

AGENDA

WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD,
ARIZONA, TO BE HELD JUNE 11, 2013, AT 6:00 PM., AT THE COUNCIL
CHAMBERS BUILDING, 826 NORTH MAIN STREET, COTTONWOOD, ARIZONA.

- I. CALL TO ORDER
- II. ROLL CALL
- III. ITEMS FOR DISCUSSION

Comments regarding items listed on the agenda are limited to a 5 minute time period per speaker.

1. PRESENTATION AND DISCUSSION REGARDING PROPOSED
RATE ADJUSTMENTS FOR WATER AND WASTEWATER FEES.

- IV. ADJOURNMENT

Pursuant to A.R.S. 38-431.03.(A) the Council may vote to go into executive session on any agenda item pursuant to A.R.S. 38-431.03.(A)(3) Discussion or consultation for legal advice with the attorney or attorneys of the public body.

The Cottonwood Council Chambers is accessible to the disabled in accordance with Federal 504 and ADA laws. Those with needs for special typeface print or hearing devices may request these from the City Clerk (TDD 634-5526.) All requests must be made 24 hours prior to the meeting.

Members of the City Council will attend either in person or by telephone conference call.

City of Cottonwood, Arizona City Council Agenda Communication



 Print

Meeting Date:	June 11, 2013
Subject:	Water & Wastewater Proposed Rate Presentation and Discussion
Department:	Administrative Services
From:	Jesus R. Rodriguez, CGFM Administrative Services General Manager

REQUESTED ACTION

Staff is requesting comments from the Council on the Water & Wastewater Rate recommendations so staff may craft the proper language for the Intent to Adjust Rates notification.

SUGGESTED MOTION

If the Council desires to approve this item the suggested motion is:

BACKGROUND

The City of Cottonwood has been meeting with a rate committee consisting of a couple of local residents, utility personnel, management staff, our financial adviser, and an occasional county representative. We also have a council member Pratt and the Mayor Joens on the committee. This committee was formed to review the operational, capital and financial needs of both the water and wastewater utilities. This group has been instrumental in moving the rate setting process forward to this point.

Water

The last time the City of Cottonwood adjusted its water rates was October 2010 after going six years without an adjustment. It is important to note that the original rate study at the time of acquisition of the first three water companies back in 2004, contemplated annual increases. When the city acquired the fourth, last and largest of the systems, Cottonwood Water Works, that changed the need to 2007. The City, however, did not increase its rates until 2010 which caused a big strain on the system.

The delays in adjusting the rates were due to the difficult economy which prompted the Council's concern for increasing rates on our citizens during the hard times. Consequently, the city has found itself in violation of its bond covenant which states that Cottonwood would maintain rates at a level which would provide a minimum of 1.35X the annual debt service once all O&M was paid for the year. This violation prompted Moody's to downgrade the water

utility rating from an A3 to Baa1 back in May 20, 2011.

More recently, after several conversations with Standard & Poors in the past couple of weeks, they too made it very clear that we definitely had some downward pressure on our rating. That translates to a very high potential for a downgrade from them. You may recall that S&P actually upgraded these bonds back in 2006 from an A to A+.

Wastewater

Another item of discussion are wastewater rates which were last adjusted in 2001. At that time the rate was established at \$16.75 and has not increased despite annual reports and calculations stating the need to increase the rates. This utility once had a subsidy from sales tax that covered a portion of the costs for the services. This tax sunset on July 1, 2007. Since then this enterprise fund has consumed about \$2M of its reserves and is in need of some financial relief.

Fortunately, the wastewater system does not have any debt at this time. The system, however, is over two decades old and is in need of constant maintenance which requires substantial resources which are currently not available.

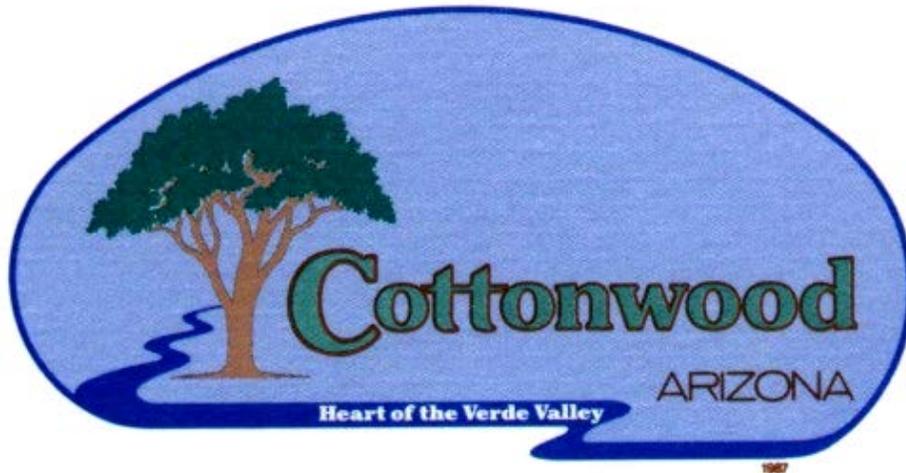
JUSTIFICATION/BENEFITS/ISSUES

Both the utilities are in need of a rate adjustment to continue to provide the quality services that our citizens are accustomed to having at their fingertips. As part of the rate adjustment to recommended levels comes the easing of downward pressure on our rates. The new rates will allow us to improve our rating which is an important factor when it comes to future bonding.

COST/FUNDING SOURCE

ATTACHMENTS:

Name:	Description:	Type:
6-11-13 Water Wastewater Rate Study 2014 Draft.pdf	Draft Water Wastewater Rate Study	Cover Memo



CITY OF COTTONWOOD, ARIZONA
WATER AND WASTEWATER RATE STUDY AND
LONG-TERM FINANCIAL FORECAST
2012 UPDATE

June 11, 2013

Prepared by:
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DRAFT

ACKNOWLEDGEMENTS

The compilation of this rate study required hours of time and effort from City employees in various job functions. These employees included:



Diane Joens, Mayor,
Terrance Pratt, City Council member,
Ed Kiyler, Citizen Advisor,
Jake Gonzales, Citizen Advisor,
Chris Moran, Yavapai County Representative,
Douglas Bartosh, City Manager,
Dan Lueder, Developmental Services General Manager,
Kirsten Lennon, Accounting & Budget Manager,
Carol Brown, Budget Analyst,
Helen Bartels, Utilities Accountant,
Tawni Fanning, Utility Billing Supervisor,
Sharon Caldwell, Utility Administrative Coordinator,
Roger Biggs, Utilities Administrative Manager,
Morgan Scott, Public Work Operations Manager
Scott Mangarpan, Projects Manager
Deborah Breitkreutz, Wastewater Utility Operations Manager
Administrative Services Staff, and
Utilities Staff.

The City also included the City's financing consultant, Grant Hamill, Managing Director, Stifel, Nicolaus & Company. The Administrative Services staff is very appreciative of all the assistance from everyone involved in this report. Without their input this report would not have been possible.

Respectfully submitted,

Jesus R. Rodriguez, C.G.F.M.
Administrative Services General Manager
City of Cottonwood, Arizona

CITY OF COTTONWOOD MISSION AND VISION STATEMENTS

Mission Statement

The City of Cottonwood, through ethical, accountable, professional leadership and collaboration, enhances quality of life for our diverse community while preserving our unique environment and character.

Vision Statement

The City of Cottonwood strives to maintain a uniquely desirable and sustainable community.

We are unique because of our people, our grand natural resources, public amenities, leadership, diversity and home town atmosphere.

We will continue to conserve, preserve and manage our precious resources, including the Verde River and its unique riparian habitat.

We will enhance our position as the economic center for the Verde Valley, providing retail, medical, education, transportation, recreation and tourism.

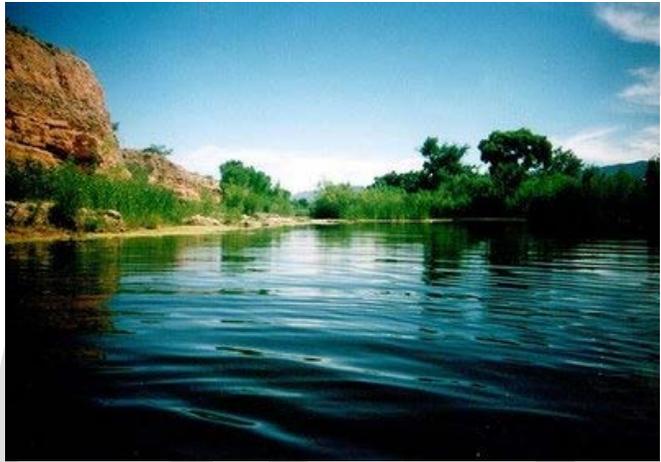
The City of Cottonwood provides leadership and solutions to ensure a prosperous community where a diversity of people and nature thrive.

CITY OF COTTONWOOD PROFILE¹

Regional Setting

The Verde Valley includes about 714 square miles located in the geographic center of Arizona, about 100 miles north of the Phoenix metropolitan area. The Verde River runs through the valley from northwest to southeast and is augmented by flows from Sycamore Canyon, Oak Creek, Beaver Creek and West Clear Creek. The area is unsurpassed in its variety of physical beauty with the red rocks and Mogollon Rim to the north and east and the Black Hills and Mingus Mountain dominating the western and southern portions of the valley.

The City of Cottonwood is located adjacent to the Verde River at elevations ranging from 3,300 feet to 3,900 feet above sea level and experiences a mild climate which, together with its proximity to an abundance of natural amenities such as the Grand Canyon, Sedona, Dead Horse Ranch State Park, Tuzigoot National Monument and the historic mining communities of Clarkdale and Jerome, continues to attract steady growth and tourism.



Early History

As with other communities in the Verde Valley, the City shares a rich and lengthy history. The region has long been home to Native Americans, particularly the Sinagua and later the Yavapai and Apache. The first Anglo settlers in the area farmed and provided goods for the soldiers at Camp Verde and for the miners in Jerome beginning in the late 1870's. William Clark and Jimmy Douglas developed major smelters and the mining communities of Clarkdale (1912) and Clemenceau (1917), respectively. Clemenceau, located near the intersection of Willard Street and Mingus Avenue was a complete company town with thousands of residents, a school and other community facilities. Today, few people recognize the size and complexity of the original "Smelter City".

During this period, mining companies that closely regulated commerce, industry, employment and even housing opportunities administered Jerome, Clarkdale and Clemenceau.

Old Town Cottonwood became a haven for those seeking to be free from the prejudice and regulation of nearby company towns. Main Street was created 1908 when Charles Stemmer and Alonzo Mason used a mule team to pull and drag through brush. The Mason Addition, Willard Addition, Hopkins Ranch No. 2 and other tracts were platted during the next decade

¹ Information for this profile was taken from the City of Cottonwood website - www.cottonwoodaz.gov

coinciding with the development of Clemenceau on higher ground about one mile to the south.

