



RESOLUTION

A fourteen person Kachina Village Improvement District Citizen Rates and Governance Advisory Committee was convened to learn about and provide input regarding the financial needs of Kachina Village Improvement District (KVID) and its commitment to providing quality drinking water and sanitary sewer services to the residents of Kachina Village. Based on the information provided, the Committee was charged with developing a recommendation to the utility's Board of Directors regarding KVID's rate structure and pending rate increase. The KVID Citizen Rates and Governance Advisory Committee hereby concludes that:

Whereas viable, healthy, and well-maintained water and sanitary sewer systems are essential to the daily living activities, public safety, and the quality of life of Kachina Village residents; and

Whereas Kachina Village residents value the delivery of high quality potable water to their homes and the collection and treatment of the wastewater produced; and

Whereas the Committee contains members representing long time Kachina Village residents, residents that are newer to the area, and seasonal residents; and

Whereas KVID maintains more than 50 miles of underground water piping, a like amount of sewer piping, 5 wells, 3 water distribution stations, 4 water storage facilities, 3 sewer lift stations, a wastewater treatment plant, and the Kachina Village Wetlands for disposal of treated wastewater and as a multi-use area for the community, all of which are vital to the services provided by the utility; and

Whereas KVID has completed a Master Planning process identifying \$2.5M in infrastructure investments needed in the next 3 to 5 years, and an additional \$3M in infrastructure investments over the next 20 years; and

Whereas the near-term improvements identified by the Master Plan include adding a second clarifier to the wastewater treatment plant, providing a much-needed redundancy to ensure continuity of service and prevent a catastrophic failure; and

Whereas the majority of KVID's underground infrastructure is approaching 50 years of age, much of which is now past its nominal lifespan; and

Whereas the utility has been run effectively, providing over a 99% continuity of service to its customers over the last 10 years while conducting numerous emergency repairs and continuing to meet or exceed all standards set by the Environmental Protection Agency (EPA) and the Arizona Department of Environmental Quality (ADEQ); and

Whereas a strategy of planned replacement is imperative over waiting for key infrastructure points to fail before replacement; and



Whereas any new development or added connections to KVID's water and/or sewer system will be funded by future developers, builders, and/or the property owners of any new development, paying any costs needed for infrastructure improvement as well as paying the going rate for each new connection, in order to avoid placing any added costs on current Kachina Village residents; and

Whereas KVID has pursued efficiencies where possible including: reducing electrical consumption, reducing sludge handling costs, increasing data collection to improve decision making, and providing leak monitoring for its customers; and

Whereas ongoing operational costs along with needed investment in the utility's infrastructure lead to a situation where utility costs are exceeding revenues resulting in a growing deficit; and

Whereas this ongoing cost vs. revenue deficit is projected to deplete the utility's financial reserves by 2022, assuming that there are no unexpected failures or expenses, and requiring a significant rate increase to eliminate this deficit; and

Whereas a rate increase for the utility has not been enacted in more than 12 years; and

Whereas the Committee had the opportunity to review several Revenue Requirement and Rate Model scenarios and their potential impacts on the utility and residents; and

Whereas the Financing Revenue Requirement scenario results in a more moderate increase to the costs of services; and

Whereas the Financing Revenue Requirement scenario results in a more rapid implementation of critical infrastructure investment; and

Whereas the Financing Revenue Requirement scenario results in a more stable fund balance for the utility over time; and

Whereas the Financing Revenue Requirement scenario allows the costs of infrastructure investments to be spread over time, allowing the residents who are using the infrastructure to pay for it as opposed to having current residents pay the costs now for future residents to use; and

Whereas increasing the rates evenly Across the Board will result in all residents seeing similar increase in costs (as a percentage of current costs, assuming their usage does not change).

Therefore, Be it Resolved,

The KVID Citizen Rates and Governance Advisory Committee recommends to the Board of Directors that KVID rates be increased over the next three years in a manner consistent with the Financing Revenue Requirement and the Increases Across the Board Rate Model scenarios. This results in an increased cost to rate payers (assuming their usage remains unchanged) over the next three years as depicted below.



Increased Costs to Ratepayers	
Year	Increase
FY19 – July 1 st , 2018	20.59%
FY20 – July 1 st , 2019	14.00%
FY21 – July 1 st , 2020	12.05%

Based on the KVID Citizen Rates and Governance Advisory Committee’s information and deliberations, we make the following additional recommendations and share some additional facts:

- Most Committee members supported the Financing Revenue Requirement scenario with a vote of 13 to 1, with the minority preferring the Pay as You Go Revenue Requirement scenario.
- Most Committee members supported the Increases Across the Board rate model with a vote of 12 to 2, with the minority preferring the Mitigating Increases for Tier I rate model.
- The Committee understands that a process to evaluate KVID’s current governance and the potential implementation of a governance transition is pending, and would like to offer the following comments related to that process:
 - A policy of ongoing evaluation of the utility’s rates must be included in the establishment of a new governance for the utility. Whether it be an annual review of rates, a fixed annual increase, or a set interval for a full rate study, this item must be addressed in the governance process.
 - The rate evaluation policy must include a component that requires communication to the residents of Kachina Village.
 - The rate increase recommended here will accommodate the estimated costs of the governance transition as well as any estimated post transition costs.
- KVID should continue to apply for any available grant funding assuming revenue is available to meet any required grant match.