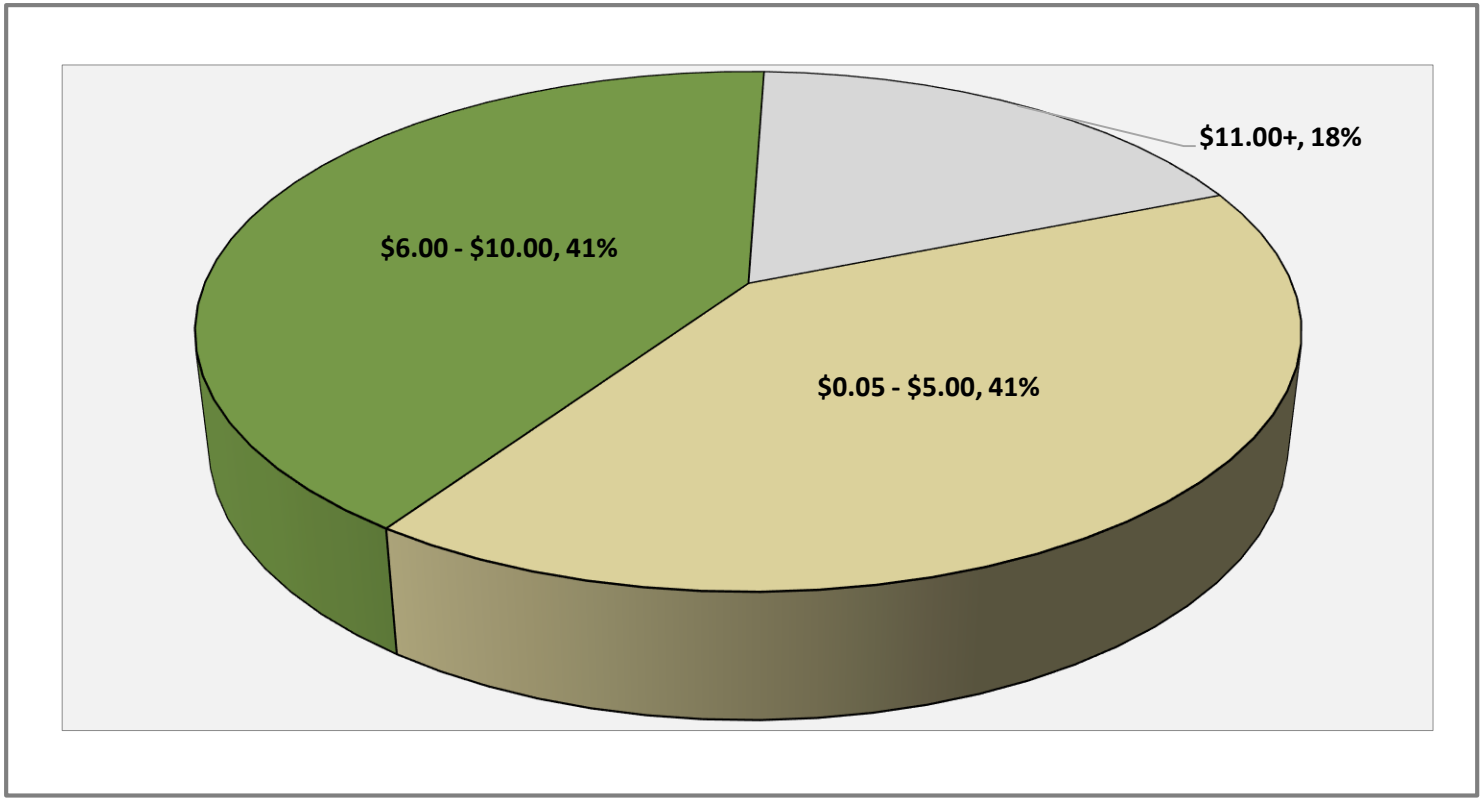
(Assuming a 70% Flow Factor)