The Clemenceau smelter closed on December 31, 1936 with a great loss of jobs and disruption to the area's economy. The Cottonwood Women's Club organized to feed those in need and raised money to build the Cottonwood Civic Center (1939) with labor provided through the Works Progress Administration. The copper industry continued its decline culminating with the closure of the Phelps Dodge operation in the 1950's. Population plummeted in the region as the mining industry declined. Jerome's population declined from about 8,000 to nearly 0, while Clarkdale went from nearly 4,000 to several hundred.

Recent History

The City of Cottonwood incorporated in 1960. During this period area roads were improved, particularly the Highway 89A "Bypass" and SR 260 to serve the needs of the Phoenix Cement Plant located in Clarkdale. This facility supplied the cement for the Glen Canyon Dam project near Page. During the early 1970's about 4,500 lots were platted outside the Cottonwood City Limits by Ned Warren - the Queen Creek Land & Cattle Company. These lots, known as Verde Village, have limited infrastructure but have been built upon over time and few vacant parcels remain today. With road development and an increasingly large residential base, commercial development moved south from Old Town to SR89A intersections at Main Street and at SR260 during the 1970's and 1980's.

In 1990 the City constructed a wastewater treatment plant and collection system, the first in the Verde Valley. This plant was expanded in 2000 to treat 1.5 million gallons per day and allow discharge of reclaimed water into Del Monte Wash. The availability of a modern sanitary sewer system has assisted the City to attract and accommodate growth.

Since 2001 the City has pursued the acquisition of the private water companies serving the area. Between 2004 and 2006 those acquisitions came to fruition and the City of Cottonwood has become a full service municipality.



Cottonwood has experienced a major expansion of the Verde Valley Medical Center, development of new residential projects such as Cottonwood Ranch and many commercial and office projects. And more recently, the Public Library was expanded nearly doubling its size as well as the opening of the 56,000 sq. ft. Cottonwood Recreation Center providing state of the art fitness equipment and additional indoor recreation opportunities.

City Government

The City of Cottonwood operates under a Council–Manager form of government. The Council consists of a Mayor, Vice Mayor, and five Council members. The City Manager reports to the Mayor, Council and the citizens of Cottonwood. There are three General Managers that assist the City Manager with the responsibility for the day-to-day operation of the City. Any and all changes to the City’s Water and Wastewater rates and its structure must be approved by a vote of the City Council.

City of Cottonwood Officials	
<u>Mayor & Council</u> Diane Joens, Mayor Karen Pfeifer, Vice-mayor Tim Elinski, Council Member Jesse Dowling, Council Member Randy Garrison, Council Member Ruben Jauregui, Council Member Terence Pratt, Council Member	<u>Senior City Staff</u> Douglas Bartosh, City Manager Rudy Rodriguez, Administrative Services General Manager Dan Lueder, Developmental Services General Manager Richard Faust, Community Services General Manager

The City utilizes Generally Accepted Accounting Principles (GAAP) for its governmental as well as its proprietary funds. Cottonwood also has a July 1st through June 30th fiscal year.

Weather²

Moderate weather makes Cottonwood an excellent place to visit year round.

<u>Month</u>	<u>Average Daily Temperature (F)</u>		<u>Average Total</u>
	<u>Maximum</u>	<u>Minimum</u>	<u>Precipitation (inches)</u>
January	58.1	28.1	0.8
February	63.3	31.7	0.8
March	68.3	35.6	0.9
April	76.6	41.9	0.5
May	84.8	49.2	0.4
June	94.8	57.8	0.5
July	98.5	65.9	1.9
August	95.5	63.8	2.2
September	91.3	57.4	1.1
October	81.2	46.4	1.0
November	68.1	35.6	0.7
December	58.6	28.7	1.1
Annual Average	78.2	45.2	1.0

² Source: Arizona Department of Commerce – Community Profile for Cottonwood, AZ and Western Regional Climate Center

PURPOSE OF THIS RATE STUDY

The primary purpose of this Water and Wastewater Rate Study is to develop multi-year financial projections for the City of Cottonwood Water System and the Wastewater System, and to establish the maintenance and operational rates at a level related to the total cost of providing those services.

On August 16, 2011, the City of Cottonwood City Council met with City staff to begin preliminary discussions about possible rate adjustments to the two city utilities, water & wastewater. That presentation provided by the City staff centered on the various economic issues specifically facing the Water Utility owned by the City of Cottonwood. However, since many of the same issues affect the both utilities, this report will include the water and wastewater utilities.

The economic problems facing the area, unemployment, foreclosures, and lack of growth have affected the two system's ability to continue to thrive by reducing its ability to fund reserves, and borrow money for future projects. These same economic factors have adversely impacted the debt service coverage ratio imposed by covenant in the Cottonwood Municipal Property Corporation Senior Lien Water System Revenue Bonds, Series 2004 and Series 2006 – MPC Bonds. Current requirements are that the City should maintain a 1.35:1x debt service coverage ratio. This debt service coverage deterioration has prompted Moody's Rating Service to downgrade the City's MPC Bonds.³

With the gradual decline of the debt service coverage ratio and the subsequent lowering of the City's water bond rating; the City has initiated measures to correct the deficiencies and provide a long term roadmap to fiscal viability of both the Water and Wastewater utilities.

Part of the corrective measures to counter the negative effects of the downgrade and the economic decline is to conduct and complete a rate study and subsequent report; comprehensively updating the City's rate analysis conducted by Economists.com in 2009. Some of the following issues will be considered when establishing the various rate options:

-  Cost of service,
-  Conservation of water resources using a tier rate structure, and
-  Fiscal performance measurements to ensure all bond covenants are adequately met and sufficient cash reserves are available for major repairs and replacement.

Any proposed increases to service and treatment rates must consider the following principles:

-  Adequacy – any rate increase should be adequate to recover the full cost of operations, administration;
-  Efficient – rates should be designed for easy, low-cost administration and compliance with all customers paying the said rates; and
-  Straightforwardness – rates should be easily understood by all customers limiting the opportunity of subjective interpretations.

³ Appendix A - News Release - Moody's Ratings Update

SCOPE OF STUDY

The City Staff and Council have identified several objectives that shall be included in this study, including but not limited to the following:

-  Analysis of the historic and current cost of service and revenue requirements for both the water and wastewater utilities
-  Forecast operating expenses over the next five years, taking into consideration such factors as the local economy, inflation, system growth, and increased staffing levels requirements.
-  Project future accounts, volumes and billing units for the five year forecast.
-  Review future water and wastewater capital infrastructure requirements, as well as narrowing down the financing options available.
-  Develop rate structure that encourages conservation and discourages waste.
-  Review available options and narrow down to a recommendation:
 - Using the current tiered rate structure
 - Using an expanded tiered rate structure
 - Rate differentials between commercial, residential and multi-residential
 - Rate differentials for customers located inside and outside of the corporate city limits
 - A gradual adjustment over several years to eventually meet our covenants
 - An across the board increase to all classes to meet the debt services covenants
-  Evaluate various rate structure options to comply with the debt service coverage covenants imposed by the City's 2004 & 2006 MPC Bonds, and bring a recommendation to the Council.

BACKGROUND

Water

Another historic period for the City of Cottonwood was entering into the water business on October 1, 2004 with the purchase of three area water companies; Verde Santa Fe, Clemenceau, and the Cordes Lakes Water Systems for a price tag of \$13,580,000. Less than two short years later the City acquired one of the largest systems in the area, the Cottonwood Water Works System for \$23,965,000.



Part of the original 2004 projections for the system was

Current Rate Structure	
<u>Percent Adjustment</u>	
<u>Base Charge</u>	
5/8"	\$18.36
1"	\$30.24
1 1/2"	\$61.56
2"	\$97.20
3"	\$194.40
4"	\$302.40
6"	\$615.60
<u>Volume Charge (per 1,000 gal)</u>	
0 – 1,000	
1,001 – 4,000	\$2.90
4,001 - 10, 000	\$3.19
10001 – 20,000	\$4.55
20,000 +	\$6.48
<u>Water Resource Development Fee</u>	
Water Resource Development	\$4.32
Water Assurance	\$0.35
Gila River Adjudication	\$0.44
Water Conservation	\$0.27
<u>Total Development Fee</u>	<u>\$5.38</u>

to increase rates in November 2005 and November 2007, which was postponed with the acquisition of the Cottonwood Water Works System. Additional increases were also planned for November 2010 through and November 2015. Unfortunately the only increase since Cottonwood entered the water business has been in September 2010 with an 8% increase and a change in the tiered volume structure.

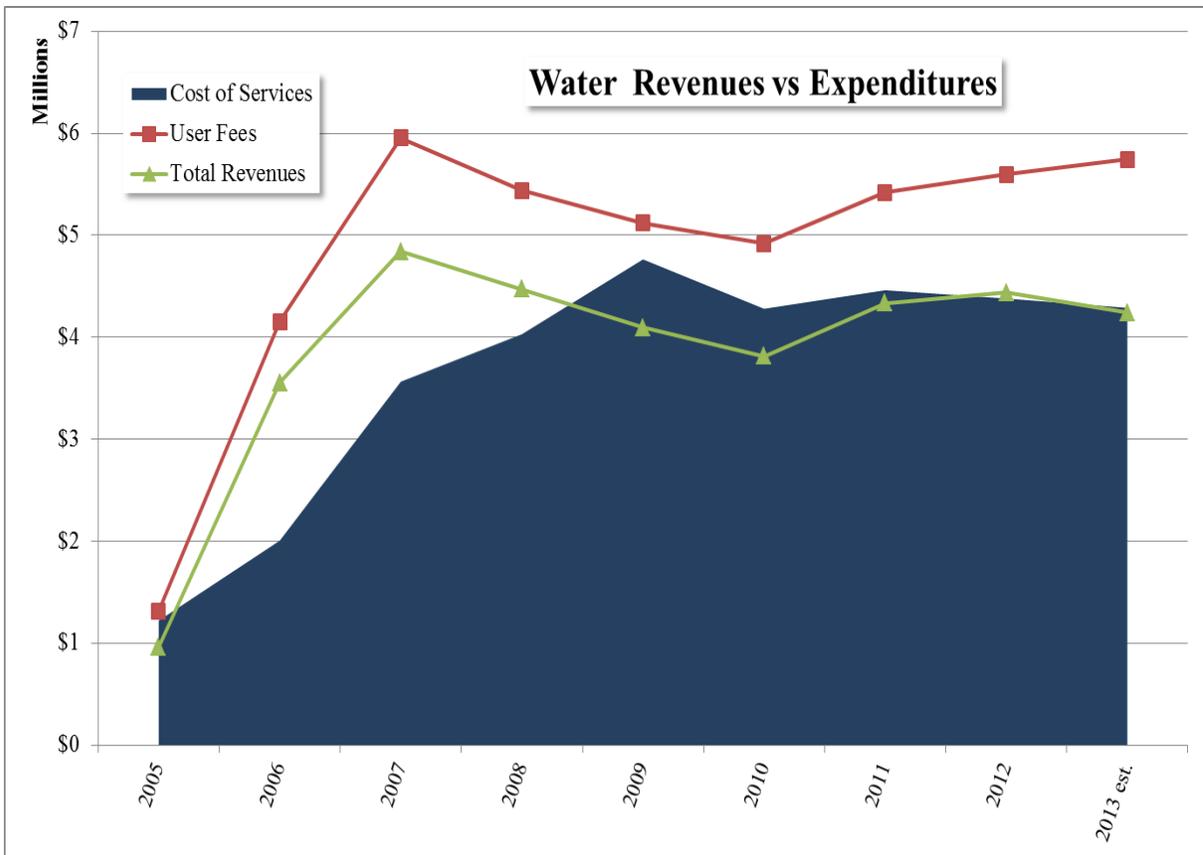
Concerns continue to mount as more issues become apparent that affect the system directly as well as indirectly. Such things as rising costs, as well as meeting stringent water standards continue to place extreme pressures on the current rate structure.

