

Town of Superior



Wastewater Rate Analysis

2017

TABLE OF CONTENTS

SECTION I: STUDY PURPOSE	4
SECTION II: FINANCIAL STATUS	6
SECTION III: 40 YEAR COMPARISON	9
SECTION IV: SYSTEM USER RATES STATEWIDE	11
SECTION V: SYSTEM USER RATES COMPARATIVE	13
SECTION VI: OPTIONS	15
SECTION VII: RECOMMENDATION	19

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SECTION I: STUDY PURPOSE

Arizona Revised Statutes § 9-240(B)(5) and (6) authorizes the Town Council, of the Town of Superior, to construct and maintain sewer facilities within the Town's corporate limits.

The purpose of this report is to summarize the findings and recommendations related to the analysis for updating the Town of Superior's sewer rates.

The management and administration of a wastewater utility as an enterprise fund, requires a financial structure of which user fees, rates and charges are assessed to offset operational, capital and debt service expenses.

To adequately manage sewer enterprises, the wastewater user fees, rates, and charges must be sufficient to develop revenues which exceed annual operational, capital and debt service expenses by, at least, twenty percent (20%).

Revenues exceeding annual operational, capital and debt service expenses are retained by the enterprise fund for the development and maintenance of a capital reserve fund, which provides contingency funding for system improvements, emergency needs, and rate stabilization; and a debt service reserve fund which should, at minimum, provide contingency payment for one year's worth of debt service. This is a standard condition required by most lenders or financing organizations.

The Town's wastewater facilities are permitted by the Arizona Department of Environmental Quality to treat wastewater flows up to 140,000 gallons per day. Current usage is significantly below that average daily wastewater flows. However, based upon the long-delayed system improvements, and nonexistent capital reserve fund, the Town is in jeopardy of catastrophic failure unless immediate action is taken to establish a user fee, rate and charges structure which will meet the requirements described previously.

Town administration reports the need for one million, two hundred thousand dollars (\$1.2M) in immediate improvements. Since there is no reserve funding, a review of the current financial structure is required. Based upon that review, funding adjustments will be required to avoid catastrophic system failure.

Currently, the Town's wastewater user's rates, fees and charges fail to generate sufficient revenue to offset current operational, capital, and debt service expenses. Therefore, the Town proposes to increase wastewater user fees, rates, and charges, as more fully described in this report, to support the wastewater operational, capital and debt service expenses.

Initial data supplied by the Town of Superior indicated that uncollectible debt (unpaid fees, accounts, etc.) was extreme. The initial 2016 Superior Wastewater Rate Analysis, submitted by Duthie Government Advisors, was based on data provided by the Town and the Town Accountant. Revised data from independent audit reports compiled by HintonBurdick, PLLC CPAs & Advisors was the basis of this revised analysis. The audits identified town revenues and expenditures, to include personnel, maintenance, and all operational expenses, and including uncollectible debt.

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SECTION II: FINANCIAL STATUS

For extended years, the Town has failed to complete annual financial audits and have failed to establish a uniform mechanism for development of user fees, capital funds, and debt service funds. As such, this report is focused on the preceding three (3) fiscal years - 2014-2016. The 2014-2016 financial recordings reflect the most current and verifiable revenue and expense fund totals. The following charts demonstrate the audit reports for FY2014-2016:

Fiscal Year 2014	\$
Actual Wastewater Revenue	634,562
Actual Wastewater Expenses	(361,038)
Uncollectible Debt	(60,000) 14.25%
Actual Fund Total	213,524

Fiscal Year 2015	
Actual Wastewater Revenue	308,297
Actual Wastewater Expenses	(329,928)
Uncollectible Debt	(90,000) 21.43%
Actual Fund Total	-111,631

Fiscal Year 2016	
Actual Wastewater Revenue	295,493
Actual Wastewater Expenses	(296,837)
Uncollectible Debt	(90,000) 23.26%
Actual Fund Total	-91,344

