

REPORT

To: Lisa Cole, Town Clerk
From: A.C. Marriotti, Finance Director
Date: April 14, 2016
RE: Data Supporting Need for Sewer User Fees

The Sahuarita Wastewater Utility charges customers monthly sewer service fees in order to pay for a majority of the enterprise's costs. The authority to assess these charges is provided in the Sahuarita Town Code. Language in the Code includes a termination date on the current fee components of the monthly charges as follows:

Section 13.10.040(A)(1)(a)(3) of the Sahuarita Town Code states the following, *"Effective July 1, 2015, through June 30, 2016, the flat service fee for all users will be equal to \$14.39."*

Section 13.10.040(A)(1)(a)(11) of the Sahuarita Town Code states the following, *"Effective July 1, 2015, through June 30, 2016, the flat service fee for all users will be equal to \$4.80."*

No provision is made for these fees past June 30, 2016. This effectively means that there is no authority to assess monthly sewer service fees starting on July 1, 2016.

Exhibit A to this report shows the financial impacts to the Wastewater Enterprise Fund forecasted for fiscal year 2017 under the scenario where there is no authority to assess monthly charges. Key financial metrics include:

- Total fund balances decrease by \$3.6 million, down to a \$7.4 million deficit.
- Debt service coverage ratio is -0.33, deficient by \$3.2 million to reach the minimum ratio of 1.20.

Exhibit B to this report shows the financial impacts to the Wastewater Enterprise Fund forecasted for fiscal year 2017 under the scenario where current fees continue to be assessed. Key financial metrics include:

- Total fund balances decrease by \$343 thousand, down to a \$4.1 million deficit.
- Debt service coverage ratio is 1.21, providing \$11,000 of excess coverage compared to the minimum requirement.

The scenario reflected in Exhibit A is untenable. The Wastewater Utility is reported as an enterprise fund as it is intended to be financially self-sufficient. This is not possible without the projected \$3.2 million generated by sewer user charges. Moreover, without these revenues there is no possibility of complying with our loan agreement with the Water Infrastructure Finance Authority (WIFA). The loan agreement compels the Town to raise fees in order to achieve a minimum 1.20 debt service coverage ratio.

The scenario reflected in Exhibit B is manageable. This scenario will keep us in compliance with our WIFA loan agreement. Also, it will provide customers with a reprieve from rate increases until a more comprehensive rate study can be completed, which is slated for next fiscal year.

EXHIBIT A

No Sewer User Fees

WASTEWATER ENTERPRISE FUND

SOURCES AND USES OF FUNDS

	2017 Forecasted Amounts
SOURCES	
OPERATING REVENUES:	
User Charges - Residential	\$ -
User Charges - Commercial	-
Subtotal: Operating Revenues	-
NON-OPERATING REVENUES:	
Investment Earnings (Losses)	(86,140)
Miscellaneous	22,500
Sewer Connection Fees - Residential	162,960
Sewer Connection Fees - Commercial	2,720
Subtotal: Non-Operating Revenues	102,040
Subtotal: Revenues	102,040
OTHER SOURCES:	
Transfers In from General Fund	1,698,880
Proceeds on Sale of Assets	375,000
Subtotal: Other Sources	2,073,880
BEGINNING FUND BALANCES:	
Restricted for Debt Service	2,108,060
Restricted for Rate Stabilization Fund	750,000
Unassigned (Deficits)	(6,609,680)
Subtotal: Beginning Fund Balances	(3,751,620)
TOTAL SOURCES	\$ (1,575,700)
 USES	
CURRENT EXPENDITURES:	
Wastewater Utility Department	\$ 2,007,100
Subtotal: Current Expenditures	2,007,100
DEBT SERVICE:	
Principal	1,569,330
Interest	832,080
Subtotal: Debt Service	2,401,410
CAPITAL OUTLAY:	
WW Capital Projects	1,369,580
Subtotal: Capital Outlay	1,369,580
Subtotal: Expenditures	5,778,090
ENDING FUND BALANCES:	
Restricted for Debt Service	2,108,060
Restricted for Rate Stabilization Fund	750,000
Unassigned (Deficits)	(10,211,850)
Subtotal: Ending Fund Balances	(7,353,790)
TOTAL USES	\$ (1,575,700)
CHANGE IN FUND BALANCE	\$ (3,602,170)
 Debt coverage ratio	
Net Revenue + Rate Stabilization Fund	\$ (693,920)
Debt Service	\$ 2,108,048
Debt Service Coverage (≥ 1.20)	(0.33)
Excess/(Deficiency)	\$ (3,223,578)

