

**MINUTES**  
**SPECIAL WORKSESSION/ROUNDTABLE**  
CITY COUNCIL OF THE CITY OF YUMA, ARIZONA  
CONFERENCE ROOM 190, YUMA CITY HALL  
ONE CITY PLAZA, YUMA, ARIZONA  
**September 4, 2014**  
**5:30 p.m.**

**CALL TO ORDER**

**Mayor Nicholls** called the Special Worksession to order at 5:36 p.m.

Councilmembers Present: Wright, Knight, Craft and Mayor Nicholls  
Councilmembers Absent: Beeson, McClendon and Thomas  
Staffmembers Present: Acting City Administrator, Pat Wicks  
Utilities Director, Jay Simonton  
Various Department Heads or their representative  
City Attorney, Steven W. Moore  
City Clerk, Lynda L. Bushong

**I. WATER AND SEWER RATE STUDY:**

Simonton provided the following background to Council:

- The last rate study for the Utilities Department was in 2006.
- Economists.com is the firm that did the 2006 study and is the firm doing the current rate study.
- Water and Wastewater funds are kept in separate Enterprise Fund accounts.
  - Enterprise Funds are comprised of revenues generated through the rates and charges to customers for the services provided to them.
- This presentation has been heard by the Water and Sewer Commission twice.
- Tonight's presentation is based on comments received at both meetings.

Dan Jackson, Managing Director and Chief Executive of economists.com, presented the following:

Facts about water and wastewater rates in the 21<sup>st</sup> Century

- The average utility has been increasing rates by 5-6% per year and the trend is expected to continue into the future.
- The American Water Works Association (AWWA), the benchmark agency of the water industry, predicts that water and wastewater rates across the United States will triple in the next 15 years.
- 30-40% of utilities around the State of Arizona have rates in place that do not cover their costs; thereby making the decision to subsidize their water and wastewater rates from their general fund.
  - As a non-profit entity, the City of Yuma only asks customers to pay what it is costing to provide the service.
- Many reasons for rate increases are beyond a City's control and include:

- Inflation
- The repair and replacement of a system that is made up of hundreds of millions of dollars of assets.

Facts about City of Yuma's Water and Wastewater Rates

- The City of Yuma has not increased water rates since 2008.
- The City of Yuma has not increased wastewater rates since 2011.
- The City of Yuma's monthly residential charge is currently 22% below the average for the State of Arizona.
- As operating costs continue to increase, some form of monthly rate adjustments will be inevitable.

City of Yuma Current Water and WW Rate Structure

WATER RATES

**Monthly Service Charge**

5/8" Meter	\$ 15.68
3/4" Meter	15.68
1" Meter	18.97
1 1/2" Meter	24.56
2" Meter	30.14

WASTEWATER RATES

**Residential Monthly Charge**

All Meters	\$ 32.48
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**Non-Residential Charge**

Monthly Service Charge	\$ 4.17
Volume Rate per hcf	1.84

**Residential Volume Rate per Hundred Cubic Feet (HCF)**

0-10	\$ 1.42	BOD - \$ per pound	\$ 0.26
11-30	1.52	TSS - \$ per pound	0.26
over 30 hcf	1.75		

**Commercial/Irrigation Volume Rate per HCF**

Each unit	\$ 1.54
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Residential Water/WW Rate Comparison

- The average customer in the State of Arizona uses about 10,000 gallons of water service and 5,000 gallons of wastewater service a month.
- The average customer in Yuma that uses this level will pay \$66.92 per month for this service not including taxes or garbage or other fees.
- The City of Yuma is almost \$20 below the State average of \$84.96.
- The City of Yuma is slightly higher than some neighboring border cities.
  - Note: Many border cities get grant funding to fund Capital Projects.

Current Water Accounts

- The City of Yuma has 28,349 water accounts.
  - 25,175 are inside and 3,174 are outside City limits.

- A majority of customers are residential.
  - 21,771 reside in; 2,718 reside out of City limits.

#### Forecasting Water Accounts

- A long-term rate plan should be conservative when forecasting future growth.
- Aggressive forecasting can result in revenue shortfalls.
- The general consensus from staff and the Water and Sewer Commission is to estimate 200 new water accounts per year.
- New customers will increase from 28,000 to over 30,000 by the year 2024 based on that estimate.