Wastewater Fund Balances / Last three (3) years:

2014 ending	273,524
2015 ending	-111,631
2016 ending	- 91,344
<u>Balance</u>	<u>70,549</u>

Uncollectible debt is financially hazardous. In many cases, uncollectible debt should never be more than 6% of loss/expense. In this three-year period, uncollectible debt averaged 19.64%

- 2014 uncollectible debt was 14.25% of the wastewater expenses
- 2015 uncollectible debt was 21.43% of the wastewater expenses
- 2016 uncollectible debt was 23.26% of the wastewater expenses

It is evident the Town must take steps to reduce uncollectible debt immediately.

The last 3 fiscal year trend shows that uncollectible debt is steadily increasing. The Town does have a potable water system to compensate or subsidize this debt, so there is no foreseeable relief in that option.

Establishing and enforcing procedures for delinquent collection of debt is paramount to reducing the rising level of bad debt. It is, obviously, preferred that users pay their full share for the service provided. Unfortunately, that does not always occur.

Recent State of Arizona legislation can guide the Town in establishing procedures which comply with current statute. The Arizona League of Cities and Towns can provide technical assistance in the development of these procedures.

A public awareness campaign may also improve user understanding of the system status and the need for financial improvement versus unsustainable loss and system-wide failure.

Forced compliance methods, such as enlisting collection service agencies, credit reporting agencies, and public notification of delinquencies, separately or combined, have been found to be an effective tool to recoup unpaid and uncollected debt.

It is clear, however, that the Town must take effective and immediate steps to halt the growth of uncollectible debt, as well as reverse the financial impact of such debt on system sustainability.

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SECTION III: 40 YEAR COMPARISON

The Town is unable to identify the date of the increase of rates to the current \$13 per month. However, the Town identified wastewater rates in 1976 were \$10 per month. This indicates only a 30% increase adjustment to user rates over a 40-year span.

It is well known that costs for services have increased dramatically over the last 40 years, as the following chart shows:

Cost Of Living in the United States 1975 vs 2015

Good or Service	1975 Cost	1975 Cost (In 2015 Money)	Cost 2015
New House ¹	\$48,000	\$209,417	\$270,200
Median Income	\$12,686	\$55,347	\$51,759
New Car	\$3,800	\$16,578	\$31,252
Minimum Wage	\$2.10/hour	\$9.16/hour	\$8.25/hour
Public College ²	\$1,819	\$7,938	\$18,943
Private College ²	\$3,776	\$16,475	\$42,419
Movie Ticket	\$2.03	\$8.86	\$8.17
Gasoline	\$0.59/gallon	\$2.57/gallon	\$2.38/gallon
Postage Stamp	\$0.13	\$0.57	\$0.49
Sugar	\$0.65/5 pounds	\$2.84/5 pounds	\$3.25/5 pounds
Milk	\$1.65/gallon	\$7.20/gallon	\$3.49/gallon
Coffee	\$1.12/pound	\$4.89/pound	\$4.91/pound
Eggs	\$0.84/dozen	\$3.66/dozen	\$2.08/dozen
Bread	\$0.28/pound	\$1.22/pound	\$1.43/pound

Source: David Stockman

<http://www.mybudget360.com>

Between 1975 and 2016, the U.S. dollar experienced inflation of **443.83%**

* (Bureau of Labor Statistic's annual Consumer Price Index), <http://www.in2013dollars.com>.

It is unreasonable to expect the Town to raise rates by 443.83% immediately, so lesser rate amounts will be recommended. However, the adjustments recommended should be revisited in the fifth year after implementation of the adjustments. The Town's lack of a progressive user fee schedule, over four decades, must be corrected.

