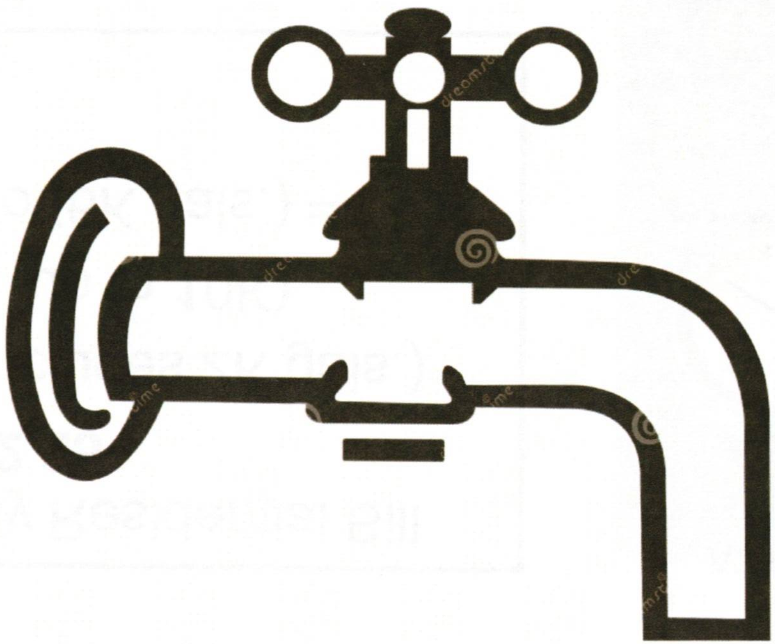
The Town of Patagonia

# NOTICE OF INTENT TO PROCEED WITH CONSIDERATION OF RECOMMENDED WATER AND WASTEWATER RATE AND FEE INCREASES

**Notice is hereby provided that a public hearing has been scheduled for the Patagonia Town Council's Regular meeting to be held at 6:00 P.M. on March 12, 2025, in** TOWN HALL 310 MC KEOWN AVENUE, PATAGONIA, AZ, **to receive comments from the public on the study and report prepared by the Town Manager that recommends that to maintain the financial soundness of the Town's water and wastewater utilities certain rates and fees must be increased and/or newly established. At the conclusion of the public hearing, the Town Council may adopt some, all or none of the proposed recommendations regarding rate and/or fee increases.**

# WATER



RCAC
www.rcac.org

# Exhibit B, Part 2: Adjusted FY25 Residential Water Rate Impact (Replaces Slide 20)

| Monthly Usage Level (Gallons) | Option 1 (No Change) | Option 2 (Uniform Adjustment) | $ Increase |
|---|---|---|---|
| 0 | $19.05 | $22.29 | $3.24 |
| 2,000 | $19.05 | $22.29 | $3.24 |
| 6,000 | $25.45 | $29.78 | $4.33 |
| 10,000 | $34.65 | $40.54 | $5.89 |
| 15,000 | $48.90 | $57.21 | $8.31 |
| 20,000 | $65.15 | $76.23 | $11.08 |
| Monthly Rates | $19.05 Base Rate (incl. 2K gallons) + $1.60 per/K (up to 10K) + $2.30 per/K (up to 15K) + $2.85 per/K (up to 20K) + $3.25 per/K thereafter | 17% increase in base + usage charges | |
| Residential Affordability at 6K Gals. Mo. Usage: MHI = 34609 | **0.88%** | **1.03%** | |

Average residential bill at 6K gals. monthly consumption would increase by **$4.33**

RCAC
www.rcac.org

# Water Utility Financial Performance

| Item | FY23 | FY24 | FY25 Forecast |
|---|---|---|---|
| Metered Water Sales | $149,792 | $168,250 | $169,856 |
| Interest & Other Revenue (Excl. Transfers) | $21,058 | $23,302 | $22,711 |
| *Contingency Funding* | $100,000 | $125,000 | $110,000 |
| Base Operating Expenses* | $262,186 | $314,209 | $302,500 |
| Loan Payments | $0 | $0 | $0 |
| Net Revenue | $8,664 | $2,343 | $67 |