#### Historic and Forecast Water Consumption

- Usage has fallen in the past 10 years as residential customers have become more efficient.
  - In 2008 the average residential customer in the City of Yuma used about 14,213 gallons of water per month compared to 12,450 in 2015 which is a drop of 15% in the past 8 years.
- It is projected that water usage will continue to remain low due to conservation.

#### Operating Expense Forecast

- Projecting future expenses is based on a series of assumptions as follows:
  - Increases in personnel as the system expands.
  - O&M expenses increasing 2-3% per year due to inflation.
  - Increases in expenses including electricity, chemicals, insurance, worker's compensation and gasoline which are expected to increase at rates higher than inflation.

#### Capital Improvement Plan (CIP) Years 1-5

- City staff's assumption is over the next 5 years the City is going to require about \$24 million in capital improvement plan spending in the water and sewer system.
  - \$13.7 million in the water system and \$10.2 in the wastewater system.

#### CIP Funding Assumptions

- Existing funds
- Annual contribution from rates
- Capacity funds

#### Water and Wastewater Cost of Service

- The three components include:
  - Operating costs
  - Capital Improvement Plan (funded from rates)
  - Debt service
    - Dept service is expected at \$15 million a year
      - Cost of service is expected to trend upwards from \$42 million in 2015 to \$45 million in 2019

Water and Wastewater Cost of Service

- Is funded by a combination of three sources:
  - Capacity Fees—pays only for the growth-related portion of debt service.
  - Non-Rate Revenues—fees for late charges, inspections, etc.
  - Rates—Fund the remaining costs incurred by utilities.

Rate Plan Objectives

- Recover sufficient revenue to fund operations.
- Maintain required financial ratios.
- Fund Capital Improvements through the most effective combination of rates, long-term debt and capacity charges.
- To the best extent possible, minimize the impact of any rate adjustments on ratepayers.

Recommended Residential Water and Wastewater Rate Plan

- Water
  - Adjust water base rates effective each January over the next 5 years as follows:
    - January 2015—\$15.68 to \$16.31
    - January 2016—\$16.31 to \$16.96
    - January 2017—\$16.96 to \$17.30
    - January 2018—\$17.30 to \$17.64
    - January 2019—\$17.64 to \$18.00
  - Nominal increase in usage charges of about \$.6 cents per hundred cubic feet in 2015 and 2016 and then \$.3 cent increases in 2017-2019 in each rate tier.
- Wastewater
  - Adjust wastewater base rates effective each January over the next 5 years as follows:
    - January 2015—\$32.48 to \$33.78
    - January 2016—\$33.78 to \$35.13
    - January 2017—\$35.13 to \$35.83
    - January 2018—\$35.83 to \$36.55
    - January 2019—\$36.55 to \$37.28

Recommended Non-Residential Water and Wastewater Rate Plan

- Water
  - Adjust the non-residential water rate plan with a similar series of rate adjustments as the residential water rate plan including the usage charges.
- Wastewater
  - Adjust the non-residential wastewater base rate effective each January over the next 5 years as follows:
    - January 2015—\$4.17 to \$4.34
    - January 2016—\$4.34 to \$4.51
    - January 2017—\$4.51 to \$4.60
    - January 2018—\$4.60 to \$4.69
    - January 2019—\$4.69 to \$4.79

- Adjust The non-residential wastewater usage charge per hundred cubic feet as follows:
  - January 2015—\$1.84 to \$1.91
  - January 2016—\$1.91 to \$1.99
  - January 2017—\$1.99 to \$2.03
  - January 2018—\$2.03 to \$2.07
  - January 2019—\$2.07 to \$2.11

The same percentage increase would be recommended for all meter sizes.

#### Impact on Residential Ratepayers

- An average rate payer using 1600 cubic feet a month (about 12,000 gallons) would increase by \$2.86 a month to \$71.48.
  - The majority of monthly bills (about 70%) are billed at 1600 cubic feet or less and would increase by \$2-\$3 per month.
    - Over the course of 5 years, their bill would increase from \$71.48 to \$82.00 per month.
- Lesser users using 1000 cubic feet a month would go up by \$2.49 to \$64.85.
- Larger residential users using 3,000 cubic feet a month would go up by \$3.71 to \$96.47

#### Impact on Commercial Users

- An average rate payer using 5,000 cubic feet a month would increase by \$8.13 a month to \$211.44.
- Larger commercial users using 10,000 cubic feet a month would increase by \$14.89 a month to \$387.20.
  - Most commercial users can expect their bill to increase about \$8-\$15 per month.

