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# ***TOWN OF PRESCOTT VALLEY***

***Management Services Department***

## ***WATER & SEWER RATE STUDY***

***July 27, 2017***



## TOWN OF PRESCOTT VALLEY

### REPORT OF PROPOSAL TO REVISE CERTAIN WATER AND WASTEWATER RATES, FEES AND SERVICE CHARGES PER ARS §9-511.01

July 27, 2017

The Town of Prescott Valley (“Town”) proposes to revise the water rates, fees and service charges discussed below. This Report as to the nature and background of such proposed revisions is submitted for public review and comment prior to a public hearing and possible adoption of the same by the Town Council at its regular meeting to be held on Thursday, September 28, 2017, in the Prescott Valley Library Auditorium/Council Chambers located at 7401 East Civic Circle, Prescott Valley, beginning on or after 5:30 p.m.

#### Background

The Town was incorporated by order of the Yavapai County Board of Supervisors on August 22, 1978. The Town began with a population of 1,521 citizens. At that time, the Town provided very few services and all utilities were provided by private companies. However, within three years the population had grown to 3,116 and the Town Council began considering acquisition of the private water utility, which provided water service to the Town and surrounding areas. An election was held on November 6, 1984, where the voters authorized the Town to operate its own domestic water system. Unfortunately, acquisition of the water system proved more difficult than expected and nearly 12 years passed before the Town actually began providing water service to a new subdivision. The private water company which provided water service to most of the Town and surrounding areas was not acquired until January 1999, and that water system was placed under a water district (Prescott Valley Water District), separate from the Town.

At the time of incorporation, all wastewater in the Town was handled by private septic systems. However, rapid population growth raised concerns about potential pollution of the groundwater aquifer if septic systems continued to be used. This led to a concerted effort, beginning in 1989, to build a public wastewater collection and treatment system. An election was held on November 6, 1990, where the voters authorized the Town to operate its own wastewater system. By the end of 1994, the first phase of the wastewater treatment plant was constructed and became operational, and about half of the Town's residential areas were connected. By mid-1995, much of the commercial areas were connected. By the end of 1996, the second phase of the treatment plant was constructed and became operational, and most of the remainder of the community was connected to the system.

The Town has attempted to keep its utility operation costs low by contracting with private companies to operate and maintain the utility systems. It also attempted to keep account administration costs low by initially relying on a coupon book system and flat rates for the wastewater system, and contracting between the Town and the Water District to combine account administration of the Town and District water systems. In July 2000, the Town and the Water District together entered into a consultant agreement with Rick Giardina & Associates, Inc. to assist them in reviewing and revising their respective rates, fees and service charges to ensure that they were adequately covering service costs and were efficiently meeting Town and District service goals. Giardina worked with a citizens review committee and, on July 25, 2001, said committee voted to recommend certain revisions to Town and District rates, fees and service charges. This included changing from the flat wastewater treatment rate to a volume-based rate and removing the Town's general fund subsidy of the wastewater collection and treatment system. After a public hearing on the proposed recommendations held August 30, 2001, the Town Council formally

adopted revised wastewater treatment rates by Resolution No. 1033, effective September 29, 2001 (with the proviso that the new rates for the residential classification would not be effective until the April 2002 billing period). The Council also adopted revised water system connection charges and water service rates by Resolution No. 1034, effective September 29, 2001. The Prescott Valley Water District Board made similar revisions to its water rates, fees and charges in its budgeting process.

Part of Giardina's work was to provide Town staff with tools for conducting subsequent in-house studies of utility rates, fees and charges to determine when they might need further adjustment. With these tools, staff has since monitored utility revenues and developed multi-year financial projections. Staff also evaluated whether existing rates, fees and service charges were covering the cost of utility services. Factors considered were the need to encourage water conservation, the need to ensure uninterrupted water and wastewater services to the steadily increasing number of Town customers, and the need to keep the costs of water and wastewater services competitive with other communities in the region that provide those services. Staff also identified new water resources which may be needed for growth and development in the community (consistent with the management goals of the Prescott Active Management Area and the regulations of the Arizona Department of Water Resources). These included effluent recharge credits, retired agricultural rights, surface water rights and certain groundwater available for transport from outside of the Active Management Area.

Each year since, staff has conducted in-house studies of District water and Town water and wastewater rates, fees and service charges. Staff has presented the results of their combined water and wastewater rate study at special joint work/study sessions of the Council/Board.

On March 13, 2008, the Town Council adopted Resolution No. 1570 which assumed all obligations of the Prescott Valley Water District. On the same date, the Prescott Valley Water District Board adopted Resolution No. 70 which approved the dissolution of the District and the Prescott Valley Water Company, and the conveyance of all property of the Company to the Town. Thus, the two water systems were essentially combined into one operated by the Town. However, the rate structures applicable to the two areas remained separate and it was the goal of the staff to recommend rate changes that would combine the rate structures within the next year. In 2009, the revenues and expenditures for both systems were combined and in 2010, only system capacity charges remained different in the rate structure.

After a public hearing, the most recent revisions were approved by the Town Council on September 10, 2015 by Resolution No. 1929 (water rates), effective with the first billing after November 1, 2015. The approval of Resolution No. 1929 raised Water Volume rates, established a separate Base Rate for a ¾" meter and established Usage Blocks for consumption with a ¾" meter size.

