



# TUCSON, ARIZONA

CREDIT RATING AGENCY  
PRESENTATION MAY 2017



Rating Presentation



May 2017





# Presentation Team

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# Agenda

- Upcoming Debt Issuance
- City Management
- Economic Environment
- General Fund Overview
- Water Utility Overview

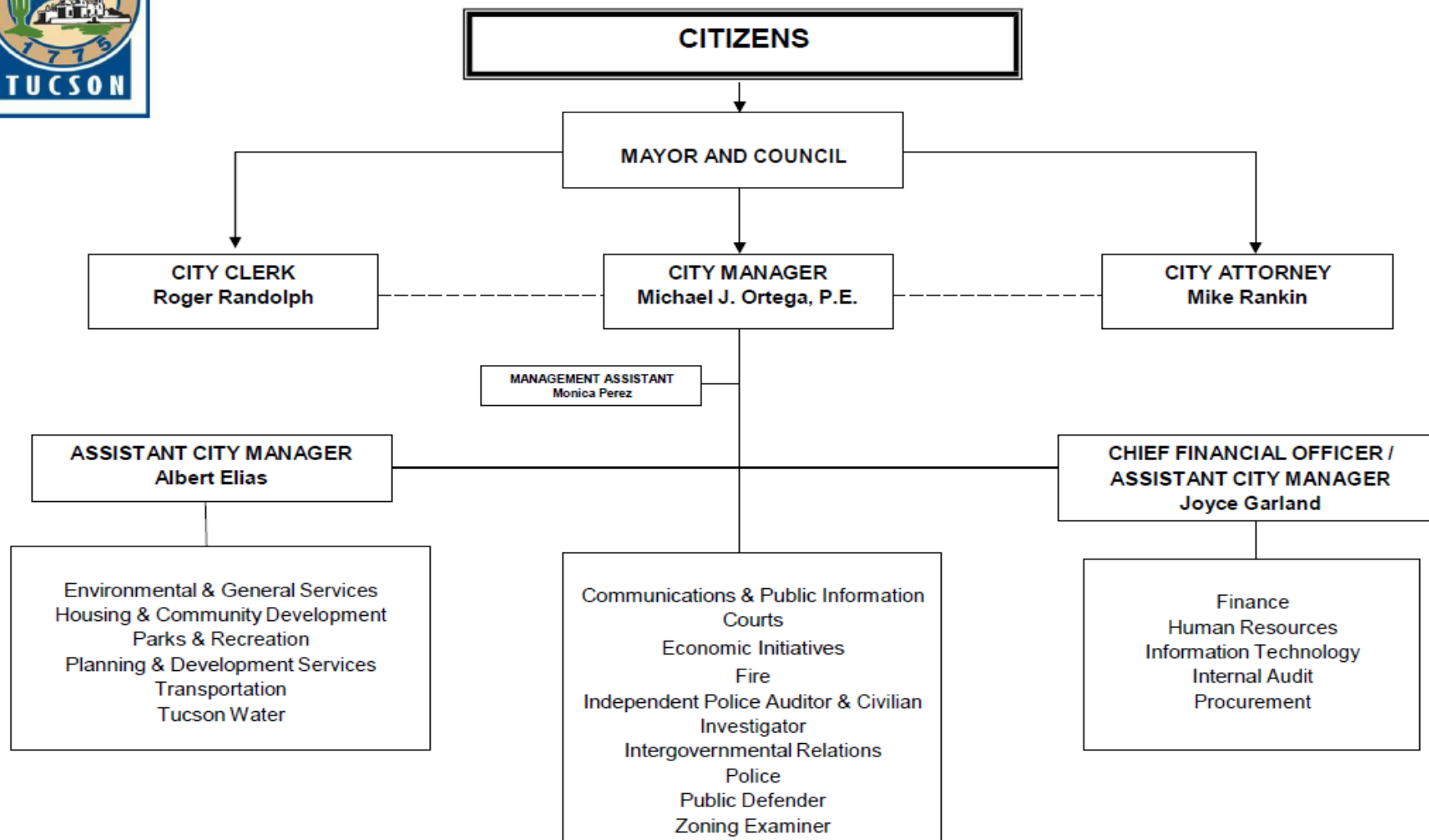


# Upcoming Debt Issuance

- General Obligation Bonds
  - New money ~ \$20M
    - Street and road improvements
  - Refunding for interest savings ~ \$10M
  
- Water Revenue Obligations
  - New money ~ \$30M
    - Capital improvements
  - Refunding for interest savings ~ \$85M



## CITY OF TUCSON ORGANIZATIONAL CHART



Revised 05/18/2017



# ECONOMIC ENVIRONMENT





# Tucson Community Overview

- State legislative session
- New University of Arizona President
- Passage of Prop. 101
- Pima County increased primary property tax
- Continued economic growth and activity
- Internal focus on business operations
  - Business Services transformation
  - Tucson Water 'Deep Dive'



# 2016 Economic Impact

- Mayor and Council committed to Economic Development
- In August of 2016, Bloomberg reported that Tucson had the third-fastest job growth of any metro area in the country
- Caterpillar Inc., Surface Mining and Technology offices began moving to Tucson in May 2016, estimated economic impact over five years, \$600M
- Projected Revenue Approximately \$550K
  - Valencia Reserve Annexation
  - Children's Memorial Park Annexation
- Future Revenue Impact
  - Vector Space Systems - \$290M
  - HomeGoods distribution center - \$900M
  - Comcast - \$385M
- Revenue impact includes direct and indirect sales tax, use tax and property tax



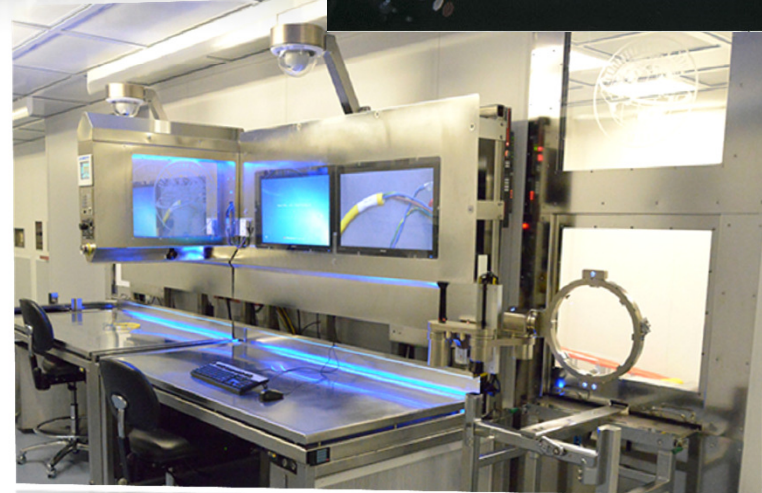
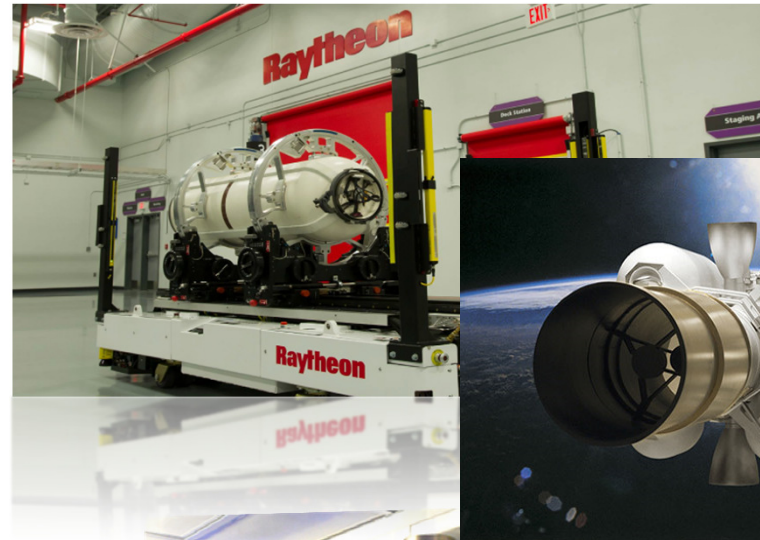




# Economic Expansion Efforts 2016 - 2017

## Raytheon Missile Systems

- ❑ Successful expansion project
- ❑ New jobs: 1,975
- ❑ Annual payroll: \$217.6M
- ❑ Average wage of new jobs: \$110K
- ❑ Building and Infrastructure capital investment: \$233.8M
- ❑ Equipment purchases: \$258.5M
- ❑ Revenue impact to the City of Tucson: \$2.43M annually
- ❑ Partners
  - ❑ Arizona Commerce Authority
  - ❑ Pima County
  - ❑ Tucson International Airport Authority





# Economic Retention Efforts 2016 - 2017

## Hexagon Mining

- ❑ Successful retention effort
- ❑ New Jobs Created: 119
- ❑ Annual Payroll: \$13.1M
- ❑ Average Wage of New Jobs: \$110K
- ❑ Equipment Purchase: \$2.5M
- ❑ New revenue to the City of Tucson: \$377K
- ❑ Partners
  - ❑ Pima County
  - ❑ Rio Nuevo





# Downtown Activity 2016 - 2017

## AC Marriott

- ❑ Opening late summer 2017
- ❑ 130 rooms
- ❑ 5,000 square feet commercial space
- ❑ \$32M Total Cost
- ❑ Incentives
  - ❑ GPLET
  - ❑ HUD 108
  - ❑ Site Specific Sales Tax
- ❑ Arizona Avenue Infrastructure Improvement
  - ❑ Water line
  - ❑ Gas line
  - ❑ Repave







# Downtown Activity 2016-2017

- New businesses: 30
- Construction Projects: \$190.5M
  - Hotels
  - Retail & Event Centers
  - Mixed Use Complexes
  - Affordable Housing
  - Bus Terminal
- New homes completed and under construction:
  - Market Rate: 381
  - Low-income & Senior: 177
  - Affordable: 120





# Tucson Job Growth

- 373,400 jobs in Tucson in March 2017
- Tucson gained 1,800 new jobs from April 2016 to March 2017 resulting in a net job growth of 600 jobs.