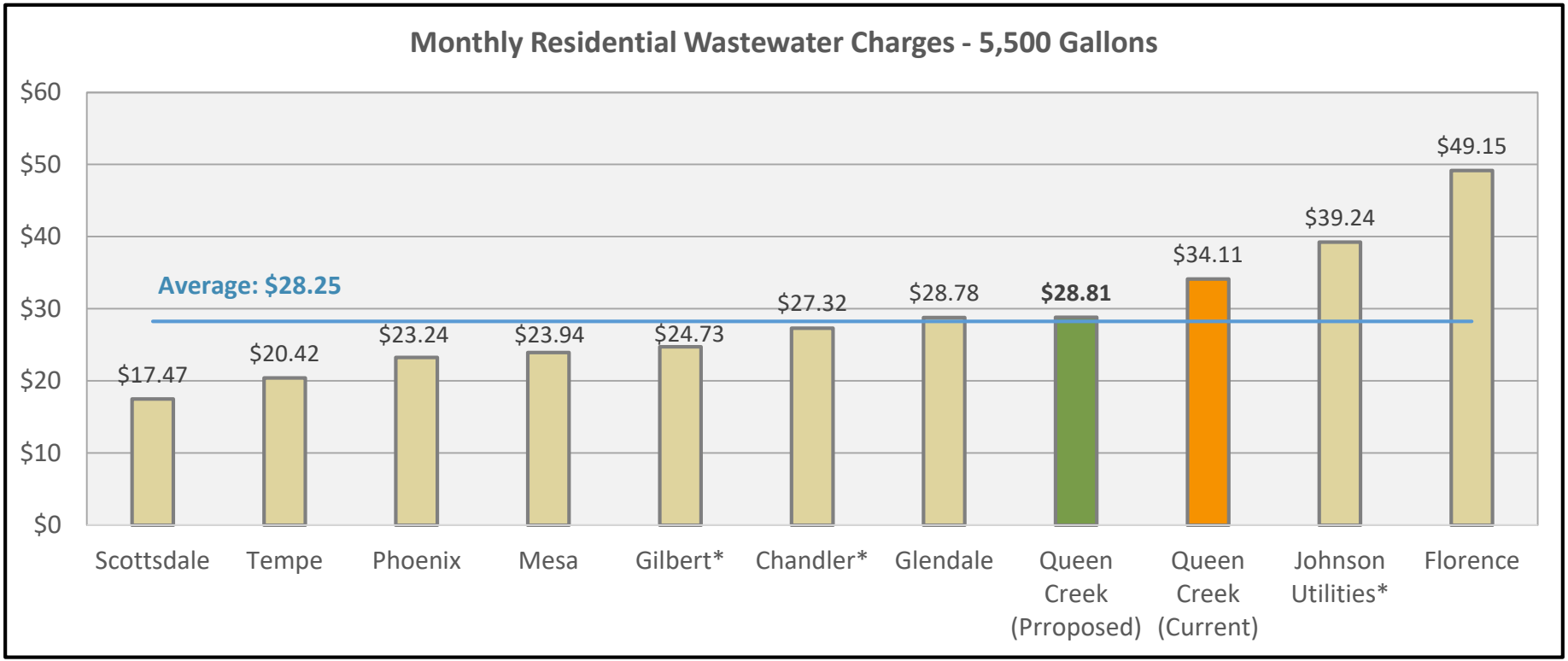
Monthly Residential Savings



Monthly Residential Savings

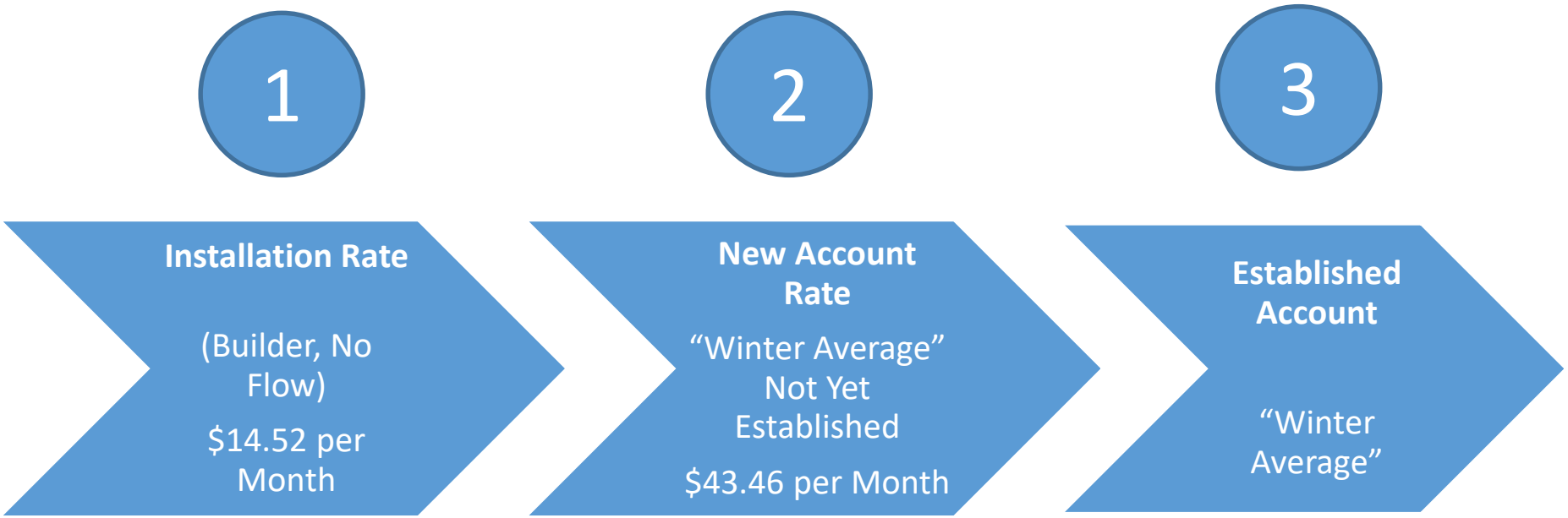


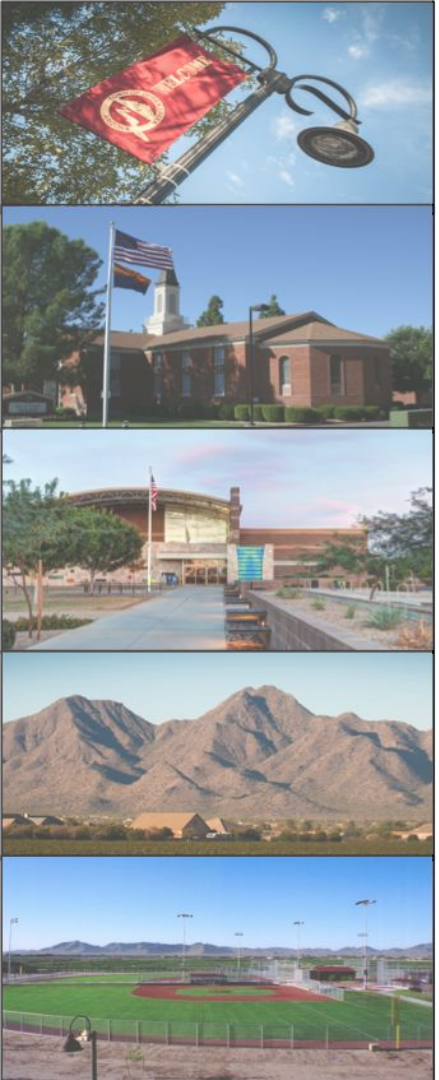
Comparison



*Utility provider charges a flat-rate

Life of a Residential Sewer Account