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SECTION IV: SYSTEM USER RATES STATEWIDE

The Arizona Department of Environmental Quality maintains annual data for all wastewater systems within Arizona. The data identifies, among various components, the monthly user base rate. The data report indicates the following:

<u>Number of systems</u>	<u>User Category</u>	<u>Statewide average</u>
131	Residential	\$30.98 p/mo.
126	Commercial	\$48.18 p/mo.
Superior 2017	Residential	\$13 p/mo.
	Commercial	\$13 p/mo.

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SECTION V: SYSTEM USER RATES COMPARATIVE

Within the ADEQ data report, a comparison of user fees was made among similar wastewater systems to that with the Town of Superior. The data report provides the following:

<u>Number of systems</u>	<u>User Category</u>	<u>Comparable average</u>
15	Residential	\$28.82 p/mo.
14	Commercial	\$36.09 p/mo.
Superior 2017	Residential	\$13 p/mo.
	Commercial	\$13 p/mo.

The community wastewater systems compared were:

Bisbee
Clifton
Duncan
Fredonia
Gila Bend
Hayden-Winkelman
Jerome
Kearny
Mammoth
Miami
Patagonia
Tombstone
Williams

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SECTION VI: OPTIONS

Option #1, Make no adjustments.

Immediate impact: NO SYSTEM IMPROVEMENT

Category	Year	Monthly Rate \$	Increase %	Accts.	FY Revenue
Residential:	2018	13	0	1179	\$ 183,924
	2019	13	0	1179	\$ 183,924
	2020	13	0	1179	\$ 183,924
	2021	13	0	1179	\$ 183,924
	2022	13	0	1179	\$ 183,924
Commercial:	2018	13	0	11	\$ 1,716
	2019	13	0	11	\$ 1,716
	2020	13	0	11	\$ 1,716
	2021	13	0	11	\$ 1,716
	2022	13	0	11	\$ 1,716
Industrial:	2018	13	0	1	\$ 156
	2019	13	0	1	\$ 156
	2020	13	0	1	\$ 156
	2021	13	0	1	\$ 156
	2022	13	0	1	\$ 156
Annual total					\$ 185,796
Five-year total					\$ 928,980

Option #2.

Immediately establish charges and fees for services;

Implement rate changes in all user categories to average comparative level;

Establish procedures to reduce the amount of uncollectible debt.

Immediate impact: POSITIVE SYSTEM FINANCIAL IMPROVEMENT

Category	Year	Monthly Rate \$	Increase %	Accts.	FY Revenue
Residential:	2018	28	216%	1179	\$ 396,144
	2019	28	0%	1179	\$ 396,144
	2020	28	0%	1179	\$ 396,144
	2021	28	0%	1179	\$ 396,144
	2022	28	0%	1179	\$ 396,144
Commercial:	2018	36	237%	11	\$ 4,752
	2019	36	0%	11	\$ 4,752
	2020	36	0%	11	\$ 4,752
	2021	36	0%	11	\$ 4,752
	2022	36	0%	11	\$ 4,752
Industrial:	2018	36	237%	1	\$ 432
	2019	36	0%	1	\$ 432
	2020	36	0%	1	\$ 432
	2021	36	0%	1	\$ 432
	2022	36	0%	1	\$ 432

Church, School, Non-profits

Optional categories to be determined

Annual total \$ 401,328
Five-year total \$ 2,006,640

Service fee:	Proposed
Connections	Residential \$ 250
	School \$ 500
	Church \$ 500
	Non-profit \$ 200
	Commercial \$ 500
	Industrial \$ 500
	Out of Boundary \$ 500
	Illegal Connection Penalty \$ 750
Late payment	\$ 5 per month
Returned Check	\$ 25 per check
Extensions	\$ 8 per foot

Option #3.

Immediately establish charges and fees for services;

Implement the average comparative rate change to commercial and industrial users;

Incrementally phase rate increases over a five-year period for residential, churches, schools and non-profit users;

Establish procedures to reduce the amount of uncollectible debt.

