



Meeting Date: April 4, 2012  
Agenda Item: # 10-1

### Mission Statement

To provide our growing dynamic community excellent municipal services to make Fernley a great place to live, work, and play.  
Together, we enhance the desirability, safety, friendliness, aesthetics and quality of life in our city.

## CITY OF FERNLEY CITY COUNCIL MEETING STAFF REPORT

REPORT TO: Mayor & City Council

REPORT THRU: Fred Turnier, Interim City Manager *FT* REVIEWED BY: *A. D. News*

REPORT FROM: Kathy Bennett, Technical Specialist II *KB*

AGENDA ITEM: DISCUSSION AND POSSIBLE DIRECTION TO STAFF TO MOVE FORWARD WITH DEVELOPING A WATER BOND DEBT FEE FOR EXISTING WATER UTILITY CUSTOMERS AND FOR ANY RESIDENTIAL OR COMMERCIAL LOT WITH COMMITTED WATER WILL-SERVES IN ORDER TO RECOVER THE ANNUAL WATER BOND DEBT SERVICE, AND POSSIBLE DIRECTION TO STAFF TO ASSESS MODIFICATIONS TO THE EXISTING WATER RATE STRUCTURE TO REFLECT THE ANNUAL OPERATING AND CAPITAL EXPENDITURES, RESERVE FUND BALANCE REQUIREMENTS, AND ANNUAL DEPRECIATION.

ACTION REQUESTED:  Consent  Ordinance  Resolution  Motion  Receive/File

### POLICY ISSUE

Should the City of Fernley collect a Water Bond Debt Fee to recover the entire \$4.72 million annual water bond debt service on the Water Treatment Plant and Conveyance System and modify the existing water rates to reflect only operating, capital, reserve fund and depreciation?

Should the City collect the Water Bond Debt Fee from all existing customers and any lots with committed will-serves in order to pay the annual bond debt?

Should the City collect this fee as an additional item on the annual property tax statement?

Should the City collect the fee based on the capacity of the customer's meter?

### RECOMMENDED ACTION BY CITY COUNCIL

Direct staff to move forward with developing a Water Bond Debt Fee based on the meter capacity multiplier to be collected from existing water utility customers and any residential or commercial lot with committed water will-serves in order to recover the entire annual water bond debt service, and direct staff to assess possible modifications to the existing water rate structure to reflect the annual operating and capital expenditures, reserve fund balance requirements, and annual depreciation.

### POLICY ALTERNATIVE(S)

- Direct staff to move forward with developing a fee with a different collection structure and/or collection methodology
- Table the item and request more information

**STRATEGIC PLAN RELEVANCE:**

Economic Vitality:	Yes
Accountable/Efficient Gov't:	Yes
Enhance Gov't Partnerships:	Yes
Quality of Life:	Yes

**STRATEGIC PLAN SYNOPSIS:**

Strategic Goal 3:  
Preserve and maintain quality of life and enhance maintenance and reconstruction of City infrastructure with emphasis on sustainability.

**POLICY REFERENCE**

<i>Nevada Statutes:</i>	NRS 266.261 and 266.285, NRS 268.730,268.732 and 268.738
<i>Fernley Municipal Code:</i>	N/A
<i>Policies &amp; Procedure Manual:</i>	N/A
<i>Community Assessment:</i>	N/A
<i>Other:</i>	N/A

**SUMMARY**

Over the last three years the Water Enterprise Fund Cash Balance has dwindled from approximately \$8 million to \$2.5 million, and will drop even lower in August of 2012 when another water bond payment is due. The practice of partially paying the bond debt with reserve fund balance is not sustainable and this option is quickly failing. Although City Council implemented a water bond debt assessment for FY11/12, the assessment level only partially offset the \$4.72 million annual bond payment. Finance estimates that the City will collect over \$1.4 million this fiscal year, but the balance of the annual bond payment will be collected from a loan from the General Fund, and a draw down on the Water Fund Cash Balance. Because the Water Fund Cash Balance is significantly depleted and costs in the General Fund for FY12/13 are projected to increase, the options that were selected last fiscal year will not work going forward into the next year.