Management Services staff has been meeting regularly to compile a rate study model for the combined water system. On July 20, 2017, staff met with the Town Council in a work/study session and gave an overview of the results of the study. The next step in considering whether to revise the rates, fees and charges is for the Town Council to publicly express its intent to make the revisions and to set a public hearing date. After holding a public hearing on the proposed revisions, the Council could adopt them (or any lesser increases) by resolution. Any increases become effective 30 days after adoption.

#### Adoption and Revision of Utility Rates, Fees and Service Charges

In the operation and maintenance of its wastewater and water systems, the Town is exercising its "proprietary function" as a matter of "local concern", and the Town Council is thereby empowered to meet such requirements as the business at hand requires [Gardner v. Industrial Commission, 72 Ariz. 274 (1951)]. Such authority includes (but is not limited to) the ability to recover the costs of operating and maintaining the systems through various rates, fees and service charges paid by those who connect to the systems and are

benefited thereby. ARS §9-240(B)(28) authorizes the Town Council to enact ordinances necessary to carry into effect such powers vested in the municipal corporation.

ARS §9-511.01 further provides that municipalities intending to increase any water or wastewater rate or rate component, fee or service charge, must first publicly express an intent to make the increase and make available a written report or supply data supporting the same. Such report or data must be available for public review at least 30 days prior to a public hearing on the increase. After holding the public hearing, the municipality may adopt the proposed rate or rate component, fee or service charge increase or any lesser increase. Such increase becomes effective 30 days after adoption. [Note: If the revisions in this Report are adopted on the same date as the public hearing, the proposed changes would be effective with the first billing after November 1, 2017.]

The Town Council has publicly expressed its proposed intent to make the revisions to rates, fees and service charges listed in this Report (including certain increases) at its regular meeting on July 27, 2017. On or before that date, this "Report of Proposal to Revise Certain Water and Wastewater Rates, Fees and Service Charges per ARS §9-511.01" will have been made available for public review in the Office of the Town Clerk and the Town Manager. The Council has also set a public hearing on these proposed revisions for its regular meeting to be held on September 28, 2017, to consider public comments. If the Council decides not to pursue these proposed revisions to rates, fees and service charges, then the Report will be pulled from the Office of the Town Clerk and Town Manager, and there will be no public hearing on September 28, 2017.

Proposed Revisions to Rates, Fees and Service Charges

<b>1. <u>Water</u></b>		<u>Current</u>	<u>Proposed</u>
Usage Charges	Block 1	\$3.08	<b>\$3.21</b>
	Block 2	3.69	<b>3.85</b>
	Block 3	4.80	<b>5.01</b>

Conclusion

After considerable staff review and internal discussion, it is believed that the above-described revisions to Town rates, fees and service charges (including certain increases) will have the overall effect of improving the efficiency and effectiveness of the Town's administration and operation of its water and wastewater systems.

Questions may be directed to the Customer Accounts Division Manager of the Management Services Department at 928-759-3011, or the Management Services Director at 928-759-3127.

**Town of Prescott Valley, Arizona**  
**Water and Sewer Rate Study Report**  
**July 27, 2017**

**I. PURPOSE:**

The primary purpose of this Water and Sewer Rate Study (Study) is to develop multi-year financial projections for the Town of Prescott Valley (Town) Water System (Water) and the Town's Wastewater System (Wastewater), and to establish the service and treatment rates at a level related to the total cost of providing those services. The Water System historically was divided into two separate areas: a newer "Town" system providing services to residents and businesses north of State Route 89A and to the Yavapai County Fairgrounds, and an older "District" system providing services to all of the other residents and businesses of Prescott Valley, as well as those in Castle Canyon Mesa and Prescott Country Club.

However, on March 13, 2008, by Resolution No. 1570, the Prescott Valley Water District was dissolved and the assets of the Prescott Valley Water Company were merged into the Town's water system. Yet, combination of the assets under a single management did not remove the disparity in utility rate structures between the systems. This disparity was the result of the age difference between the two systems and the fact that bond financing had been necessary for the District system, but not the Town system. In 2009, the revenues and the expenditures for both systems were combined. [Note: this Study does not include an analysis of the current connection charges for either of these areas.]

**This report does not contain any recommendations with respect to the Rates, Fees and Charges schedule. Staff is presenting this report to Council for discussion and to obtain Council's approval to proceed, provide further direction and changes, or instruct staff to not pursue any changes.**

If changes are proposed, a subsequent report containing any recommended changes will be provided at a future Council meeting. If no changes are recommended, then the Rates, Fees and Charges current schedule will continue to be in force until the following year when this rate analysis will again be concluded.

When establishing service and treatment rates, the following issues must be considered:

- Cost of service;
- Pricing to encourage conservation, limit demand or discourage waste; and
- Financial performance measures such as debt service coverage and cash reserve requirements.

Any proposed increases to service and treatment rates must be based on the following criteria:

- Sufficiency – any service and treatment rate increase should be sufficient to recover the full cost of administration and enforcement, recognizing that adjustments may be necessary for the benefit of the public;
- Efficiency – service and treatment rates should be designed for easy, inexpensive administration and compliance by the individual/business paying the said rates; and
- Simplicity – service and treatment rates should be easily understood by payees and administrators, limiting the possibility of subjective interpretations.

