



PRESCOTT CITY COUNCIL PUBLIC WORKSHOP AGENDA

**PRESCOTT CITY COUNCIL
PUBLIC WORKSHOP
TUESDAY, JUNE 3, 2008
1:30 P.M.**

**Council Chambers
201 S. Cortez Street
Prescott, AZ 86303
(928) 777-1100**

The following Agenda will be considered by the Prescott City Council at its Public Workshop pursuant to the Prescott City Charter, Article II, Section 13. Notice of this meeting is given pursuant to Arizona Revised Statutes, Section 38-431.02.

1. Call to Order
2. Roll:

MAYOR AND CITY COUNCIL:

Mayor Wilson	
Councilman Bell	Councilman Luzius
Councilman Lamerson	Councilman Roecker
Councilwoman Lopas	Councilwoman Suttles

3. Discussion of policy for extending City service into unsewered developed areas.
4. Adjournment.

CERTIFICATION OF POSTING OF NOTICE

The undersigned hereby certifies that a copy of the foregoing notice was duly posted at Prescott City Hall on _____, at _____ .m. in accordance with the statement filed by the Prescott City Council with the City Clerk.

Elizabeth A. Burke, MMC, City Clerk

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COUNCIL AGENDA MEMO – June 3, 2008 (1:30 p.m. Public Workshop)	
DEPARTMENT:	City Manager
SUBJECT:	Discussion of policy for extending City service into unsewered developed areas

Approved By:	Date:
Deputy City Manager: Craig V. McConnell <i>Craig McConnell</i>	5-28-08
City Manager: Steve Norwood	

Purpose

This is the fifth in a series of recent workshops directed toward formulating policy for extending sewer service into existing platted/developed areas which are on City water but rely upon septic or other private systems for wastewater treatment and disposal. Following Council adoption of this topic as a top priority for 2008, workshops were held on January 29, February 26, March 25, and April 29, 2008.

Tentative schedule of upcoming policy discussions

- 1:30 p.m., Tuesday, June 3, 2008 Public Workshop
Council discussion; public input
- 5:30 p.m., Tuesday, June 10, 2008 Public Workshop
(to accommodate those for whom an evening meeting is more convenient)
Council discussion; public input
- 3:00 p.m., Tuesday, June 17, 2008 Study Session
Consideration of draft policy resolution
- 3:00 p.m., Tuesday, June 24, 2008 Voting Session
Adoption of policy resolution

Agenda for this (June 3rd) public workshop

- I. Brief review of policy alternatives Craig McConnell
- II. Improvement districts – what works Andrew McGuire, Esq., Gust Rosenfeld P.L.C.
- III. Council remarks
- IV. Public input (5 min./speaker; one statement by spokesman encouraged for groups)
- V. Council concluding remarks
- VI. Adjournment

Background

Retrofitting sewer systems via improvement districts has been considered in recent years for several areas, however, in each case majority support of the property owners who would benefit and be assessed was not achieved. Subsequently, the Sewer Model completed by Carollo Engineers in 2007 included new mapping of all unsewered areas and cost estimates for installing systems.

Agenda Item: Discussion of policy for extending City service into unsewered developed areas

The Sewer Fund (Fund 13) is supported by revenue from its 16,800 existing, rate-paying customers, hence, any scenario for "Sewer Fund participation" in the cost of extending service into unsewered areas will directly impact the rates of these existing customers. The tentative FY 09-14 Capital Improvement Program (CIP) includes bonding of \$8.4 million for construction projects to sewer the North Prescott, Antelope Hills, White Oak Circle, and White Cloud Lane areas, with debt service supported by sewer impact fees. Financing for the sewer retrofit projects is available from the Water Infrastructure Finance Authority of Arizona (WIFA) at favorable, subsidized rates.

Policy Framework and Formulation

The policy formulation steps below, provided again for reference, were outlined and discussed at prior workshops.