**Excludes depreciation and transfers*

RCAC
www.rcac.org

# FY25-30 Financial Forecast with No Revenue Adjustments

| Line | Town of Patagonia Water Utility | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 |
|---|---|---|---|---|---|---|---|
| 1 | Monthly Water Sales | $ 169,856.00 | $ 169,856.00 | $ 169,856.00 | $ 169,856.00 | $ 169,856.00 | $ 169,856.00 |
| 2 | Other Operating Revenue | $ 10,862.00 | $ 10,862.00 | $ 10,862.00 | $ 10,862.00 | $ 10,862.00 | $ 10,862.00 |
| 3 | **Total Operating Revenue** | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 |
| 4 | Additional Revenue from Service Rate Adjustment | $ - | $ - | $ - | $ - | $ - | $ - |
| 5 | Deduction for Partial Year Rate Adjustment | $ - | $ - | $ - | $ - | $ - | $ - |
| 6 | Uncollected Accounts (Gain or Loss) | $ - | $ - | $ - | $ - | $ - | $ - |
| 7 | **Total Adjusted Operating Revenue** | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 | $ 180,718.00 |
| 8 | Base Operating Expense* | $ 302,500.00 | $ 311,575.00 | $ 320,922.25 | $ 330,549.92 | $ 340,466.42 | $ 350,680.41 |
| 9 | Other Operating Expense | $ - | $ - | $ - | $ - | $ - | $ - |
| 10 | **Total Operating Expenses** | $ 302,500.00 | $ 311,575.00 | $ 320,922.25 | $ 330,549.92 | $ 340,466.42 | $ 350,680.41 |
| 11 | **NET OPERATING REVENUE** | $ (121,782.00) | $ (130,857.00) | $ (140,204.25) | $ (149,831.92) | $ (159,748.42) | $ (169,962.41) |
| 12 | Interest Earned | $ 11,849.00 | $ 4,931.84 | $ 4,288.69 | $ 3,774.86 | $ 2,827.91 | $ 2,296.49 |
| 13 | Contingency Fund Contributions | $ 110,000.00 | $ 102,500.00 | $ 95,000.00 | $ 87,500.00 | $ 80,000.00 | $ 72,500.00 |
| 14 | **Total Recurring Non-Operating Revenue** | $ 121,849.00 | $ 107,431.84 | $ 99,288.69 | $ 91,274.86 | $ 82,827.91 | $ 74,796.49 |
| 15 | **NET SYSTEM REVENUE** | $ 67.00 | $ (23,425.16) | $ (40,915.56) | $ (58,557.06) | $ (76,920.51) | $ (95,165.92) |
| 16 | Loan Payments (Principal and Interest) | $ - | $ - | $ - | $ - | $ - | $ - |
| 17 | Additional Loans | $ - | $ - | $ 4,591.11 | $ 4,591.11 | $ 18,739.79 | $ 18,739.79 |
| 18 | **Total Debt** | $ - | $ - | $ 4,591.11 | $ 4,591.11 | $ 18,739.79 | $ 18,739.79 |
| 19 | **Amount Available for Reserves** | $ 67.00 | $ (23,425.16) | $ (45,506.66) | $ (63,148.16) | $ (95,660.29) | $ (113,905.71) |
| 20 | **Transfer** | $ 17,000.00 | $ - | $ - | $ - | $ - | $ - |
| 21 | **Plus: Beginning Available Cash Balance** | $ - | $ (12,826.40) | $ (66,144.96) | $ (142,004.14) | $ (235,504.82) | $ (362,932.49) |
| 22 | **Net Position Before Reserves** | $ 17,067.00 | $ (36,251.56) | $ (111,651.63) | $ (205,152.30) | $ (331,165.11) | $ (476,838.20) |
| 23 | Operating Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 24 | Emergency Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 25 | Debt Reserve | $ - | $ - | $ 459.11 | $ 459.11 | $ 1,873.98 | $ 1,873.98 |
| 26 | Short-lived Asset Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 27 | Capital Replacement Reserve | $ 29,893.40 | $ 29,893.40 | $ 29,893.40 | $ 29,893.40 | $ 29,893.40 | $ 29,893.40 |
| 28 | **Total Reserves** | $ 29,893.40 | $ 29,893.40 | $ 30,352.51 | $ 30,352.51 | $ 31,767.38 | $ 31,767.38 |
| 29 | **Ending Net Position** | $ (12,826.40) | $ (66,144.96) | $ (142,004.14) | $ (235,504.82) | $ (362,932.49) | $ (508,605.58) |

