

SUBMITTED BY: Luis Pedroza

MANAGEMENT TEAM REVIEW: Donald C. Huish, Mayor

FOCUS AREA: Advanced Infrastructure Development and Improvement

ORGANIZATIONAL IMPROVEMENTS: EnterTextHere

SUBJECT: **FIRST READING OF ORDINANCE NO. 21-1139**, an Ordinance of the Mayor and Council of the City of Douglas, Cochise County, Arizona, AMENDING Title 13 of the DOUGLAS MUNICIPAL CODE relating to PUBLIC WATER and SEWER SERVICES by amending Ordinances 755, 06-904, 09-973, 20-1117 pertaining to WATER and SEWER FEES and CHARGES for SERVICES under chapter 13.08, establishing severability of components of ordinance; and establishing an effective date thereof.

EXECUTIVE SUMMARY:

The City of Douglas commissioned a water and sewer rate study from the 65th North Group that showed a need for rate increases in both water and sewer in order to maintain existing infrastructure and for necessary capital infrastructure needs.

BACKGROUND:

The 65th North Group presented to the Mayor and Council on April 28, 2021 and presented findings by studying our water and sewer utility infrastructure needs as well as making comparisons to other utilities in our area and in the state of Arizona. The following data was presented by the study for the water utility fund:

Water

Public utilities in Cochise County average water monthly rates compared to Douglas.

<u>Type</u>	<u>Avg. County</u>	<u>Douglas</u>	<u>Differences</u>
Residential	\$29.90	\$21.80	\$8.10
Commercial	\$101.88	\$21.80	\$79.28
Irrigation	\$54.78	\$15.75	\$39.03

Public water utilities and state-wide utilities averages showed a greater cost compared to the Cochise County rates.

The study shows revenue projections without rate increases for the next 6 years for the water utility as follows:

<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>	<u>TOTAL</u>
\$2,126,966	\$2,160,225	\$2,194,829	\$2,230,834	\$2,268,297	\$2,307,276	\$13,288,428

With expected cash and borrowing expenditures within those 6 years of \$15,679,331, there is a shortfall of \$2,390,902. In order to meet this shortfall, the recommendation is to utilize \$1M in cash balance, borrow for 75% of capital items in FY21, FY22 and FY23, pay cash for CIP in FY24 through FY26, obtain grant funding for water infrastructure, and increase the water rates as follows:

FY 21/22	2.5% base fees and 5% consumption	Average monthly increase in residential bill: \$0.72
FY 22/23	2.5% base fees and 5% consumption	Average monthly increase in residential bill: \$0.40
FY 23/24	2.5% base fees and 5% consumption	Average monthly increase in residential bill: \$0.41
FY 24/25	3.5% base fees and 8.5% consumption	Average monthly increase in residential bill: \$0.82
FY 25/26	3.5% base fees and 8.5% consumption	Average monthly increase in residential bill: \$0.60

The increases to the fees over a 5-year period represent an average increase of \$2.95 for residential.

Sewer

Public utilities in Cochise County average sewer monthly rates compared to Douglas

<u>Type</u>	<u>Avg. County</u>	<u>Douglas</u>	<u>Differences</u>
Residential	\$32.53	\$25.00	\$7.53
Commercial	\$65.65	\$37.00	\$28.65

Public sewer throughout the state averages showed a greater cost compared to the Cochise County rates.

The study shows revenue projections without rate increases for the next 6 years for the water utility as follows:

<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>	<u>TOTAL</u>
\$1,997,476	\$2,131,715	\$2,152,296	\$2,173,083	\$2,194,077	\$2,215,282	\$12,863,929

With expected expenditures within those 6 years of \$12,863,929, there is a shortfall of \$340,496. Additionally, the sewer's fund balance is not adequately funded, currently projected to be at \$1,135,040 at the end of FY26 to the recommended levels of \$1,503,180 that meets 1.5 times total debt per year plus 25% of annual expenditures. In order to meet this shortfall, the recommendation is to increase rates between 3% and 9% that will provide the revenue levels necessary to achieve break even and fund the required fund balance. The study recommended an option to increase sewer rates by 5% for the next five years, but we recommend to increase to 4% as it is still within the safe range and less than a 5%. Increase to the sewer rates are proposed as follows:

FY 21/22	4.0% base fee Average monthly increase in residential bill: \$1.00
FY 22/23	4.0% base fee Average monthly increase in residential bill: \$1.04
FY 23/24	4.0% base fee Average monthly increase in residential bill: \$1.08
FY 24/25	4.0% base fee Average monthly increase in residential bill: \$1.12
FY 25/26	4.0% base fee Average monthly increase in residential bill: \$1.17
Total bill increases after Year 5: \$5.41	

DISCUSSION:

The City has not increased water and sewer rates since 2012. The cost to maintain our systems has increased and the demand continues to grow. Clean water is also getting costlier and harder to obtain. Our rates have been one of the lowest if not the lowest in the state. While we like to keep our rates stable, we must continue to manage our utility system in a financially responsible fashion while impacting our customers as little as possible. Staff is recommending a slight deviation of the recommendation from the 65th North Group, which is to increase more on the consumption of water instead of the base water fee that provides a lesser increase to the low consumers of water in the City.

“...I MOVE THAT THE MAYOR AND COUNCIL APPROVE THE PLACEMENT OF ORDINANCE NO. 21-1139 ON ITS FIRST READING BY NUMBER AND TITLE ONLY.”

“...I MOVE THAT THE MAYOR AND COUNCIL APPROVE THE FIRST READING OF ORDINANCE NO. 21-1139 AND TO PLACE IT ON SECOND READING BY NUMBER AND TITLE ONLY.”

FISCAL IMPACT:

Increase in annual water revenue fund: FY22 \$47,520, FY23 \$26,400, FY24 \$27,060, FY25 \$54,120 and FY26 \$39,600 and increase in annual sewer revenue fund: FY22 \$60,000, FY23 \$62,400, FY24 \$64,896, FY25 \$67,492 and FY26 \$70,192

Fiscal Year: 2021/2022

Amount Requested: \$

Budgeted: Y / N

Account (s):