## CES Employment Change: 1 Month, Rolling 3 Month



Source: US Department of Labor - Bureau of Labor Statistics  
([www.bls.gov](http://www.bls.gov))

## CES Employment Data

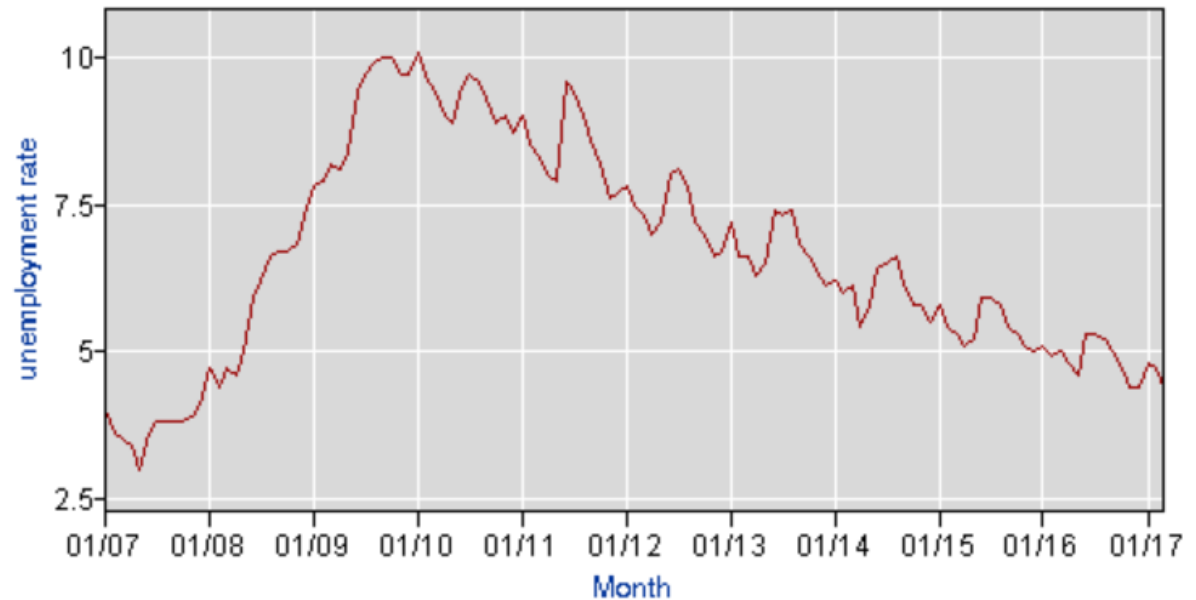
Year	Period	Employment
2016	April	372,800
2016	May	373,000
2016	June	372,500
2016	July	373,800
2016	August	373,000
2016	September	376,300
2016	October	377,500
2016	November	375,600
2016	December	373,600
2017	January	373,000
2017	February	372,500
2017	March	373,400



# Tucson Unemployment Rate

- 4.4% unemployment rate as of March 2017
- The rate has been below 5.0% for the last six months
- Rate is lower than state (5.0%) and national (4.5%)

Unemployment Data		
Year	Period	Rate %
2016	April	4.9
2016	May	5.0
2016	June	5.7
2016	July	5.8
2016	August	5.4
2016	September	5.2
2016	October	4.8
2016	November	4.4
2016	December	4.3
2017	January	4.8
2017	February	4.7
2017	March	4.4



Source: US Department of Labor - Bureau of Labor Statistics  
([www.bls.gov](http://www.bls.gov))





# Local Housing

## ■ Trends in local housing market

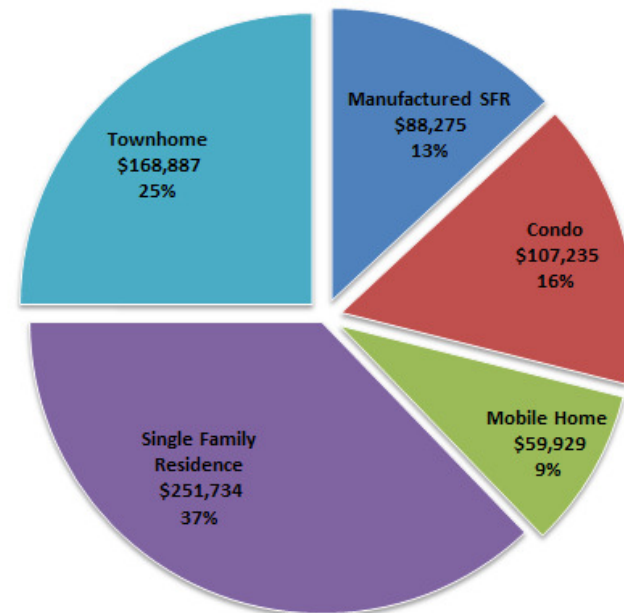
- Average list price of \$230,186 up 5.07% from March 2016
- Average days on the market down 10 days from March 2016 average of 57
- Total sales volume up 15.47% from March 2016 total of \$315M
- New listings total 2,264 in March 2017; up 0.22% from March 2016

Single Family Building Permits	
2018 Projected	700
2017 Estimated	650
FY 2016 Actual	547
FY 2015 Actual	515
FY 2014 Actual	293
FY 2013 Actual	455

	Median Sales Price	% Change	Average Sales Price	% Change
17-Mar	\$214,000	20.87%	\$251,734	18.19%
16-Mar	\$177,050	2.94%	\$212,988	2.07%
15-Mar	\$172,000	6.17%	\$208,673	4.09%
14-Mar	\$162,000	7.96%	\$200,479	4.48%
13-Mar	\$150,050	12.90%	\$191,881	14.11%
12-Mar	\$132,900	6.32%	\$168,153	2.79%
11-Mar	\$125,000	-20.73%	\$163,590	-18.90%
10-Mar	\$157,680		\$201,710	

Source: Tucson Association of Realtors

**Average Sales Price by Type - March 2017**





# GENERAL FUND OVERVIEW



# Fiscal Year 2016 General Fund Results

FY 2016 General Fund	
Total Revenue, transfers In & Other Financing Sources	\$525.4
Total Expenditures, Transfers Out, & Financing Uses	\$515.2
Net Revenue	<u>\$10.2</u>

Fund Balance	
Beginning Fund Balance	\$65.7
Net Revenue from FY2016	<u>\$10.2</u>
Ending FY 2016 Fund Balance	<u>\$75.9</u>



# FY 2017 General Fund Update

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## Preliminary Projection (numbers in millions)

Based on Third Quarter Results

Revenues	\$494.2
Expenditures	<u>(422.5)</u>
Subtotal	71.7
Less Subsidies:	
Transit System	(44.9)
Tucson Convention Center	(4.5)
Development Impact Fee	<u>(0.1)</u>
Net Change to Fund Balances	\$ 22.2

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# FY 2018 Recommended Budget Highlights

- Citywide budget totals \$1.427 billion
  - General Fund - \$488 million
  - Enterprise/Restricted Funds - \$939 million
- FY 2018 General Fund continues to be structurally balanced
  - No use of one time funds for recurring expenditures
  - No COLA's/Merit increases
- Thorough review of City wide departments and business functions
  - Reorganization to achieve economic efficiencies citywide
  - Combining functions in HR, Budget/Finance and City Manager's Office
  - Internal Service Fund Transfer and 911 Consolidation
  - City and County Court consolidation
- Increase in revenues
  - Passage of Prop. 101
  - 2 Year Transit Fee strategy – \$1.1 million
  - 2nd year of Water Rate Increase



