



# PRESCOTT CITY COUNCIL WORKSHOP AGENDA

PRESCOTT CITY COUNCIL  
PUBLIC WORKSHOP  
TUESDAY, JUNE 10, 2008  
5:30 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 a Workshop pursuant to the Prescott City Charter, Article II, Section 13. Notice of this workshop is given pursuant to Arizona Revised Statutes, Section 38-431.02.

◆ CALL TO ORDER

◆ ROLL CALL

MAYOR AND CITY COUNCIL:

Mayor Wilson

Councilman Bell

Councilman Lamerson

Councilwoman Lopas

Councilman Luzius

Councilman Roecker

Councilwoman Suttles

1. Discussion of policy for extending City service into unsewered developed areas.
2. Adjournment.

THE CITY OF PRESCOTT ENDEAVORS TO MAKE ALL PUBLIC MEETINGS ACCESSIBLE TO PERSONS WITH DISABILITIES. WITH 48 HOURS ADVANCE NOTICE, SPECIAL ASSISTANCE CAN BE PROVIDED FOR SIGHT AND/OR HEARING IMPAIRED PERSONS AT PUBLIC MEETINGS. PLEASE CALL 777-1272 OR 777-1100 (TDD) TO REQUEST AN ACCOMMODATION TO PARTICIPATE IN THIS MEETING.

CERTIFICATION OF POSTING OF NOTICE

The undersigned hereby certifies that a copy of the foregoing notice was duly posted at Prescott City Hall on 6/16/08, at 9:15 a.m. in accordance with the statement filed by the Prescott City Council with the City Clerk.

  
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Lorri Carlson, Deputy City Clerk

<b>COUNCIL AGENDA MEMO – June 10, 2008 (5:30 p.m. Public Workshop)</b>	
<b>DEPARTMENT:</b> City Manager	
<b>SUBJECT:</b>	Discussion of policy for extending City service into unsewered developed areas

<b>Approved By:</b>		<b>Date:</b>
<b>Deputy City Manager:</b>	Craig V. McConnell <i>Craig McConnell</i>	6-5-08
<b>City Manager:</b>	Steve Norwood <i>SNorwood</i>	06/06/08

**Purpose**

This is the sixth 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, April 29, and June 3, 2008.

Tentative schedule of upcoming policy discussions

- 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 10<sup>th</sup>) public workshop

- I. Brief review of policy alternatives
- II. Council questions and remarks
- III. Public input (5 min./speaker; one statement by spokesman encouraged for groups)
- IV. Council discussion and direction regarding preparation of draft policy resolution
- V. 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 from and be assessed for the cost of the public system 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.

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 (see Attachment B). The tentative FY 09-14 Capital Improvement Program

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

(CIP) includes bonding of \$8.4 million for construction projects to sewer the North Prescott (annexed 1973), Antelope Hills (1957), White Oak Circle and White Cloud Lane areas (1974), 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.

The roles of the Arizona Department of Environmental Quality (ADEQ) and Yavapai County Environmental Services Department with respect to septic systems and public health, briefly summarized in Attachment C, were discussed in the June 3<sup>rd</sup> workshop.

**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 FAQs addressing unsewered areas and the process for policy development were posted on the City website to facilitate public access to information. The FAQs will be updated as additional information is developed from the public dialogue on this topic.

- Attachments**
- A Financing/Connection Policy Alternatives for Retrofit Projects
  - B Information on the Wastewater (Sewer) Enterprise Fund
  - C Memorandum – Unsewered Area Questions (6-4-08)

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

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

<b>Financing Mechanism: Improvement District (ID)</b>		
<b>Connection Criterion: Mandatory Connection when Sewer System Available to Property</b>		
	<b>PROS</b>	<b>CONS</b>
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**

<b>Financing Mechanism: Reimbursement District</b>  <b>Connection Criterion: Nonmandatory Connection</b> <b>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</b>		
	<b>PROS</b>	<b>CONS</b>
<ul style="list-style-type: none"> <li>* Council establishes the district by ordinance</li> <li>* Map identifying benefiting properties within the district recorded, however, there are no liens</li> <li>* Public system pro-rata cost due when property developed and connected to system</li> <li>* Connection cost adjusted annually per ENR index until connection made</li> </ul>	* Simplified formation - no public vote required to form district	* No means for public vote to form or dissolve district
	* Property owners benefiting from the improvements pay for them	<ul style="list-style-type: none"> <li>* City Sewer Fund incurs system project cost and debt service until reimbursed via property owner connection charges</li> <li>* Debt is on City's books</li> <li>* Uncertain connection rate and capital recovery period</li> </ul>
		* City responsible for long term district administration
		* 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**

