

CITY COUNCIL REPORT

DATE: March 4, 2019

TO: Mayor and Councilmembers

FROM: Luis Pedroza, Finance Director City Treasurer

CC: Jerene Watson, Interim City Manager; Department Directors

SUBJECT: QUESTION REGARDING CHARGES ON UTILITIES BILL

The report is in response to question from Councilmember Grijalva regarding the charges on utilities bill and explain what customers are getting charged on. He was also inquiring if the cost of these services can be reduced and if there is opportunity for efficiencies.

DISCUSSION:

The City utility bill is comprised of three different services. We charge for water, sewer and sanitation service. For an inside the city limits residential home, the following are the base fees charged:

Water	\$15.50
Sewer	\$25.00
Sanitation	<u>\$20.00</u>
Total Base Fees	\$60.50

For consumption of water inside city limits we charge per 1,000 gallons and are as follows:

0-3,000 gallons -	\$0.85 per 1,000 gallons
3,001-8,000 gallons -	\$0.90 per 1,000 gallons
8,001-20,000 gallons -	\$0.95 per 1,000 gallons
20,001-60,000 gallons -	\$0.95 per 1,000 gallons
30,001-60,000 gallons -	\$1.00 per 1,000 gallons
60,000 + gallons -	\$1.05 per 1,000 gallons

Business rates for water vary depending on the size of the meter. We have 7 different meter sizes that may be used by the business. The following are the base charges for in city businesses:

¾" meter -	\$15.50
1" meter -	\$17.50
1½ meter -	\$20.00
2" meter -	\$22.50
3" meter -	\$41.50
4" meter -	\$50.50
6" meter -	\$73.50

For sewer, the fees also vary based on how much water is treated. The following are the sewer base fees:

Residential, per single family residence/dwelling unit:	\$25.00
Commercial 1 (0-199,999 gallons)	\$37.00
Commercial 2 (200,000-399,999 gallons)	\$57.00
Commercial 3 (400,000-599,999 gallons)	\$90.00
Commercial 4 (600,000-799,999 gallons)	\$120.00
Commercial 5 (over 800,000 gallons)	\$150.00

For sanitation service, there are only base charges:

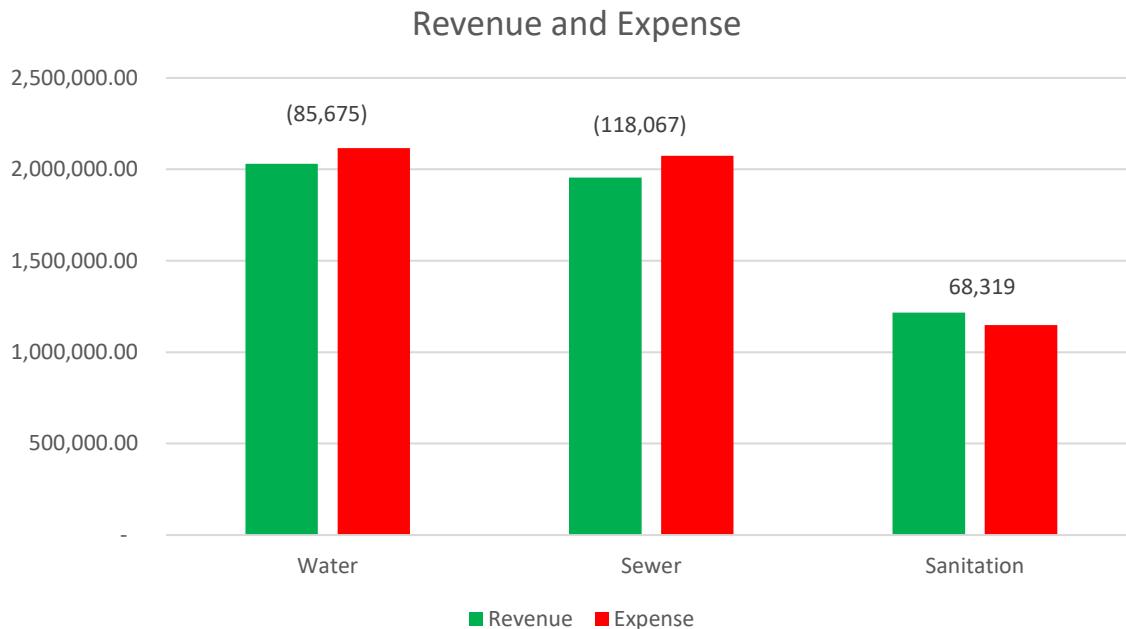
Single Family & Multi Family w Individual Water Meter	\$20.00
Multi Family Developments w/o Individual Water Meter (first occupied Unit)	\$20.00
Each additional individual unit (occupied or not)	\$19.00
Mobile home courts and trailer parks	\$20.00
Commercial Establishments	\$43.00