As operating and capital budgets have been cut to bare minimums, Staff has been tasked with identifying possible long term solutions for the water bond dilemma. In attempt to identify more sustainable solutions related to an assessment, Staff contracted with Farr West Engineering. Based on our meetings and analysis, it appears that the most streamlined and straightforward approach would be to separate the collection of funds to pay the annual water bond payment from the collection of water rates used to pay for collection, treatment, and distribution of water to customers. This approach would allow us to discuss and address the cost of the water improvements required for water system expansion and compliance (bond debt issues) separately and distinctly from the cost of delivering water to utility customers and day to day management of the water system and finances (water rate issues).

The recommended methodology for a Water Bond Debt Fee intended to pay the annual \$4.72 million water bond payment is as follows:

- 1) Collect the entire \$4.72 million through a Water Bond Debt Fee
- 2) Collect the Water Bond Debt Fee on the annual property tax statement to alleviate administrative implementation and fee collection workload for City Staff and to mitigate the monthly impact to customers
- 3) Collect the Water Bond Debt based on the recommended American Water Works Association (AWWA) meter capacity multiplier, as shown below:

Option 1-Table 1-1

Meter Size Capacity	Fee Type	Percentage of Base Rate
3/4"	Base Rate	X 1.0%
1	Base Rate	X 1.67%
1 ½	Base Rate	X 3.33%
2	Base Rate	X 5.33%
3	Base Rate	X 10.00%
4	Base Rate	X 16.67%
6	Base Rate	X 33.35%

These multipliers are not based on consumption, but rather the total *capacity* of the meter to convey water. Table 1-1 Option 1, shows the calculations formula for using our current customer base of approximately 7239 account holders, including commercial, residential and multifamily.

- 4) Collect the Water Bond Debt Fee from any existing customer **and** any property owner who's lot has a committed will-serve from the City, including residential and commercial will-serves

Option 2-Table 1-2

Meter Size Capacity	Fee Type	Percentage of Base Rate
3/4"	Base Rate	X 1.0%
1	Base Rate	X 1.67%
1 ½	Base Rate	X 3.33%
2	Base Rate	X 5.33%
3	Base Rate	X 10.00%
4	Base Rate	X 16.67%
6	Base Rate	X 33.35%
Will-Served lot	Base Rate	X 1.0%

Table 1-2, Option 2 shows the addition of a Will-Served lot. This includes any lot that has a will-serve commitment reservation issued. This could be any final mapped lots that may not have current service, but have the ability to connect at anytime. (Services have been stubbed to the lot). This fee is to be assessed in the same manner as Option1 through the property tax statement. By adding the will-served lots it adds more connections to the formula and ultimately decreases the annual fee for everyone.

The recommended methodology for a water rate modification intended to pay for the fixed and variable costs to collect, treat, and distribute water to customers is as follows:

- 1) Determine the difference between the revenue collected by the water utility and the costs of capital improvements and operation and maintenance of the system.
- 2) Determine best management practices for recommended balance in the Water Enterprise Fund Reserves (funds have been drastically drawn down over the past few years under the burden of the bond debt).
- 3) Determine best management practices for partially funding depreciation.
- 4) Determine potential for changing the rate structure for existing customers, including an analysis of:
  - a. Including some water with the base rate
  - b. Changing the increasing block rates to lessen impact to higher water use customers
  - c. Modifying the base rate to include all fixed costs, which will mitigate the impact to the Water Fund Budget if consumption decreases
  - d. Decreasing overall monthly rates while still providing for adequate reserves and partially funding depreciation.

The information presented herein is intended to provide City Council with the conceptual information to direct staff on the desired course of action (of the several to be presented on the April 4, 2012 City Council Agenda) to address the water bond debt in a long term, sustainable fashion. Specific numbers, financial estimates, rates and percentages will change as part of the budget process, and as staff is able to refine specific data through more detailed analysis. **Some preliminary information, including fee estimates by scenario, has been presented in the attached power point presentation, but is provided to indicate general trends and order of magnitude, not final recommendations. Additional analysis is required to determine the actual values and fees that would be required. This data will be brought back to City Council for action at a later date.**

At this time, the option of separating the analysis, recommendation, implementation schedule, and collection for Water Bond Debt Fee and City Water Rates would benefit the community in the following ways:

- Simplify the decision making process
- Simplify the schedules and requirements for implementation
- Simplify and streamline the collection process for both the Water Bond Debt Fee and the Water Rates
- Mitigate the impacts to customers who use large amounts of water or very small amounts of water
- Mitigate the monthly impacts of the Water Bond Debt Fee to some customers
- Allow for sound financial practices in maintaining appropriate reserve balance in the Water Fund
- Alleviate the pressure on General Fund Revenues and associated City Services
- Provide certainty in the City's ability to pay the bond debt
- Encourage growth by annually reducing the Water Bond Debt Fee as new customers hook up
- Ensure fixed costs are accommodated in the water rates and reduction in consumption will not adversely affect our ability to serve customers

**FINANCIAL INFORMATION**

**FISCAL IMPACT:**

1. Is There A Fiscal Impact?	Yes
2. Is it Currently Budgeted?	No
3. Which General Ledger?	N/A

**FISCAL SYNOPSIS:**

By collecting the entire bond debt of \$4.72 million annually, water rates will provide the means to fund operation and maintenance of the system, capital improvements, and could result in lower rates, rebuild the fund balance and/or partially fund depreciation.

**PRIOR COUNCIL ACTION/REVIEW**

**April 20, 2011, Agenda Item #10,** DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING A TEMPORARY BOND DEBT ASSESSMENT FOR UTILITY WATER USERS AND OTHER MATTERS PROPERLY RELATED THERETO.

**May 17, 2011, Agenda Item #7,** Resolution Number #2011-002, DISCUSSION AND POSSIBLE APPROVAL OF RESOLUTION #2011-002 FOR A RESIDENTIAL TEMPORARY BOND DEBT ASSESSMENT.

**June 01, 2011, Agenda Item #12,** DISCUSSION AND POSSIBLE APPROVAL OF BUSINESS IMPACT STATEMENT AS IT RELATED TO THE ADDITION OF A RESIDENTIAL AND COMMERCIAL TEMPORARY ASSESSMENT FOR WATER BOND DEBT SERVICE.

**June 15, 2011, Agenda Item #13,** Resolution Number #2011-003, DISCUSSION AND POSSIBLE APPROVAL OF RESOLUTION #2011-003 FOR FLAT RATE FEE ASSESSMENT FOR COMMERCIAL USERS.

## **BACKGROUND INFORMATION**

The Safe Drinking Water Act (SDWA) is the main federal law that ensures the quality of Americans' drinking water. Under SDWA, EPA sets standards for drinking water quality and oversees the states, localities, and water suppliers who implement those standards. On January 22, 2001 EPA adopted a new standard for arsenic in drinking water at 10 parts per billion (ppb), replacing the old standard of 50 ppb. Ppb is a unit of measurement: one drop of arsenic in 1 billion drops of water. The rule became effective on February 22, 2002. The date by which systems must comply with the new 10 ppb standard was January 23, 2006. City of Fernley received a three year time extension from the State of Nevada. **Since the plant came on line in July 2009, we have consistently been well below the maximum arsenic level outlined in the Arsenic rule.**

As a result of the new arsenic rule, the required Water Treatment Plant and Water Conveyance System construction was funded by bonding. In March 2007, bonds in the amount of \$44.5 million were earmarked to fund construction of the Water Treatment Plant and Water Conveyance System. In March 2008, an additional \$30 million in bonds were also earmarked for the Water Treatment Plant and Water Conveyance Projects. The bonds were interest only during the construction period with principal and interest over the 30 year life of the bonds. The interest rate ranges from 4.0 to 5.0 percent for the Series 2007 bonds and 3.25 to 5.0 percent for the Series 2008 bonds. The total cost for the Water Treatment Plant was approximately \$57 million and for the Conveyance System was approximately \$19 million. The Water Fund outstanding debt is currently \$71 million. **At this time, the annual payment for these bonds is \$4.72 million.**

On May 17, 2011, Fernley City Council approved Resolution #2011-002, for a Residential Temporary Bond Debt Assessment of \$18.00, per residential unit. June 15, 2011, the Council approved Resolution Number 2011-033 for a Flat Rate Fee Assessment for Commercial Users of \$36.00 per account. As of March 31, 2012 we have received \$1.1 million in bond debt fee collections. Based on our projections, we are anticipating \$1.4 million will be collected by the end of FY11/12; however, our annual bond debt payment is \$4.7 million.