The table on the left presents the City's current water rate structure in place since October 2010:

Monthly service charges are based on 1,000 gallons of usage. Volume charges are charged based on a schedule previously mentioned and prorated to actual usage. Resource Development Fees are a fixed amount on all billing.

Below is an illustration of the user fees, cost of services and total revenues by the water utility since it was placed into service as it exists today. The system is an enterprise fund and should be run as a business. As such it has its own revenue sources and should be self sufficient

Unlike the wastewater utility, this utility has two bonds which have some specific covenants that require the City of Cottonwood to generate enough revenues to not only cover its operations and maintenance cost, but also provide a minimum of a 1.35X debt service coverage.



This utility has various sources of revenue besides user fees to draw from, such as interest income. Unfortunately returns on city investment have been less than stellar as there has been a heavy deterioration in interest rates along with the decline in reserves. Fiscal year 2007 had one of the highest return rates we have seen in nearly a decade topping out a nearly 5.3%. This high interest rate along with the purchase of the Cottonwood Water Company and its bonding for system improvements caused a spike in revenues in fiscal year 2007. Rate of returns have slowly waned over the years.

Wastewater

The decision to build a sanitary sewer system for the City of Cottonwood began after some planning and a meeting on March 24, 1987 calling for an election seeking three things:

1. The construction of a sanitary sewer system to be owned by the City of Cottonwood,
2. Provisions for the issuance and sale of bonds to construct, improve, operate and maintain a sanitary sewer system, and
3. Increase the City's transaction privilege tax (sales tax) by 1% to provide funds for the construction, improvement, operation and maintenance of a City owned sanitary sewer system.



An election was held on April 28, 1987 on the aforementioned three topics with the results all being in favor of the City constructing a sanitary sewer system. On May 5, 1987 there was a canvassing of election results making it official, Cottonwood was getting into the sewer business.

In the 24 years since those historic dates, the City of Cottonwood has increased sanitary sewer, now known as wastewater, rates 5 times:

Initial 1987	\$6.75	10/01/1995	\$13.20
10/01/1991	\$10.07	10/01/2000	\$14.25
10/01/1992	\$11.40	10/01/2001	\$16.75

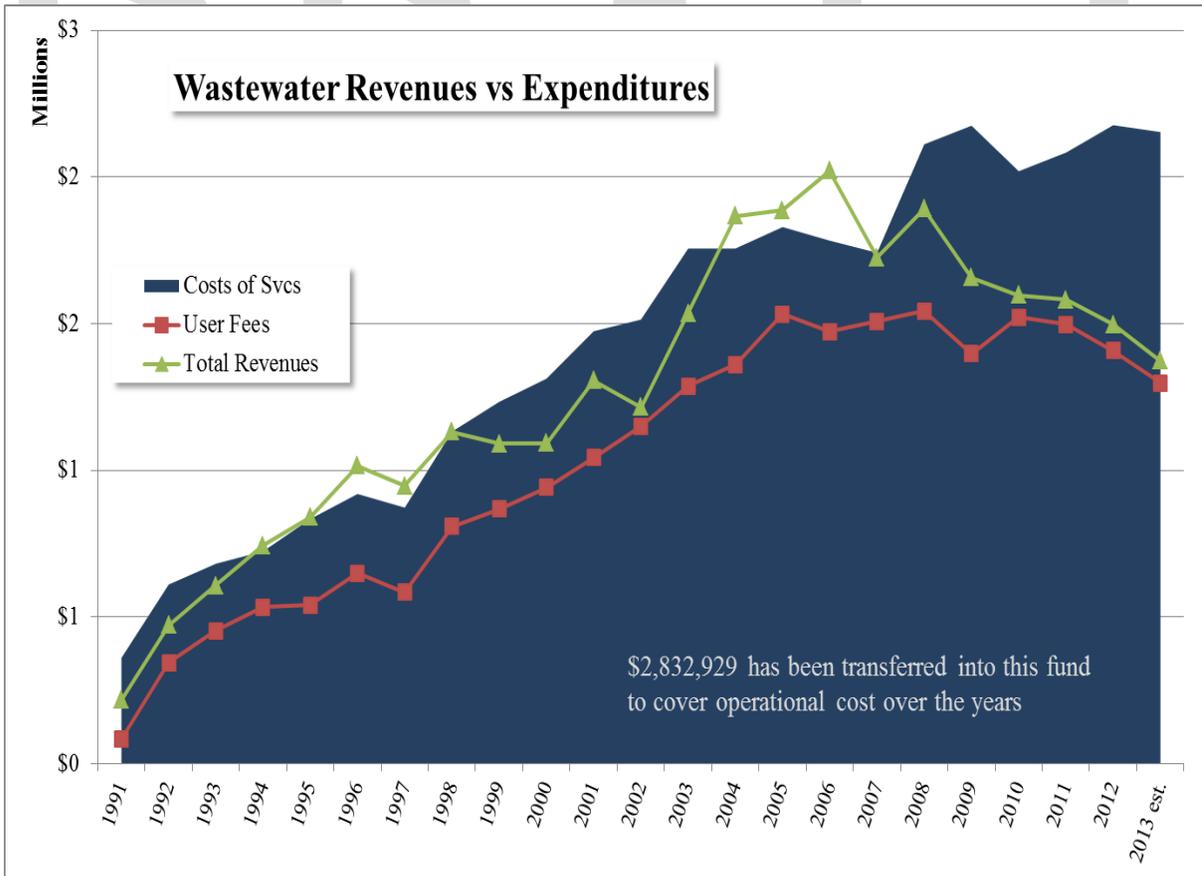
Throughout the two plus decades, the wastewater system had support from a 1% sales tax which sunset on July 1, 2007. After that date, sales tax was no longer available for operations and maintenance of the wastewater system and has since been using accumulated reserves to continue operations. Though the usage of reserves is minor it is something that needs to be rectified sooner rather than later.

Current Wastewater Rates

Residential	Monthly Service Charge	\$16.75
Multi Residential	Monthly Service Charge (per unit)	\$16.75
Commercial	Monthly Service Charge	\$16.75
Commercial Usage Charge	Per 1,000 Gallons	\$2.60

All charges for residential and multi-residential accounts are a flat monthly wastewater rate and don't carry any additional usage charge. Commercial accounts pay the \$16.75 month rates plus and additional \$2.60 per 1,000 gallons of water usage.

Below is an illustration of the user fees, cost of services and total revenues by the wastewater utility since it was placed into service. The system is an enterprise fund and should be run as a business. It has its own revenue sources and should be self-sufficient; however, since the loss of the sales tax to support the fund, it has been running at a deficit and has used accumulated reserves to continue its operations to date.



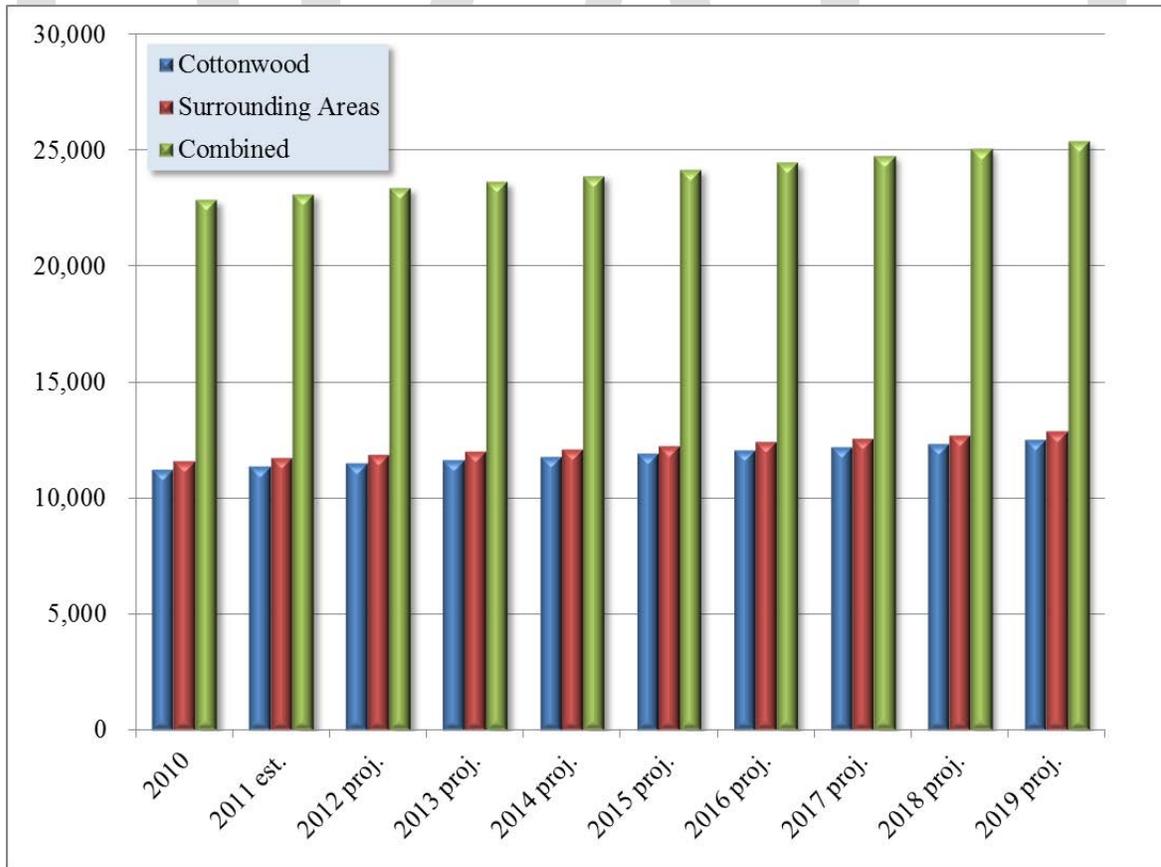
Currently, this system does not have any debt service. The utility, however is showing its age and is its need for some major repairs which are contemplated in this study.

