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## Worst-case scenario water rates for Payson

Residents face possible increase of 24 percent in three years if town doesn't collect water impact fees

By [Pete Aleshire](#)

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Pete Aleshire/Roundup

The Blue Ridge pipeline has delivered a gush of water to the East Verde at Washington Park, but now Payson has imposed the first of a series of water rate increases to make sure the town has the money needed to issue bonds to build the pipeline even if the housing market doesn't recover.

Back when Blue Ridge water was just a dream, Payson town officials promised residents that developers and new residents would foot the bill — not current water users.

But with a 10 percent water rate hike already in effect and potential additional hikes of 20 or 30 percent on the horizon, that promise has proved unexpectedly complicated to keep.

Recently, the Payson Town Council, in theory, approved significant annual increases in water rates that could boost the average resident's bill by 24 percent in the next three years. Some of that increase would pay to keep pace with inflation and replace 40-year-old water mains, which will also bring fire hydrants to older areas of town. But some of the money will ensure the town has the money to build the \$30 million Blue Ridge pipeline, which will more than double the town's water supply.

The single resident who did speak at the hearing suggested the town shift to a rate structure that would encourage conservation by raising the per-gallon rate imposed on heavy water users.

"There's no distinction between conservation and consumption" in the proposed rate increase, said John Wakelin. "In each category of use, the rate increase is 24 percent" over the next three years.

The town had hoped to pay all the costs of Blue Ridge with a \$7,500-per-unit water impact fee imposed on new home construction, with an average of 250 homes per year. But in the past two years, the average has remained more like 30 units annually.

The town did get a \$10.5 million federal stimulus grant — half a gift and half a very low-cost loan. Moreover, the town had about \$12

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millions accumulated from impact fees, which has covered much of the early cost of the pipeline.

Still, the proposed water rate increase will provide the guaranteed revenue stream necessary for the town to issue bonds and protect its credit rating by assuring the town will have the money to pay for the pipeline.

In addition, the town needs to accumulate money to start replacing old, undersized water mains, which have left more than a third of the town without enough water pressure to drive a fire hydrant.

The council earlier this year approved a 10 percent water rate increase that boosted the base rate for 2,000 gallons monthly to \$21.71. Residents now pay different per-gallon rates as monthly use increases — although none as steep as the base rate. Rates for the higher amounts increased by a similar percentage. That rate will go into effect in October.

The average Payson water user consumes 5,000 gallons a month and pays \$30.50.

The council also tentatively approved smaller, annual increases for October 2012 and October 2013. If those rate increases stand, the base rate would increase to \$26.96 — a 24 percent increase over the current rates. That's nearly one-third more than residents were paying last year before the first hike.

The town's water rate consultant, Dan Jackson of Economist.com, recommended the town put in place a rate structure that includes regular annual increases linked to the underlying rate of inflation in water systems nationally.

Under the rate structure Jackson recommended, the average water bill in Payson would rise from last year's \$27.50 to \$37.87 in 2013. Jackson's recommended rate structure kept the increases going through at least 2016, when the average water user would be paying \$41.78.

However, Payson Mayor Kenny Evans said the town won't have to actually impose the increases in 2012 and 2013 if construction heats up again and impact fees accumulate. In addition, the town could save millions if it can qualify for long-term, low-interest federal loans to build the system.

"I have at one point been hopeful and at another point anxious about growth and the lack thereof in this community," said Evans at the hearing last week. "But we have to make projections based on our ability to pay back that money."

He said the severity and duration of the housing slump has surprised officials and complicated the plans for the Blue Ridge pipeline. "We could have coped with a 50 percent decline (in building permits), but what we can't deal with is zero growth. We need that \$7,500 impact fee" to build the pipeline.

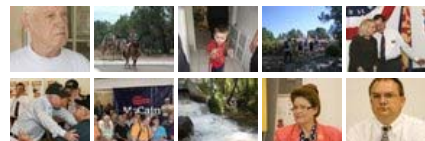
The water rate increases beyond October built into the town's rate plan assumes construction will remain moribund for the foreseeable future, which means current water users will have to shoulder the cost of building the Blue Ridge pipeline.

The council adopted a three-year plan that really amounts to a worst-case scenario, so residents and businesses could brace for the worst. However, a rise in impact fee collections and more federal loans or grants could reduce the need for higher rates.

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Andy Towle/Roundup - atowle@payson.com

Kenny Evans

You need to plan for the worst and hope for the best," said Jackson.

However, the town also needs money to upgrade existing water mains — especially 40-year-old water mains in older areas of town.

Water department head Buzz Walker said when the newly incorporated town bought the private water system in 1980, it had six wells, two storage tanks, and few fire hydrants. The system has grown steadily ever since and now includes 42 wells and 13 storage tanks and about 960 fire hydrants.

Payson now has 7,873 water meters, including 600 for commercial properties and 7,269 for homes.

The delivery of the Blue Ridge water will require a new, 18-inch, 23,000-foot-long water main capable of delivering 4 million gallons from the north end of town and distributing it into the system.

In the next few years, the town should spend about \$10 million to replace about 45 miles of undersized water mains.

Jackson said the town had not raised rates for seven years before last year's jump, but water rates nationally have been rising at a rate of 5-6 percent annually. Jackson said Payson's current water rates are somewhere in the middle range for other water companies and towns in the region. Payson currently charges more for water than Holbrook, Prescott Valley, Sedona or Show Low, but less than Pine, Clarkdale or Camp Verde, reported Jackson.

Walker urged an immediate rate increase, although the water department has millions in the bank — enough to cover current operating losses for two to four years.

He said the bulk of the requested rate increase will upgrade the existing system, not pay for Blue Ridge. "This is for the system, not the project," he said, "depending on how we structure the debt."

Jackson's detailed justification for the rapid increase in rates after years of stability dominated the hearing, save for Wakelin's persistent questions about whether the water rate structure should do more to punish high volume — especially those using more than twice the 5,000-gallon-a-month average.

Jackson noted that the base rate recognizes the need to have as much water as a resident wants available — even if they don't use a lot of water.

Wakelin objected that water rates should instead reward the homeowner who uses less than the current 2,000 minimum. Residents pay about \$9.10 per 1,000 gallons in the base rate and people using above 20,000 gallons pay \$6 per 1,000 additional gallons.

"No matter how little water you use, you're getting hit with that 24 percent increase" in the base rate, he said. "I don't think we're taking into account the need for conservation here," said Wakelin.

"Water is a precious resource," persisted Wakelin. "Blue Ridge down the road might alleviate some concerns, but conservation is still important. At the end of the day, the cost per gallon over 20,000 is 50 percent less than the 3,000-gallon water user pays."

If the town applied the base rate to a 20,000-gallon user, the high-volume customers would pay \$1,800 per month.

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