

The Report in Support of the New Water Resources Fee
(A.R.S. 9-511.01)

Staff recommends creating a new repair and replacement fee, to become effective starting on February 7, 2020. Staff also recommends considering a general fund transfer to the water fund during the FY2020-2021 budget process for water projects that support citywide economic development.

Summary

The Finance Department, in conjunction with the Water Resources Department, develops an annual Water Financial Plan to determine the revenue requirements that support the ongoing operating budget, debt service requirements, capital infrastructure expansion, replacement, rehabilitation and development needs, of the water utility. The proposed creation of a \$3.05 per month repair and replacement fee, is required to ensure sufficient revenues are available to issue new debt to support the Water Resources Department Capital Improvement Program. If approved, the fee will become effective in February 2020, and is estimated to bring in an additional \$286 thousand for the remainder of fiscal year 2019-2020 and bring in an additional \$903 thousand for the fiscal year 2020-2021, the first full year of the fee increase. The proposed new repair and replacement fee, of \$3.05 plus tax, would be added to all residential, multi-unit/multi-family, commercial, industrial and landscape accounts.

In addition, the Water Resources Department recommends considering a general fund transfer to the water fund during the FY2020-2021 budget process for water projects that support citywide economic development. The Water Resource Fund would be supported by a transfer from the General Fund equal to the total number of accounts billed by the customer service billing division times a \$1 fee that would be put into the newly created fund, estimated to be approximately \$372 thousand in the fiscal year 2020-2021.

Introduction

The City of Buckeye Water Resources Department provides services to approximately 24,000 water customers. The department pumps, treats and delivers over 2.7 billion gallons of water annually, storing over 15 million gallons to ensure Buckeye's citizens, customers and visitors have safe, clean, reliable water services 24 hours a day, 7 days a week, 365 days a year. The department has over 400 miles of water lines, over 20 booster stations, 4,000 hydrants, 8,500 valves, 35 wells and 25 reservoirs.

Financial Plan

The Water Resources Department estimates and projects revenues and expenses based on a 5-year rolling average, with the most current adopted budget in year one and projected revenues and expenses forecasted for the following four years. Projected revenues show existing revenues anticipated to be received based on existing water rates and additional revenues projected based on water rate/fee increases or additions. The department's financial plan is aligned with the City's budget process, with the Council's review and approval of the overall plan. The most current financial plan reflects the approval of

the FY 2019-20 operating budget and 5-year CIP plan, which included future capital projects for the Water Resources Department, adopted by Council on June 18, 2019.

Assumptions

The financial plan represents the Water Resources and Finance Department's principal assumptions for the period of FY 2019 – FY 2024. The department revises the financial plan annually to update and modify assumptions based on actuals for the previous completed fiscal year. Future financial plans may result in changes to the department's projected operating and CIP assumptions moving forward. The department's major assumptions for the current financial plan are:

- The number of residential customer accounts will increase by 5 percent for the next four fiscal years, with the growth of multi-unit and commercial accounts growing by 3 percent for that same fiscal year period.
- Water consumption per account will remain fairly flat at an average of 5.9 thousand gallons per residential account
- Future operational expenses are anticipated to change annually based on the rate of inflation and customer growth. Future year operating costs were given a 3.0 percent annual increase
- Future Capital Improvement Projects are also anticipated to change annually. However, ongoing changes to EPA drinking water standards cannot be certain, therefore, a modest 2 percent inflation factor was provided to all CIP projects for the plan.
- WIFA funding of \$144M provided for capital improvement projects is assumed to be appropriated with no cost of issuance and at a favorable interest rate to the city (estimated in the financial plan at 2.5 percent); however final interest will not be set until the loan documents are closed.
- The financial plan includes impact fee revenues of \$1M annually. Impact fees will be used to pay for the growth component of either the capital improvement plan or the annual debt service payment.
- Debt service coverage targets of 1.6 are maintained through FY 2022-2023, with an average debt service coverage ratio of 2.18 for the five-year period of time.