**II. OBJECTIVES:**

An objective of the Town is to annually review its respective rate structures and to recommend, if necessary, small, incremental rate adjustments. Based on public financing obligations, the Town is legally required to maintain minimum debt service coverage and minimum cash reserves. These obligations are reiterated in the Town Financial Policies.

Therefore, this study attempts to meet the following objectives:

- Compile and interpret historical financial results;
- Update the rate and financial planning model for the Town utilities as originally developed by outside consultants;
- Design service and treatment rates based upon projected revenue requirements and estimated expenditures (both operating and capital); and
- Comply with bond indentures and financial policies.

**Bond indentures require that the Town maintain a minimum net revenue to annual debt service (both principal and interest) coverage ratio of at least 1.25:1 times (1.50:1 times if additional debt is to be issued).**

Net revenues represent the difference between operating revenues (e.g. service and treatment rates, connection charges, new account fees and other fees, charges and penalties) and operating expenditures (all expenditures except capital outlay, debt service and depreciation). The Town’s ultimate goal is to maintain a minimum ratio of net revenue to debt service of 1.60:1 to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes, and to ensure a balanced “pay-as-you-go” capital improvement plan. Also, the Town Financial Policy requires maintaining a minimum cash reserve equal to 90 days (approximately 25%) of operating expenditures.

### III. CURRENT UTILITY RATES:

#### A. Water Service Rates – Water System (Last Revision November 1, 2015):

The following table shows the current water service rates for the Prescott Valley Water System (monthly base user rates – per billing period, and volume rates - per 1,000 gallons).

Description	Meter Size	Prescott Valley Water System
MONTHLY BASE RATES	5/8”	\$ 9.00
	3/4”	11.25
	1”	13.50
	1 ½”	18.00
	2”	22.50
	3”	27.00
	4”	31.50
	6”	36.00
	8”	40.50
USAGE CHARGES	Block 1	\$ 3.08
	Block 2	3.69
	Block 3	4.80

Customers’ meters are generally read on a monthly basis, and their bills are based on every **thousand gallons** of water read. Base user rates and volume rates are each based on meter size. The following chart illustrates the different block rates based on meter size. The block 1 water use allowance for a 5/8” meter is up to 8 thousand gallons. For use between 9 thousand and up to 20 thousand gallons, the block 2 rate applies. For all usage over 20 thousand gallons, the highest rate - \$4.80 applies. The block usage allowances increase as the meter size increases.

<b>Prescott Valley Water System Usage Block (gallons based on meter size)</b>			
<b>\$/1,000 gallons</b>	<b>\$3.08</b>	<b>\$3.69</b>	<b>\$4.80</b>
<b>Meter Size</b>	<b>Block 1</b>	<b>Block 2</b>	<b>Block 3</b>
5/8"	0 – 8	9 – 20	> 20
3/4"	0 – 11	12 – 27	> 27
1"	0 – 14	15 – 34	> 34
1 1/2"	0 – 26	27 – 66	> 66
2"	0 – 42	43 – 106	> 106
3"	0 – 86	87 – 214	> 214
4"	0 – 134	135 – 334	> 334
6"	0 – 266	267 – 666	> 666
8"	0 – 427	428 – 1,067	> 1,067

For example, if a customer resides in the Water System area and uses 10 thousand gallons (assuming 5/8" meter) in a month, that customer's monthly water bill (excluding wastewater rates, fees, taxes and other charges) would be calculated as follows:

Base User Rate				\$ 9.00
Volume Rate (in thousands):				
Block 1 (0 – 8)	8 kgals	\$3.08 x 8 =	\$24.64	
Block 2 (9 – 20)	2 kgals	\$3.69 x 2 =	\$ 7.38	\$32.02
<b>Total monthly water bill (excluding taxes)</b>	<b>10 kgals.</b>			<b><u>\$41.02</u></b>

**B. Wastewater Treatment Rates – Wastewater System (Last Revision November 1, 2012):**

The Town's current wastewater treatment rates are as follows (monthly base rates – per billing period, and volume rates - per 1,000 gallons):

<b>Description</b>	<b>Meter Size</b>	<b>Wastewater</b>
MONTHLY BASE RATES	5/8" & 3/4"	\$ 5.07
	1"	8.06
	1 1/2"	11.06
	2"	14.05
	3"	17.04
	4"	20.03
	6"	23.03
	8"	26.02
VOLUME RATE	All	<u>\$/1,000 gallons</u> \$4.54

A residential customer's wastewater bill is based on each residential unit's average metered water use for each account for the months of November through March (winter average), times 90%, OR actual water usage (whichever is lower). Bills for commercial and industrial customers are based on actual metered water usage.

For example, if a residential customer has a winter average of 6,000 gallons (but only uses 5,000 gallons during a particular month), the customer’s wastewater bill will be based on the 5,000 gallons actually used. The wastewater bill (excluding water rates, fees, taxes and other charges) would be calculated as follows:

Base User Rate (assuming 3/4” meter)		\$ 5.07
Volume Rate	\$4.54 x 5	<u>\$22.70</u>
Total monthly wastewater bill (excluding taxes):	5 kgals.	<u>\$27.77</u>

**IV. GROWTH AND INFLATION ASSUMPTIONS:**

This Study involves a variety of assumptions about future revenues, expenses and capital expenditures. Estimates of growth in water and wastewater utility accounts are based on historical information. Because growth and inflation do not remain constant, it is extremely important to annually review and update the assumptions.