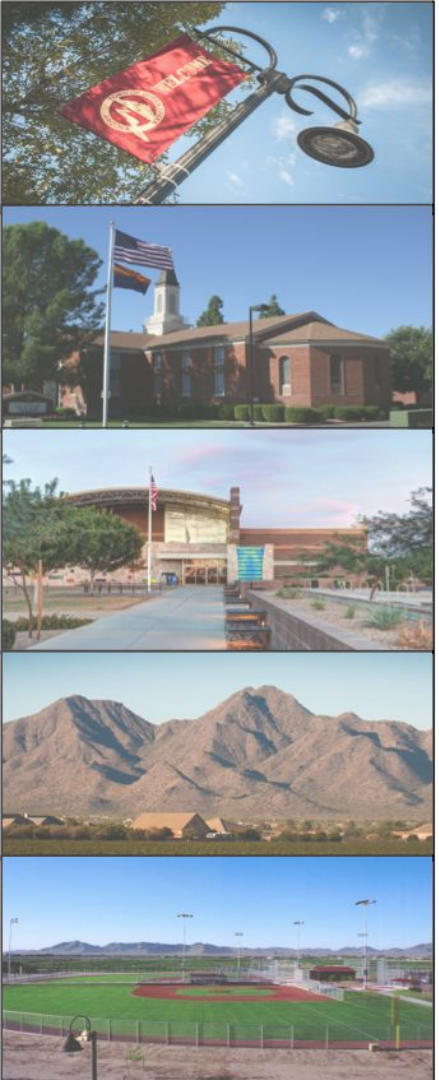


What is the Installation Rate?

- Rate Used Before Home is Occupied
- Paid by Builder Until Home Sold
- No Flow to the Treatment Plant
- $14.52 Fixed Fee

RECOMMENDATION

Reduce Amount from $14.52 to Base Component of Residential Rate ($10.25)



What is New Account Rate?