# General Fund Revenue

General Fund Revenues (millions)	FY 15/16 Actuals	FY 16/17 Estimated	FY 17/18 Recommended	Dollar Change from Estimated	Percent Change
Sales Tax	\$ 194.1	\$ 196.3	\$ 199.4	\$ 3.1	1.6%
Primary Property Tax	14.0	14.3	15.1	0.8	5.6%
Other Local Taxes	43.9	50.0	52.9	2.9	5.8%
State Shared Revenue	133.7	138.0	141.0	3.0	2.2%
Licenses and Permits	28.6	31.5	29.7	(1.8)	-5.7%
Fines and Forfeitures	12.2	9.2	10.7	1.5	16.3%
Charges for Services	29.7	29.7	50.0	*20.3	68.4%
Administrative Charge	12.8	13.3	13.3	-	0.0%
Use of Money and Property	1.2	0.5	0.5	-	0.0%
Other Agencies	1.3	1.6	2.3	0.7	43.8%
Non-Grant Contributions	4.9	6.4	5.5	(0.9)	-14.1%
Sale of Property	13.8	0.1	2.5	2.4	2400.0%
Other Revenues	3.5	1.4	4.5	3.1	221.4%
In Lieu of Tax	1.6	1.9	1.9	-	0.0%
Bond Proceeds/Debt Issuance Premium	30.2	1.9	1.9	-	0.0%
<b>Revenue Total</b>	<b>525.5</b>	<b>496.1</b>	<b>531.2</b>	<b>35.1</b>	<b>7.1%</b>

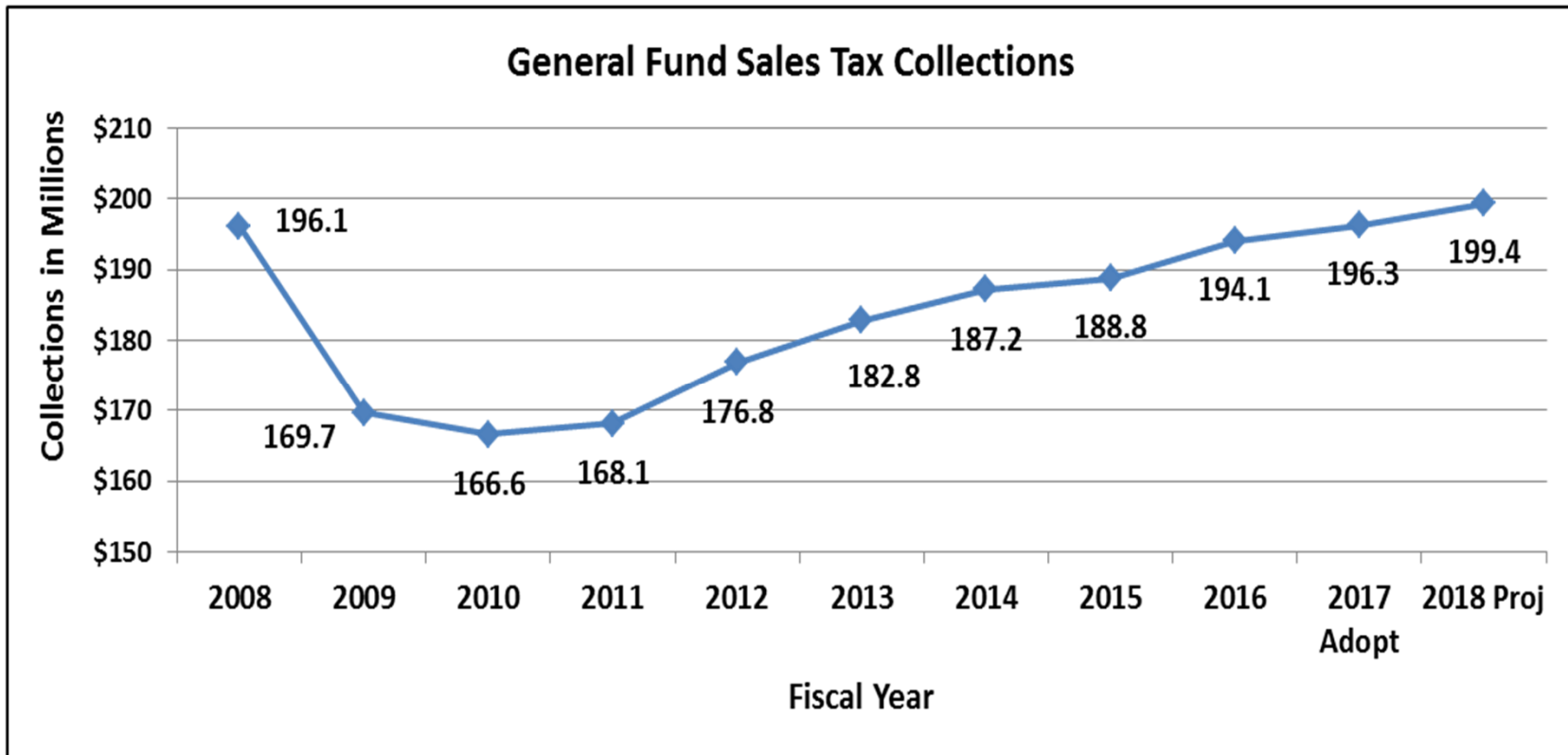
*\*Change due to combining internal service funds transfer with General Fund and recording charges as part of the General Fund activity*





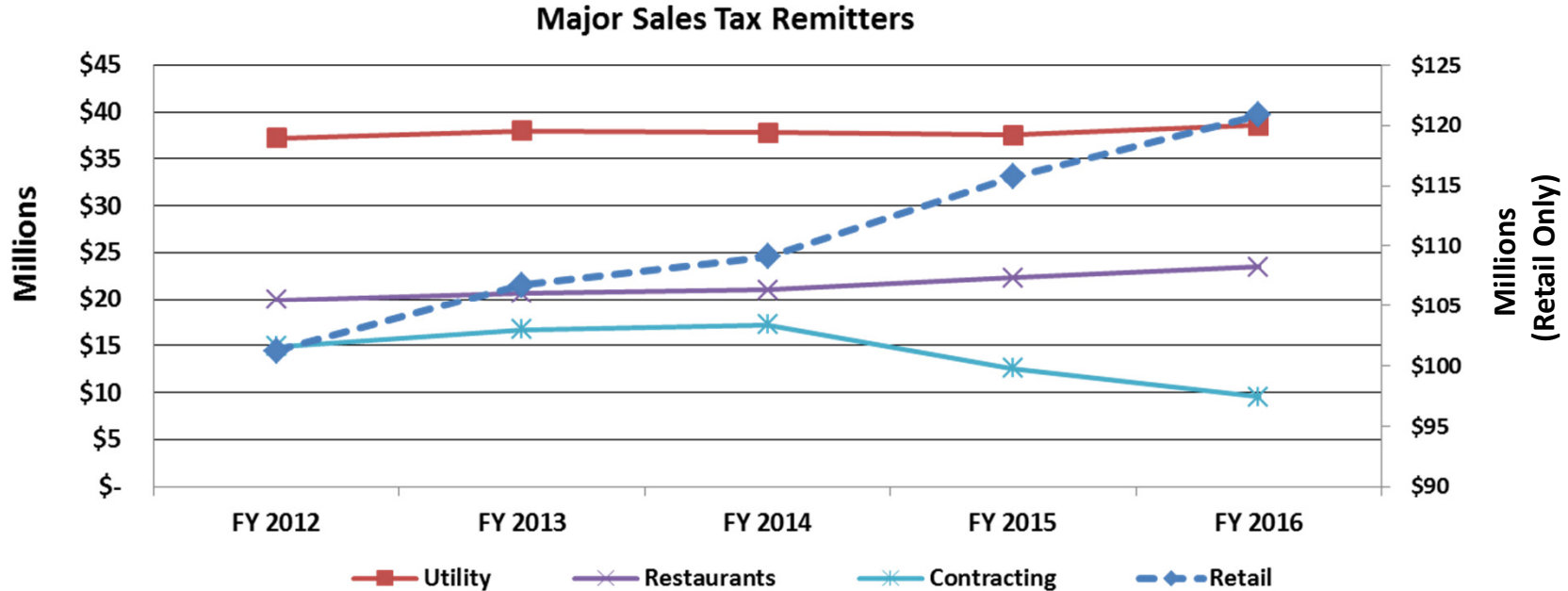
# Local Privilege Sales Tax

- Sales taxes comprise 38% of total General Fund budget
  - Projected in FY18 \$199.4M, 1.6% increase over FY17
    - Does not include half-cent sales tax increase





# Historical Sales Tax by Major Category



- Retail continues to grow
- Utility tax steadily growing
- Restaurant steadily growing
- Contracting legislation changes have created a down trend