ASSUMPTIONS

Population Data

Despite the growth rates of the past, this study takes a very conservative approach to the community’s growth with an average of slightly more than a 1% growth per year using the 2010 census year as a base year. Please note that this illustration depicts both the populations within the corporate limits of the City of Cottonwood as well as the population outside the city corporate limits. The water utility services areas outside its boundaries such as Bridgeport, the Verde Villages, and Verde Santa Fe.

Calendar Year	Population		
	Cottonwood	Surrounding Areas	Combined
2010	11,265	11,605	22,870
2011 est.	11,392	11,736	23,128
2012 proj.	11,521	11,869	23,390
2013 proj.	11,651	12,003	23,654
2014 proj.	11,783	12,139	23,922
2015 proj.	11,916	12,276	24,192
2016 proj.	12,059	12,423	24,482
2017 proj.	12,204	12,572	24,776
2018 proj.	12,350	12,723	25,073
2019 proj.	12,523	12,901	25,424



Projected Water Usage

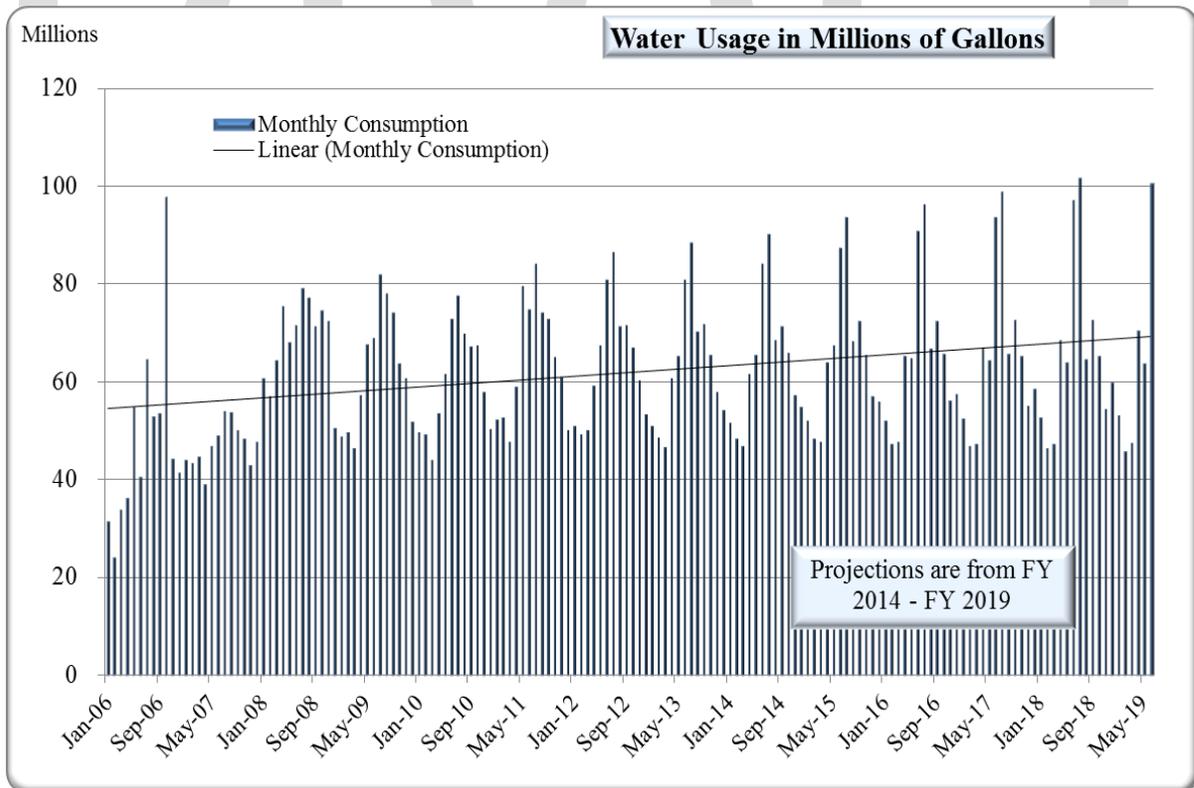
The City of Cottonwood Municipal Water Utility now tracks monthly water usage by the various cycles and by month. This is helpful in understanding the community's usage patterns, in order to improve system and utility's service capabilities. The first couple of

Fiscal Year	Annual Consumption	inc. / (dec.)
2007	621,788,315	
2008	693,762,525	11.58%
2009	764,102,212	10.14%
2010	741,502,903	-2.96%
2011	756,472,785	2.02%
2012	764,884,941	1.11%
2013 est.	763,489,440	-0.18%
2014 proj.	766,384,544	0.38%
2015 proj.	774,937,097	1.12%
2016 proj.	781,205,949	0.81%
2017 proj.	786,106,678	0.63%
2018 proj.	792,543,193	0.82%
2019 proj.	799,873,811	0.92%

years the water utility struggled to get a handle on all the meters that need to be replaced due to faulty low readings. Since that time most if not all the faulty meters have been replaced and are periodically checked for accuracy.

With more accurate meters it has become apparent that usage levels have been on the rise slightly. The trend is very slight and for the purpose of this study we are projecting minimal growth through fiscal year 2019.

One big factor to water usage is the weather. This is not taken into account for this report.



PROJECTIONS FOR FY 2013 – 2019

Water

The projections depicted in the chart below takes into consideration the projected rates being proposed. Note that it is critical that the water utility increase its rates to meet the minimum bond covenant requirements. Afterwards it may take two to three years before the City of Cottonwood is able to get their bonds upgraded; giving us the ability to approach the bond market for capital improvement funding.

	ESTIMATED	PROJECTED					
	2013	2014	2015	2016	2017	2018	2019
Sources of Revenue							
Operating Revenues							
User Fees	\$5,150,500	\$6,546,282	\$6,709,940	\$7,565,459	\$7,754,600	\$7,948,470	\$8,147,180
Reimbursements From Clarkdale	312,120	312,120	319,920	327,920	336,120	344,520	353,130
Meter Installation Charge	6,600	6,770	6,940	7,110	7,290	7,470	7,660
Service Turn Ons	58,300	59,760	61,250	62,780	64,350	65,960	67,610
Collections / Late Fees	76,075	77,980	79,930	81,930	83,980	86,080	88,230
Other Income	142,000	10,000	10,250	10,510	10,770	11,040	11,320
Operating Revenues	\$5,745,595	\$7,012,912	\$7,188,230	\$8,055,709	\$8,257,110	\$8,463,540	\$8,675,130
Non-operating Revenues							
Interest Income	8,817	9,047	9,278	9,520	9,763	10,017	10,272
Sale of Property	3,000	5,000	5,000	5,000	5,000	5,000	5,001
Building Rental	7,615	7,810	8,010	8,210	8,420	8,630	8,850
Non-operating Revenues	\$19,432	\$21,857	\$22,288	\$22,730	\$23,183	\$23,647	\$24,123
Revenues Available	\$5,765,027	\$7,034,769	\$7,210,518	\$8,078,439	\$8,280,293	\$8,487,187	\$8,699,253
Expenses							
Personnel	\$1,090,470	\$1,207,238	\$1,270,600	\$1,333,820	\$1,400,410	\$1,470,090	\$1,543,270
Operating Supplies	379,575	397,330	417,470	438,560	460,700	483,910	508,260
Contractual Services	133,535	138,720	147,780	154,670	161,910	169,510	177,490
Other Services and Charges	1,700,680	1,758,135	1,843,540	1,933,400	2,028,240	2,127,290	2,231,310
Equipment Purchases	10,000	169,570	78,500	98,500	43,000	65,000	0
Total Operating Expenses	3,314,260	3,670,993	3,757,890	3,958,950	4,094,260	4,315,800	4,460,330
Income or (Loss)	2,450,767	3,363,776	3,452,628	4,119,489	4,186,033	4,171,387	4,238,923
Debt Service							
Debt Service P&I	2,500,550	2,484,315	2,521,180	2,987,910	3,054,115	3,050,400	3,050,400
DS Coverage - 35%	875,193	869,510	882,414	1,045,768	1,068,940	1,067,640	1,067,640
Total Debt Service Needed	\$3,375,743	\$3,353,825	\$3,403,594	\$4,033,678	\$4,123,055	\$4,118,040	\$4,118,040
	98.0%	135.4%	136.9%	137.9%	137.1%	136.7%	139.0%
Other Financing Sources							
Bonds	\$0	\$0	\$5,000,000	\$0	\$0	\$0	\$0
Transfers In-CIP Fund	0	0	0	0	0	0	0
Total Other Financing Sources	\$0	\$0	\$5,000,000	\$0	\$0	\$0	\$0
Capital Improvements							
Capital Improvement	\$2,060,660	\$3,084,000	\$795,200	\$1,226,460	\$797,783	\$899,172	\$800,631
Total Capital Improvements	(\$2,060,660)	(\$3,084,000)	\$4,204,800	(\$1,226,460)	(\$797,783)	(\$899,172)	(\$800,631)

Water capital improvements are focused on maintaining and improving our current infrastructure as well as extending lines throughout our SR 260 corridor. The SR 260 corridor project has been in the works for several years and would open up some great opportunities for the City of Cottonwood by having more commercial properties available for businesses.

The Water Utility also continues to improve fire suppression throughout the entire system by strategically locating fire hydrants as well as improving water quality through arsenic mitigation and improved pumping capabilities.

CAPITAL PROJECTS	ESTIMATED	PROJECTED					
	2013	2014	2015	2016	2017	2018	2019
Legal Advertising	-	-	-	-	-	-	-
Investment Expense	-	24,000	25,200	26,460	27,783	29,172	30,631
Arsenic Mitigation	500,000	500,000	250,000	250,000	250,000	250,000	250,000
Aid in Lieu of Construction	-	-	-	-	-	-	-
Well Booster Station	500,660	250,000	-	100,000	-	100,000	-
Line Extensions	-	-	-	-	-	-	-
Water System Upgrades	170,000	170,000	170,000	500,000	170,000	170,000	170,000
Well Improvements	100,000	150,000	100,000	100,000	100,000	100,000	100,000
Fire Hydrant Improvements	500,000	500,000	250,000	250,000	250,000	250,000	250,000
SR 260 System Upgrades	-	1,250,000	-	-	-	-	-
W. Mingus Constructions	130,000	-	-	-	-	-	-
12th Street 89A to Fir Waterline Improvements	160,000	240,000	-	-	-	-	-
Annual Capital Improvements Needs	2,060,660	3,084,000	795,200	1,226,460	797,783	899,172	800,631

The debt service detailed below takes into account the possibility of a \$5,000,000 bond issue late in FY 2015 to continue improvements to the system in and out of the corporate city limits. With the additional debt service will be the need to maintain additional funds to cover any debt service bond covenants as is the current situation.

