

Oro Valley Water Utility

FY 2026-27

Water Rates Presentation

June 3, 2026



Town of Oro Valley



The Water Utility is an Enterprise Fund

- ▶ Funded solely from water sales, fees and charges
- ▶ All revenues are used for operating costs of the Utility
- ▶ Not dependent on the Town's General Fund
- ▶ Administrative service fees are paid to the General Fund



Water Rates Analysis Process & Goals



Town of Oro Valley

Process:

- ▶ Annually, Utility staff prepares a water rate analysis report that is presented to, reviewed and commented on, by the Water Utility Commission
- ▶ The Commission and Utility staff make a recommendation to Council on the proposed water rates
- ▶ Water rate report available for public review
www.ovalleyaz.gov/files/assets/public/v/1/documents/water-utility/rates-and-fees/water-rates-analysis-report-march-2026.pdf

Goals:

- ▶ Meets revenue, cash reserve & debt service coverage requirements
- ▶ Recovers the cost of service
- ▶ Cash funds existing system improvements
- ▶ Promotes water conservation & maintains the financial health of the Utility



Rate modeling is in alignment with the General Fund Cost Projections & Water Utility specific Cost Projections

General Fund Cost Projections Include

- ▶ Employee health care costs
- ▶ Employee wage adjustments
- ▶ Administrative fees
- ▶ Interest rates
- ▶ Inflation rates
- ▶ Growth rates

Water Utility specific Cost Projections Include

- ▶ Maintain current staffing levels
- ▶ Water resource costs
- ▶ Cash funding existing system CIP
- ▶ Water use trends
- ▶ Regulatory compliance costs
- ▶ Debt management
(Operating / GPF / Impact Fees)



The Water Utility Operates two Separate Water Systems Potable (Drinking Water) & Reclaimed Water

Drinking Water Rates & Fee Recommendations:

- ▶ Increases to the drinking water base rates only
- ▶ No increases to drinking water commodity rates
- ▶ No changes to drinking water rates or fees

Reclaimed Water Rates & Fee Recommendations:

- ▶ No increases to reclaimed water base rates
- ▶ No increases to reclaimed water commodity rates
- ▶ No changes to reclaimed water rates or fees



Why is there no increase to the Reclaimed water rate?

- ▶ The reclaimed water system is a smaller and less complex system to operate
 - ▶ **Reclaimed water system:** Consists of 1 reservoir, 2 booster stations and 14 miles of water mains.
vs.
Drinking water system: Consists of 18 reservoirs 24 booster stations and 376 miles of water mains.
- ▶ The source of supply is a lot closer to Oro Valley
 - ▶ **Reclaimed water:** The reclaimed water source of supply is 23 miles away.
vs.
Drinking water system: Central Arizona Project water source of supply is 336 miles away.
- ▶ At this time, the reclaimed water cost allocation model indicates that, the current reclaimed water rate structure is adequate to recover the cost of service for reclaimed water.





What is driving a Drinking water rate increase?

- ▶ Why is drinking water getting more expensive?
 - ▶ Increasing operating expenses (Personnel, O&M, Power, CAP delivery, CAP wheeling): Up \$900,000 / 5.94%
- ▶ What is the Utility doing to offset increasing costs?
 - ▶ Reduced Capital spending FY 26/27, reduced debt paid by rates (2015 Excise tax), no additional staff: \$450,000 in savings
- ▶ Cash reserve requirements determine annual revenue requirements:
 - ▶ Utility must maintain an operating cash reserve requirement of 20% of personnel, O&M and debt
 - ▶ Cash reserves at end of FY must exceed cash reserve requirement

	Budget FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Monthly (Avg.) increase to residential customer using 7K gals.	N/A	3.6%	2.9%	2.9%	2.9%	2.8%
Monthly (Avg.) increase to residential customer using 7K gals.	N/A	\$1.86	\$1.55	\$1.58	\$1.61	\$1.63
Debt Service Coverage Ratio: Sr. Lien & WIFA Debt Service Coverage Requirement = 1.30	5.54	2.89	2.92	3.23	4.51	4.68
Required Operating Fund Cash Reserves (20% of personnel, O&M, debt) (Does not include depreciation/amortization)	\$3,616,800	\$3,766,449	\$3,555,644	\$3,645,288	\$3,672,820	\$3,791,244
Operating Fund Cash Reserves	\$ 5,155,412	\$ 4,709,476	\$ 5,416,375	\$ 5,954,241	\$ 6,842,013	\$ 7,681,424
Cash Surplus	\$ 1,538,612	\$ 943,028	\$ 1,860,731	\$ 2,308,953	\$ 3,169,194	\$ 3,890,180



Proposed Drinking Water Rates and Fees

Proposed Changes to the Drinking Water Base Rate:

- ▶ Water base rates increase by meter size:
 - ▶ 84% of customers have a 5/8-inch meter and will see a \$1.86 per month increase in the base rate

Meter Size (in inches)	Current Potable Base Rates	Proposed Potable Base Rates	Monthly Increase
5/8	\$ 23.31	\$ 25.17	\$ 1.86
3/4	\$ 34.93	\$ 37.72	\$ 2.79
1	\$ 58.23	\$ 62.89	\$ 4.66
1.5	\$ 116.47	\$ 125.79	\$ 9.32
2	\$ 186.35	\$ 201.26	\$ 14.91
3	\$ 372.68	\$ 402.49	\$ 29.81
4	\$ 582.33	\$ 628.92	\$ 46.59
6	\$1,164.65	\$1,257.82	\$ 93.17
8	\$1,863.45	\$2,012.53	\$149.08

No proposed changes to the commodity rate:

- ▶ Customers continue to respond favorably to the current commodity rate structure:
 - ▶ Customers historically in Commodity Tiers 2, 3 & 4 are migrating to Tiers 1, 2 & 3

Commodity Tiers	Current	Proposed	Increase
Tier 1 (68%) – 14576 (Up 276)	\$ 3.02	No change	\$ 0.00 (0.0%)
Tier 2 (28%) – 5998 (Up 223)	\$ 5.02	No change	\$ 0.00 (0.0%)
Tier 3 (4%) – 862 (Down 188)	\$ 8.17	No change	\$ 0.00 (0.0%)
Tier 4 (<1%) – 102 (Down 98)	\$ 12.32	No change	\$ 0.00 (0.0%)

No proposed changes to the Groundwater Preservation Fee:

Drinking Water Cost Comparisons



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Monthly Water Bill Comparisons to Other Water Providers:

- ▶ 84% of Oro Valley Water Utility customers have a 5/8-inch meter and consume an average of 7,000 gallons per month
- ▶ These customers will see an increase to their monthly bill of \$1.86 or 3.6% increase
- ▶ Below is a graphical representation of Oro Valley's current and proposed water bill compared to neighboring water providers

**Potable Water Cost Comparisons:
(5/8-inch Residential Meter @ 7,000 Gallons / Month)**



Recommendation for approval:

- ▶ The Water Utility Commission and Water Utility staff respectfully recommend approval of water rate increases to the drinking water base rates
- ▶ If the proposed rates are approved, they will become effective July 4th and will be reflected on the water bills beginning in August of the new fiscal year





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Questions?