*Excludes Interest Expense and Depreciation

RCAC
www.rcac.org

# Utility Observations

- 456 active water and sewer connections
- Multiple projects planned over next 5 years; $385,503 in available reserves identified at end of FY24
- Contingency funding needed to operate utilities (FY25 Budgeted = $110K for water + $110K for sewer)
- Last rate adjustment (**2016**)

RCAC
www.rcac.org

# Financial Forecast (FY25-30)

- Purpose: Recognize full cost of providing water service including base operating expenses, debt and reserves
- Approach: Implement revenue adjustments over multi-year period to meet recognized needs
- **Goals:** 1) Build needed capacity; 2) Reduce reliance on contingency funding ($110K in FY25 => $72.5K by FY30)

# Revenue Needs

- **Base Operating Expenses** – Salaries and benefits, utilities, chemicals, maintenance & repairs, fuel, office supplies, insurance, et. al.
- **Debt Service**– loan payments (principal and interest)
- **Reserves –** Operating, Emergency, Debt, and Capital

# SEWER


RCAC
www.rcac.org

# Exhibit A, Part 2: Adjusted Current Monthly Sewer Rates (Replaces Slide 22)

- Standard Monthly Residential Bill (flat charge) = **~~$29.50~~** **$33.35**
- Base: ~~$29.50~~ **$33.35**
- Usage: none
- Affordability Ratio (6K gals.) = ~~1.02~~ 1.16

SEWER USER RATES AND CHARGES

| CATEGORY OF SERVICE | INSIDE TOWN LIMITS |
|---|---|
| AVAILABILITY FEE | 50% OF BASE CHARGE |
| BASE CHARGE EACH ACTIVE CONNECTION UNLESS OTHERWISE SPECIFIED | $33.35 |
| Hotel, Motel, Inn | $11.20/room/month/ |
| PATAGONIA UNION HIGH SCHOOL | $232.25-SEP THROUGH MAY<br>$116.96 –JUNE, JULY, AUGUST |
| SECURITY DEPOSIT | 3 MONTHS BASE CHARGE |
| LATE CHARGE | $5 PER MONTH PER $100 OWED |
| LOW INCOME DISCOUNT | 75% OF BASE CHARGE |
| MINIMUM NEW SEWER CONNECTION CHARGE* | $2,260 |

* IN THE EVENT THAT THE TOWN COSTS FOR INSTALLING A CONNECTION EXCEED THE MINIMUM CHARGE, CUSTOMER SHALL BE CHARGED THE ACTUAL TOWN COSTS FOR SUCH CONNECTION

Median charge in AZ for systems with similar population (500-1000) at 6K usage = **$38.39** (2021)

RCAC
www.rcac.org

# Sewer Utility Financial Performance

| Item | FY23 | FY24 | FY25 Forecast |
|---|---|---|---|
| Sewer Service Charges | $193,828 | $204,562 | $202,536 |
| Interest & Other Revenue (Excl. Transfers) | $6,000 | $21,450 | $33,102 |
| *Contingency Funding* | $125,000 | $125,000 | $110,000 |
| Base Operating Expenses* | $337,565 | $345,513 | $340,417 |
| Loan Payments | $0 | $0 | $0 |
| Net Revenue | -$12,737 | $5,499 | $5,221 |