DEBT SERVICE	ESTIMATED	PROJECTED					
	2013	2014	2015	2016	2017	2018	2019
Debt Service							
2004 MPC Bond thru 2029	954,480	953,995	963,210	963,215	967,140	964,860	964,860
2006 MPC Bond thru 2035	1,546,070	1,530,320	1,557,970	1,544,695	1,606,975	1,605,540	1,605,540
2015 Issue thru 2030	-	-	-	480,000	480,000	480,000	480,000
Total Debt Service	2,500,550	2,484,315	2,521,180	2,987,910	3,054,115	3,050,400	3,050,400
Coverage							
2004 MPC Bond thru 2029	334,068	333,898	337,124	337,125	338,499	337,701	337,701
2006 MPC Bond thru 2035	541,125	535,612	545,290	540,643	562,441	561,939	561,939
2015 Issue thru 2030	0	0	0	168,000	168,000	168,000	168,000
Total Coverage Requirement	875,193	869,510	882,414	1,045,768	1,068,940	1,067,640	1,067,640
Total DS & Coverage Requirement	3,375,743	3,353,825	3,403,594	4,033,678	4,123,055	4,118,040	4,118,040

Wastewater

The projections depicted in the chart below takes into consideration the projected rates being proposed. It is not as critical that the wastewater utility increase dramatically as it is with the water utility. This is due to no having any debt load at this time, thus no minimum bond covenant requirements. The rates being proposed have been smoothed over the five year period beginning FY 2014. This was done to prevent a large spike in the rates this coming year.

Also included in the projections are the costs for the Riverfront Water Reclamation Facility projected to be operational mid to late FY 2014. A full year's costs are calculated into FY 2015. This plant once fully operational may provide some efficiency that may curb our future costs. That will be reviewed in the future.

Operating Revenues	ESTIMATED	PROJECTED					
	FY 2013	FY 2014 ₁	FY 2015 ₂	FY 2016	FY 2017	FY 2018	FY 2019
User Fees	\$1,257,638	\$1,394,098	\$1,571,149	\$1,770,684	\$1,995,561	\$2,248,998	\$2,534,620
Other Income	39,640	40,840	42,070	43,340	44,640	45,990	47,370
Operating Revenues	\$1,297,278	\$1,434,938	\$1,613,219	\$1,814,024	\$2,040,201	\$2,294,988	\$2,581,990
Non-operating Revenues							
Interest Income	15,260	15,640	16,030	16,430	16,840	17,260	17,690
Capacity Fees	60,000	61,800	63,650	65,560	67,530	69,560	71,650
Bella Montana Impact Fees/Taxes	0	0	0	0	777,600	777,600	777,601
Sale of Property	0	0	0	0	0	0	0
Building Rental	0	0	0	0	0	0	0
Non-operating Revenues	75,260	77,440	79,680	81,990	861,970	864,420	866,941
Revenues Available	\$1,372,538	\$1,512,378	\$1,692,899	\$1,896,014	\$2,902,171	\$3,159,408	\$3,448,931
Expenses							
Personnel	\$641,650	\$707,875	\$768,160	\$808,550	\$851,120	\$895,980	\$943,270
Operating Supplies	222,145	233,400	256,060	268,890	282,330	296,450	311,280
Contractual Services	114,925	127,865	140,020	147,030	154,390	162,130	170,240
Other Services and Charges	672,310	698,045	756,620	794,470	834,220	875,940	919,760
Equipment Purchases	34,500	9,000	84,000	15,000	37,500	54,000	0
Total Operating Expenses	1,685,530	1,776,185	2,004,860	2,033,940	2,159,560	2,284,500	2,344,550
Income or (Loss)	(312,992)	(263,807)	(311,961)	(137,926)	742,611	874,908	1,104,381
Debt Service							
Debt Service	ESTIMATED	PROJECTED					
	FY 2013	FY 2014 ₁	FY 2015 ₂	FY 2016	FY 2017	FY 2018	FY 2019
Debt Service P&I	0	0	240,000	240,000	624,000	624,000	624,000
DS Coverage - 35%	0	0	84,000	84,000	218,400	218,400	218,400
Total Debt Service	0	0	324,000	324,000	842,400	842,400	842,400
Other Financing Sources							
Other Financing Sources	ESTIMATED	PROJECTED					
	FY 2013	FY 2014 ₁	FY 2015 ₂	FY 2016	FY 2017	FY 2018	FY 2019
Bonds	0	2,500,000	0	4,000,000	0	0	0
Transfers In-CIP Fund	0	4,500,000	4,000,000	0	0	0	0
Total Other Financing Sources	0	7,000,000	4,000,000	4,000,000	0	0	0
Capital Improvements							
Capital Improvement	467,900	5,553,450	6,207,960	695,090	327,330	714,680	350,140
Total Capital Improvements	(467,900)	1,446,550	(2,207,960)	3,304,910	(327,330)	(714,680)	(350,140)

Wastewater capital improvements are also focused on maintaining and improving our current infrastructure as well as extending lines throughout our SR 260 corridor. There is also a need to install reclaim water lines to provide reclaim to parks, schools, and possibly the public in the future.

CAPITAL PROJECTS	ESTIMATED	PROJECTED					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
LEGAL ADVERTISING	\$500	\$520	\$540	\$560	\$580	\$600	\$620
INVESTMENT EXPENSE	400	410	420	430	440	450	460
260-DESIGN	40,000	0	0	0	0	0	0
260-CONSTRUCTION	0	0	1,900,000	0	0	0	0
LINE EXTENSIONS	130,000	136,500	0	150,000	0	165,000	0
CONSTRUCTION WWTP	0	4,500,000	4,000,000	0	0	0	0
LIFT STATION	150,000	0	165,000	0	180,000	0	198,000
RECL H2O PUMP SYSTEM UPGRADE	0	40,000	42,000	44,100	46,310	48,630	51,060
CONSTRUCTION - GENERAL	90,000	500,000	0	500,000	0	500,000	0
WWTP UPGRADES	0	0	100,000	0	100,000	0	100,000
12th Street: Fir-89A Reclamation Lines	0	376,020	0	0	0	0	0
PARKING LOT RECONSTRUCTION	57,000	0	0	0	0	0	0
Annual Capital Improvement Needs	\$467,900	\$5,553,450	\$6,207,960	\$695,090	\$327,330	\$714,680	\$350,140

The debt service detailed below takes into account the possibility of a \$2,500,000 bond issue late in FY 2014 and a \$4,000,000 issue in FY 2016 to continue improvements to the system in and out of the corporate city limits. As with the water utility, with the additional debt service will be the need to maintain additional funds to cover any debt service bond covenants as is the current situation.

Debt Service	ESTIMATED	PROJECTED					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
2014 Issue thru 2030			\$240,000	\$240,000	\$240,000	\$240,000	\$240,000
2016 Issue thru 2032					\$384,000	\$384,000	\$384,000
Total Debt Service	\$0	\$0	\$240,000	\$240,000	\$624,000	\$624,000	\$624,000
Coverage							
2014 Issue thru 2030			\$84,000	\$84,000	\$84,000	\$84,000	\$84,000
2016 Issue thru 2032			\$0	\$0	\$134,400	\$134,400	\$134,400
Total Coverage Requirement	\$0	\$0	\$84,000	\$84,000	\$218,400	\$218,400	\$218,400
Total DS & Coverage Requirement	\$0	\$0	\$324,000	\$324,000	\$842,400	\$842,400	\$842,400

WATER AND WASTEWATER RATES

Water

You may notice that the rates proposed provide for a different rate for those inside and outside the city corporate boundaries. The rate committee struggled with this decision and ultimately come to the conclusion that it was the best option for the City of Cottonwood based on several factors:

-  The distances are far greater when servicing lines as well as pumps and other equipment outside the corporate limits.
-  The terrain in a much of the villages is very different than that inside the city limits which makes repairs more costly.
-  The Cottonwood Municipal Water Utility is a public utility owned by the citizens of Cottonwood. When the utility borrows money for infrastructure, whether inside or outside the city limits, the citizens of Cottonwood bear the risk of the new debt and infrastructure.
-  Inside the city about 70% of the distribution system is fed by gravity versus booster pumps which means the electrical cost to provide water is significantly less per account because the only cost is for the well pumpage into the gravity system. The village system and Verde Santa Fe (VSF) are 100% pressure distribution systems.
-  Approximately 60% of the leaks we repair are in the county (mainly the villages since VSF is a relatively new system) and staff has to deal with 3, 7200 volt direct bury APS electrical lines that are joint trenched with the water lines whenever we dig there.
-  The meters in the villages are primarily in small overgrown backyard easements which makes meter reading significantly more labor intensive.
-  There are more small wells (14) outside the limits as opposed to larger wells inside the limits (7), all require daily monitoring and regular maintenance regardless of size.
-  There are 13 arsenic systems outside the limits as opposed to 7 arsenic systems inside the corporate boundaries. Each of these systems require regular maintenance regardless of the size of the well.
-  The leak repair figures outside the city used to be higher until we invested in new pumps and variable speed controllers in the villages which has reduced the pressure variations and associated water hammer.
-  The City purchased the Quail Canyon Water system exclusively to service Verde Village #6 & #7 at a cost of \$889,107
-  The Quail Canyon system will cost the City over \$200k to run the lines, including pumps and other equipment to VV #6 & #7

There was a minor change in the tiers to accommodate low usage and low income customers and shift cost to higher users:

<u>Volume Charge (per 1,000 gal)</u>	<u>Volume Charge (per 1,000 gal)</u>
0 – 1,000	0 – 1,000
1,001 – 4,000	1,001 – 5,000
4,001 - 10, 000	5,001 - 10, 000
10,001 – 20,000	10,001 – 15,000
20,000 +	15,000 +

The following tables reflect current, proposed and projected rates through FY 2019.

