

## **WATER RATE AND DEVELOPMENT FEE STUDY Q & A**

On December 13, 2005, the Prescott City Council held a workshop on the Water Rate & Development Fee Study, and asked for public comment. Following are questions submitted in writing and in person at the workshop:

### **Question 1:**

Why is the City proposing a philosophical and fundamental change in financing the Water Resource Development Fee and System Impact Fee? Why are you now choosing to finance a project using impact fees as opposed to using the sales tax based generated to service debt as you have in the past, (Senior Center, Parking Garage, Willow Creek Road, Library, Iron Springs Road, etc...)? What has changed and why?

#### **Answer:**

*Privilege (Sales) Tax is used to finance operations and capital when there is not a direct benefit provided to an individual where a user fee or impact fee can be determined and collected, as with the water fund. Examples of the types of projects financed with Privilege Tax would be public safety operations and capital, General government operations and capital, Library operation, and public parking facilities. Impact fees were used to fund part of the Senior Center, Willow Creek Road, and the Library expansion.*

### **Question 2:**

If the water allocated must comply with the 100 year guaranteed water supply mandate, then why is the City proposing that those who move into the area within the next generation be burdened with the entire cost of the project via the Water Development Fee? Will the City consider changing the proposed "payback or debt service cycle" to reduce upfront costs?

#### **Answer:**

*The Water Resource Development Fee (WRDF) represents the cost of providing water into the system to meet the demand placed on it by new construction. The fee is calculated by taking the cost to bring water into the system, including interest cost, and dividing it by the number of residential equivalent units it will serve. The projected demand, over the study period, would provide enough revenue to service that debt. However, if the Council decided to limit the number of permits that are issued, water rates would need to be increased to cover the debt payments but the WRDF would remain the same because it represents the cost of providing water to the system to meet that additional demand.*

**Question 3:**

Has the City performed a “price elasticity” study to determine if the additional proposed fees would provide cause for someone not to build in the City? If someone chooses not to build in the City, has the City considered the potential loss in direct privilege sales tax for the construction and subsequent loss in future indirect sales taxes related to construction? How does the City propose to replace this revenue?

**Answer:**

*No. We have not done a price elasticity study. Outside of the City of Prescott service area, developers must purchase water rights to serve the development, either from the water provider or on the open market. The cost of those water rights is comparable on a per-unit basis to the impact fees the City of Prescott is proposing in this study.*

**Question 4:**

Would the System Impact Fee and the Water Resource Development Fee be applicable to parcels identified as “Pre 1998 Lots”?

**Answer:**

*Yes. Although pre-1998 lots have a “paper right” to water, they still have to pay for the system capacity and the physical availability of water in the system in order to serve new development on those lots. By law impact fees are collected at the time of building permit, because that is when the demand is placed on the system, regardless of when the water right was granted.*

**Question 5:**

The City suggests a growth rate of 545 customers per year. How does the City propose to fund projects through impact fees if there is a downturn in the economy? Would this situation be escalated since impact fees, by law, are charged at the time of the building permit and not to developers in the planning stage in another format?

**Answer:**

*If there is a downturn in building permits some of the capital projects scheduled to meet the future need could be deferred, because the demand on the system would be less. Any shortfall in the impact fee funds would have to be covered by loans from the Water Operating fund.*

**Question 6:**

Currently, System Impact Fees (SIF) are generated from fixture counts. Which means the more fixtures you have there is a potential for higher water usage. If you shift to meter size from fixture count, does the SIF then become regressive in nature? For example, if implemented as stated, a 4,000 sq. ft., four-bedroom house with three and a half baths would receive the same SIF as a 2000 sq. ft., 3-bedroom house with 2 & 1/2 baths using the same size water meter.