**Excludes depreciation and transfers*

RCAC
www.rcac.org

# FY25-30 Financial Forecast with No Revenue Adjustments

| Line | Town of Patagonia SEWER Utility | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 |
|---|---|---|---|---|---|---|---|
| 1 | Monthly Wastewater Sales | $ 204,562.00 | $ 204,562.00 | $ 204,562.00 | $ 204,562.00 | $ 204,562.00 | $ 204,562.00 |
| 2 | Other Operating Revenue | $ 21,253.00 | $ 21,253.00 | $ 21,253.00 | $ 21,253.00 | $ 21,253.00 | $ 21,253.00 |
| 3 | **Total Operating Revenue** | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 |
| 4 | Additional Revenue from Service Rate Adjustment | $ - | $ - | $ - | $ - | $ - | $ - |
| 5 | Deduction for Partial Year Rate Adjustment | $ - | $ - | $ - | $ - | $ - | $ - |
| 6 | Uncollected Accounts (Gain or Loss) | $ - | $ - | $ - | $ - | $ - | $ - |
| 7 | **Total Adjusted Operating Revenue** | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 | $ 225,815.00 |
| 8 | Base Operating Expense* | $ 340,417.00 | $ 350,629.51 | $ 361,148.40 | $ 371,982.85 | $ 383,142.33 | $ 394,636.60 |
| 9 | Other Operating Expense | $ - | $ - | $ - | $ - | $ - | $ - |
| 10 | **Total Operating Expenses** | $ 340,417.00 | $ 350,629.51 | $ 361,148.40 | $ 371,982.85 | $ 383,142.33 | $ 394,636.60 |
| 11 | **NET OPERATING REVENUE** | $ (114,602.00) | $ (124,814.51) | $ (135,333.40) | $ (146,167.85) | $ (157,327.33) | $ (168,821.60) |
| 12 | Interest Earned | $ 5,644.49 | $ 5,113.12 | $ 4,557.31 | $ 4,007.27 | $ 3,447.49 | $ 2,734.33 |
| 13 | Other Recurring Non Operating Revenue | $ 110,000.00 | $ 102,500.00 | $ 95,000.00 | $ 87,500.00 | $ 80,000.00 | $ 72,500.00 |
| 14 | **Total Recurring Non-Operating Revenue** | $ 115,644.49 | $ 107,613.12 | $ 99,557.31 | $ 91,507.27 | $ 83,447.49 | $ 75,234.33 |
| 15 | **NET SYSTEM REVENUE** | $ 1,042.49 | $ (17,201.39) | $ (35,776.09) | $ (54,660.57) | $ (73,879.84) | $ (93,587.27) |
| 16 | Loan Payments (Principal and Interest) | $ - | $ - | $ - | $ - | $ - | $ - |
| 17 | Additional Loans | $ - | $ - | $ 508.07 | $ 508.07 | $ 508.07 | $ 5,285.83 |
| 18 | **Total Debt** | $ - | $ - | $ 508.07 | $ 508.07 | $ 508.07 | $ 5,285.83 |
| 19 | **Amount Available for Reserves** | $ 1,042.49 | $ (17,201.39) | $ (36,284.16) | $ (55,168.64) | $ (74,387.91) | $ (98,873.11) |
| 20 | **Transfer** | $ 17,000.00 | $ - | | $ - | $ - | $ - |
| 21 | **Plus: Beginning Available Cash Balance** | $ - | $ (9,927.58) | $ (55,099.05) | $ (119,353.27) | $ (202,491.99) | $ (304,849.97) |
| 22 | **Net Position Before Reserves** | $ 18,042.49 | $ (27,128.97) | $ (91,383.20) | $ (174,521.92) | $ (276,879.90) | $ (403,723.08) |
| 23 | Operating Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 24 | Emergency Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 25 | Debt Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 26 | Short-lived Asset Reserve | $ - | $ - | $ - | $ - | $ - | $ - |
| 27 | Capital Replacement Reserve | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 |
| 28 | **Total Reserves** | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 | $ 27,970.07 |
| 29 | **Ending Net Position** | $ (9,927.58) | $ (55,099.05) | $ (119,353.27) | $ (202,491.99) | $ (304,849.97) | $ (431,693.15) |