**A. Revenue and Expenditures Projections:**

Based on historical and anticipated costs for personnel services, other operating expenses (i.e. electricity, professional services, etc.), anticipated capital improvements and contracts with the current private operator of the water and wastewater system (CH2MHill OMI), the following general inflation increases are projected:

	General Inflation Factors				
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Personnel Services	6%	5%	5%	5%	5%
Other Operating Expenses	6%	5%	5%	5%	5%
Capital Outlays/Improvements	0%	0%	0%	0%	0%
OMI Contracts	3%	5%	5%	5%	5%

Projected revenues for the system are based on the projected number of accounts (see below) and the proposed rate increases in this Report as needed to maintain compliance with bond indentures and financial policies, and to build cash reserves to fund planned capital projects:

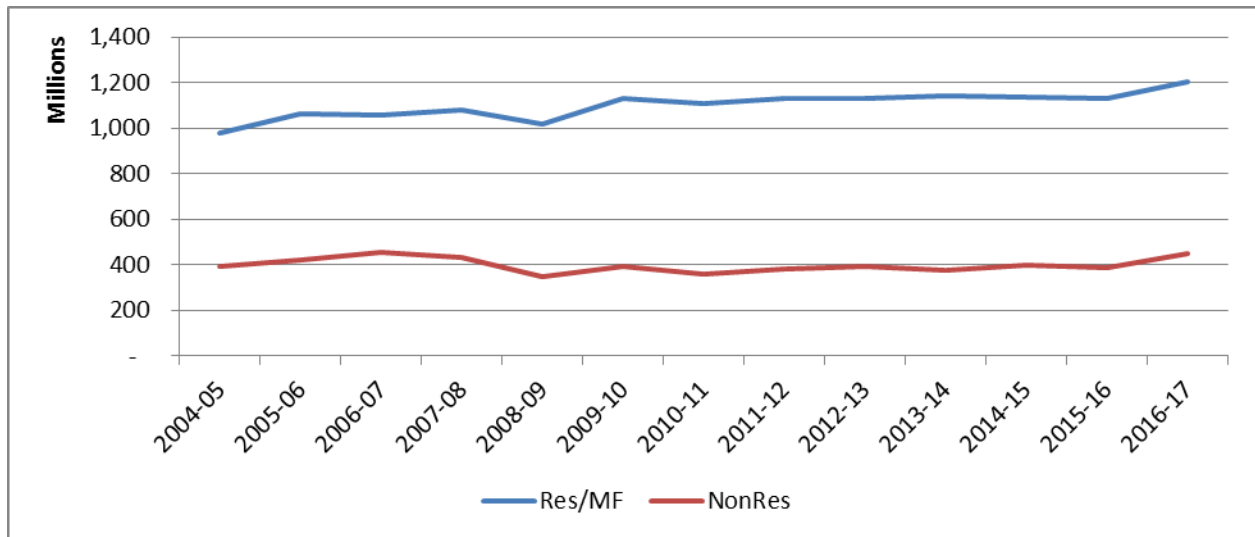
		Revenue Inflation Factors				
		FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
<b>VALUES USED</b>		<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>
<b>Account Growth/Usage Fees</b>						
Projected Accounts - Water	20,339*	20,530 0.94%	20,824 1.43%	20,645 1.41%	20,963 1.40%	21,306 1.51%
Projected Accounts-Wastewater	17,408*	17,880 2.71%	18,162 1.58%	18,445 1.56%	18,729 1.54%	18,997 1.43%

\* Actual number of accounts as of June 2017.



**B. Gallons billed Projections:**

Probably the most important component on calculating utility rates is projecting the number of gallons to be billed for the upcoming fiscal year. The chart below shows the actual number of gallons billed from the Water System for the last thirteen (13) years. Non-residential usage would include commercial, irrigation, hydrant, Diamond Valley and Bradshaw Mountain. Residential/Multi-Family annual consumption ranges from a low of 980.8M gallons (FY2004-05) to a high of 1,202.3M gallons (FY2016-17). Non-residential annual consumption ranges from a low of 346.8M gallons (FY2008-09) to a high of 454.9M (FY2006-07). For the upcoming fiscal year, staff is projecting that the Town will bill 1,201.5M gallons to residential customers and 447.0M to non-residential customers for a total billed 1,648.5M. Sewer gallons billed is based off of the number of gallons billed from the Water System.



Generally, no one factor (i.e. revenue and expenditure projections, number of customers, gallons billed, etc.) affects utility rates unless the change is severe (e.g. dramatic increase in expenditures or decline in gallons billed), but an increase to rates is the result of changes to a combination of the factors listed above.

**V. FIVE-YEAR CASH FLOW SUMMARY – Combined Operating and Capital (Growth):**

This section provides expected scenarios in the event the projected growth and inflation from above were to occur and considers factors with and without any increases to either the Water System or Wastewater rate structures. The financial projections on the following pages represent both growth and non-growth related revenues and expenditures for both the Water and Wastewater funds.

