

A G E N D A

WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, TO BE HELD AUGUST 17, 2011, AT 5:30 P.M., AT THE COTTONWOOD COUNCIL CHAMBERS BUILDING LOCATED AT 826 NORTH MAIN STREET, COTTONWOOD, ARIZONA.

I. CALL TO ORDER

II. ROLL CALL

III. ITEMS FOR DISCUSSION, CONSIDERATION, AND POSSIBLE DIRECTION TO STAFF:

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

1. PRELIMINARY DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING WATER RATE ADJUSTMENTS.

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.



Water Utility Rates Work Session

August 17, 2011

City Council Chambers

826 North Main Street

Reasons For Adjustment to Water Utility Rates

- Planned Rate Changes
- Economic Downturn
- Arizona Department of Water Resources – ADWR
- Cost of Doing Business
- Conservation
- Standard & Poor's Rating Downgrade
- Available Options
- Council Direction

Planned Rate Increases

- Rate adjustments did not materialize
 - 1st rate increase was originally scheduled for 11/2007 – 20.53%
 - 2nd rate increase was scheduled for 11/2011 – 8.5%
 - City changed the block structure from
 - Three blocks & base fee
 - Four blocks & base fee
- First water rate increase was in Late 2010 – 8%
- Behind by approximately 21%

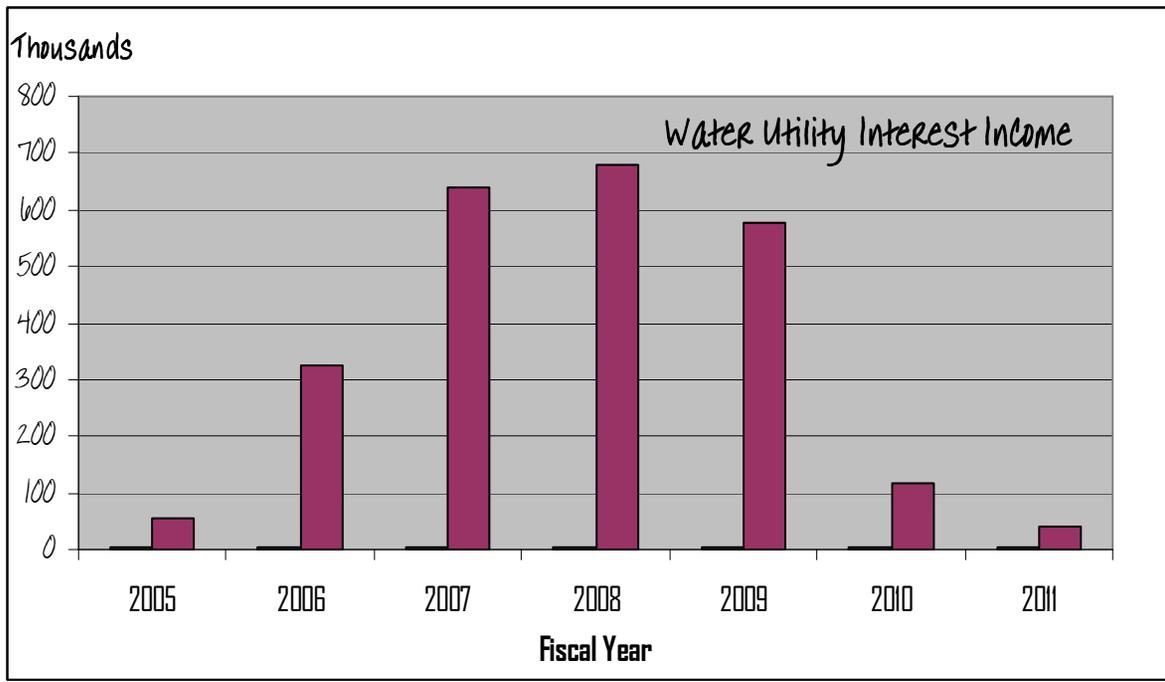
Economic Downturn

- Housing
 - Foreclosures
 - Mortgages Underwater (Mike Wise - Prudential Northern Arizona Real Estate)
 - Median home prices declined by 48.5% in Cottonwood
 - '07 - \$258,500 '11 - \$133,000 Inventory is still high
- Unemployment
 - May 2007 - 3.1%
 - June 2011 - 9.3%
- Interest Rates

