City of St. Johns

TOWN OF FRIENDLY NEIGHBORS

CITY OF ST. JOHNS

Water Rate Study 2011
Draft Dated: May 9, 2011
Final Dated: August 16, 2011

The City Council adopted the rates detailed in this report pursuant to Resolution No. 486 dated August 16, 2011 with an effective date of September 19, 2011.

Prepared By: City of St. Johns Finance Department and Piper Jaffray

SECTION I: INTRODUCTION

Arizona Revised Statutes § 9-240(B)(5) and (6) authorizes the City of St. Johns to construct, operate, and maintain water facilities within the City's corporate limits.

This report summarizes the rates adopted by the City Council pursuant to Resolution No. 486 dated August 16, 2011. Exhibit A is a copy of Resolution No. 486. The adjusted rates shown in this report will take effect September 19, 2011.

SECTION II: GENERAL REQUIREMENTS

The City manages its water facilities as an enterprise fund, similar to a business, where rates and charges are assessed to users to offset the following current and future costs:

1. Operating ~ Includes annual fixed and variable costs to pump, transmit, treat, and distribute drinking water in accordance with public health and national drinking water standards.
2. Maintenance ~ Includes annual costs to maintain, repair, and replace drinking water facilities.
3. Capital ~ Includes annual or project related costs to construct, upgrade, improve, or replace drinking water facilities.
4. Debt Service ~ Includes principal and interest payments on debt issued to finance capital projects when current revenues are not sufficient to fund large, long-term capital projects.

The standard for well managed water enterprises throughout the United States is for water rates to be sufficient to generate revenues which exceed annual operating and capital expenditures by at least 20%. These "net revenues" are retained by the enterprise fund for:

1. Capital Replacement Reserves ~ Ongoing capital costs, provide contingency funding in the event of emergencies, and to stabilize rates and reduce the need for frequent rate adjustments.
2. Debt Service Reserves ~ Serves as security for debt as a standard condition required by lenders in an amount, generally, equal to one year's worth of debt service.

SECTION III: CURRENT CONDITIONS AND ESTIMATED CAPITAL COSTS

Generally, the City's water facilities are in good condition and provide safe water but historically have had insufficient capacity to serve peak demand or during an emergency. In response, the City obtained financial assistance in 2010 and 2011 to improve the facilities by: (1) increasing the number of water sources/wells from two to three, and (2) constructing a 13 mile transmission line from the wells to the treatment and distribution facilities.

As of August 16, 2011, the estimated funding sources and uses for these improvements are shown in Table 1 below. The final funding sources and uses will be set after the project is completed.

Table 1: Water Facility Improvements ~ Estimated Funding Sources and Uses

Funding Sources	**Estimate**
U.S. Department of Agriculture, Rural Development ~ Grant	1,761,500
U.S. Department of Agriculture, Rural Development ~ Loan	1,257,000
U.S. Environmental Protection Agency ~ Grant	481,500
Arizona Water Infrastructure Finance Authority ~ Loan	500,000
Total Sources	**3,357,421**
Funding Uses	**Estimate**
Water Source/Well Project	1,000,000
Transmission Line	3,000,000
Total Uses	**4,000,000**

As of June 30, 2011, the water enterprise fund generated insufficient net revenues for debt service and reserves associated with the water facility improvements. In response, the City adjusted water rates, as more fully described in this report, to support current and projected costs.

SECTION IV: WATER ENTERPRISE FUND CASH FLOWS

The historical and projected operating cash flows for the water enterprise fund are shown below in Table 2. Within Table 2, "base" expenses refer to the fixed costs to operate the water facilities regardless of usage. The corresponding "base" rates within Section V refer to the rates required to offset the base expenses, debt service, and reserves.

"Volume" expenses refer to the variable costs to operate the water facilities based on usage – the volume of water pumped, conveyed, treated, and distributed to users. The corresponding "volume" rates within Section V refer to the rates required to offset the volume expenses.