<b>Financing Mechanism: Sewer Fund</b>		
<b>Connection Criterion: Mandatory Connection When Sewer System is Available to the Property</b> <b>Note: Mandatory connection variations are possible--could be required within a specified number of years (5 or 10 years), upon sale of the property, etc.</b>		
	<b>PROS</b>	<b>CONS</b>
<ul style="list-style-type: none"> <li>* City Sewer Fund pays for the project</li> <li>* Ordinance prescribes connection when sewer is available</li> <li>* Cost recovery through sewer impact (buy-in) fees</li> </ul>	* 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

## **Wastewater (sewer) is an enterprise fund**

- 16,800 customers (residential and nonresidential) pay for operation and maintenance of the wastewater collection, reclamation, and treated effluent recharge system, as well as capital projects for repairs, rehabilitation, and capacity upgrades required to correct existing system deficiencies.
- New connections pay for their demand on the system infrastructure (increment of new capacity required) through impact fees.
- The Wastewater Fund is not supported by property tax or sales tax.
- “The City should pay for sewer retrofit projects” really means that existing customers would have to pay higher sewer bills for little or no direct benefit.

## **The Wastewater Fund doesn't make a profit**

- Sewer rates are set to provide adequate funding for operation and maintenance, and the capital projects for repairs, rehabilitation, and capacity upgrades required to correct existing deficiencies.
- Some property owners in unsewered areas have proposed a credit for the “value” of the quantity of treated effluent generated by each new connection.
  - Existing customers have received no such credit, though effluent is produced from their wastewater too.
  - Revenue from effluent sales partially offsets the cost of funding operation and maintenance and capital projects—without it, rates would have to be higher.
  - Conclusion: a credit for the “value” of effluent would serve no beneficial purpose, and be both insufficient and inappropriate to “trade” for the cost of sewerage a property via a retrofit project.

## **The revenue derived from the sale of treated effluent is in line with the market value of water**

- The price of treated effluent ranges from \$250 to \$291 per acre-foot.
- Pledging treated effluent for assured water supply (to serve new development) requires a 100 year supply.
- [ $\$250 - \$291$  per acre-foot] x 100 = \$25,000 - \$29,100 for 100 yr supply.



**CITY OF PRESCOTT  
City Manager's Office  
M E M O**

**To:** The Honorable Mayor and City Council  
Steve Norwood, City Manager

**Through:** Craig McConnell, Deputy City Manager

**From:** Connie Tucker, Management Analyst

**Re:** Unsewered Area Questions

**Date:** June 4, 2008

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In response to questions received Friday, May 29th, pertaining to unsewered areas and the June 3<sup>rd</sup> workshop, the following information is provided.

In December 2005, the City sent out a survey to all of the property owners within the area identified as Prescott North. Of the 451 parcels, the City received responses from 264 owners. Fourteen (14) indicated septic systems which were not working adequately, and 112 were in favor of forming an improvement district.

I contacted the County Environmental Services Department, which handles septic permits and violations. The Environmental Health Specialist with whom I spoke said that there have been "less than five violations" for failed septic systems in Prescott in the last five years. A violation is generated when a complaint comes into the office for a failed system. They do not track if homeowners upgrade their septic systems of their own volition. When I asked about testing creek water for contamination, it was mentioned that it would be difficult to pinpoint the source of any contamination which might be detected: the contamination could be from septic system failures, animals, transients, or other sources.

After speaking with the County, I then spoke with the Northern Regional Office of ADEQ. I was told that the County Environmental Services Department has a delegation agreement with ADEQ granting the County oversight, monitoring and enforcement authority for septic systems. Because of that agreement, ADEQ takes a "hands-off" approach in Yavapai County. The employee I spoke with did say that all septic systems will fail eventually, and systems that were installed in the past may not meet current codes in the level of protection of groundwater quality even if they appear to be working adequately. For example, the older systems could have been installed over fractured rock and could be contaminating the water table without anyone knowing it.

**Attachment C**