*Excludes Interest Expense and Depreciation

RCAC
www.rcac.org

# Exhibit B, Part 3: Adjusted FY25 Residential Sewer Rate Impact (Replaces Slide 31)

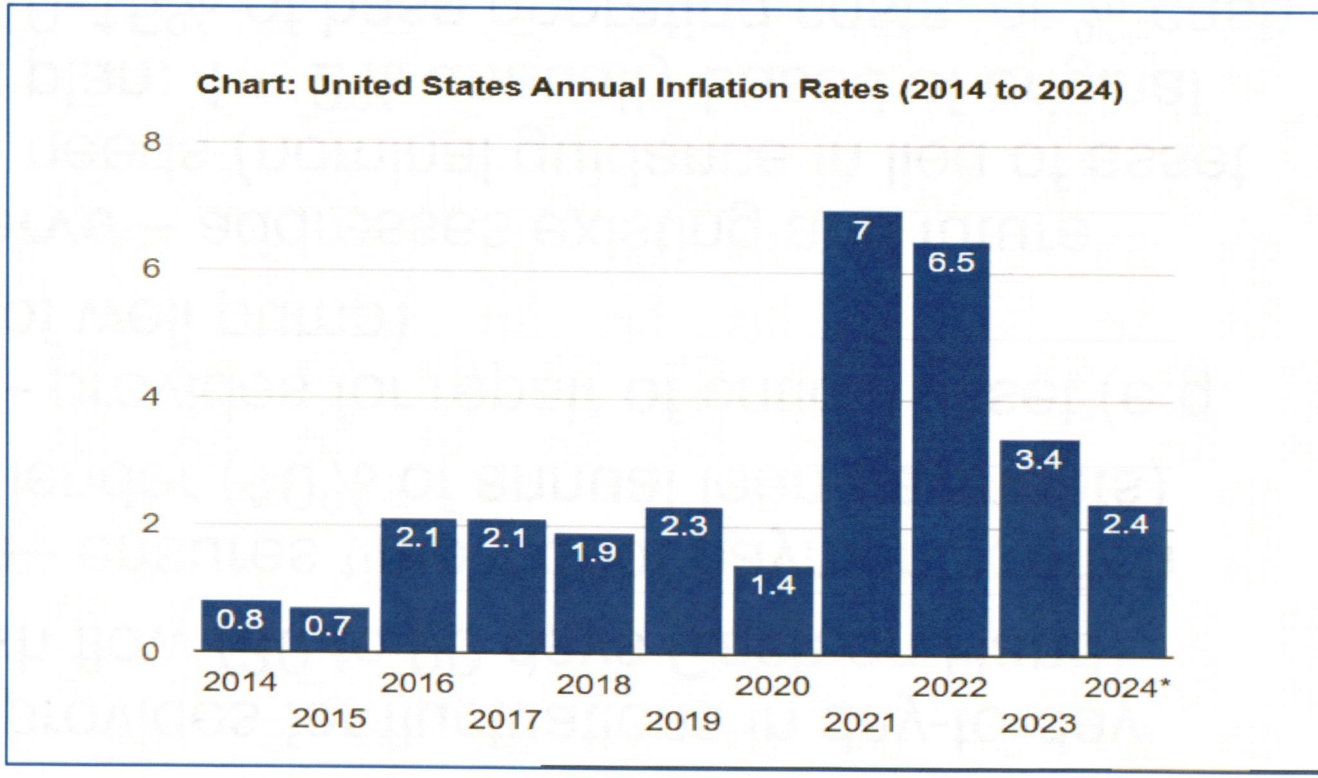
| Monthly Usage Level (Gallons) | Option 1 (No Change) | Option 2 (Uniform Adjustment) | $ Increase |
|---|---|---|---|
| 0 | $33.35 | $39.02 | $5.67 |
| 2,000 | $33.35 | $39.02 | $5.67 |
| 6,000 | $33.35 | $39.02 | $5.67 |
| 10,000 | $33.35 | $39.02 | $5.67 |
| 15,000 | $33.35 | $39.02 | $5.67 |
| 20,000 | $33.35 | $39.02 | $5.67 |
| Monthly Rates | $33.35 flat rate | 17% increase in base + usage charges | |
| Residential Affordability at 6K Gals. Mo. Usage: MHI = 34609 | **1.16%** | **1.35%** | |

Average monthly residential sewer bill would increase by **$5.67**

RCAC
www.rcac.org

# Factors Affecting Revenue Needs

- System growth & per capita usage
- Operating Efficiency
- Timing
- **Inflation**




***Cumulative Inflation 1/21 – 9/24 = 21%**

RCAC
www.rcac.org