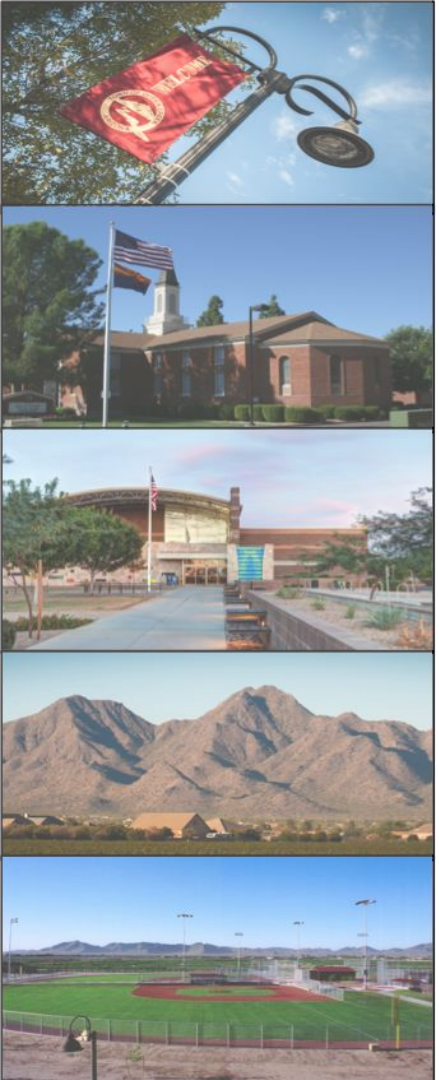
- Rate for New Residential Customers
- Fixed $43.46 per month
  - $10.25 Base Fee and $33.21 Consumption Fee

RECOMMENDATION

Reduce Amount from $43.46 to $36.90
Winter Average

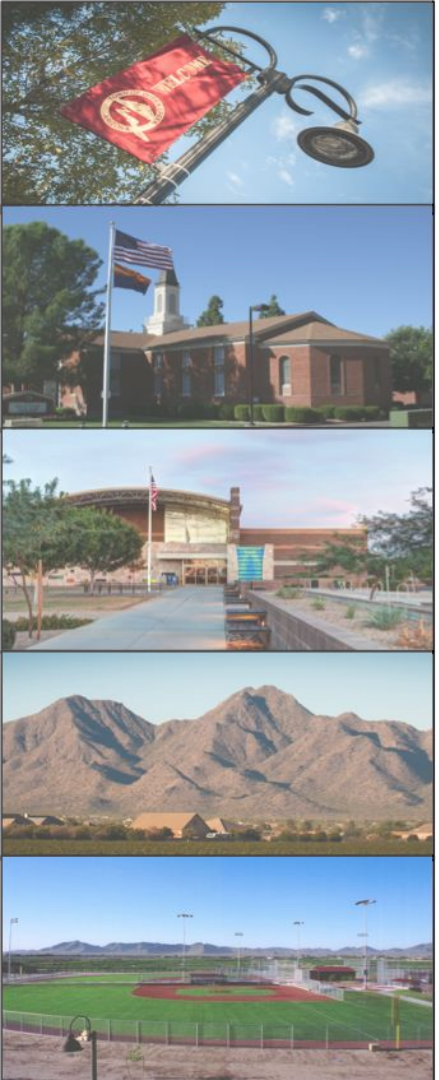
Summary of Revenue Reduction

Customer Types	# of Accounts	FY 18-19 Revenue	FY 19-20 Revenue	Reduction
RESIDENTIAL				
Builder (Time between building permit and occupancy)	800	$140K	$100K	($40K)
New Residential (Flat Amount, Not Yet on “Winter Average”)	2,600	$1.1M	$0.9M	($0.2M)
Existing Residential (90% “Winter Average”)	8,900	$4.9M	$4.0M	($0.9M)
SUBTOTAL - RESIDENTIAL	12,300	$6.14M	$5.0M	($1.14M)
NON RESIDENTIAL				
Landscaping on same meter	50	$0.3M	$0.3M	No Change
Landscaping on separate meter	230	$0.9M	$0.9M	No Change
SUBTOTAL – NON RESIDENTIAL	280	$1.2M	$1.2M	
Total	**12,580**	**$7.34M**	**$6.20M**	**($1.14M)**
% Reduction				**-15%**



Summary: Rate Recommendations

- Effective July 2019 Bill
- 15% Revenue Reduction: $1.1M
  - Lower Builder Rate
  - Lower New Resident Rate to “Winter Average”
  - Lower Existing Resident Rate Flow Assumption to 70%
    - 11,500 Accounts
    - Individual Accounts Savings Will Vary