**A. Water System**

As shown below, the Water System is projected for the FY 2017-18 through FY 2021-22, to exceed both of the required financial performance requirements. The Cash Reserve Ratio begins to slightly decrease in FY 2017-18 and continues to decrease through FY 2019-20, which coincides with the decline in the Total Cash and Investment at the end of year balances. However, the reserves are still well above the Town's financial policy goal of 25%. The decrease in cash balances is primarily due to the number of capital expenditures (i.e. Summit Tank II in the amount of \$2.5M, Stone Ridge Water Storage in the amount of \$2.5M, additional well capacity, etc.) budgeted in the next five years especially in FY 2017-18 and FY 2019-20. In the next five years, total CIP for the Water funds equals \$11,319,500. Annually, capital expenditures are re-evaluated to determine need for each of these projects that are currently included in the Town's FY 2017-18 Five-Year Capital Improvement Plan. Most of the large water projects would be driven by growth. If housing continues to increase in the upcoming years, the amount collected from capacity will be used to fund these capital projects.

The operating income (loss) line indicates operating expenses (including depreciation) are increasing slightly faster than operating revenues. Net operating income line, excluding depreciation (not shown), ranges from a profit of approximately \$1.06M in FY 2018-19 to \$2.64M in FY 2021-22.

	<b>Base Year</b>					
	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Operating Revenues:</b>						
Usage Fees	\$7,966,364	\$8,047,441	\$8,161,715	\$8,276,795	\$8,391,842	\$8,517,720
Capacity Fees	485,064	439,813	443,693	447,734	465,907	521,603
Water Meter Charge	234,675	241,715	248,967	256,436	264,129	272,053
Interest Income	126,992	74,208	66,378	64,677	64,128	68,248
Miscellaneous	290,145	300,000	315,062	340,850	366,702	392,619
<b>Total Operating Revenue</b>	<b>9,103,240</b>	<b>9,103,177</b>	<b>9,235,814</b>	<b>9,386,492</b>	<b>9,552,709</b>	<b>9,772,242</b>
<b>Operating Expenses:</b>						
Administrative Services - Town	722,453	767,800	806,190	846,500	888,825	933,266
Contract - OMI	2,354,695	2,372,071	2,490,674	2,615,208	2,745,969	2,883,267
Other Operating Expenses	2,474,196	2,729,648	2,866,130	3,009,437	3,159,908	3,317,904
Amortization/Depreciation	1,350,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
<b>Total Operating Expenses</b>	<b>6,901,344</b>	<b>7,269,519</b>	<b>7,562,995</b>	<b>7,871,144</b>	<b>8,194,702</b>	<b>8,534,437</b>
<b>Operating Income (Loss)</b>	<b>2,201,896</b>	<b>1,833,658</b>	<b>1,672,820</b>	<b>1,515,347</b>	<b>1,358,007</b>	<b>1,237,806</b>
<b>Other Expenditures:</b>						
Debt Service - Existing	2,023,794	2,021,036	2,014,153	-	-	-
<b>Total Other Expenditures</b>	<b>2,023,794</b>	<b>2,021,036</b>	<b>2,014,153</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Operating Income (Loss)</b>	<b>178,102</b>	<b>(187,378)</b>	<b>(341,333)</b>	<b>1,515,347</b>	<b>1,358,007</b>	<b>1,237,806</b>
<b>Capital Financing / (Expenditures)</b>						
Capital Expenditures	(2,657,000)	(4,344,500)	(1,745,000)	(3,135,000)	(1,110,000)	(985,000)
<b>Net Capital Funding</b>	<b>(2,657,000)</b>	<b>(4,344,500)</b>	<b>(1,745,000)</b>	<b>(3,135,000)</b>	<b>(1,110,000)</b>	<b>(985,000)</b>
Net Income (Loss)	(2,478,898)	(4,531,878)	(2,086,333)	(1,619,653)	248,007	252,806
Cash and Cash Equivalents at BOY	10,812,075	9,683,177	6,551,299	5,870,966	5,651,314	7,299,321
Add Back Amortization/Depreciation	1,350,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
<b>Total Cash and Investments at EOY</b>	<b>\$9,683,177</b>	<b>\$6,551,299</b>	<b>\$5,864,966</b>	<b>\$5,651,314</b>	<b>\$7,299,321</b>	<b>\$8,952,126</b>
<b>Cash Reserve Ratio (25%)</b>	174%	112%	95%	87%	107%	125%
<b>Debt Service Coverage Ratio 1.25</b>	1.76	1.60	1.53	N/A	N/A	N/A

## B. Wastewater System

Although the Cash Reserves are extremely healthy, as shown on the following page, beginning in FY 2017-18 and continuing through the following years, the Wastewater System's Total Cash and Investments at end of year are projected to decrease slightly but consistently exceed \$5.0M and that is based on two large capital projects being budgeted in FY 2018-19 through FY 2020-21. Additionally, the Cash Reserve Ratio starts to fall in FY 2018-19 and continues to decrease through FY 2021-22. However, the Cash Reserve rate consistently exceeds the Town's policy of 25%, with the lowest cash reserve projection for the next five years being 148%.