City of Buckeye Water Resources Department
FY 2020-2024 Financial Plan

Description	Fiscal Year Ending June 30				
	Budget	Projected			
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Sources of Funds					
Revenue from residential and non-residential existing water rates	\$24,338,650	\$25,594,243	\$26,931,920	\$28,358,904	\$29,883,230
Flat fee Revenue	286,494	902,515	947,768	995,361	1,045,425
Additional Water Rate Revenue from Rate Increases	0	0	0	0	0
Total Water Rate Revenue	24,625,143	26,496,758	27,879,688	29,354,266	30,928,655
Other Miscellaneous Revenue	5,033,700	5,191,527	5,376,194	5,570,706	5,739,582
Impact Fees	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Revenue Bond Proceeds	0	0	0	0	0
State and Other Loan Proceeds	60,000,000	49,000,000	0	35,000,000	0
Investment Income	730,500	936,700	667,600	321,800	267,100
Total Sources	91,389,343	82,624,985	34,923,483	71,246,772	37,935,338
Uses of Funds					
Operation and Maintenance Expense	16,286,539	16,686,500	18,089,100	18,668,100	19,269,600
Debt Service					
Existing	3,948,147	3,940,022	3,940,482	4,769,783	4,768,788
Proposed - Revenue Bonds	0	0	0	0	0
Proposed - State & Other	0	3,337,969	6,063,977	6,063,977	8,011,126
Total Debt Service	3,948,147	7,277,991	10,004,459	10,833,760	12,779,914
Debt Service Reserve and Issuance Expense	0	0	0	0	0
Capital					
Total Capital	62,148,000	47,043,240	45,361,761	37,792,255	15,312,919
Total Uses of Funds	82,382,686	71,007,731	73,455,320	67,294,115	47,362,433
Beginning Balance	32,019,921	41,026,579	52,643,833	14,111,995	18,064,652
Ending Balance	\$41,026,579	\$52,643,833	\$14,111,995	\$18,064,652	\$8,637,557
<i>Target Reserves</i>	<i>10,540,000</i>	<i>10,640,000</i>	<i>10,990,000</i>	<i>11,140,000</i>	<i>11,290,000</i>
Debt Service Coverage	3.83	2.33	1.68	1.62	1.46

FY 2020 - FY 2024 Capital Improvement Plan

The Water Resources Department Capital Improvement Plan for the current and next four years involves over 20 projects at the cost of over \$200M in the next several years. Among the projects is the department's largest project to date, the Broadway Road Water Campus. This, as well as several other listed projects are developed to replace aging infrastructure, as well as provide for future growth in the area. Drilling of new wells throughout the city is also incorporated in the CIP to ensure commercial and industrial growth is supported. The purchase of Central Arizona Project Non-Indian Agricultural Water to ensure adequate water supply is maintained for Buckeye's future is also shown in the plan below.

City of Buckeye Water Resources Department
FY 2020-2024 Capital Improvement Plan

Title	Fiscal Year Ending June 30				
	Budget	Projected			
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
	\$	\$	\$	\$	\$
Broadway Road Water Campus	53,319,000	25,882,500	5,002,450	0	0
Miller Road under I-10 water and sewer utility sleeving	3,000,000	0	0	0	0
Farallon WTF	1,200,000	0	15,606,000	23,970,057	0
WTF #9	1,200,000	1,611,600	6,440,076	0	0
NIA project water	0	0	1,115,943	1,123,480	1,145,949
West Phoenix Estates Water Campus #3	1,000,000	5,100,000	2,972,572	6,568,878	0
Airport Waterline for Commercial Parcels	750,000	9,180,000	0	0	0
Well #13	500,000	0	4,223,108	0	0
Broadway Well #7	386,000	0	3,050,453	0	0
WTP #5	268,000	0	1,682,535	6,129,841	13,236,970
DCR - Upgrade Old Valencia System Water Mains	200,000	0	0	0	0
Sundance WTP	150,000	0	0	0	0
CDBG 1st to 4th Street Waterline	100,000	0	0	0	0
Irrigation Improvement gates	75,000	295,000	0	0	0
Pressure Reducing Valves	0	1,725,000	1,725,000	0	0
AMCO Meter Replacement program	0	1,055,624	1,055,624	0	0
CDBG Project 4th Street	0	933,516	0	0	0
Broadway Road Well #8	0	830,000	2,488,000	0	0
Repair and Re-coat NAR Reservoirs	0	430,000	0	0	0
Water Main Replacement Program	0	0	0	0	500,000
Historic Reservoir Maintenance	0	0	0	0	430,000
Total CIP Program	62,148,000	47,043,240	45,361,761	37,792,255	15,312,919

As shown in the tables above, the Department anticipates using the proceeds from a newly created repair and replacement fee to apply for and, upon approval, pay back state funds from the Water Infrastructure Financing Authority of Arizona (WIFA) to fund some of its capital projects. This approach of funding new and ongoing capital projects through the use of state funding is consistent with industry best practice.

Public Involvement

The Citizens Budget & Revenue Advisory Group was provided an overview of the needs of the Water Resources Department at its October 14, 2019 meeting on how to recover the additionally needed revenue stream to meet the adopted council initiatives for investing in capital improvement projects. The group recommended to move forward to Council with a new flat fee.

In accordance with Arizona Revised Statutes 9-511.01, the City Council will conduct a public hearing on January 7, 2020, in conjunction with the proposed new fee. If approved by Council, the Water Resources Department, in conjunction with the Communication Department, plans to notify residents of this proposed new fee with messages printed on bills, bill inserts, flyers for posting in public areas, social media

posts, videos, news releases, mailing and/or emailing postcards to customers. A posting of this report will be placed on the city's website and posted with the City Clerk's office on November 5, 2019.

Recommendation

Based on the report, in support of the proposed new fee, it is the recommendation of Water Resources and Finance Department staff that Council approves a new \$3.05 repair and replacement fee for repair and replacement of utility infrastructure. Also, during the budget process, Staff will bring forward a recommendation of establishing a new general fund transfer to the Water Resources Department.