**Answer:**

*The proposed meter capacity fee structure is a widely accepted method of assessing impact fees. The water system and the impact fees structure are designed for the capacity needed to meet peak demand. This means that the maximum potential volume for each meter size is determined and charged accordingly. The more fixture units you have, the more capacity would be needed from the meter. However, just because there are more fixture units in a house, if the number of occupants is the same in each house in the question, the non-discretionary water use would be similar. Therefore, fixture unit counts are not necessarily a more accurate method of portraying water use than meters.*

**Question 7:**

The fire department requires a 1" meter for all residences that require a fire sprinkler system, (5000 sq. ft. and above or any size house that is more than 150 ft from the main road). Therefore; a 2000 sq ft. house that is 160 feet from the road would have to pay \$23,432 in impact fees under the current proposal. Does the City think that these Impact Fees are excessive?

**Answer:**

*The proposed impact fee for a one-inch meter is \$15,653. The impact fees were developed to recover the cost of providing the needed capacity and water to the system and these houses with one-inch meters require additional capacity in the system.*

**Question 8:**

The past few summers the City implemented water restrictions and indicated the pumps and wells were at capacity. If this same scenario should happen again in the future, but you have the new wells online using the new transmission lines paid for with new proposed impact fees – then would water restrictions apply to those who paid the impact fees? Furthermore, if the current existing wells were to fail would the City still provide water to existing customers, that is: those who did not pay for the new wells and transmission lines?

**Answer:**

*All existing and new wells and facilities are part of the City's water system. By paying impact fees an individual is not purchasing a part of a particular well, rather they are paying their share of increased capacity to meet the demand on the system as a whole. Water conservation and water restrictions are every customer's responsibility and all will be expected to cooperate.*

**Question 9:**

Has the City considered the regional impact on housing assessments and valuations? For instance, if you have a new neighborhood that is only partially developed and new houses are built and priced to reflect the proposed impact fees – then the existing homes, (without the impact fee) should immediately reflect these impact fees in their market value. Therefore, has the City created artificial inflationary pressures by issuing these impact fees?

**Answer:**

*Yes we have considered it. The average house in the City is selling for \$350,000, which is up 26.34% from a year ago, during which time there was no increase in impact fees. The proposed \$5,748 increase in impact fees is only 1.6% of the average new home price and will not create artificial inflationary pressures.*

**Question 10:**

Why did the consultant only propose one solution?

**Answer:**

*During the study many different approaches were considered. In determining water rates, all repair and replacement projects were reviewed and placed in the years needed to assure our ability to provide utility service to our customers. Impact fees were calculated by dividing the cost of additional water and system capacity by the number of residential equivalent units they would serve to come to the cost of the new construction on the system. In any rate study there are basic assumptions made, and the City will review the current rate and fee structure in two years and adjust assumptions as needed.*

**Question 11:**

What is the cost to provide 1000 gallons of water?

**Answer:**

*The operating cost of providing 1,000 gallons of water is \$2.34, which does not include debt service or capital costs. A significant portion of the costs associated with providing water is not operational but capital investment and varies depending on customer class and maximum demand.*

**Question 12:**

How much revenue is being set aside for future repair and replacement projects?

**Answer:**

*The water model conducted in 2005 identified the existing system deficiencies and the associated Capital improvement projects were included in the rate and fee study, so those costs are already accounted for. Regarding emergencies and unscheduled repairs, the reserve balance included in each fund would be used for those types of projects, or scheduled capital projects would be deferred if necessary.*

**Question 13:**

What will be the water impact fee for a renovation or remodel?

**Answer:**

*Under the meter based impact fee if you do not require an increased meter size you would not have additional impact fees. If you did require a bigger meter you would owe the difference between the current cost of the meter you have and the cost of the bigger meter*

**Question 14:**

Is the Capital Improvement Program (CIP) that the study is based on accurate?

**Answer:**

*Yes. The City of Prescott contracted with Carolo Engineering to complete a water model in 2005. The model identified system deficiencies as well as projected needs to build out, using the City's General Plan. This then generated the Capital Improvement Program needed to address the infrastructure deficiencies and projected growth. Because the model is dynamic, it will be updated annually, and the CIP will be adjusted as needed.*

**Question 15:**

If the Big Chino Water Ranch is needed for "safe yield" why is it only included in the impact fee?