The base fees are charged for the ability to provide/deliver the service. On the water side for example, they vary due to the expected demand for water based on the size of their service (meter). On sewer they also vary but on the amount of water being treated. And on the sanitation side they vary based on residential and commercial customers.

The water, sewer and sanitation funds are enterprise funds meaning that they must be self-sustaining funds. Enterprise funds must be able to raise user revenue to sustain its operating costs and cannot use the general fund such as tax revenue to sustain operations.

In order to consider lowering rates for customers we must consider our costs of providing the service for each individual fund. Below is a revenue and expense depiction per fund on the cost of delivering service versus revenue for FY 2018.

Revenue	Water	Sewer	Sanitation
Service Fees	1,944,756.45	1,861,331.30	1,204,785.27
Impact Fees	7,654.14	23,631.69	
Investment Earnings	32,535.25	24,788.85	11,729.59
Miscellaneous	44,780.77	46,131.52	297.77
	2,029,726.61	1,955,883.36	1,216,812.63
Expenditures	Water	Sewer	Sanitation
Salaries & Benefits	648,064.11	413,911.55	509,567.59
Operation costs	814,256.34	474,060.12	499,482.22
Debt	161,640.05	604,108.99	47,329.24
*Capital	491,440.92	581,870.03	92,114.90
	2,115,401.42	2,073,950.69	1,148,493.95
	(85,674.81)	(118,067.33)	68,318.68
<i>*Capital is annual depreciation amount</i>			



As you can see, **our costs are greater than expenses in the water and sewer fund and revenue is greater in the sanitation fund**. On the capital costs, we account for the annual depreciation costs of the respective systems. What that represents is the annual depreciable cost of the assets based on the respective useful life. For example, if a cost of a water line is \$100,000 and a useful life of 40 years, the annual depreciation cost is \$2,500. What this means in FY 18, is not that we couldn't pay all our bills, but that we did not set aside the annual depreciation amount for future capital needs. This is not a prudent practice as we have to make up for it later and therefore residents experience a greater increase than if we had been doing it annually in even increases.

Recently the City has worked on projects within each fund to make systems run more efficient:

Water: We are currently working on automated meter infrastructure (AMI) meters that are able to deliver meter readings automatically as opposed to sending water techs to read manually. This will save on this function and allow water techs to address neglected system maintenance issues that can save us in capital expenditures in the long run.

Sewer: In 2014 we implemented a new solar field at the wastewater treatment plant that lowered electricity consumption of the plant by 50% or about \$45,000 per year. We also obtained APS incentives at that time of approximately \$28,000 per year for the excess production placed back to the grid. The loan obtained produces an annual debt service of \$66,000, which is a net savings of \$7,000 per year.

Sanitation: The automated sanitation system is now complete and that allows us to pickup garbage with an automated arm, which takes now only one staff member versus three staff before. Salary savings are expected in this fund, but transfer fees have increased in the past and are expected to continue to rise year after year.

Additionally, we must also consider our debt covenants for our WIFA water and sewer loans. The loans require that we maintain specific debt service and replace and reserve

amounts. There are many factors in establishing user rates, but most importantly **we must make sure that all costs are covered and that the General Fund does not subsidize any of our enterprise funds.** For more information on water and sewer rates throughout the state please follow this link from WIFA who performs annual system surveys: <https://www.azwifa.gov/waterrates/>.

RECOMMENDATION / CONCLUSION:

This report is for information only.