Table 2: Water Enterprise Fund ~ Historical and Projected Operating Cash Flows

	FY 2009-10 Actual	FY 2010-11 Estimate	FY 2011-12 Projected	FY 2012-13 Projected	FY 2013-14 Projected	FY 2014-15 Projected
Revenue						
User Rates and Fees	547,381	547,381	625,846	685,411	690,195	695,027
Other	35,597	35,597	35,597	35,597	35,597	35,597
Total Revenues	582,978	582,978	661,443	721,008	725,792	730,624
Expenses						
Base	174,064	175,805	189,473	191,368	193,281	195,214
Volume	261,096	263,707	284,209	287,051	289,922	292,821
Total Expenses	435,160	439,512	473,682	478,419	483,203	488,035
Net Revenues	147,818	143,466	187,761	242,589	242,589	242,589
Debt Service	107,522	172,520	174,793	229,621	229,621	229,621
Revenues After Debt Service	40,296	(29,054)	12,968	12,968	12,968	12,968
Reserves						
Replacement (Begins 2016-17)	40,296	-	-	-	-	-
Debt Service	-	-	12,968	12,968	12,968	12,968
Total Reserves	40,296	-	12,968	12,968	12,968	12,968
Unrestricted Net Revenues	-	(29,054)	(0)	(0)	(0)	0

SECTION V: WATER RATE ADJUSTMENTS

1. Base Rates

Since the meter size directly impacts the costs to operate and maintain the water facilities, the City will assess monthly base rates by "capital factor" or meter size. The City's prior and adjusted monthly base rates as of August 16, 2011 are detailed in Table 3 on the next page.

Table 3: Prior and Adjusted Monthly Base Rates					
	Prior		Adjusted (August 16, 2011)		
Meter Size	Capital Factor	Base Rate	Capital Factor	Base Rate	
3/4"	n/a	$ 13.00	1.00	$ 9.30	
5/8"	n/a	$ 13.00	1.00	$ 9.30	
1"	n/a	$ 13.00	2.00	$ 18.60	
1 1/2"	n/a	$ 13.00	3.00	$ 27.90	
2"	n/a	$ 13.00	4.00	$ 37.20	
3"	n/a	$ 13.00	6.00	$ 55.80	
4"	n/a	$ 13.00	8.00	$ 74.40	
6"	n/a	$ 13.00	12.00	$ 111.60	
Bulk *	n/a	$ 13.00	8.00	$ 74.40	
Gallons in Base		2,000		-	

* Bulk User to be defined in rate schedule.

2. Capital Rates

Identical to base rates, the meter size directly impacts the costs to construct and improve the water facilities. In response, the City will assess monthly capital rates by "capital factor" or meter size. The City's prior and adjusted monthly capital rates as of August 16, 2011 are detailed in Table 4 below.

Table 4: Prior and Adjusted Monthly Capital Rates					
	Prior		Adjusted (August 16, 2011)		
Meter Size	Capital Factor	Capital Rate	Capital Factor	Maximum Capital Rate	Minimum Capital Rate
3/4"	n/a	$ -	1.00	$ 15.70	$ 2.62
5/8"	n/a	$ -	1.00	$ 15.70	$ 2.62
1"	n/a	$ -	2.00	$ 31.40	$ 5.23
1 1/2"	n/a	$ -	3.00	$ 47.10	$ 7.85
2"	n/a	$ -	4.00	$ 62.80	$ 10.47
3"	n/a	$ -	6.00	$ 94.20	$ 15.70
4"	n/a	$ -	8.00	$ 125.60	$ 20.93
6"	n/a	$ -	12.00	$ 188.40	$ 31.40
Bulk *	n/a	$ -	8.00	$ 125.60	$ 20.93

* Bulk User to be defined in rate schedule.

The City will deposit these capital rate revenues into one or more separate accounts to pay debt service, fund reserves, and pay maintenance costs. After paying off all existing and proposed loans, the City intends to reduce capital rates from the "Maximum Capital Rate" (maximum debt outstanding) to as low as the "Minimum Capital Rate" (assumes no debt is outstanding) as shown in the last two columns of the above table.

3. Volume Rates

The City's costs to pump, convey, treat, and distribute safe and sustainable drinking water vary by usage or volume. The City's prior and adjusted monthly volume rates as of August 16, 2011 are detailed below within Table 5.

Table 5: Prior and Adjusted Monthly Volume Rates

Prior					Adjusted (August 16, 2011)				
Volume				$ per 1,000 Gallons	Volume				$ per 1,000 Gallons
-	to	2,000	$	-	-	to	2,000	$	0.50
2,001	to	2,001+	$	2.65	2,001	to	2,001+	$	2.65

SECTION VI: ADJUSTED RATES COMPARED TO PRIOR RATES

The total monthy rates for both prior and adjusted rates as of August 16, 2011 is shown in Table 6 below.