1. Identification of service extension areas; candidates for future sewerage
 - *North Prescott, Antelope Hills, White Oak Circle, and White Cloud Lane were identified as priority areas.*
2. Connection policy when sewer is available
 - *Mandatory or nonmandatory*
3. Financing mechanisms and determination of preferred method
 - *Improvement District, Reimbursement District, Sewer Fund*
4. Supplemental funding from Sewer Fund and/or other participation, if any
5. Selection of areas to receive service and implementation schedule
6. Adoption of resolution setting forth policy for extending service into selected unsewered areas

The objective of this process is to arrive at a combination of two primary components. Attachment A presents three (3) different combinations of the following:

Policy = [selection of financing mechanism] + [mandatory/nonmandatory connection criteria]

Frequently Asked Questions (FAQs)

After the April 29, 2008, workshop the attached FAQs addressing unsewered areas and the process for policy development were posted on the City website as an additional public information resource.

Attachments A Financing/Connection Policy Alternatives for Retrofit Projects
B Frequently Asked Questions (FAQs)

Recommended Action: No formal action - for continuing Council discussion and direction as deemed appropriate.

**FINANCING/CONNECTION POLICY ALTERNATIVES FOR RETROFIT PROJECTS
ALTERNATIVE 1**

Financing Mechanism: Improvement District (ID)		
Connection Criterion: Mandatory Connection when Sewer System Available to Property		
	PROS	CONS
Council initiates district formation process by resolution	* No public vote required to form the district	* Formation often controversial * 50% +1 of owners can protest out (stop) formation * Recent experience unsuccessful due to cost/affordability
	* Long term (25-year), more affordable financing available to property owners	* Debt is on City's books
	* Property owners benefiting from the improvements pay for them	* City responsible for long term district administration
	* Impact fees and on-site costs can be included in district financing	* Liens placed upon properties to assure payment of assessments
	* Assured revenue stream for debt service on bonds usually sold to finance project	

**FINANCING/CONNECTION POLICY ALTERNATIVES FOR RETROFIT PROJECTS
ALTERNATIVE 2**

Financing Mechanism: Reimbursement District		
Connection Criterion: Nonmandatory Connection Exception: When Sewer System is Available to the Property and the Existing On-Site Septic or Other Disposal System Fails, the Health Department will Require Connection		
	PROS	CONS
<ul style="list-style-type: none"> * Council establishes the district by ordinance * Map identifying benefiting properties within the district recorded, however, there are no liens * Public system pro-rata cost due when property developed and connected to system * Connection cost adjusted annually per ENR index until connection made 	<ul style="list-style-type: none"> * Simplified formation - no public vote required to form district 	<ul style="list-style-type: none"> * No means for public vote to form or dissolve district
	<ul style="list-style-type: none"> * Property owners benefiting from the improvements pay for them 	<ul style="list-style-type: none"> * City Sewer Fund incurs system project cost and debt service until reimbursed via property owner connection charges * Debt is on City's books * Uncertain connection rate and capital recovery period
		<ul style="list-style-type: none"> * City responsible for long term district administration
		<ul style="list-style-type: none"> * Property owner must obtain own financing for all pro-rata public system, on-lot connection, and impact (buy-in) fees

**FINANCING/CONNECTION POLICY ALTERNATIVES FOR RETROFIT PROJECTS
ALTERNATIVE 3**

Financing Mechanism: Sewer Fund		
Connection Criterion: Mandatory Connection When Sewer System is Available to the Property		
	PROS	CONS
<ul style="list-style-type: none"> * City Sewer Fund pays for the project * Ordinance prescribes connection when sewer is available * Cost recovery through sewer impact (buy-in) fees 	* No district involved	* Ordinance prescribing connection must be enforced City-wide; may invite legal challenges pertaining to selection of "priority" areas to be sewerred, and/or subsequent application of the connection requirements
	* Property owners benefiting from the improvements pay for them	* City Sewer Fund incurs system project cost and debt service until reimbursed via property owner connection charges
	* When system in place assured revenue stream for recovery of capital expense	* Property owner must obtain own financing for all pro-rata public system, on-lot connection, and impact (buy-in) fees

Introduction

In an attempt to provide a single source of information about unsewered areas in the City and the development of a policy by the City Council to bring sewers to these areas, this Frequently Asked Questions (FAQs) document was developed. While it aims to provide answers to the questions most frequently encountered, it does not answer every possible question. If you have a question not covered here, please contact the Utilities Department located at 433 N. Virginia Street, Prescott (777-1130).

