

## Water rate hike may halt use of reserves

### Payson officials say proposed 20 percent rise would protect money for Blue Ridge and replacement of aging water mains

By [Pete Aleshire](#)

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Payson needs a big hike in its water rates to stop slurping up the money it needs to maintain the existing system before it's too late, says Assistant Public Works Director Buzz Walker.

The Payson council has asked Walker to update a 2006 report that recommended a roughly 20 percent rate increase and to make recommendations on whether to now implement that increase.

"We've been living on our reserves for the last five years," said Walker. "Those are reserves that should be used for the Blue Ridge Reservoir."

Walker said that for the past few years the town has been nibbling away at a capital improvements reserve fund that once stood at about \$11 million. A lot of that money came from a \$7,500-per-unit water impact fee imposed to help pay for the \$30 million Blue Ridge Reservoir pipeline, said Walker.

The town has taken about \$4 million out of that fund in recent years, mostly to pay the preliminary costs of the proposed pipeline — which should start delivering 3,000 acre-feet annually starting in perhaps 2014.

The capital improvement reserve fund now stands at about \$7 million.

"If we keep taking money out of the C.C. Cragin project fund to fund operations, then we are not going to be able to make the loan payments on that project except through water rates. We'll bleed that fund dry: Then where are we?"

Some of that money has also offset operating costs for the existing system. Currently, the water department is running an operating deficit of about \$1.2 million, according to budget documents.

Moreover, the town will need an extra \$10 million in the next decade to replace 40-year-old water mains in older areas of town — many only two inches in diameter. Only about half of the existing neighborhoods in town have eight-inch water mains big enough to support fire hydrants, Walker noted.

As a result, Walker said the town needs to start setting aside extra money to eventually replace all of the older, undersized mains and trunk lines. Fortunately, the town's water treatment system and network of wells is relatively up to date, said Walker.

The water department collects about \$3.5 million annually from customers, so a 20 percent increase in water rates would bring in about \$700,000 annually.

Some critics have questioned the timing and size of the proposed rate increase. Not only does the water department still have some \$5 million in reserves for capital improvements, but the water department has set aside \$1 million in case other town departments run out of money before June. At one time, the town's budget projections suggested the town would need to use all of that loan — but recent improvements in sales tax revenue mean the town might finish the year without needing to borrow that money.

The council's discussion of the possible rate increase last week provided little detail of the financial status of the water department, but the 2006 consultant's report and recent budget documents have provided revealing details of the water department's finances.

Payson established a special Enterprise Fund when it bought out a private water company and established its water department. The Enterprise Fund provides a way to separately track and audit water department rates and spending, but the council retains complete control over the fund.

Payson last raised its water rates in 2003.

The 2006 consultant's report recommended an immediate, average 20 percent rate increase — with rates that varied to some degree depending on total monthly use.

That study found that in 2005, Payson's water rates averaged about \$27.60 for 5,000 gallons. Payson had higher rates than seven out of 10 small towns in the region. Holbrook had the lowest rates at about \$12 for 5,000 gallons. Prescott, Prescott Valley, Sedona, Chino Valley and Show Low also had somewhat lower rates than Payson.

Williams had virtually the same rates and Cottonwood had rates just a little higher. Clarkdale and Camp Verde had much higher rates — closer to \$39 for 5,000 gallons.

Walker noted that the town has hired a consultant to update the 2006 report, including a survey of water rates in other towns.

However, he said the town will base its rates on the cost of running the water system and setting aside enough money for future improvements, without regard to rates in other towns.

The connection between residential water rates and the Blue Ridge pipeline remains complicated, which has caused concern by some residents about the proposed rate increase.

Town officials initially assured residents that impact fees on new construction would pay the bulk of the costs to complete and operate the Blue Ridge pipeline. The town's wells have a capacity to produce about 2,400 acre-feet annually — although the town only uses about 1,800 acre-feet at present.

The 3,000 acre-feet of Blue Ridge water will more than double the town's assured water supply. That should provide enough water for the town to grow from the current population of about 17,000 to a build-out population of about 38,000.

The town more than doubled the water impact fees several years ago to bring in enough money to pay off the eventual bonds to build the Blue Ridge pipeline. Walker put the long-term cost of the Blue Ridge construction bonds at about \$1 million annually.

The town recently got a \$10.5 million federal grant to help build the pipeline — including a \$4 million grant and another \$6.5 million in low-cost, long-term loans. In addition, the town hopes to eventually qualify for a low-cost, federally-subsidized 40-year loan to cover the rest of the cost.

The town hopes that once the housing market revives, new construction will provide enough money in impact fees to cover the cost of the loans to build the pipeline. If those impact fees don't start coming in fast enough to rebuild the capital improvements fund, the town will have to cover the \$1 million annual cost of the bonds with water department revenues.

In addition, the town will need to raise several million dollars to alter several of the existing wells to start putting Blue Ridge water down into the water table, rather than pumping more groundwater out. The town's water table had dropped several hundred feet before the imposition of tough water conservation rules and rates that penalized heavy water users several years ago. Since then, the water table has stabilized and even risen a little, thanks to conservation measures that made Payson's per-household water use rates amongst the lowest in the state.

The town hopes to initially use a share of the Blue Ridge water to replenish the underground water table, providing the town with a cushion to get through future droughts that might reduce the amount of water available from Blue Ridge.

Ironically, that sharp drop in consumption actually made the water department's cash flow problems worse, since the infrastructure costs didn't change but the number of gallons sold dropped, said Walker.

Walker said the town needs the 20 percent rate increase so it can cover its day-to-day operating costs and build up money to replace aging water mains without continuing to dip into money set aside for Blue Ridge.

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