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Council advised to raise water rates, fund future CIP projects

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Last Thursday, a representative from [Economist.com](#) made a presentation to City Council about the city's utilities and suggestions about how to handle its rates.

A public hearing will be held on the issue on Thursday, Nov. 3.

But before that meeting, Council had requested further information so that they understood what their options were. [Economist.com](#) managing director and chief executive Dan Jackson gave Council an overview during a special meeting last week, suggesting increasing utility rates especially for water and wastewater services.

[Economist.com](#) has been the city's rate consultant for the last five years. This rate study not only considered the rates themselves, but how that would affect the city with its long-term financial plan. He commended Council on the informational meeting so that they could mull over the information and not make a "snap decision."

"It's more than just a financial decision," Jackson said about raising the city's utility rates. "It's a social, community and political decision, as well."

Jackson first addressed the biggest question on everyone's mind, "Water is the same now as when I was as a kid, so why should it cost any more?"

He explained that there are many factors out of any municipality's control, including inflation that nudges costs up 3-4 percent a year for everything (like chemicals and electricity). Another factor includes capital improvement project needs when systems wear out and need to be replaced.

Currently, the average Eloy resident uses a ¾ inch meter with a monthly charge, plus a usage rate per 1,000 gallons as a conservation effort to encourage people to use less water. The average Eloy household uses approximately 8,000 gallons a month, with an overall average monthly bill of \$56.78. Jackson added that that price is \$10 less for Pinal County per month, and almost \$20 less than state rates.

But the city's general fund has been carrying the weight of the utility funds that have not been able to stand on their own for years. The idea behind possibly raising rates would be to not only keep the utility funds in the black and avoid supplementary monies from the general fund, but help fund and pay for related infrastructure projects, as well as an emergency repair and replacement reserve fund.

"Despite the proposed increases," Jackson explained, "the city's rate plan will still be at or below state average."

The most significant question for the city in regards to rates is anticipated city growth. The city has 2,600 water accounts now, and [Economist.com](#) has made the conservative estimate that the city may have 2,900 water accounts in the next eight to 10 years. With little growth, the onus of funding area projects falls on current residents and account holders.

Jackson presented three alternatives, all of which had five goals in mind: Rid the support of the general fund for the water and sewer funds and its operating expenses; to establish and fund a repair and replacement reserve (like an emergency savings account); to help fund big ticket capital improvement and infrastructure projects; and potentially divide the residential and commercial rates.

All three rate increase alternatives reduce the dependency on the general fund subsidy and that the water funds be able to fully fund their operating expenses immediately and fund a capital improvement plan.

The capital improvement plan would encompass \$18,184,000-worth of water and wastewater infrastructure improvement projects.

Alternative 1, though, is the most aggressive scenario when it comes to cost upgrades for capital improvement. The plan would include funding a replacement reserve immediately, and prepare for all \$15,000,000-worth of CIP in only a five-year span, which would mean acquiring a huge bond within the next two years.

But, Jackson added, the city wouldn't be able to borrow bond monies unless it can prove to the Water Infrastructure Finance Authority (WIFA) that the city can pay it back. In order to do that, the city would need a new rate plan so that it can prove that the city can service the debt.

The rates would remain uniform for both commercial and residential accounts. But the first year would throw the biggest punch for a rate jump, going up almost \$15 in the first year for the base service fee and almost \$17 more per 1,000 gallons. By 2015, the 5,000-gallon user would see a total increase of \$39 and the 10,000-gallon user would see a \$49 jump.

Alternative 2 proposes all of the above, with one change – funding CIP over a span of 10 years. Similar to Alternative 1, earlier increases would be the highest, but would give the city more time to fund necessary infrastructure projects. Rates would stay uniform for both residential and commercial account holders. But by 2015, the 5,000-gallon user would see a total increase of \$33 and the 10,000-gallon user would see a \$41 jump.

Out of all three, Jackson strongly recommended alternative 3. Its plan would likewise fund CIP over 10 years, but also phase in its backup savings for the replacement reserve rather than all at once. There would only be a \$6 increase the first year. By 2015, the 5,000-gallon user would end up increasing \$27 and only \$34 for the 10,000-gallon user.

The city would not be accomplishing as much as quickly, Jackson said, but it would be easier on the customers.

The most significant change for the third alternative would be a separate, higher rate plan for commercial customers. It would be beneficial to residential customers, Jackson said, so that the more commercial customers pay, the less residential customers pay.

"But the challenge you're facing right now is that you just don't have that many commercial customers."

Upgrading the water rates would be instrumental in helping the city get some projects off the books. Things have been on the "list" of things to do for years and years. Some are pushed back due to funding, others due to priority.

"We need to make some fundamental changes in how we do the CIP," Osuna commented, "but we also need to know that there is a funding source such as the rates and that we can continue to look at the city as a whole and have a plan. The money that comes in with the rates we can start addressing those projects and start taking them off the rates....because they continue today since probably 2003."

Councilman Joel Belloc suggested having a few work sessions where Council would sit down with City Engineer John Mitchell to hash out exactly what projects needed to be done, and when.

"But some of those are tied to other capital projects," Mitchell pointed out. Some of the street projects on the current wish list have water/wastewater components, such as Frontie, Main Street, Battaglia, Santa Cruz, and another minor project on Shedd Road.

"We're not going to improve our streets unless we can also improve the utility lines underneath it," City Manager Ruth Osuna explained. "Because it doesn't make any sense to do the streets, and then rip it up 10 years down the road when we have the money. It's kind of a domino effect."

Councilwoman Belinda Akes added that she would like to see these projects happen as soon as possible, and not let them fall to the wayside. "We owe it to the citizens of Eloy to make sure these projects happen if we're going to raise rates."

Several other Council members responded to her comment with a chorus of "hear-hear's".

Economist.com's Jackson said that the new rates, if Council approved them, would not go into effect until at least January, when the rates would be lower.

"It makes it easier on the families," Jackson added.

A public hearing will be held on the issue on Thursday, Nov. 3 at the City Hall court chambers.

Alternative 1

- Eliminate general fund subsidy
- Fully fund operating expenses
- Fully fund replacement reserve account
- 5-year Capital Improvement Plan term
- Uniform residential/commercial rates

Average bill in 2015:

5,000-gallon bill - \$86.48

10,000-gallon bill - \$105.79

Alternative 2

- Eliminate general fund subsidy
- Fully fund operating expenses
- Fully fund replacement reserve account
- 10-year Capital Improvement Plan term
- Uniform residential/commercial rates

Average bill in 2015:

5,000-gallon bill - \$80.15

10,000-gallon bill - \$97.57

Alternative 3

- Eliminate general fund subsidy
- Fully fund operating expenses
- Phase in replacement reserve account
- 10-year Capital Improvement Plan term
- Separate residential/commercial rates

Average bill in 2015:

5,000-gallon bill - \$74.41

10,000-gallon bill - \$91.19

Primary CAP projects on city's wish-list

- Water system improvements at the Eloy Industrial Park, Toltec, and Sunland Gin (\$10,600,000)
- Water line replacement program (\$2,850,000)
- Water system pump house (\$550,000)
- Booster station improvements (\$1,650,000)
- Battaglia road water line/sewer line construction (\$1,500,000)
- New manhole installations (\$25,000)
- Toltec Sewer work (\$400,000)

- WWTP Upgrades (\$160,000)
- And \$449,000 designated as "other"

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