Reviewed by Mayor Jack D. Wilson and the Prescott City Council

Program Basics and Terms

1. What is an unsewered area?

“Unsewered area” means a neighborhood located within the Prescott city limits that is already developed with residences, but which relies upon septic tanks or other individual wastewater disposal systems (alternate systems) rather than being connected to the City sewer system.

2. Why is this an important issue?

In some areas due to soil conditions and/or terrain, septic systems are not working properly. Property owners experiencing problems are looking to the City for action, to explore extending the City sewer system into their neighborhoods. Due to public health concerns about untreated sewage accumulating in creeks and lakes, there is also a more general, community-wide interest in dealing with the problem.

3. Who has the responsibility for dealing with the public health aspects?

The Yavapai County Health Department and Arizona Department of Environmental Quality administer and enforce public health regulations. All citizens have the responsibility to contribute to maintaining public health in our community, including keeping their sewage disposal systems in proper working order and complying with health and safety code requirements.

4. If county and state agencies are directly responsible for public health matters, why is the City involved with unsewered areas?

Unsewered Areas in the City of Prescott

5/16/2008

Frequently Asked Questions (FAQs)

As a matter of local health and safety, the City operates a public sewer system for the benefit of its residents; if the system is to be extended into unsewered areas, it will be the City, not county or state, which accomplishes it. Additionally, the City operates Watson and Willow Lakes as recreational facilities, and relies upon them as water resource supplies for recharge of the Little Chino aquifer. The City is committed to meeting water quality standards in these reservoirs.

5. What could occur if the City takes no action regarding unsewered areas?

As has occurred elsewhere, upon a determination by state or federal authorities that a public health hazard exists due to untreated sewage and/or unacceptable water quality in our creeks or lakes, they could require that the City correct the problem. The City prefers to avoid potential public health problems and find local solutions, rather than be subjected to state or federal violations, sanctions, and penalties.

Areas Being Considered for Sewer Retrofit Projects

1. What areas are now being looked at for bringing in City sewer service?

Four areas: North Prescott, Antelope Hills, White Oak Circle, and White Cloud Lane.

2. Are these all the areas on septic systems?

No. Problems with individual septic systems within these four areas have been persistently encountered. Other neighborhoods which are not on City sewer generally have larger lots and/or terrain more favorable to satisfactory septic system performance.

3. How can I obtain a list of all these areas, and maps of the four which are being actively considered for sewer retrofit projects?

This information is available from the Utilities Department located at 433 N. Virginia Street, Prescott (777-1130).

Funding Operation and Extension of the City Sewer System

1. Where does the money come from to do this?

The City Sewer Fund is a separate account from which costs of operating and extending the system are paid. This is an "enterprise fund", meaning that it cannot be used for any purposes other than the sewer system. Monies within the Sewer

Frequently Asked Questions (FAQs)

Fund come from two principal types of charges: monthly bills for service to existing sewer customers; and impact fees paid when new customers are connected to the system.

2. I've lived in Prescott for years, and paid property taxes. Shouldn't the City recognize this and pay for extending the system into my unsewered area?

None of the property tax paid has gone to the Sewer Fund. As previously stated, only customers connected to the City system have paid for and are entitled to service. Asking the City to pay for extending the system into an unsewered area really means having existing sewer customers who have already paid for their connections and service to pay a second time, and without receiving any direct benefit, to provide service to new customers in unsewered areas. Clearly, this is a significant equity issue.

Mechanisms for Accomplishing Sewer Retrofit Projects

1. How could a sewer retrofit project be accomplished, to bring City sewer into my neighborhood?

Three mechanisms are formation of an improvement district; establishment of a reimbursement district; and the Sewer Fund. These are summarized below.

2. How does an improvement district work?

1. A design and cost estimate for the system is prepared to the 30% level of detail.
2. The City Council approves a Resolution of Intention to form the district.
3. If 50% +1 of the owners within the proposed district object in writing, formation cannot proceed for a period of six months.
4. Public system, on-lot connection, and impact fees can be wrapped in low cost, 25-year financing.
5. Liens are placed upon properties to assure payment of assessments.