The primary factors that contribute to the decrease in cash balances are:

- Number of capital expenditures being projected in the next five years; and
- Operating expenses are increasing at a faster rate than operating revenues.

The lowest projected debt service reserve coverage within the next five years is 1.45 in FY 2021-22, which is higher than the minimum requirement of 1.25 but slightly lower than the Town's policy of 1.60.

Staff is projecting a slight decrease in change for the number of gallons to be billed for FY 2017-18 as compared to the amount actually billed in the previous fiscal year. Based on current assumptions, new customer growth will increase by less than 2% (approximately 300 customers a year).

	<b>Base Year</b>					
	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Operating Revenues:</b>						
Usage Fees	\$4,993,000	\$5,035,385	\$5,156,591	\$5,237,549	\$5,318,731	\$5,395,321
Capacity Fees	1,018,220	924,914	929,189	950,007	971,250	934,372
Penalty Fees	105,390	108,552	111,808	115,162	118,617	122,176
Interest Income	29,761	24,284	40,083	22,203	18,841	12,663
<b>Total Operating Revenue</b>	<b>6,167,340</b>	<b>6,093,134</b>	<b>6,237,671</b>	<b>6,324,922</b>	<b>6,427,439</b>	<b>6,464,532</b>
<b>Operating Expenses:</b>						
Administrative Services - Town	570,171	620,381	651,400	683,970	718,169	754,077
Contract - OMI	1,478,821	1,499,127	1,574,083	1,652,787	1,735,426	1,822,198
Other Operating Expenses	1,234,910	1,267,005	1,330,355	1,396,873	1,466,716	1,540,052
Amortization/Depreciation	3,000,000	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000
<b>Total Operating Expenses</b>	<b>6,283,902</b>	<b>6,286,512</b>	<b>6,455,838</b>	<b>6,633,630</b>	<b>6,820,312</b>	<b>7,016,327</b>
<b>Operating Income (Loss)</b>	<b>(116,562)</b>	<b>(193,378)</b>	<b>(218,167)</b>	<b>(308,708)</b>	<b>(392,872)</b>	<b>(551,796)</b>
<b>Other Expenditures:</b>						
Debt Service - Existing	1,622,191	1,621,553	1,620,729	1,621,173	1,623,385	1,624,908
<b>Total Other Expenditures</b>	<b>1,622,191</b>	<b>1,621,553</b>	<b>1,620,729</b>	<b>1,621,173</b>	<b>1,623,385</b>	<b>1,624,908</b>
<b>Net Operating Income (Loss)</b>	<b>(1,738,753)</b>	<b>(1,814,931)</b>	<b>(1,838,896)</b>	<b>(1,929,881)</b>	<b>(2,016,257)</b>	<b>(2,176,704)</b>
<b>Capital Financing / (Expenditures)</b>						
Capital Expenditures	(652,000)	(636,000)	(2,342,500)	(2,315,000)	(3,355,000)	(505,000)
<b>Net Capital Funding</b>	<b>(652,000)</b>	<b>(636,000)</b>	<b>(2,342,500)</b>	<b>(2,315,000)</b>	<b>(3,355,000)</b>	<b>(505,000)</b>
Cash and Cash Equivalents at BOY	9,104,481	9,713,728	10,162,796	8,881,400	7,536,518	5,065,262
Add Back Amortization/Depreciation	3,000,000	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000
<b>Total Cash and Investments at EOY</b>	<b>\$9,713,728</b>	<b>\$10,162,796</b>	<b>\$8,881,400</b>	<b>\$7,536,518</b>	<b>\$5,065,262</b>	<b>\$5,283,558</b>
<b>Cash Reserve Ratio (25%)</b>	296%	300%	250%	202%	129%	128%
<b>Debt Service Coverage Ratio 1.25</b>	1.78	1.67	1.65	1.60	1.54	1.45

**VI. RECOMMENDATIONS:**

**A. Water System**

Beginning in FY 2017-18, additional increases (either rate increases or consumption) will be required to meet the minimum debt service coverage. This usage charge increase will aid in maintaining the Town’s debt service coverage of 1.60 which will allow flexibility in the event of less than anticipated revenue amounts.

Based on the current assumptions and growth projections and anticipated cash reserves, **staff is recommending an increase for the Water System volume rate as shown below. No changes to the base rate for the Water System are being proposed at this time.**

Description	Current	Proposed	Difference	Difference
Volume Rate (\$/1,000 gallons)				
Block 1	\$3.08	<b>\$3.21</b>	\$0.13	4.22%
Block 2	\$3.69	<b>\$3.85</b>	\$0.16	4.34%
Block 3	\$4.80	<b>\$5.01</b>	\$0.21	4.38%