INSIDE CORPORATE CITY LIMIT RATE PROJECTIONS

	CURRENT	PROPOSED	PROJECTED				
	2013	2014	2015	2016	2017	2018	2019
<u>Base Charge</u>							
5/8"	\$18.36	\$23.36	\$23.83	\$24.31	\$24.80	\$25.30	\$25.81
1"	\$30.24	\$37.80	\$38.56	\$39.33	\$40.12	\$40.92	\$41.74
1 1/2"	\$61.56	\$76.95	\$78.49	\$80.06	\$81.66	\$83.29	\$84.96
2"	\$97.20	\$121.50	\$123.93	\$126.41	\$128.94	\$131.52	\$134.15
3"	\$194.40	\$243.00	\$247.86	\$252.82	\$257.88	\$263.04	\$268.30
4"	\$302.40	\$378.00	\$385.56	\$393.27	\$401.14	\$409.16	\$417.34
6"	\$615.60	\$769.50	\$784.89	\$800.59	\$816.60	\$832.93	\$849.59
<u>Volume Charge (per 1,000 gal)</u>							
0 – 1,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1,001 – 5,000	\$2.90	\$2.90	\$2.96	\$3.02	\$3.08	\$3.14	\$3.20
5,001 - 10, 000	\$3.19	\$3.99	\$4.07	\$4.15	\$4.23	\$4.31	\$4.40
10,001 – 15,000	\$4.55	\$5.69	\$5.80	\$5.92	\$6.04	\$6.16	\$6.28
15,000 +	\$6.48	\$8.10	\$8.26	\$8.43	\$8.60	\$8.77	\$8.95
<u>Water Resource Development Fee</u>							
Water Resource Development	\$4.32	\$4.32	\$4.32	\$4.32	\$4.32	\$4.32	\$4.32
Water Source Assurance	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35
Gila River Adjudication	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44
Water Conservation	\$0.27	\$0.27	\$0.27	\$0.27	\$0.27	\$0.27	\$0.27
Total Development Fee	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38

Connection Fees	\$25.00	\$35.00	\$35.00	\$35.00	\$35.00	\$35.00	\$35.00
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	CURRENT	PROPOSED	PROJECTED				
	2013	2014	2015	2016	2017	2018	2019
5,000 Gallons							
Base Fee	\$18.36	\$23.36	\$23.83	\$24.31	\$24.80	\$25.30	\$25.81
1,000 - 5,000 rate	8.70	\$11.60	\$11.84	\$12.08	\$12.32	\$12.56	\$12.80
5,001 - 10,000 rate	3.19	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10,000 - 15,000 rate	0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
15,001- Rate	0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
WRDF	5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38
	\$35.63	\$40.34	\$41.05	\$41.77	\$42.50	\$43.24	\$43.99

OUTSIDE CORPORATE CITY LIMIT RATE PROJECTIONS

	CURRENT	PROPOSED	PROJECTED				
	2013	2014	2015	2016	2017	2018	2019
<u>Base Charge</u>							
5/8"	\$18.36	\$30.37	\$30.98	\$31.60	\$32.24	\$32.89	\$33.55
1"	\$30.24	\$49.14	\$50.13	\$51.13	\$52.16	\$53.20	\$54.26
1 1/2"	\$61.56	\$100.04	\$102.04	\$104.08	\$106.16	\$108.28	\$110.45
2"	\$97.20	\$157.95	\$161.11	\$164.33	\$167.62	\$170.98	\$174.40
3"	\$194.40	\$315.90	\$322.22	\$328.67	\$335.24	\$341.95	\$348.79
4"	\$302.40	\$491.40	\$501.23	\$511.25	\$521.48	\$531.91	\$542.54
6"	\$615.60	\$1,000.35	\$1,020.36	\$1,040.77	\$1,061.58	\$1,082.81	\$1,104.47
<u>Volume Charge (per 1,000 gal)</u>							
0 – 1,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1,001 – 5,000	\$2.90	\$3.77	\$3.85	\$3.93	\$4.00	\$4.08	\$4.16
5,001 - 10, 000	\$3.19	\$5.19	\$5.29	\$5.40	\$5.50	\$5.60	\$5.72
10,001 – 15,000	\$4.55	\$7.40	\$7.54	\$7.70	\$7.85	\$8.01	\$8.16
15,000 +	\$6.48	\$10.53	\$10.74	\$10.96	\$11.18	\$11.40	\$11.64
<u>Water Resource Development Fee</u>							
Water Resource Development	\$4.32	\$4.32	\$4.32	\$4.32	\$4.32	\$4.32	\$4.32
Water Source Assurance	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35
Gila River Adjudication	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44
Water Conservation	\$0.27	\$0.27	\$0.27	\$0.27	\$0.27	\$0.27	\$0.27
Total Development Fee	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38
Connection Fees	\$25.00	\$45.00	\$45.00	\$45.00	\$45.00	\$45.00	\$45.00
5,000 Gallons							
Base Fee	\$18.36	\$30.37	\$30.98	\$31.60	\$32.24	\$32.89	\$33.55
1,000 - 5,000 rate	8.70	\$15.08	\$15.40	\$15.72	\$16.00	\$16.32	\$16.64
5,001 - 10,000 rate	3.19	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10,000 - 15,000 rate	0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
15,001- Rate	0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
WRDF	5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38
	\$35.63	\$50.83	\$51.76	\$52.70	\$53.62	\$54.59	\$55.57

The rate committee also considered the concept of keeping the rates the same for both inside and outside the corporate city limits. Below are the results of those calculations:

Non- Differential Rates			
<u>Base Charge</u>	Current	Non-differential	Differential
5/8"	\$18.36	\$26.86	\$23.36
1"	\$30.24	\$45.00	\$37.80
1 1/2"	\$61.56	\$90.00	\$76.95
2"	\$97.20	\$140.00	\$121.50
3"	\$194.40	\$280.00	\$243.00
4"	\$302.40	\$435.00	\$378.00
6"	\$615.60	\$885.00	\$769.50

Volume Charge (per 1,000 gal)

0 – 1,000	\$0.00	\$0.00	\$0.00
1,001 – 5,000	\$2.90	\$3.46	\$2.90
5,001 - 10, 000	\$3.19	\$4.77	\$3.99
10,001 – 15,000	\$4.55	\$6.81	\$5.69
15,000 +	\$6.48	\$9.70	\$8.10

Water Resource Development Fee

Water Resource Development	\$4.32	\$4.32	\$4.32
Water Source Assurance	\$0.35	\$0.35	\$0.35
Gila River Adjudication	\$0.44	\$0.44	\$0.44
Water Conservation	\$0.27	\$0.27	\$0.27

Total Development Fee	\$5.38	\$5.38	\$5.38
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Connection Fees	\$25.00	\$40.00	\$35.00
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5,000 Gallons

	R A T E S		
	Current	Non-differential	Differential
Base Fee	\$18.36	\$26.86	\$23.36
1,000 - 5,000 rate	11.60	13.84	11.60
5,001 - 10,000 rate	0.00	0.00	0.00
10,000 - 15,000 rate	0.00	0.00	0.00
15,001- Rate	0.00	0.00	0.00
WRDF	5.38	5.38	5.38
Monthly 5,000 Gallon Bill	\$35.34	\$46.08	\$40.34

After reviewing the additional burden and the factors behind differential rates, the committee consensus was to implement a differential rate program.

Wastewater

The wastewater has a simple formula for calculating its proposed rates. Below is the calculation for the FY 2014 proposed rate. Council members with some tenure have probably seen this in previous wastewater rate increase requests.

CHARGE CALCULATIONS			
			Recommendation
			\$26.25
			\$26.25
<u>Administrative Charge</u>			
Formula: Administrative operating budget / # of users = cost per user / 12 months = monthly charge			
\$423,125	/	5,343	=
		\$79.19	/
			12
		=	\$6.60 (cost per month)
			Recommendation
			\$6.60
			\$6.60
<u>Depreciation of Equipment</u>			
Formula: Net annual depreciation / annualized usage of gallons (in thousands) = cost per thousand			
\$543,985	/	458,943	=
		\$1.19 /1000	(cost per thousand)
			Recommendation
			\$5.95
			\$5.95
<u>Maintenance & Operations (M & O)</u>			
Formula: Net M & O operating budget / annualized usage of gallons sold (in thousands) = cost per thousand			
\$1,225,780	/	447,000	=
		2.74 /1000	(cost per thousand)
<u>Net Maintenance & Operations Budget Calculations</u>			
FY 2014			\$1,344,060
Less: Miscellaneous Revenue Items (non-operational revenues)			
	Interest Income		(15,640)
	Tap Fees		(210)
	Effluent Revenue		(13,600)
	Interest Charges & Collection Fees		(27,030)
	Impact Fees		(61,800)
	Building Rental		0
	Net M & O Fee Recovery		<u>\$1,225,780</u>
			Recommendation
			\$13.70
			\$13.70

The result of the calculations is shown below along with rounding to the nearest quarter. Annual increases varied depending on the needs of the utility, consequently some years have spikes rather than a gradual increase in rates as recommended by the City Council in past meetings.

Calculated Rates	ESTIMATED	PROJECTED					
	FY 2013	FY 2014 ₁	FY 2015 ₂	FY 2016	FY 2017	FY 2018	FY 2019
Administrative Rate	\$3.75	\$6.60	\$6.86	\$7.13	\$7.41	\$7.71	\$8.09
Depreciation Rate (per 1,000)	0.35	5.95	5.90	5.85	5.75	5.70	5.75
O&M Rate (per 1,000)	12.65	13.70	14.55	15.15	15.70	16.30	17.20
DS Rate	0.00	0.00	4.95	4.90	12.62	12.50	12.37
Total Monthly Residential Rate	<u>\$16.75</u>	<u>\$26.25</u>	<u>\$32.26</u>	<u>\$33.03</u>	<u>\$41.48</u>	<u>\$42.21</u>	<u>\$43.41</u>
Calculated Monthly Rate	\$16.75	\$26.25	\$32.26	\$33.03	\$41.48	\$42.21	\$43.41
Proposed Monthly Rate	\$16.75	\$26.25	\$32.25	\$33.00	\$41.50	\$42.25	\$43.50

The result of smoothing out the rate increases from year to year is represented below. Also depicted below is a breakdown of charges. Here is an explanation of the rates:

1. The administrative and operation and maintenance charges are a direct allocation to expenses by the utility.
2. The debt service charges go into effect only when there is long term debt outstanding. Lease purchases, traditionally are paid by operational & operations and maintenance funding.
3. The depreciation rate is fluctuating variable in the rate because that rate can easily be varied and compensated for in future years.

Calculated Rates	ESTIMATED	PROJECTED					
	FY 2013	FY 2014 ¹	FY 2015 ²	FY 2016	FY 2017	FY 2018	FY 2019
BASED ON SMOOTHING RATE							
Adjusted Monthly Rate	\$16.75	\$26.25	\$29.58	\$33.34	\$37.57	\$42.34	\$47.72
Proposed Monthly Rate	\$16.75	\$26.25	\$29.50	\$33.50	\$37.50	\$42.50	\$47.75
Dollar increase		\$9.50	\$3.25	\$4.00	\$4.00	\$5.00	\$5.25

Proposed Smoothing Rates	ESTIMATED	PROJECTED					
	FY 2013	FY 2014 ¹	FY 2015 ²	FY 2016	FY 2017	FY 2018	FY 2019
Administrative Rate	\$3.75	\$6.60	\$6.85	\$7.15	\$7.15	\$7.70	\$8.10
Depreciation Rate (per 1,000)	0.35	5.95	\$3.15	\$6.30	\$2.58	\$6.00	\$7.91
O&M Rate (per 1,000)	12.65	13.70	\$14.55	\$15.15	\$15.15	\$16.30	\$19.37
DS Rate	0.00	0.00	\$4.95	\$4.90	\$12.62	\$12.50	\$12.37
Total Monthly Residential Rate	\$16.75	\$26.25	\$29.50	\$33.50	\$37.50	\$42.50	\$47.75

As a reminder, the operational portion of the overall rate is a base charge using 5,000 as a minimum. Commercial and industrial customers are additionally charge \$2.74 per 1000 gallons above that amount of water usage.