3. How does a reimbursement district work?

- The City establishes the district; no votes or protest periods are involved.
- Existing residences can connect at any time provided, however, that connection will be required if the on-site septic or other disposal system fails.
- New residences are connected prior to occupancy.

- All connections to the system pay a connection charge which is adjusted annually by a construction cost index (i.e., future charges are higher).
- No public financing is provided for on-lot connections or impact fees.
- No property liens are involved.

4. How about the Sewer Fund?

- No district is involved; existing sewer customers finance and/or contribute to system extensions (but receive no direct benefit).
- Property owner must obtain own financing for on-lot connection and impact fee costs.

5. What provision could be made for those on a fixed income who simply cannot afford to pay an assessment for sewer service?

Other communities have adopted policies where assessments for those persons meeting established income criteria are deferred until their property is sold. The benefit to the property conferred by City sewer service is reflected in the sale price of the property.

Connection Policy Alternatives

1. What are the alternatives, and why are they such an important consideration?

There are two connection alternatives: mandatory and non-mandatory. As a matter of policy, these are crucial from both the property owner and Sewer Fund perspectives.

Mandatory connection assures a revenue stream for financing the capital cost to construct the sewer retrofit project. Bonds for long term financing cannot be sold without a revenue stream.

2. How mandatory connection works

- When service is available to a property, connection is required within a specified period of time.
- Some communities require connection upon sale of the property.

3. Non-mandatory connection

Unsewered Areas in the City of Prescott

5/16/2008

Frequently Asked Questions (FAQs)

- Property owner determines when to connect.
- Operation of some types of systems is problematic when flows within the mains are unpredictable.

Estimated Costs

1. What are the estimated costs for extending service into these unsewered areas, typical on-lot connection, and impact fees?

The "Public System Construction Cost per Lot" and "Owner On-Lot Connection Cost" estimates below were developed from previously completed preliminary design reports. Actual costs would not be available until completion of final engineering and successful bidding for construction of these system extensions.

	Public System Construction Cost per Lot	Owner On-Lot Connection Cost	Impact Fee ¹	Total Cost	Cost per Year ²	Monthly equivalent
White Oak Circle (18 lots)	\$35,750	\$5,000	\$3,273	\$44,023.00	\$2,987.05	\$248.92
White Cloud Lane and Addl. Lots to Estrella (42 lots)	\$20,000	\$5,000	\$3,273	\$28,273.00	\$1,918.37	\$159.86
Antelope Hills (117 lots)	\$10,100	\$5,000	\$3,273	\$18,373.00	\$1,246.63	\$103.89
North Prescott (440 lots)	\$11,500	\$9,700	\$3,273	\$24,473.00	\$1,660.53	\$138.38

¹ Impact fee recommended by 2008 study; adoption pending Summer 2008; indicated fee is for most customers (with 5/8 x 3/4 water meter; impact fees are higher for larger water meters)

² Based on 25 year bonding at 4.0 percent interest with 15% WIFA subsidy

Estimated Debt Service

Assumptions

- 1) 4% was used considering rates on 5/6/2008 and assuming qualification for WIFA subsidy of 15%.
- 2) Total Cost was used assuming that it would qualify for inclusion in the improvement district.
- 3) As required by law capitalized Interest was included.

	White Oak Circle	White Cloud Lane	Antelope Hills	North Prescott
Term (years)	25	25	25	25
Rate	4%	4%	4%	4%
Total Cost	\$44,023	\$28,273	\$18,373	\$24,473
Capitalized Interest (18 months)	\$2,641	\$1,696	\$1,102	\$1,468
Bonded Amount	\$46,664	\$29,969	\$19,475	\$25,941
First Year Payment				
May (½ interest only)	\$933.28	\$599.38	\$389.50	\$518.82
October (½ interest + principal)	\$2,053.77	\$1,318.99	\$857.13	\$1,141.71
Total First Year	\$2,987.05	\$1,918.37	\$1,246.63	\$1,660.53