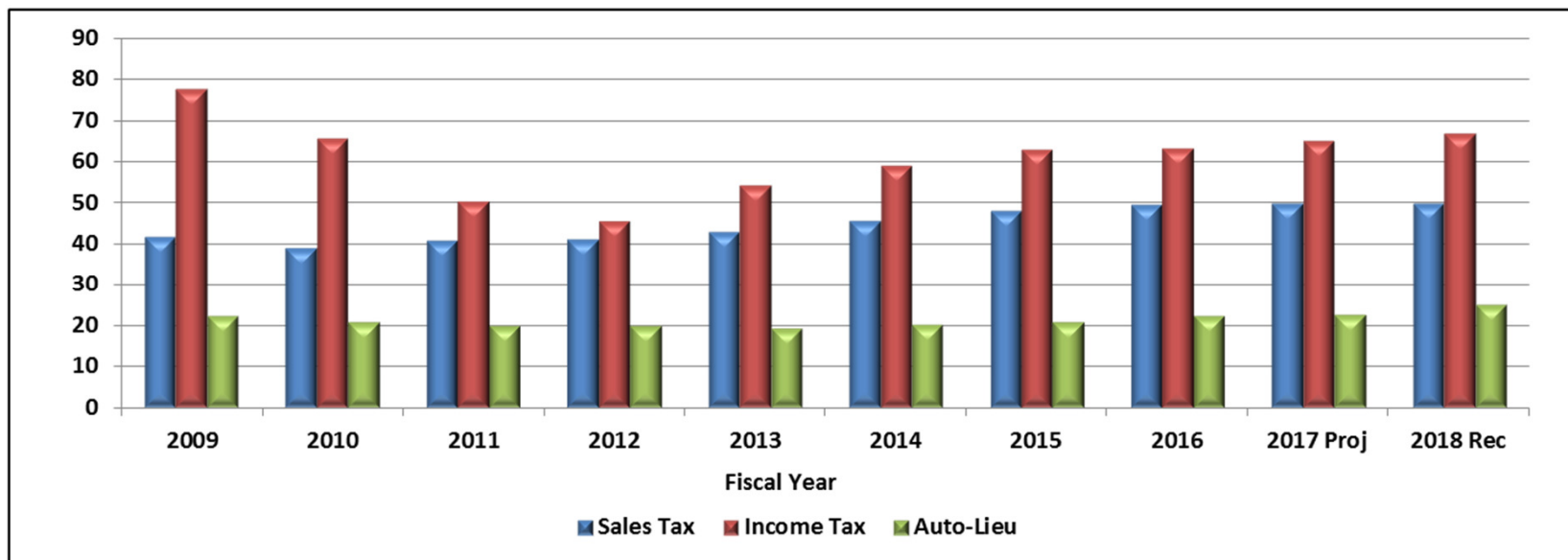
# State Shared Revenues

- State shared revenues comprise 27% of FY17 General Fund budget
  - FY18 recommended \$141.0M, 2.9% increase from FY17 estimate
- Revenues from three sources:
  - Sales taxes
  - Income taxes
  - Vehicle license taxes (Auto-Lieu)
- Revenues steadily increasing
- Amounts distributed by State based on formula driven by population
- Minimal impacts from mid-decade census



# State Shared Revenues – Closer Look

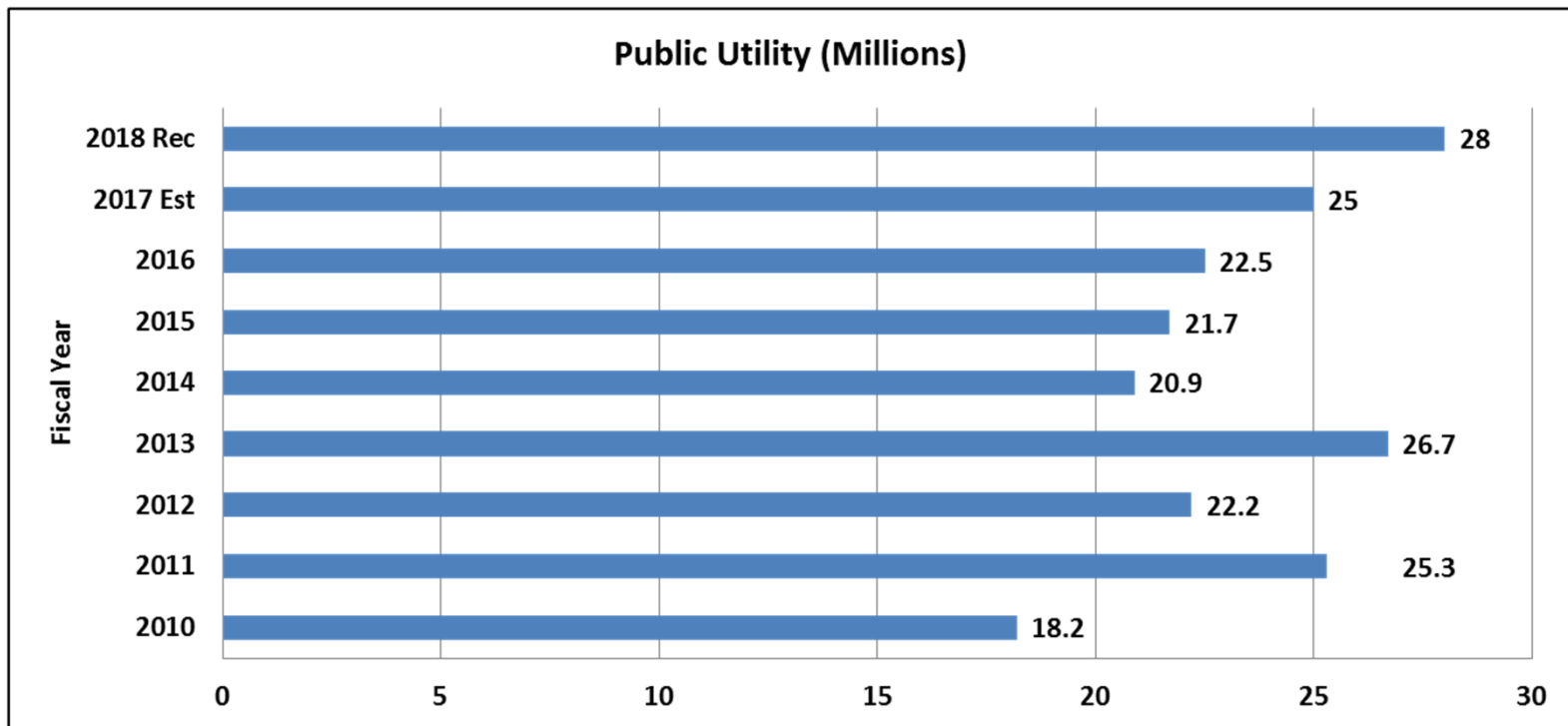
- State shared sales taxes budgeted at \$49.5M for FY18
  - Same as the FY17 estimate
- State shared income taxes budgeted at \$66.7M for FY18
  - \$246K or 0.38% more than the FY17 estimate
- State shared vehicle license taxes budgeted at \$24.7M for FY18
  - \$478K or 2.13% more than the FY17 estimate





# Public Utility Tax

- City Charter authorizes tax on public utility and telecommunication providers
- Tax rate increased .5% by Mayor and Council in FY17; current rate is 4.5%
  - Tucson Electric Power rate increase
  - Water Utility rate increase





# General Fund Balance (Cash Carryforward)

As of June 30:					Projected	Recommended
	2013	2014	2015	2016	2017	2018
<b>Nonspendable</b>	\$ 7.9	\$ 10.5	\$ 11.2	\$ 4.5	\$ 4.5	\$ 4.5
<b>Restricted/Committed*</b>	32.0	33.8	34.5	34.7	36.2	35.6
<b>Assigned</b>	1.7	6.5	4.3	8.5	27.8	12.3
<b>Unassigned</b>	12.8	16.0	15.7	28.3	29.6	34.7
<b>TOTAL:</b>	<b>\$ 54.4</b>	<b>\$ 66.8</b>	<b>\$ 65.7</b>	<b>\$ 76.0</b>	<b>\$ 98.1</b>	<b>\$ 87.1</b>

\* Committed amounts include \$22.8M set aside for stabilization.

Assigned	Projected	Recommended
	2017	2018
Imprest Cash	\$ 0.6	\$ 0.6
Transit Fuel Buffer	1.0	1.0
Route Enhancements	0.8	-
Self-Insurance Medical Plan Set Aside	1.7	0.2
One-time distribution to employees	2.6	-
Public Safety /Local pension payment	7.9	5.9
Public safety pension employee refund	2.0	-
Elections	0.8	-
Acella (permits software)	1.7	-
ERP (accounting software)	1.8	1.5
Fire/Police Vehicles	3.2	-
Fuel Contingency Account	1.1	-
Operating Contingency	2.6	-
Vehicle Replacement/Maintenance <sup>1</sup>	-	2.3
Building Maintenance <sup>1</sup>	-	0.8
<b>Subtotal</b>	<b>\$ 27.8</b>	<b>\$ 12.3</b>





# Managing Employee Costs

- Staffing Levels
  - Retirement incentive for PSPRS Employees
  - No pay raises or COLA's across the board
    - Strategic review of classification and compensation
  - One time distribution
- Cost of Employee Compensation
  - Tucson Supplemental Retirement System (TSRS)
  - Public Safety Personnel Retirement System (PSPRS)
- Re-organization
  - Business Services transformation
  - 311 Portal
  - 911 consolidation
  - City/County Court consolidation
- Healthcare Benefits and Other Post Employment Benefits
  - Reviewing benefits structure
  - Absorption of FY17 and FY18 costs
  - Self-Insurance FY19