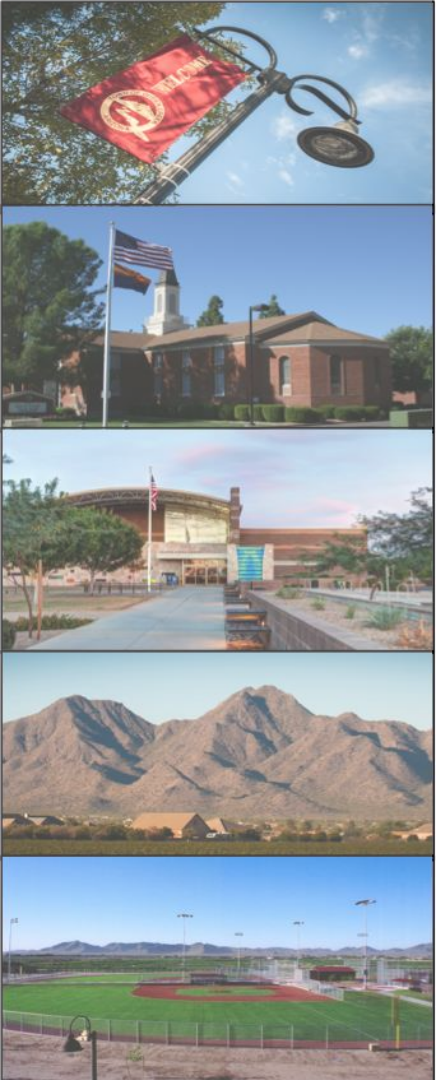


Improve Administration

- Move Effective Date of “Winter Average” from April to July
  - Allow Sufficient Time for Staff Review and Analysis of “Winter Average” Information
- Tighten Criteria for Flow Reduction Adjustments
  - Consistent with Reduction to 70% Flow Factor
  - Annual Activity: 400 Accounts Totaling $150K Revenue Reduction




Recommended Motions



Recommended Motions

1. Approve Resolution No. 1249-19 (Release $6.5M WIFA Loan Reserves prior to June 30, 2019)

   NOTE: Emergency Clause Requires Three-Fourths Majority Vote

2. Approve Resolution No. 1259-10 (Pay off $20.8M Outstanding Wastewater WIFA Loan prior to June 30, 2019)

   NOTE: Emergency Clause Requires Three-Fourths Majority Vote

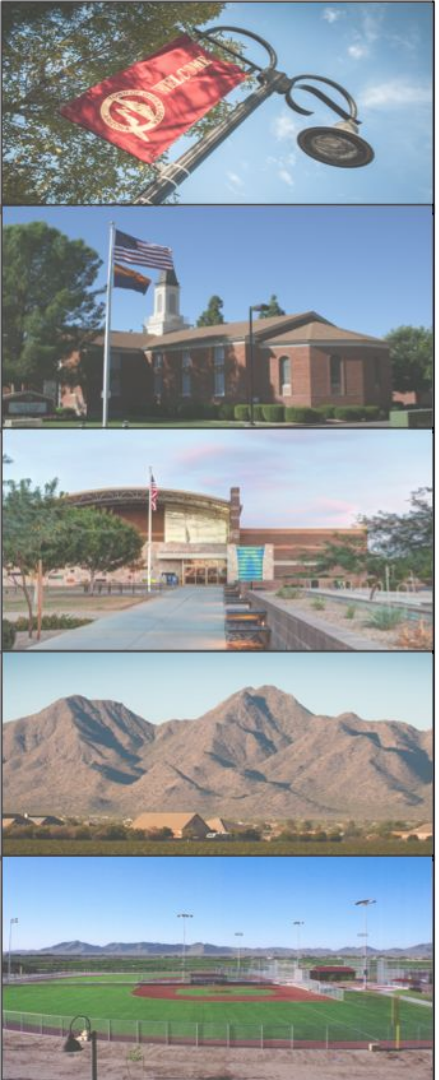
3. Approve Ordinance No. 700-19 (Reduce Water and Wastewater Capacity Fees Effective July 1, 2019)

   NOTE: Emergency Clause Requires Three-Fourths Majority Vote

4. Approve Resolution No. 1261-19 (Adopt Treated Wastewater Effluent Purchase Policy for FY 2019-20)

5. Approve Resolution No. 1270-19 (Increase Water and Wastewater Reserve Targets for FY 2019-20)

6. Approve Ordinance No. 671-19 (Reduce Monthly Wastewater Rates for the July 2019 Bill and Implement Administrative Changes)



Discussion and Questions