Table 6: Prior vs Adjusted Total Monthly Rates as August 16, 2011

Meter Size	# of Customers	Average Monthly Usage (000's)	Total Prior Monthly Rate	Total Adjusted Monthly Rate	*Monthly Adjustment*
3/4"	1,129	6.9	$ 25.98	$ 38.98	*13.00*
5/8"	6	4.9	$ 20.69	$ 33.69	*13.00*
1"	70	15.8	$ 49.49	$ 87.49	*38.00*
1 1/2"	4	26.9	$ 78.86	$ 141.86	*63.00*
2"	15	78.9	$ 216.76	$ 304.76	*88.00*
3"	6	91.6	$ 250.40	$ 388.40	*138.00*
4"	1	155.8	$ 420.66	$ 608.66	*188.00*
6"	1	298.5	$ 798.73	$ 1,086.73	*288.00*
Bulk *	1	134.8	$ 364.79	$ 552.79	*188.00*

* Bulk User to be defined in rate schedule.

SECTION VII: COMPARATIVE RESIDENTIAL RATES

Table 7 (below) and Table 8 (next page) compare the estimated total monthly rates for an average St. Johns residential user to residential users throughout Arizona.

Table 7: Adjusted Average Residential Rate (7,500 Gallons Used)

St. Johns Adjusted Monthly (August 16, 2011)	$ 40.58
Comparison	% of St. Johns
% of Arziona Average	113.6%
% of Muncipal Average	145.0%
% of County Average	107.7%

Table 8: Comparative Residential Rates (7,500 Gallons Used)

	Monthly Rates			
	Average	High	Low	Notes
Arizona ~ All Water Systems	35.71	201.78	5.00	
Municipal Water Systems	27.98	74.38	13.15	Public Water Systems
Apache County Water Systems	37.66	65.65	16.38	All Water Systems in Apache County
Eagar	21.01			
Flagstaff	32.74			Similar Water System
Gila Bend	35.13			Recent Rate Increase
Globe	26.25			
Holbrook	19.63			
Payson	40.18			Similar Water System
Phoenix	33.16			
Safford	28.48			Similar Water System
Show Low	29.90			Recent Rate Increase
Snowflake	27.04			
Springerville	16.38			
St. Johns ~ Prior	25.98			Prior
St. Johns ~ Adjusted	40.58			Adjusted as of August 16, 2011
Taylor	13.15			
Williams	45.70			Similar Water System
Winslow	23.68			

Exhibit A

Resolution No. 486

Adopted August 16, 2011

RESOLUTION NO. 486

A RESOLUTION OF THE CITY OF ST. JOHNS, ARIZONA,
ADOPTING INCREASES TO THE CITY'S WATER USER FEES.

WHEREAS, A.R.S. § 9-240(B)(5) and (6) grants the City Council the power to construct and maintain water facilities within the corporate limits of the City; and

WHEREAS, City staff conducted an analysis of the City's water rates and determined that an increase of those rates is warranted; and

WHEREAS, pursuant to A.R.S. § 9-511.01 (A) (1), City prepared a written report supporting an increase of the City's water rates, entitled "Water Rate Study 2011" dated May 9, 2011; and

WHEREAS, pursuant to A.R.S. § 9-511.01(A)(2), on April 14, 2011, the City Council adopted a notice of intent to increase water rates, declared as a public record the written report supporting the increased rates, and set a public hearing on the proposed increase of rates to provide the public with an opportunity to address the Council on the issue; and

WHEREAS, the City Council has determined that increase in water rates is necessary to cost of providing water services to the City; and

WHEREAS, the City Council has determined that increase in water rates is in the best interests of the City and its residents; and

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the City of St. Johns, Arizona, as follows:

Section 1. That the water rates set forth in the "Water Rate Study 2011" dated May 9, 2011, as amended and supplemented dated August 16, 2011, are hereby approved and shall become effective on September 19, 2011.

Section 2. The various City officers and employees are authorized and directed to perform all acts necessary and proper to give effect to this Resolution.

Section 3. All ordinances, resolutions, or motions and parts of ordinances, resolutions, or motions of the Council in conflict with the provisions of this resolution are hereby repealed, effective as of the effective date of this ordinance. All internal references, as applicable, within the City Code, Fee Schedule, or other official documents are hereby updated.

Section 4. If any section, subsection, sentence, clause, phrase or portion of this Resolution is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions thereof.

PASSED AND ADOPTED by the Mayor and Council of the City of St. Johns, Arizona, this 16th day of August, 2011.

_____
Fred Nielsen, Mayor

ATTEST:

_____
Evan Nelson, City Clerk

APPROVED AS TO FORM:

_____
D. Bryce Patterson, City Attorney