# Total Citywide Personnel Expenditures

	Adopted FY 2017	Projection FY 2017	Recommended FY 2018	Dollar Amount Change Inc/(Dec)	Projection vs Recommended Variance
Personnel Costs					
Salary and wages	224,297,590	219,121,700	229,631,960	10,510,260	4.8%
Extra and overtime	17,262,860	20,040,500	20,308,220	267,720	1.3%
Employer Pension Contributions:					
Police	36,870,740	36,611,950	50,510,160	13,898,210	38.0%
Fire	25,741,260	26,016,960	32,458,300	6,441,340	24.8%
TSRS	34,552,260	31,100,270	35,705,530	4,605,260	14.8%
FICA	10,820,360	11,180,680	11,091,020	(89,660)	-0.8%
Group Health Plans	44,781,630	41,381,680	46,790,170	5,408,490	13.1%
Sick leave paid out upon retirement	289,610	714,920	512,530	(202,390)	-28.3%
Compensation for earned leave accrual	2,501,590	2,544,970	2,539,780	(5,190)	-0.2%
Other personnel expenditures	2,551,540	8,857,710	12,313,480	3,455,770	39.0%
<b>Total</b>	<b>399,669,440</b>	<b>397,571,340</b>	<b>441,861,150</b>	<b>44,289,810</b>	<b>11.1%</b>



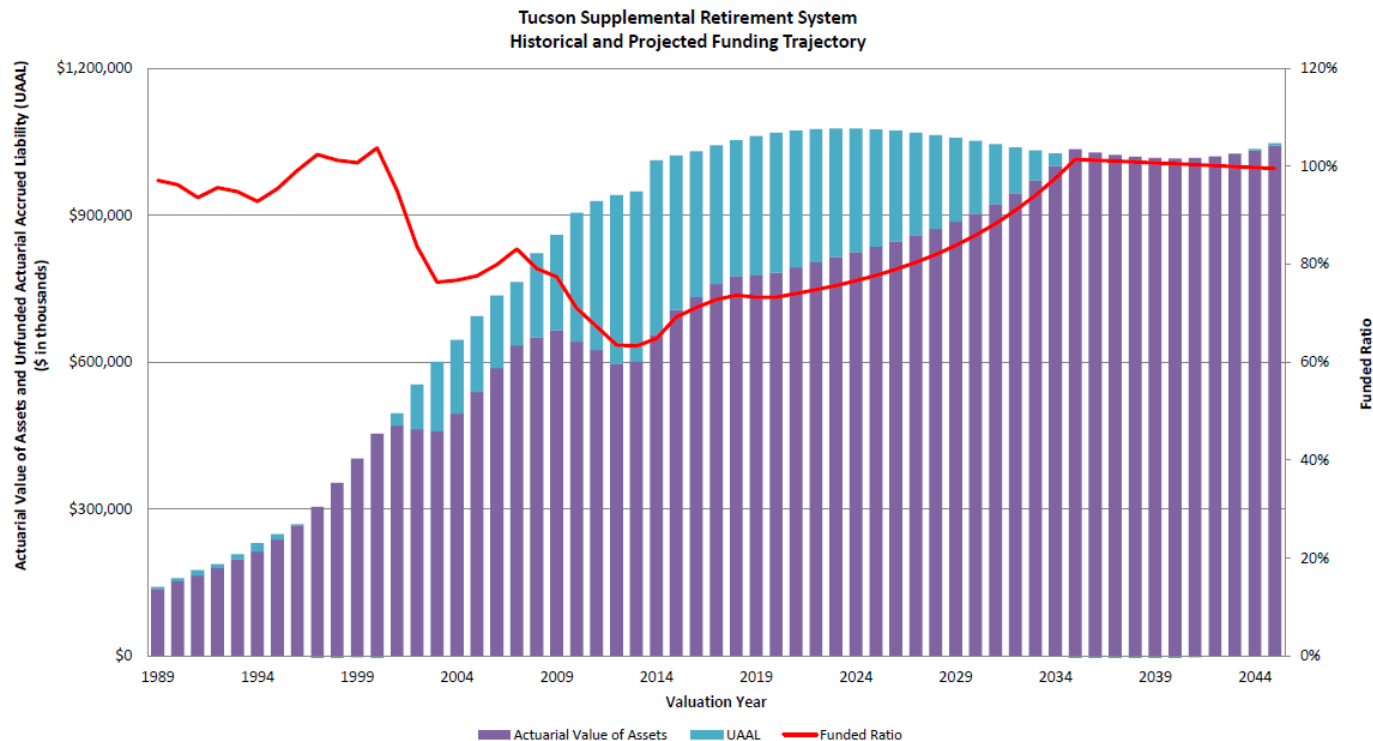
# Tucson Supplemental Retirement System

- TSRS is governed by the City of Tucson for its general employees (non-public safety)
  - 2,495 actives and 2,945 retirees
  - Assumed Rate of Return is 7.25%, unchanged from prior year
  - For the year ended June 30, 2016, TSRS portfolio earned 2.38%
- FY 2018 adopted contribution rates are 106% of annual required contribution
- FY 2018 contribution rates are unchanged from prior year:
  - Employer: 27.50%
  - Employees hired before 7/1/06 – 5.0%
  - Employees hired between 7/1/06 – 06/30/11 – 6.75%
  - Employees hired after 06/30/11 – 5.25%



# TSRS Funding Policy

- Funded level on an actuarial basis is 71.1% as of 6/30/16
- Net Pension Obligation of \$303.9M as of 6/30/16
- Plan modifications have been implemented to stabilize contribution rates and improve long-term sustainability





# Public Safety Personnel Retirement System

- General fund contributions for FY18 are \$17.3M higher than FY17
  - PSPRS is governed by Arizona Revised Statutes
  - Police: 842 Active, 964 Retiree and DROP participants
  - Fire: 582 Active, 608 Retiree and DROP participants
  - Funded ratios as of 06/30/2016:
    - Police: 36.62%, Fire: 33.71%
  - Prefunded FY17 contributions according to following schedule:

Date Transferred	Pre-funding Amounts
07/27/16	\$20,000,000
10/26/16	\$30,000,000
03/23/17	\$1,800,000
05/02/17	\$12,600,000

- Prefunding FY18 actuarial contribution, approximately \$81.7M



# PSPRS – Recent Legislation

- Hall Court Case: 3-2 Decision November 10, 2016
  - Restores Permanent Base Increases (PBIs) for those retired after July 1, 2011 and current active members\*
  - Reverses changes to employee contribution rates for those that became plan members on or before July 19, 2011
  - Due to elimination of PBIs and implementation of COLAs, plan actuary expects impact of ruling to be limited to:
    - Possible reduction in assets due to refund of member contributions
    - Possible retroactive adjustments to prior PBI payments

\*PBI will be eliminated and replaced by a COLA effective July 1, 2017 with passage of Proposition 124 in May 17, 2016 election





# Property Tax History

<b>Fiscal Year</b>	<b>Primary</b>	<b>Secondary</b>	<b>Involuntary Tort</b>	<b>Combined</b>
2012/13	0.4125	0.8514	0.0317	1.2956
2013/14	0.5245	0.9059	0.1032	1.5336
2014/15	0.4829	0.9777	0.0443	1.5049
2015/16	0.5326	1.0634	0.0812	1.6772
2016/17	0.5348	1.0634	0.0785	1.6767
2017/18 Proj	0.4581	0.9761	0.0767	1.5109

- \$100 million GO Bond authorization approved by Tucson voters in November 2012
- 5<sup>th</sup> and final issuance of a planned city street improvements 5 year program
- Estimated average rate increase in 2012 was 33 cents now estimated at 30 cents.
- Property tax reduction is generated by a decrease in the tort liability claims.



# Prop 101 Election Results

- Prop 101 Half-cent Sales Tax Increase for Streets and Public Safety
  - \$250M projected to be collected over a five-year period
    - \$100M – Restore, repair, and resurface city streets
    - \$150M – Vehicles, equipment and facilities for Police and Fire
  - Two Citizen oversight committees to be appointed by Mayor and Council and the City Manager
  - Tax will sunset after 5 years
- Election passed with 61.48% voter approval



# **WATER UTILITY OVERVIEW**



# Context: Policy Framework

- Mayor & Council Policies
  - Debt Service Coverage
  - Cash reserves
  - Annual review of rates and charges
- Bond Covenants/Rating Agencies
  - Debt Service Coverage (Sr. Lien)
  - Working Capital – days of O&M





# Tucson's Current Water Resources

**Colorado River Water**



**Groundwater**



**Rainwater & Stormwater**



**Reclaimed Water**





# Colorado River Considerations

- Tucson is prepared for a shortage
- Tucson supports the Drought Contingency Plan (DCP/DCP+), Minute 32x, and Tribal ICS
- Tucson-Phoenix inter-AMA (Active Management Area) exchange is successful
  - System use agreement is in place
  - 36,500 AF from Phoenix in 2017
- Tucson's shortage defenses include:
  - Conservation
  - Diverse water portfolio
  - M&I (Municipal & Industrial) Priority
  - Large allocation and banked water
  - Arizona Water Banking Authority
  - Local and regional partnerships
  - Groundwater back-up