EXHIBIT B

Sewer User Fees at Current Rates

WASTEWATER ENTERPRISE FUND

SOURCES AND USES OF FUNDS

	2017 Forecasted Amounts
SOURCES	
OPERATING REVENUES:	
User Charges - Residential	\$ 3,068,810
User Charges - Commercial	166,230
Subtotal: Operating Revenues	3,235,040
NON-OPERATING REVENUES:	
Investment Earnings (Losses)	(61,960)
Miscellaneous	22,500
Sewer Connection Fees - Residential	162,960
Sewer Connection Fees - Commercial	2,720
Subtotal: Non-Operating Revenues	126,220
Subtotal: Revenues	3,361,260
OTHER SOURCES:	
Transfers In from General Fund	1,698,880
Proceeds on Sale of Assets	375,000
Subtotal: Other Sources	2,073,880
BEGINNING FUND BALANCES:	
Restricted for Debt Service	2,108,060
Restricted for Rate Stabilization Fund	750,000
Unassigned (Deficits)	(6,609,680)
Subtotal: Beginning Fund Balances	(3,751,620)
TOTAL SOURCES	\$ 1,683,520
 USES	
CURRENT EXPENDITURES:	
Wastewater Utility Department	\$ 2,007,100
Subtotal: Current Expenditures	2,007,100
DEBT SERVICE:	
Principal	1,569,330
Interest	832,080
Subtotal: Debt Service	2,401,410
CAPITAL OUTLAY:	
WW Capital Projects	1,369,580
Subtotal: Capital Outlay	1,369,580
Subtotal: Expenditures	5,778,090
ENDING FUND BALANCES:	
Restricted for Debt Service	2,108,060
Restricted for Rate Stabilization Fund	750,000
Unassigned (Deficits)	(6,952,630)
Subtotal: Ending Fund Balances	(4,094,570)
TOTAL USES	\$ 1,683,520
CHANGE IN FUND BALANCE	\$ (342,950)
 Debt coverage ratio	
Net Revenue + Rate Stabilization Fund	\$ 2,541,120
Debt Service	\$ 2,108,048
Debt Service Coverage (≥ 1.20)	1.21
Excess/(Deficiency)	\$ 11,462

SAHUARITA RESOLUTION NO. 2016-0460

A RESOLUTION OF THE TOWN OF SAHUARITA, ARIZONA, ADOPTING A NOTICE OF INTENT TO CORRECT ERRONEOUSLY STATED ENDING DATES FOR THE FLAT SERVICE FEE AND USER FEE BASIC RATE, WHICH COULD BE CONSIDERED TO INCREASE THE TOWN'S FUTURE SANITARY SEWER FEES, BY AMENDING SECTION 13.10.040 (A) (1) (A) (3) AND 13.10.040 (A) (1) (A) (11), MAINTAINING THE SAME SEWER FEES AS ARE CURRENTLY CHARGED BEYOND JUNE 30, 2016, DECLARING AS A PUBLIC RECORD THE DATA SUPPORTING CHANGES; AND SETTING A PUBLIC HEARING ON THE PROPOSED INCREASED FEES.

WHEREAS, A.R.S. § 9-240 (B) (5) grants the Town Council the power to construct and maintain sewers and drains within the corporate limits of the Town; and

WHEREAS, the Town Council adopted Ordinance No. 2002-05, which established fees for use of the Town's sanitary sewer services, and which fees have been amended from time to time; and

WHEREAS, pursuant to Ordinance No. 2014-089, the Town Council amended the sanitary sewer fees, and that increase included the monthly flat service fee and user fee basic rate beginning July 1, 2015, but erroneously provided those rates would continue through June 30, 2016; and

WHEREAS, the Town Council wishes to correct this omission by deleting the end date, so the monthly flat service fee and user fee basic rate will continue, at the rates currently charged, until further amended by the Town Council; and

WHEREAS, pursuant to A.R.S. § 9-511.01 (A) (1), Town staff is preparing the data supporting this change, which could be considered an increase of the Town's sanitary sewer fees; and

WHEREAS, pursuant to A.R.S. § 9-511.01 (A) (2), the Town Council would like to provide notice of its intent to increase sanitary sewer fees, and provide the public with an opportunity to address the Council on this issue.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the Town of Sahuarita, Arizona, as follows:

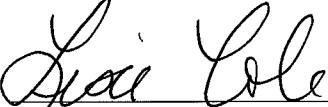
Section 1. The Mayor and Council hereby declare their intention to remove ending dates for the flat service fee and user fee basic rate by amending the Town Code Section 13.10.040 (A) (1) (A) (3) and 13.10.040 (A) (1) (A) (11).

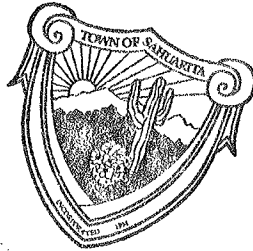
- Section 2.** The Mayor and Council hereby declare as a public record the data supporting the changes. At least three paper copies, or one paper copy and one electric copy maintained in compliance with A.R.S. § 44-7041, of the public record shall be filed in the office of the Town Clerk no later than April 22, 2016, where they shall remain on file.
- Section 3.** The Mayor and Council hereby set a public hearing on the issue of sanitary sewer user fee changes for May 23, 2016, at or after 6:30 p.m., at the Town of Sahuarita, Town Hall, 375 West Sahuarita Center Way, Sahuarita, Arizona.
- Section 4.** The Mayor and Council hereby order that this Resolution be published as required by A.R.S. 9-511.01 (A) (2).
- Section 5.** The various town officers and employees are authorized and directed to perform all acts necessary and proper to give effect to this Resolution.
- Section 6.** If any section, subsection, sentence, clause, phrase or portion of this Resolution is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions thereof.

PASSED AND ADOPTED by the Mayor and Council of the Town of Sahuarita, Arizona, this 11th day of April, 2016.


Mayor Duane Blumberg

ATTEST:


Lisa Cole, CMC
Town Clerk



APPROVED AS TO FORM:


Daniel J. Hochuli
Town Attorney