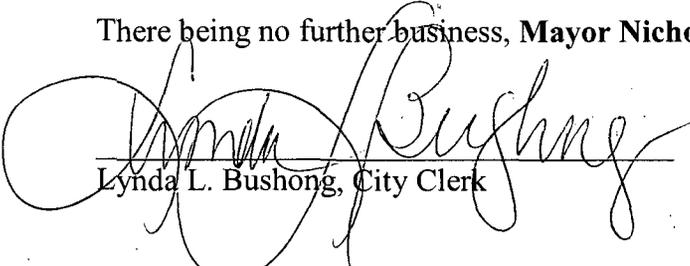
#### Discussion:

- When doing a long-term rate plan, it is a good idea to review where you are after 3 years and adjust accordingly.
- The rates projected in the 2006 study are the rates that have been implemented for the past 8 years.
  - The City of Yuma scaled back some of its planned capital improvements which enabled the rate plan to stay in place during the recession.
- The primary thing driving up water consumption is new connections.
  - Water consumption has bottomed-out in the past two years and water consumption appears to be trending up.
- The non-rate revenues (fees for late charges, inspections, etc.) are a small portion of our revenues overall.
- Non-Rate Revenues including fees for late charges and inspections are currently not being utilized. The City of Yuma is not charging any penalty fees for non-payment or late payments.
- Part of the rate structure includes increased delinquency fees, increased connection/reconnection fees as well as a structured rate process with the intention of dropping such activity.

- When comparing water and sewer rates, keep in mind the following general principles:
  - The larger the city the lower the rate
    - Larger cities have more people located in more compact spaces which make it more efficient to provide service
  - Larger cities have larger commercial bases which are charged higher rates which in turn helps support the residential customers
- Many cities are currently implementing rate increases.
- Of those cities that were compared to the City of Yuma and the City of Yuma was higher, it was only \$3-\$5 higher for water and wastewater consumption.
- The City of Yuma is currently charging below their costs. If other cities are lower it might mean they have made the management decision to subsidize their water fund from their general fund.
- The State Average for Residential Water and Wastewater is \$84.96.
- Rates should be tiered to charge the higher volume users a higher charge to promote conservation.
- Conservation is good but too much conservation could result in a loss.
- The bond issued from 2007 is a 25-year bond.
- For a couple of years, in the water fund, we were surviving through paying debt almost entirely through rates because capacity fees dropped to almost nothing.
- We are trying to cure that by this rate plan – take it back to what we consider normal.
- This year we are paying around \$2.5 million out of the capacity fund for debt service related to both water and wastewater.
- The fluoride system is installed at both plants.
  - The costs to operate the fluoride system are low compared to the operation of the whole system.
  - The chemical cost on the fluoride system is approximately \$3,000 per year.
- The delinquency rate for customers who do not pay their bill when it is first due is 35%.
- Unpaid water accounts are generally limited to those who move out of town and are a low percentage.
- Cost savings methods being proposed include:
  - Moving the delinquent notice into the second month bill.
  - Including a delinquency fee on that bill.
  - Requiring two months payment, in order to be reconnected, if they don't pay their bill by the due date.
- Auto-pay will help remedy late or forgotten bills.
- The water plants are in really good condition.
- The CIP is budgeted to replace old water mains and other things in conjunction with street projects.
- There are no plant expansion projects in the CIP.
- Discharge to the Colorado River is unique to Yuma and extremely expensive
- Timetable:
  - A Notice of Intention will be coming before City Council on September 17<sup>th</sup> which begins the process and allows for the scheduling of public hearings.

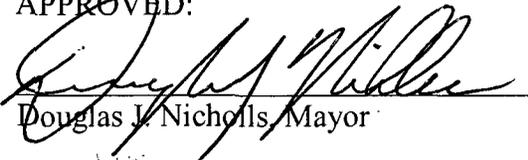
- o The State requires one public hearing. The City of Yuma will have two public hearings; one public hearing before the Water and Sewer Commission and one before City Council.
- o Supplying City Council with rate alternatives would be beneficial.

There being no further business, **Mayor Nicholls** adjourned the meeting at 7:01 p.m.



Lynda L. Bushong, City Clerk

APPROVED:



Douglas J. Nicholls, Mayor

Approved at the City Council Meeting of:  
December 3, 2014  
Deputy City Clerk: Janet L. Plon