# Water Quality Considerations

## TARP & AOP (Tucson Airport Remediation Project & Advanced Oxidation Process)

- TCE has been in compliance since the 1990's
- 1,4 Dioxane is being treated and a new ROD (Record of Decision) is upcoming
- Seeking O&M cost reimbursement

## PFOA/PFOS (Perfluorinated Compounds)

- Along with 1,4 Dioxane in Northwest Tucson - shut-down several wells
- Piloting a well-head treatment

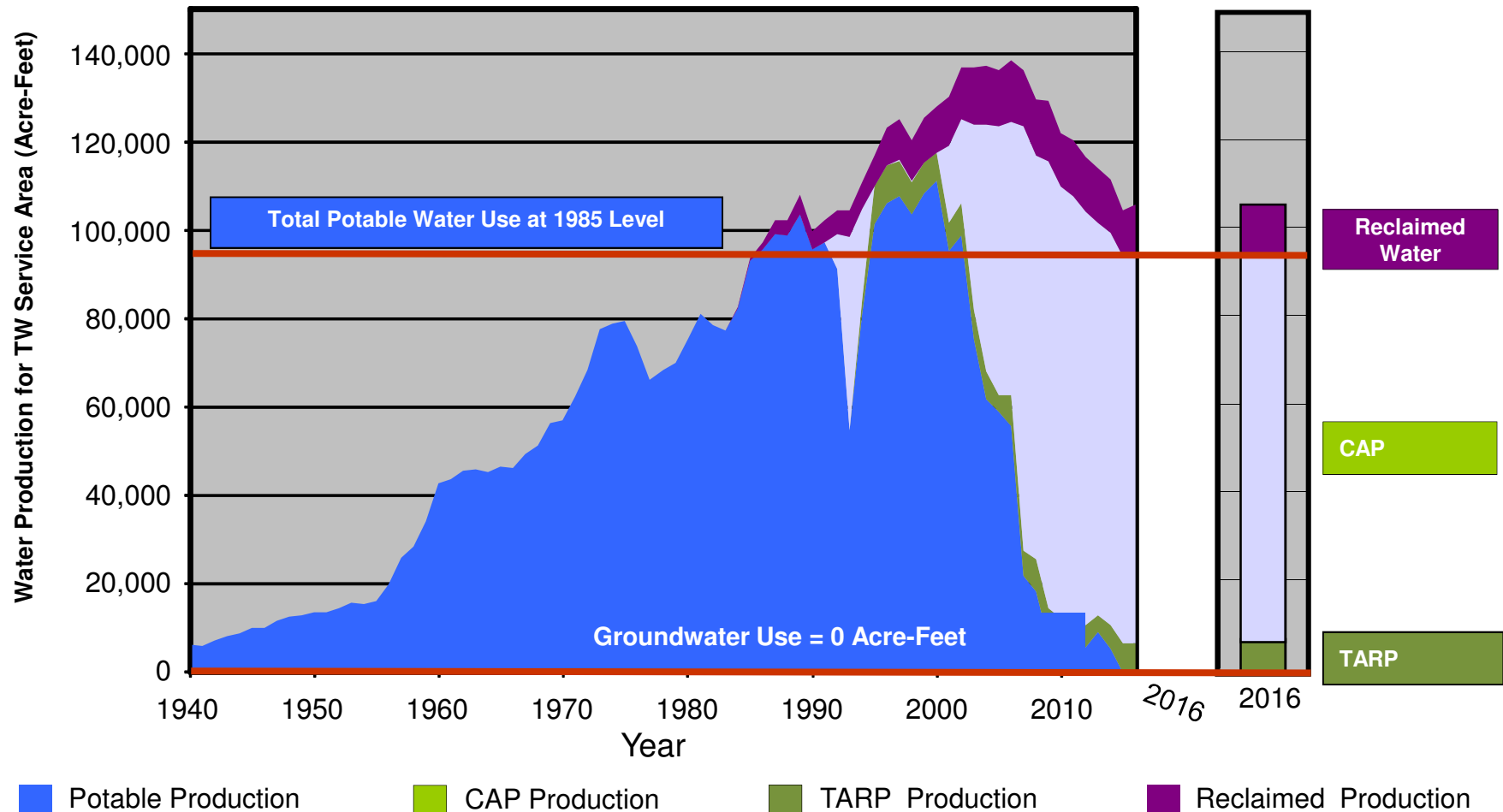
## Chromium VI – naturally occurring

- All results below health-based guidance
- Tracking for possible future treatment (if ever needed)