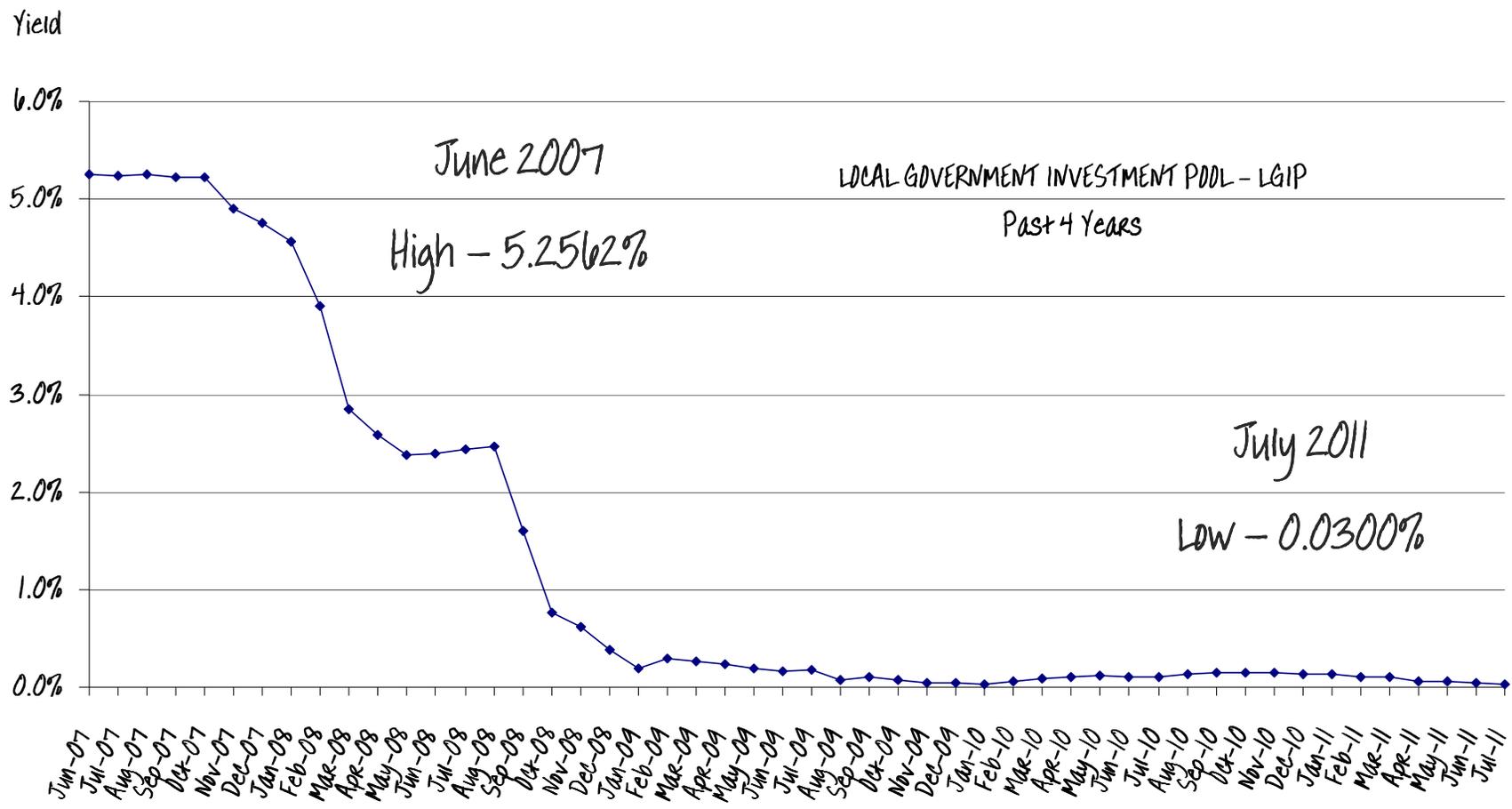
Interest Income

- Prior year collections were high
- Is part of the calculation for DS coverage

Fiscal Year	Water
2005	\$55,084
2006	\$324,990
2007	\$640,290
2008	\$681,124
2009	\$576,446
2010	\$117,395
2011	\$41,425