**Answer:**

*The Big Chino Water Ranch project was used to determine the market cost of providing water into the system for new construction. The Water Resource Development Fee (WRDF) represents the cost of providing water into the system to meet the demand placed on it by new construction. The fee is calculated by taking the cost to bring water into the system, including interest cost, and dividing it by the number of residential equivalent units it will serve. The projected demand, over the study period, would provide enough revenue to service that debt. However, if the Council decided to limit the number of permits that are issued, water rates would need to be increased to cover the debt payments but the WRDF would remain the same because it represents the cost of providing water to the system to meet that additional demand.*

**Question 16:**

The Capital Improvement Program (CIP) references a twenty year range (FY 2006-07 to FY 2024-25); however, actual supporting details throughout the report only reference the first 10 years of that 20-year period (FY 2006-07 to FY 2014-15). Which is correct?

**Answer:**

*The report released on November 22, 2005, is the final report that covers a ten-year period to fiscal year 2015. The references on table 5-2 and 5-4 to "FY 2024-25" are typos and should be "FY 2014-15". This is the study period and the period of time that the numbers in the tables reference.*

**Question 17:**

Debt service for FY 2005-06 is \$65,130. Debt service by FY 2014-15 has increased to \$8,301,129. Debt service in FY 2005-06 is 1.43% of available funds while in FY 2014-15 it increases to 54.39% of available funds (less than a 2 to 1 coverage ratio than is usually found to be acceptable by the bond market). Is the debt service to available funds ratio (coverage ratio) a potential source of a lowered bond rating and higher interest costs as it increases? Does this debt service load continue to increase through FY 2024-25? If it does, what does it increase to?

**Answer:**

*The municipal bond market looks at the water utility as a whole when it issues revenue bonds. Looking at table 2-3 page 2-16, you can see that the lowest the debt ratio gets is 1.31 in FY 2012. This is above the 1.2 that is the minimum recommended by the City's financial advisors.*

**Question 18:**

Line number 5 lists a Growth Capacity of 7,717 acre-feet (AF). Footnote 1 on this table states "Excludes Big Chino/Water Resource related projects." What is the source of the 7,717 AF of growth capacity? Does that include the 4,717 acre-feet from the Big Chino Water Ranch? If so, where is the remaining 3,000 acre-feet coming from?

**Answer:**

*The 7,717 AF is a typographical error and the number should be 7,634 AF. This number was derived as follows (all numbers are projected as of May 2006):*

*4,717 AF—Big Chino Ranch Water*

*1,769 AF—2005-2010 Water Management Policy allocation and contractual reservations*

*1,068 AF—remaining pre-1999 preliminary plat lot*

*80 AF—remaining 1999 Water Management Policy allocation*

*The study looked at when the demand would be placed on the system, not when the water was allocated.*

**Question 19:**

There are references in the report to bonding but there are no details provided. Please explain.

**Answer:**

*It is anticipated that these will be Municipal Property Corporation bonds with pledges of excise tax or utility revenues, depending on market conditions at the time of issue. The term of the bonds for all infrastructure will be 20 years, except the "Big Chino Water Ranch" infrastructure which will be 30 years. At this time we anticipate grouping the projects in issues every year or eighteen months. The projected debt coverage ratios are on page 2-16 in table 2-3 of the report.*

**Question 20:**

Does the rate and fee structure proposed encourage individual metering in multifamily structures or does it discourage it?

**Answer:**

*The consultants did not evaluate individual metering of multifamily structures due to a lack of data in the current system. However, since 90% of the usage in apartment complexes is domestic, there is not as great an opportunity for conservation as with single family residences. The rate structure does not encourage nor discourage individual sub-metering, but the cost of service would increase if all multifamily units were individually metered by the City of Prescott, which would in turn increase rates. Requiring sub-metering on the part of the landlord through building regulations would be an idea the Water Conservation Committee could look at.*