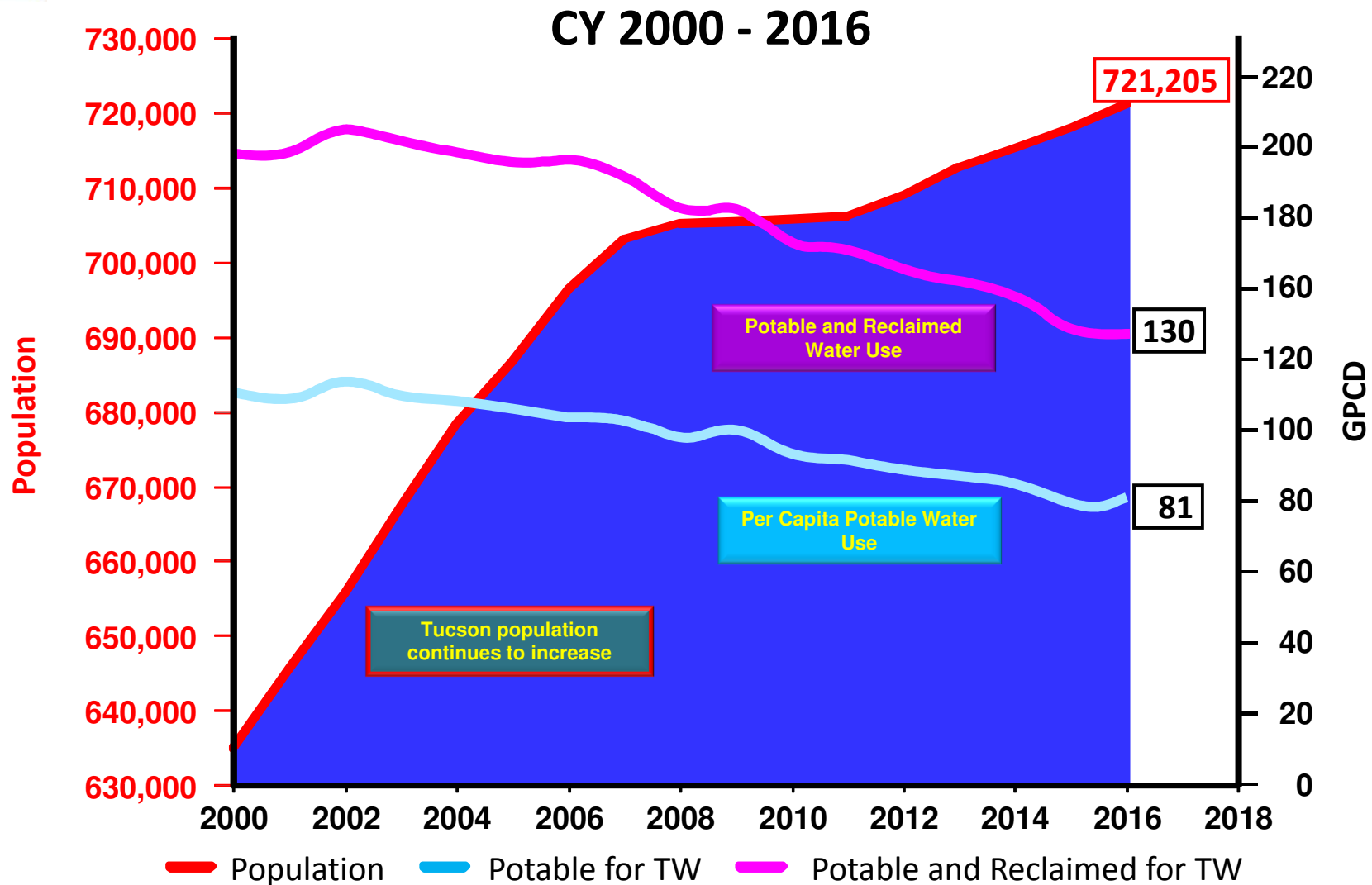


# Water Production (1940-2016)





# Population vs Water Production for Tucson Water Service Area



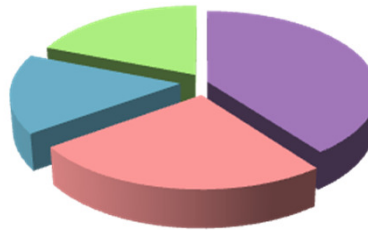


# Three-Step Rate Review Process

## Financial Plan



## Cost of Service Analysis



## Rate Design

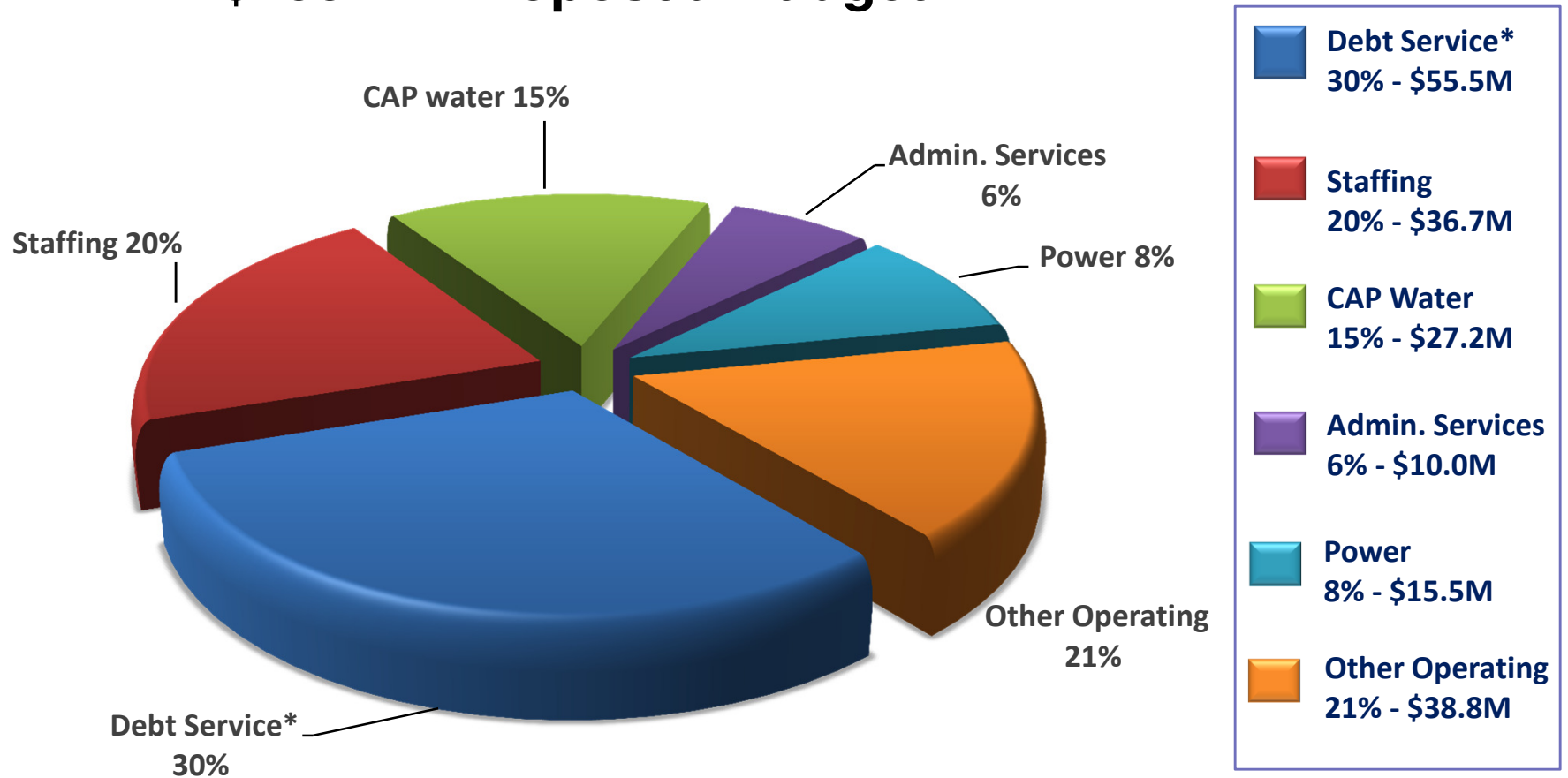


**7.0% revenue increases for FY17 and FY18  
approved by Mayor and Council in May 2016**



# Operating & Maintenance FY 2018

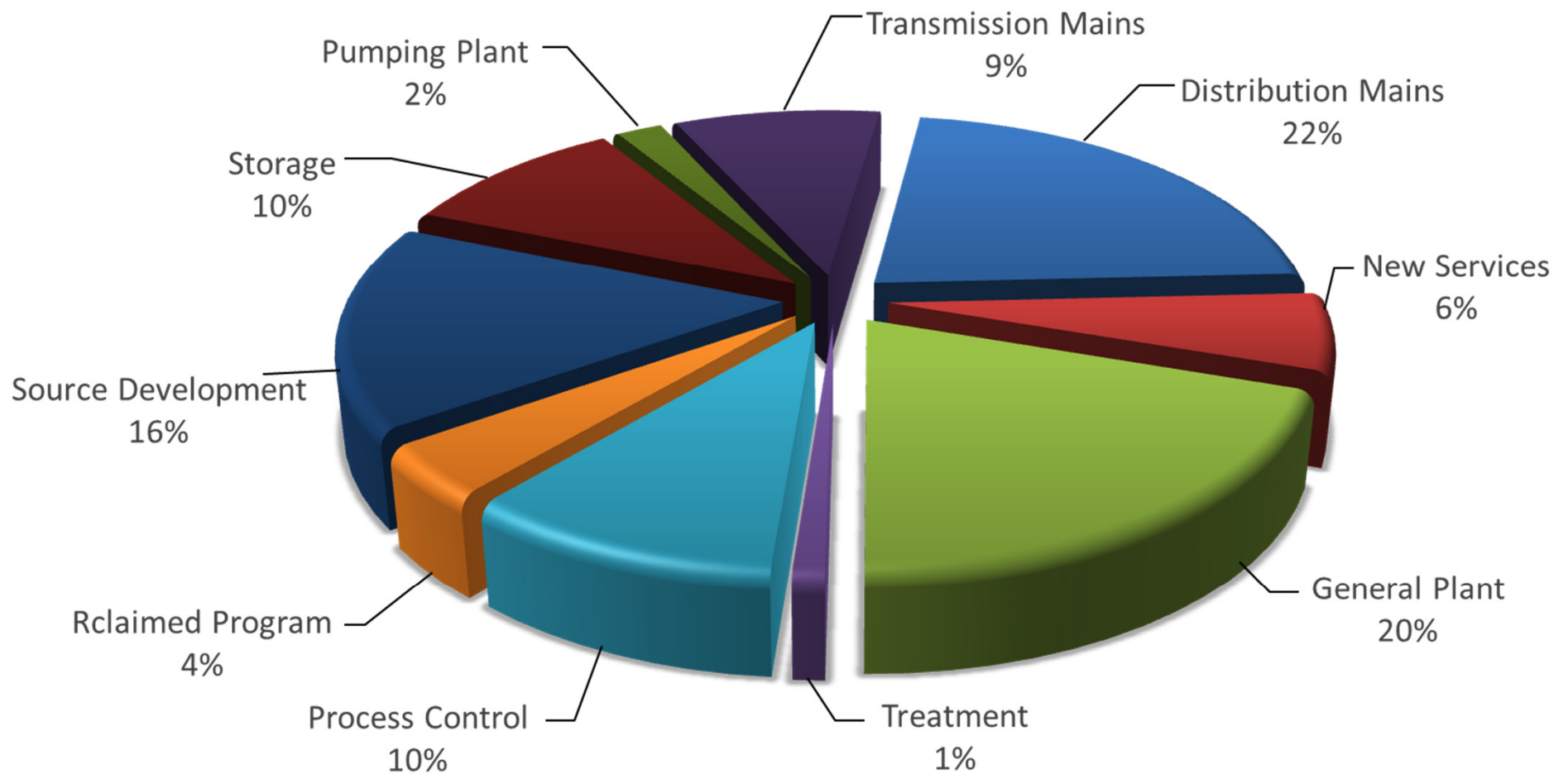
## \$183.7M Proposed Budget



*\*Debt Service will be lower due to 2017 refunding series.*



# Capital Budget FY 2018 – 2022 \$302.3M







# Revenue Forecast Comparison

	<b>2016 Actuals</b>	<b>2017 Planned</b>	<b>2017 Projected</b>	<b>Projected vs Planned Variance</b>
Potable Water Sales	\$163.8M	\$173.7M	\$173.9M	0.1%
Non-Potable Sales	\$9.0M	\$9.2M	\$9.3M	1.1%
Growth Related Fees	\$2.8M	\$2.6M	\$2.8M	7.7%
Other Revenues	\$16.6M	\$26.6M	\$25.3M	-4.9%
Total	\$192.2M	\$212.1M	\$211.3M	-0.4%



# Expenditure Forecast Comparison

	2016 Actuals	2017 Planned	2017 Projected	Projected vs Planned Variance
O & M Expenditure	\$104.1 M	\$106.8 M	\$101.6 M	-4.9%
Debt Service	\$50.9 M	\$53.3 M	\$54.3 M	1.9%
Admin Service Charge	\$7.7 M	\$7.7 M	\$7.7 M	0.0%
Payment In Lieu of Taxes	\$1.6 M	\$2.0 M	\$1.9 M	-5.0%
Other Requirements*	\$5.5 M	\$8.3 M	\$8.4 M	-1.2%
Total O&M	\$168.8 M	\$178.1 M	\$173.9 M	-2.4%
Capital Spending	\$50.7 M	\$56.1 M	\$56.7 M	1.1%