Immediate impact: POSITIVE SYSTEM FINANCIAL IMPROVEMENT

Category	Year	Monthly Rate \$	% Increase	Accts.	FY Revenue
Residential	2018	16	23%	1179	\$ 226,368
	2019	19	18.75%	1179	\$ 268,812
	2020	22	15.79%	1179	\$ 311,256
	2021	25	13.63%	1179	\$ 353,700
	2022	28	12%	1179	\$ 396,144
Commercial	Immediate	36	237%	11	\$ 4,752
Industrial	Immediate	36	237%	1	\$ 432

Church, School, Non-profits

Optional categories to be determined

Annual totals

2018	\$ 231,552
2019	\$ 273,996
2020	\$ 316,440
2021	\$ 358,884
2022	\$ 401,298

Potential 5-year user revenue: \$ 1,582,170

Service fee:	Proposed
Connections	Residential \$ 250
	School \$ 500
	Church \$ 500
	Non-profit \$ 200
	Commercial \$ 500
	Industrial \$ 500
	Out of Boundary \$ 500
	Illegal Connection Penalty \$ 750
Late payment	\$ 5 per month
Returned Check	\$ 25 per check
Extensions	\$ 8 per foot

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SECTION VII: RECOMMENDATION

RECOMMENDATION: APPROVE OPTION 3

Immediately establish charges and fees for services;

Implement the average comparative rate change to commercial and industrial users;

Incrementally phase rate increases over a five-year period for residential, churches, schools and non-profit users.

Immediate impact: POSITIVE SYSTEM FINANCIAL IMPROVEMENT

Category:	Year	Monthly Rate \$	% Increase	Accts.	FY Revenue
Residential	2018	16	23%	1179	\$ 226,368
	2019	19	18.75%	1179	\$ 268,812
	2020	22	15.79%	1179	\$ 311,256
	2021	25	13.63%	1179	\$ 353,700
	2022	28	12%	1179	\$ 396,144
Commercial	Immediate	36	237%	11	\$ 4,752
Industrial	Immediate	36	237%	1	\$ 432

Church, School, Non-profits Optional categories to be determined

2018	Potential total user revenue:	\$ 231,552
2019	Potential total user revenue:	\$ 273,996
2020	Potential total user revenue:	\$ 316,440
2021	Potential total user revenue:	\$ 358,884
2022	Potential total user revenue:	\$ 401,298

Potential 5-year user revenue: \$ 1,582,170
Projected additional revenue \$ 653,190

Service fee:	Proposed	
Connections	Residential	\$ 250
	School	\$ 500
	Church	\$ 500
	Non-profit	\$ 200
	Commercial	\$ 500
	Industrial	\$ 500
	Out of Boundary	\$ 500
	Illegal Connection Penalty	\$ 750
Late payment		\$ 5 per month
Returned Check		\$ 25 per check
Extensions		\$ 8 per foot

The residential incremental increases will have positive impact, yet are not overly burdensome to most residential users. The incremental increases are reasonable and justified by the preceding data.

The implementation of the full rate for commercial and industrial users will have impact, yet due to the small numbers of that category users, the impact will be minimal.

Implementation of the above option will significantly increase the funding over the next five fiscal years. The five-year revenue increase of \$653,190 will provide sufficient offset to operational, capital and debt service needs.

Town wastewater facilities require significant and immediate improvements to relieve the Town from catastrophic failure. By approving the recommended adjustments, the Town is projected to have access to an average increase of \$103,368 per year.

Combined with the recorded annual revenue gain of \$ \$23,516 for FY14-16, the Town may leverage a projected **\$155,944** in annual net revenue gain, a **660% increase** in annual system funding availability. This increase will support the attainment of grants or loans to finance needed system improvements.

The approval of the option recommended will demonstrate the Towns commitment to a secure future of the Superior Wastewater system, which will enhance both further economic growth and the quality of life for the community.