Interest Income – All time Low



Arizona Department of Water Resources - ADWR

- S.B. 1624
 - Requires all municipalities to contribute a fee to ADWR totaling \$7M
 - Based on percentage of population to total population (2010 census)
 - Formula: $(\$7,000,000 - \text{unobligated funds in the state water resources fund}) \times \text{ratio to state population}$
 - $(\$7,000,000 - \$742,312.46) \times (11,265 / 15,022,150)$
 - $\$6,256,687.54 \times 0.224\% = \$14,034.15$
 - Assessed to all municipalities regardless of owning a water utility
 - The fee can be passed on to the customers on the monthly bill
- For more information -
http://www.azwater.gov/AzDWR/Legal/Public_Meeting_Notices/

Cost of Doing Business

- Being good stewards of public funds
 - Acquired two small water companies
 - Decommissioned the Clemenceau system (three well sites)
 - Will increased storage capacity by 900K gallons by year end
 - Improved capacity at most of our wells, pumps and boosters
 - Increase fire flows by adding fire hydrants
 - 6 in City 14 - in the Villages
 - replaced several stand pipes with hydrants
 - Arsenic treatment compliant at all well sites
 - Bill that same rate to all customers - inside & outside city limits

[Cost of Doing Business]

- Saving where we can
 - Over \$300,000 by maintaining our arsenic systems in-house
 - Reduced dependence on outside engineering firms by hiring and bringing most all engineering in house – which is also used by other departments and helps reduce costs in those Funds

CONSERVATION

- Rate structure encourages conservation
 - Old - Base rate & 3 tier rate structure
 - New - base rate & 4 tier rate structure
- Staff track water usage variations & follows up on high usage flows
- Well upgrades include electronic pump drives that reduce pressure surges resulting in less water main & service line leaks
- Building up a conservation fund to assist with future conservation programs
- Leak detection tablets are provided to each new customer

CONSERVATION

- Utility works with schools and civic groups to raise public awareness regarding conservation
- Personal contact with customers on water conservation and leak detection issues
- Low water use landscape (xeriscape) has been incorporated into city building designs
- Drought & Water Shortage Preparedness Plan
 - <http://www.cottonwoodaz.gov/utilities/droughtplan.pdf>
- Conservation links on our website -
<http://www.azwater.gov/AzDWR/StatewidePlanning/Conservation2/>

Taken from 2006 Purchase Agreement

Standard & Poors Rating Downgrade

Section 4.2 Rate Covenant. The City shall continuously own, control, operate and maintain the System in an efficient and economical manner and on a revenue producing basis and shall at all times establish, fix, maintain and collect rates, fees and other charges for all water and services furnished by the System fully sufficient at all times:

- (a) To provide for 100% of the Operation and Maintenance Expenses;
- (b) To produce Net Revenues (excluding, however, from the calculation thereof for this purpose only the amounts received by the City pursuant to the Intergovernmental Utilities Purchase Agreement) in each Fiscal Year which will equal at least 135% of the interest and Principal Requirement (excluding, however, from the calculation thereof for this purpose only the portion of such interest and Principal Requirement allocable to each Clarkdale Maturity Amount) for the then current Bond Year on all Senior Lien Obligations then outstanding;
- (c) To produce Net Revenues sufficient to remedy any deficiency in the Debt Service Reserve Fund established under the Indenture; and
- (d) To produce Net Revenues in each Fiscal Year which will remedy all deficiencies in payments into any of the funds and accounts described below required from prior Fiscal Years for the payment of the Purchase Price as well as the payment of principal of and interest on Series 2004 Bonds and Parity Lien Obligations.

Standard & Poors Rating Downgrade

- Opportunities:
 - Did not follow our plan (rate increases or meeting our covenants)
 - Took nearly two years to pass a rate increase
 - Missed our debt service covenants for two consecutive years
- Strong points:
 - Investment in City infrastructure is positive
 - Arsenic standards
 - Acquisition of two water companies
 - Water rights

[Available Options]

- Move forward with an across the board increase to get to our 1.35X DS coverage
- Adjust rates gradually over the course of several Years
- Make rate adjustments with additional tiers
- Adjust rates to inside vs outside city limits
- Provide different rates for commercial vs residential properties
- Stay status quo – do nothing
- Any ideas will be graciously entertained

Council Direction

- Before next work session:
 - Need some direction from council for staff to explore
 - Contact us with any ideas after the worksession – 340-2710 or e-mail rrodriguez@cottonwoodaz.gov