*\*Other Requirements include taxes, low income assistance and capital equipment costs.*



# FY 2017-2022 Adopted Financial Plan

## Working Capital/Cash Reserves

Year	2017*	2018*	2019*	2020*	2021*	2022*
Working Capital	\$48.9M	\$31.8M	\$32.9M	\$34.3M	\$36.3M	\$44.1M
Days Working Capital	152	95	95	95	95	110

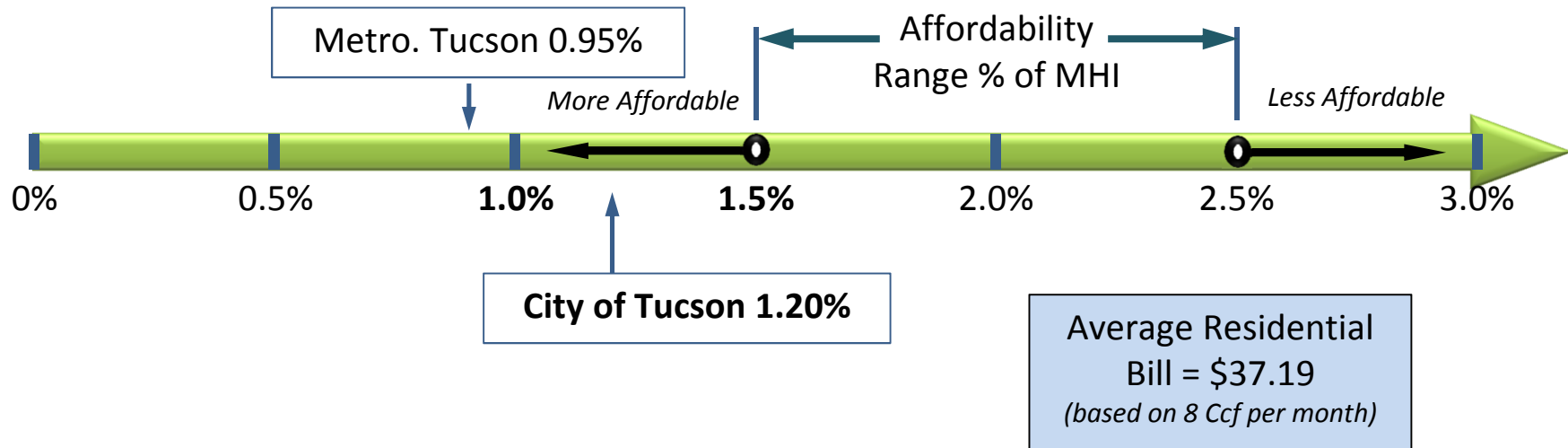
*\*Reflects FY ending June 30th*

- Actual Cash on hand at end of FY 2016 was \$46.8 M
- The planned Working Capital for 2017 included \$13 M in carry-forward funds for CIP Projects
- Planned FY 2018 assumes a spend down of the carry-forward funds for capital



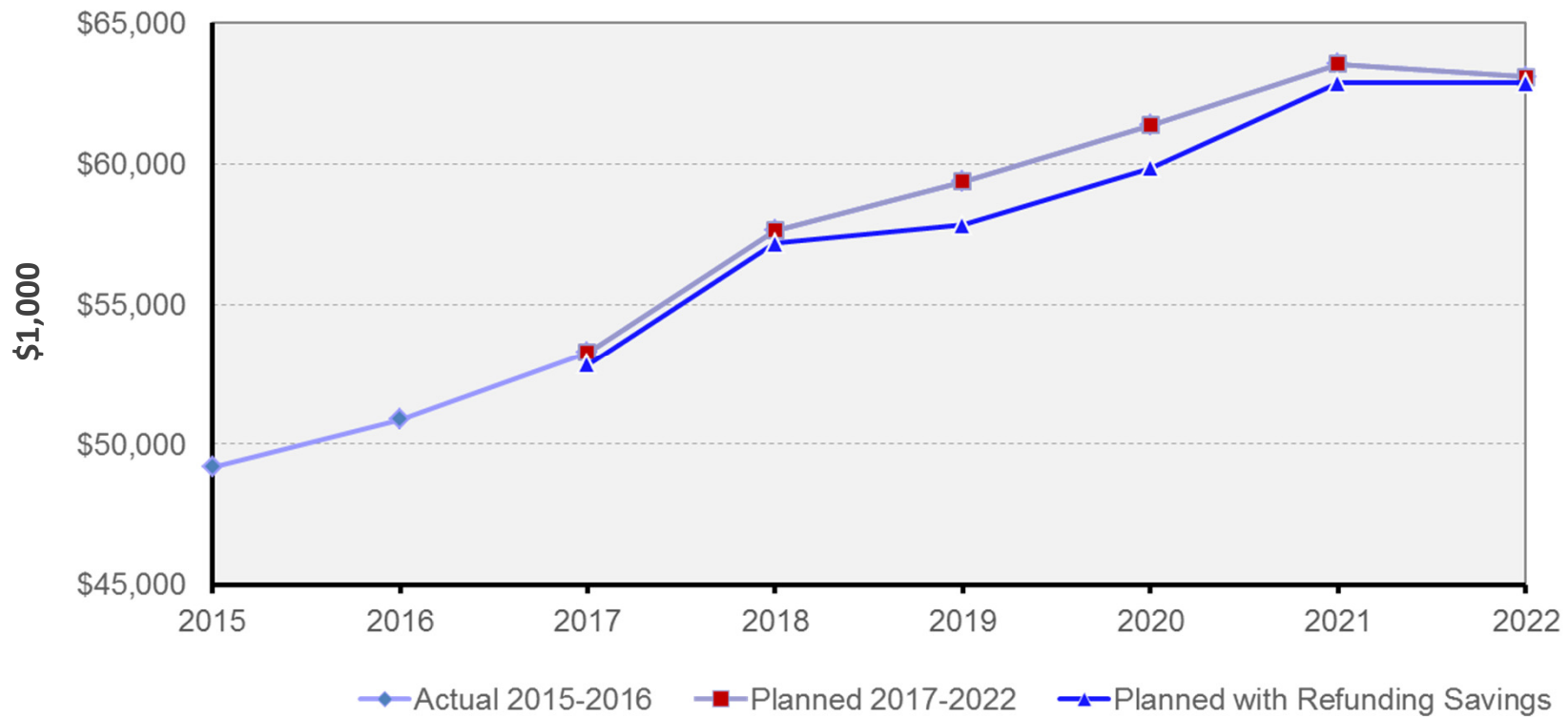
# Measuring Affordability

## Affordability Range by % of Income





# Tucson Water Annual Debt Service





# FY 2017-2022 Financial Plan

## Debt Service Coverages

Year	2017	2018	2019	2020	2021	2022
All Debt <sup>1</sup>	174%	168%	170%	174%	174%	187%

<sup>1</sup>M&C Policy is 175% or greater; FY 2016 Actual All Debt coverage was 166%

Year	2017	2018	2019	2020	2021	2022
Sr. Lien Coverage <sup>2</sup>	201%	192%	191%	195%	194%	205%

<sup>2</sup>Bond covenant = 175% or greater; FY 2016 Actual Sr. Lien Debt Coverage was 182%





# Water's 'Deep Dive' for Continuous Process Improvements

## Financial Services:

- ☐ Conservation (blocks, summer rates) vs. Revenue Stability (base rate)
- ☐ Reclaimed Rates; Differential Rates – Inside/Outside City
- ☐ Census Tract Data & Rate Affordability
- ☐ Multi-year Financial Planning and Rate Setting Scenarios

## Customer Service:

- ☐ Staffing, Training, and Technology
- ☐ Business Desk, Low Income Program

## Operations & Maintenance:

- ☐ Re-engineering / MMP (Maintenance Management Plan)
- ☐ GTLO (Get the Lead Out)
- ☐ SCADA System Renewal

## Planning & Engineering:

- ☐ Executable One-Year and 5-year CIP Plans
- ☐ Earned Value Management

## IT Business Operations Plan



# 2 Year Rate Review Process

Water revenues and rates are reviewed annually to determine if the financial needs of the utility are being met. If updates are determined to be needed the steps below take place:

- December
  - Staff updates Financial Plan and consults and receives guidance from City Manager's Office
- January-February
  - Citizens' Water Advisory Committee (CWAC) reviews and provides recommendations for the five-year financial plan
- February – March
  - Cost of Service Models and Rate Schedules are reviewed with City Manager's Office; if necessary, Notice of Intent to increase water rates are established
- March
  - CWAC provides recommendations for Cost of Service Models & Rate Schedules to Mayor & Council
- April
  - Mayor & Council reviews proposed five year Financial Plan and Rate Schedules, and if necessary, establishes dates for public hearings
- May
  - Mayor & Council hold public hearings and can adopt proposed water rates. If approved, new rates typically take effect in early July to optimize revenues during the peak summer sales



# Questions?