RATE COMPARISONS

The following table compares Cottonwood’s monthly proposed water and wastewater rates to thirteen other cities, towns and unincorporated areas throughout central and northern Arizona. For consistency with other rate studies, 5,000 gallons of water and 5,000 gallons of wastewater was used to make the comparison table.

Different from previous reports, more current information was used by pulling current rate sheets and contacting the various communities in the rate survey. It should be noted that this is a snapshot of the rates as of May 22, 2013 and several communities are already considering raising rates in the near future.

As with earlier studies, the numbers presented do not include sales tax, or other charges beyond based minimums fees, volume charges and any resulting resource fees similar to those collected by the City of Cottonwood. Also important to note is that some of the rates are for privately owned water and wastewater companies and districts.

Community	Notes	2010 Census Population	5,000 gallons of water		5,000 gallons wastewater		Combined Charges	
			Inside	Outside	Inside	Outside	Inside	Outside
Cottonwood		11,265	\$40.34	\$50.83	\$26.00	\$26.00	\$66.34	\$76.83
Camp Verde	1	10,873	\$40.50	40.50	35.00	35.00	75.50	75.50
Chino Valley		10,817	\$25.29	25.29	53.37	53.37	78.66	78.66
Clarkdale		4,097	\$49.08	49.08	38.00	38.00	87.08	87.08
Flagstaff		65,870	\$29.60	32.56	18.45	20.30	48.05	52.86
Payson	4	15,301	\$37.88	37.88	20.00	20.00	57.88	57.88
Prescott		39,843	\$31.98	44.43	39.72	39.72	71.70	84.15
Prescott Valley	5	38,822	\$24.10	24.10	27.77	27.77	51.87	51.87
Sedona	2	10,031	\$34.32	34.32	47.34	47.34	81.66	81.66
Show Low		10,660	\$27.39	34.05	27.58	27.58	54.97	61.63
Verde Santa Fe	3		\$40.34	50.83	40.14	40.14	80.48	90.97
Wickenburg		6,363	\$11.04	22.08	20.99	20.99	32.03	43.07
Williams		3,023	\$32.25	32.25	34.00	34.00	66.25	66.25
Winslow		9,655	\$22.99	45.06	29.51	59.02	52.50	104.08
Average			\$31.29	36.34	33.22	35.63	64.51	71.97

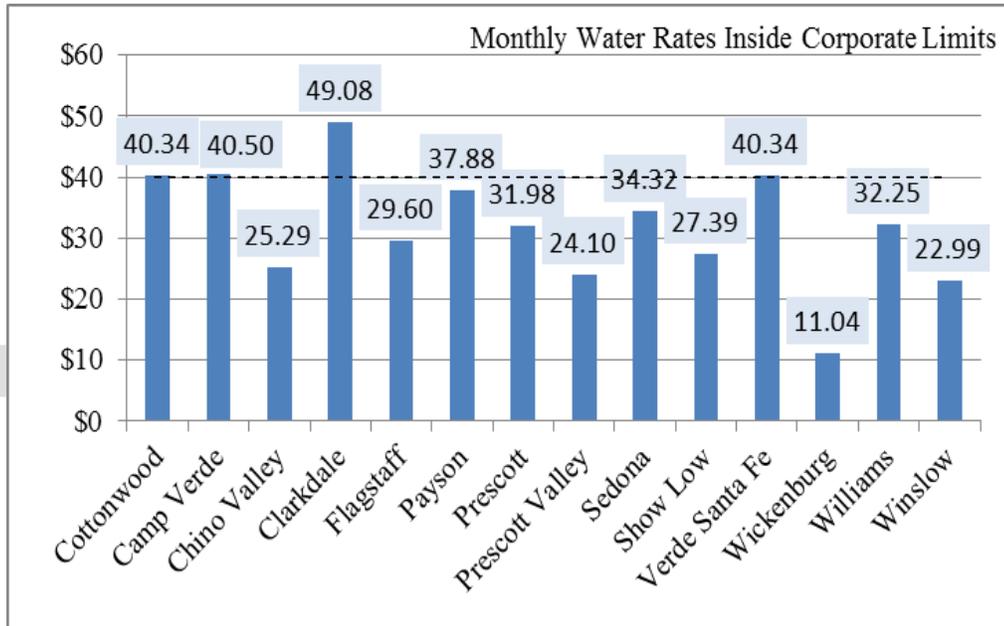
Source: Communities websites & personal contacts

- 1 - Water is privately owned - Camp Verde Water System, Inc. & Verde Lakes Water System & Wastewater
Camp Verde Sanitation District collects property taxes
- 2 - Water is operated by Arizona Water Company
- 3 - Wastewater is provided by Verde Santa Fe Wastewater Co.
- 4 - Wastewater is provided by the No. Gila County Sanitary District-collects \$0.60 per \$100 of secondary assessed value
- 5 - Prescott Valley Sewer not a fixed monthly cost, but based on usage at \$4.54 per 1,000 gallons

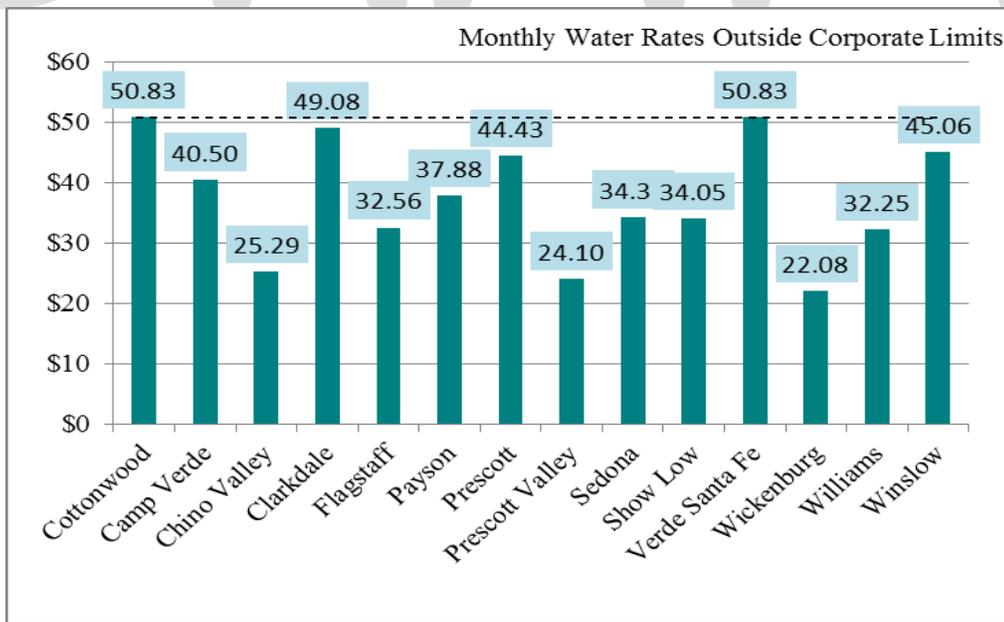
The table clearly depicts that disparity of water rates between inside a corporate community limits and outside a community corporate limits. In some cases, the rates are doubled. It should be noted that some communities use General Obligation (GO) bonds which are paid through excise taxes, while others like the City of Cottonwood use Revenue Bonds which directly impact the rate structure. Traditionally, communities using GO Bonds have lower rates but higher property or other tax rates.

Water Rates Comparison:

The proposed rates take into consideration that the cost of services vary between in and out of the corporate city limits for the reasons previously detailed. The following graphs visually depict where Cottonwood in-limit rates will compare to other northern Arizona communities.

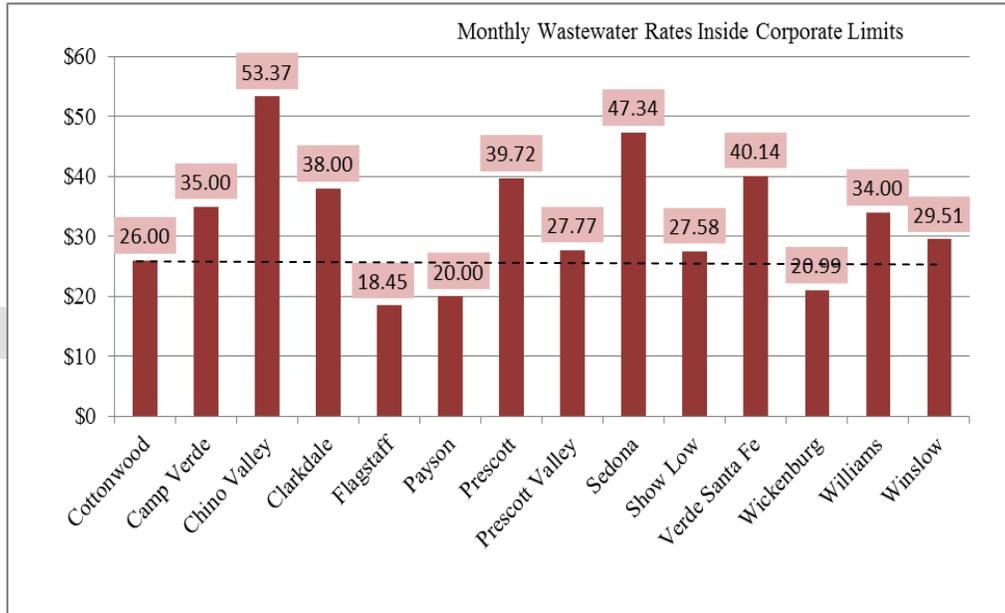


In reality, over 46% of the communities' surveyed use higher rates for those water rate payers outside their corporate limits. Some of the communities currently do not provide services outside their boundaries or their coverage is very limited.