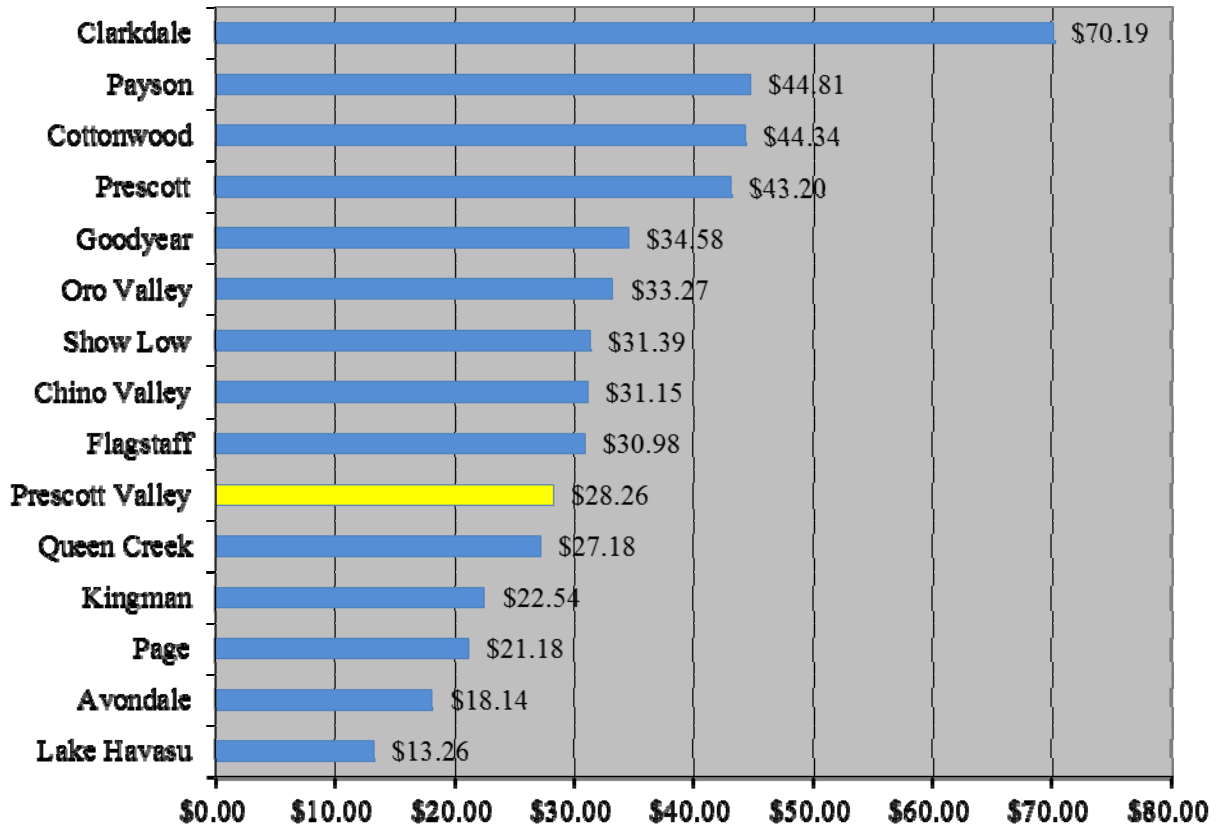
**B. Wastewater System**

Based on the current assumptions and growth projections and anticipated cash reserves, **staff is not recommending an increase for the Wastewater System. No changes to the base rate for the Wastewater System are being proposed at this time.**

Description	Current	Proposed	Difference	Difference
Volume Rate (\$/1,000 gallons)				
Residential/Multi-Family	\$4.54	\$4.54	\$0.00	0%
Non-Residential	\$4.54	\$4.54	\$0.00	0%

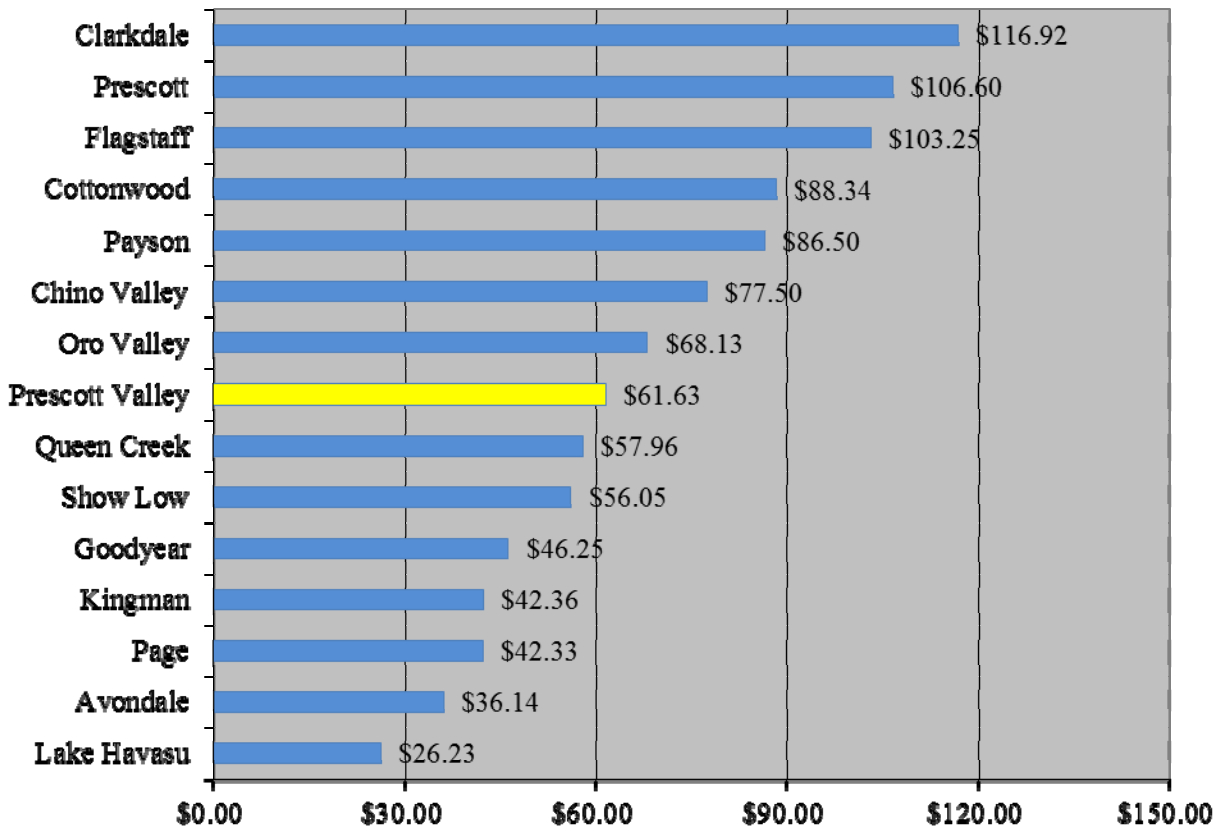
### VII. COMPARISON OF WATER RATES WITH OTHER CITIES:

The following chart is what a typical residential customer would pay with the new proposed rate if they used 6,000 gallons of water per month (assuming a 5/8" meter).



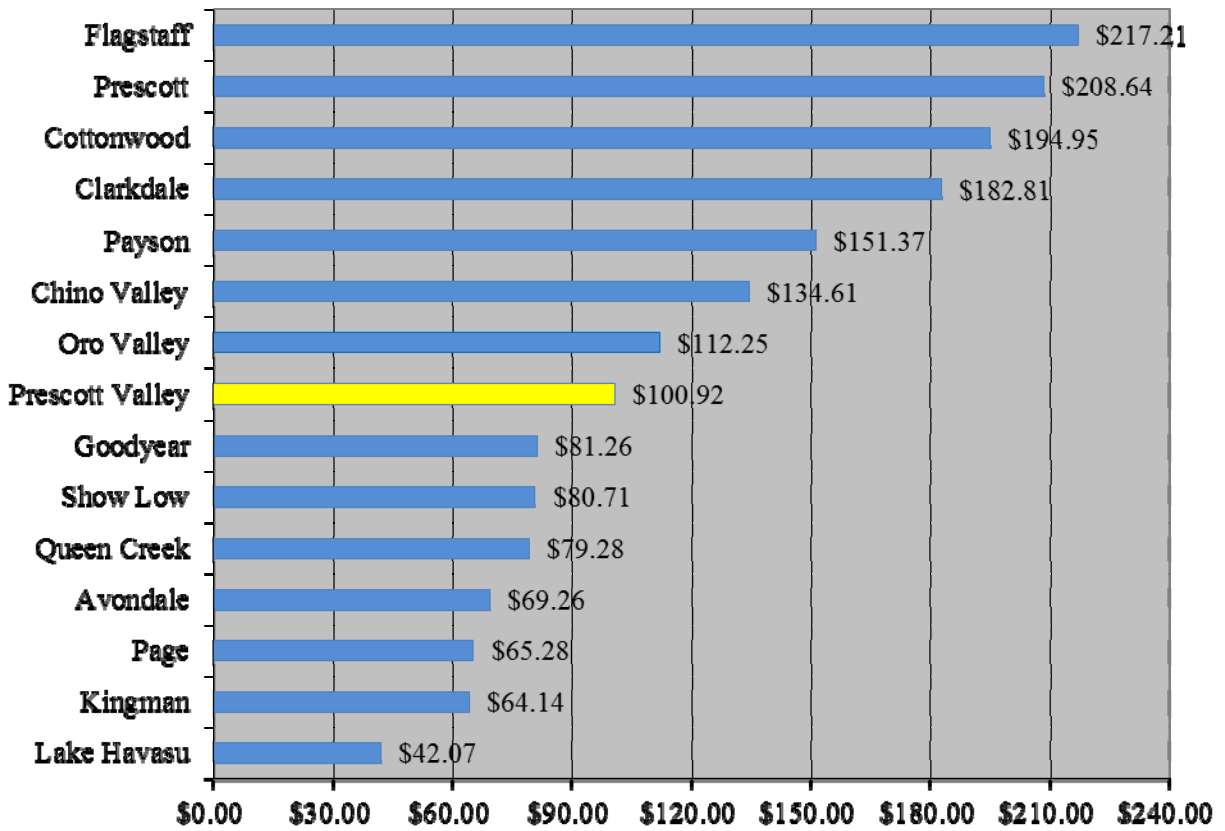
\*Proposed rate

The following chart is what a typical residential customer would pay with the new proposed rate if they used 15,000 gallons of water per month (assuming a 5/8” meter).



\*Proposed rate

The following chart is what a typical residential customer would pay with the new proposed rate if they used 24,000 gallons of water per month (assuming a 5/8” meter).



\*Proposed rate