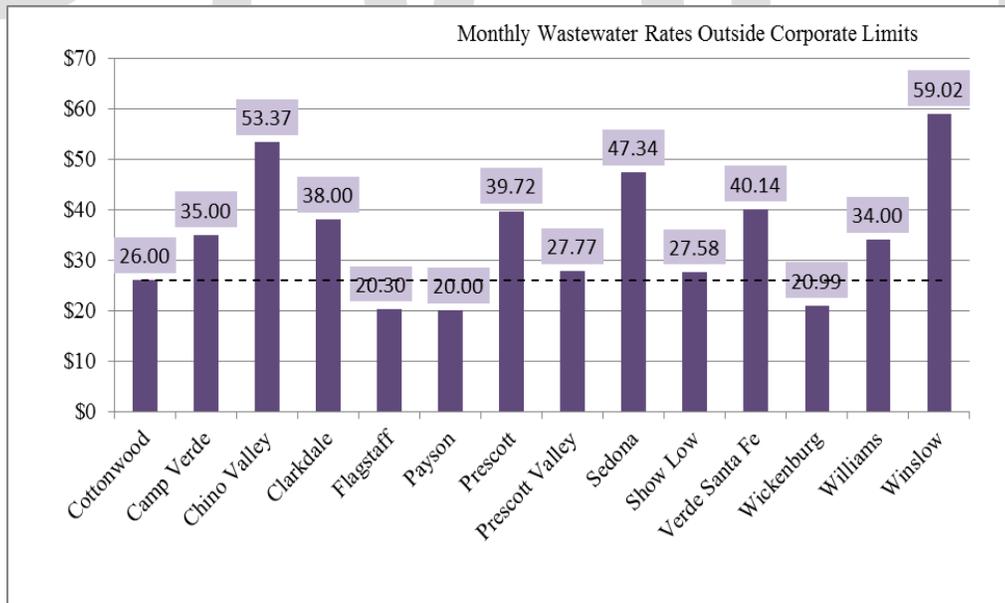


Wastewater Rates Comparison:

Comparing proposed wastewater rates, the variance among all surveyed is more dramatic. The City of Cottonwood ranks as the fourth lowest out of the field of fourteen. At \$26.00, only Flagstaff, Payson, and Wickenburg are lower at \$18.45, \$20.00 and \$20.99, respectively. Chino Valley is more than double the proposed Cottonwood in-limit rates.

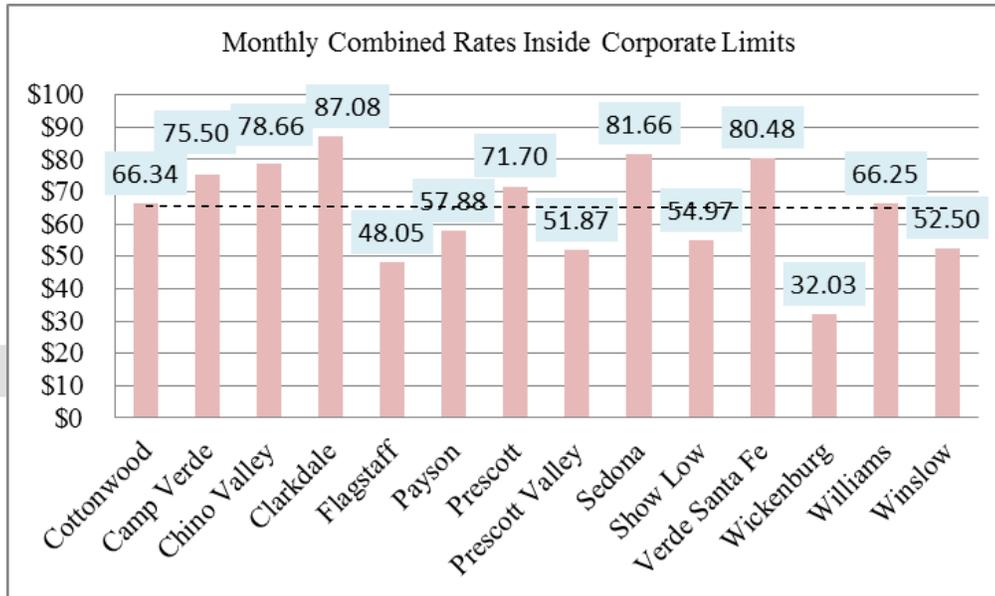


Differential rates in the sample communities are not as prevalent as they are in water rates. Some of these communities do not provide services outside their corporate boundaries.

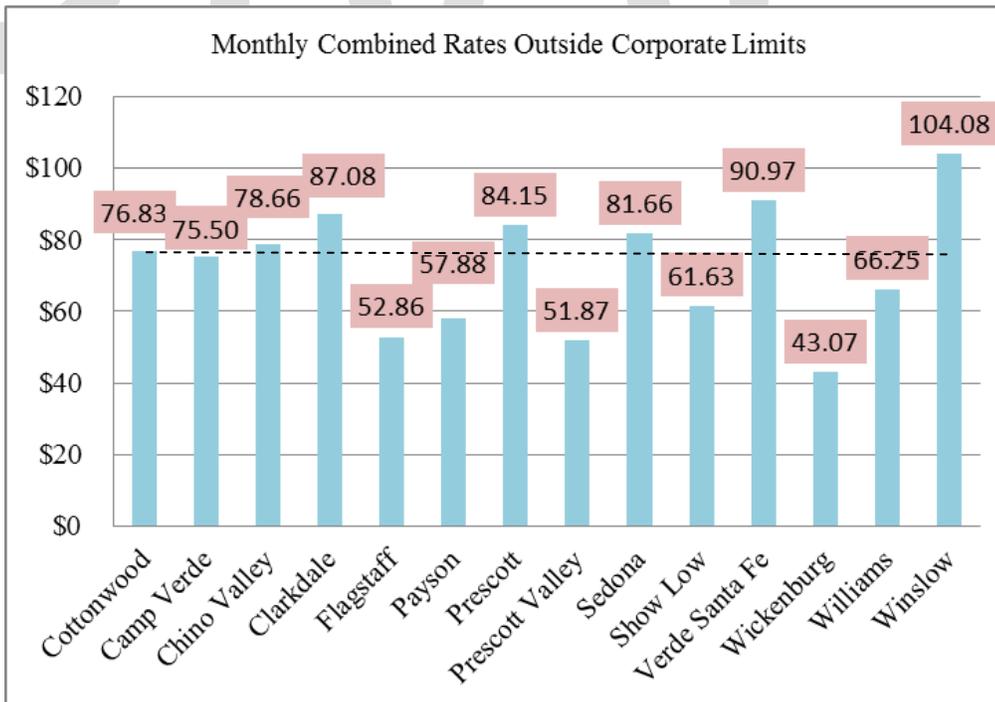


Combined rates:

The following table compares combined rates using 5,000 gallons of water and 5,000 gallons of wastewater at residential rates. Inside limit rates places the City of Cottonwood in the middle of all those surveyed.



As we review the overall combined out of limit rates it is apparent that again we are in the middle of all those surveyed.



OTHER RECOMMENDED CHANGES

Staff is proposing a modest increase in water deposits and fees to assist in cost recovery. These fee and deposit amounts have not been altered since the acquisition of the utilities back in November 2004. It is always a good to review the utility deposit and fees as part of a comprehensive rate study.

Water Meter Charge:

Water Meter Size (inches)	Old Rate	Fee
5/8"	\$275	\$400
1"	\$400	\$475
1 1/2"	\$850	\$970
2"	\$1,150	\$1,250
3"	\$1,700	\$2,000
4"	\$2,500	\$3,000
6"	\$4,850	\$6,000
8"	\$9,400	\$12,000

Account Fees:

Deposits:

	Deposit Amount ¹		
	Old Rate	Owner	Tenant
5/8"	\$100	\$100	\$125
1"	\$125	\$125	\$150
1 1/2"	\$150	\$150	\$200
2"	\$200	\$200	\$300
3"	\$300	\$300	\$500
4"	\$350	\$350	\$650
6"	\$400	\$400	\$800
8"	\$600	\$600	\$1,000

1 - If an account is turned off for non-pay, there will be an additional \$25.00 deposit charge per occurrence.

Water Service Establishment Fee's

Old Rate	City	Non-City
\$25	\$35	\$45

Emergency and Construction Turn-On/Turn Off

	Old Rate	City	Non-City
Regular Business Hours	\$25	\$35	\$45
Non-Business Hours	\$75	\$95	\$105

Non-metered Fire Sprinkler Line Monthly Standby Fee

Line Size	Old Rate	Fee
4" line	\$20	\$25
6" line	\$35	\$40
8" line	\$50	\$60

Reconnections(Per Disconnection For Non-Payment)

Old Rate	City	Non-City
\$25	\$35	\$45

Meter Re-Reading/Test

Determined by cost of test and shipping

Account Delinquencies

	Old Rate	New Rate
On 11th day past-due	\$5	\$10
Subsequent past-due (per month)	0.833% mo.	Same

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APPENDIX

City of Cottonwood NEWS RELEASE



827 North Main Street - Cottonwood, AZ 86326 – 928.634.5526

www.cottonwoodaz.gov

Moody's downgrades Cottonwood Municipal Property Corporation Water Enterprise (AZ) rating to Baa1 from A3

May 20, 2011 - Moody's Investors Service has downgraded Cottonwood Municipal Property Corporation Water Enterprise (AZ) senior lien debt obligations to Baa1 from A3 affecting \$34.6 million in outstanding debt. The bonds are secured by the lease purchase payments made by the City from net water utility system revenues. The negative outlook has been removed.

RATIONALE:

Reasons cited by Moody's Investor Services for the downgrade to a Baa1 rating is primarily based on the city's weakened financial position, which has contributed to violation of the rate covenant for two consecutive years and a decline in the City's cash margins. The Baa1 rating also reflects the essentiality of the service, stable customer base, weak debt ratio and reluctance to raise rates to generate adequate net revenues for the payment of debt service.

STRENGTHS:

-  Ample liquidity position
-  Fully funded Debt Service Fund that is restricted
-  Compliance with water regulation standards
-  Investment in the distribution system
-  System capacity remains sufficient to meet future demand

CHALLENGES:

-  Multiple year rate increases to restore coverage levels to meet the 1.35x rate covenant
-  Above average debt ratio

OUTLOOK:

The removal of the negative outlook reflects management's commitment to increase coverage levels to comply with the rate covenant through expenditure cuts and rate increases over the next couple years.

SUGGESTIONS TO IMPROVE OUR CREDIT RATING

-  Maintenance of an above average liquidity position

-  Demonstrated trend of increasing net revenues and debt service coverage above the rate covenant

WHAT COULD MAKE THE RATING GO DOWN

-  Further deterioration of the systems coverage levels and cash position

KEY STATISTICS:

-  Security - Secured by the City through net water utility system revenues
-  Legal Provisions - Slightly stronger than standard with a rate covenant and additional bonds test of 1.35x of annual debt service coverage.
-  Total Accounts (2009): 9,127
-  FY2010 DSC Including Connection Fees: 1.11 times
-  FY 2010 Days Cash on Hand: 504
-  Debt Ratio: 116.6%
-  10 Yr Payout: 32%

Additional information can be found on the City of Cottonwood website at www.cottonwoodaz.gov.

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