

# AGENDA MATERIAL

DATE 1-6-21 ITEM NO. BA 8

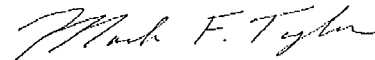
# cwac

Citizens' Water Advisory Committee  
City of Tucson  
P.O. Box 27210  
Tucson, AZ 85726-7210

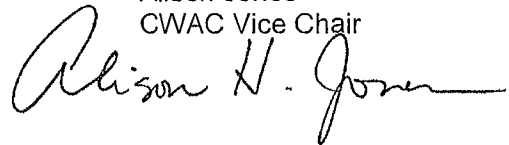
DATE: March 30, 2021

TO: Honorable Mayor and  
Council members

FROM: Mark Taylor  
CWAC Chair



Alison Jones  
CWAC Vice Chair



**SUBJECT: Differential Rates**

On January 5<sup>th</sup>, the Mayor and Council requested that the Citizen Water Advisory Committee (CWAC) provide comments regarding the proposal for Differential Water Rates that might be imposed solely on Tucson Water customers located in unincorporated Pima County. CWAC members were given a 90-day period to get up to speed regarding the various aspects of the M&C Differential Water Rate proposal. The Members used the entire CWAC committee meeting on February 3, 2021 to be briefed by staff on the history and legal framework of differential rates. The following March 3, 2021 meeting was committed to discussion by CWAC members to help more fully develop informed discussion of these matters, as reflected in this document. During this latter discussion, the Committee Chair asked each Committee member to address the following questions in an effort to understand what members perspectives were at this stage of our research and discussion:

- 1) Do you think there should be different water rates between the City of Tucson and unincorporated Pima County?
- 2) If yes, what percentage increase should be imposed on unincorporated Pima County?
- 3) If yes, where should the additional fund go? City of Tucson General Fund? Tucson Water, and for what purpose in TW?
- 4) Do you believe differential rates will provide the desired outcome of being an incentive for annexation?

Based upon these discussions and the follow up responses provided on March 3, 2021, the general opinion of the 15 CWAC members were divided where 10 members were "not" in favor of adoption of differential rates and 5 members were supportive of differential rates. After the discussion, the committee voted to develop a letter to M&C stating that the CWAC committee voted "against adoption of differential rates and to provide in a memo the issues and arguments on both sides of the discussion". The following initial perspectives were cited by the *majority* of CWAC members:

- It was generally believed that differential rates would not incentivize annexation. CWAC members have not been able to acquire information suggesting that differential rates had resulted in additional annexations in other municipalities. It was also felt that many areas seeking

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annexation in Pima County would not be able to annex based upon their location, or if they were eligible to annex, would not be incentivized by higher water rates to do so.

- The proposed differential rates are not linked to cost of service. It was stated that some areas inside Tucson have a higher cost of service than some areas in unincorporated Pima County. This is due to many areas within the City limits having elevations as high as those outside. It was stated that de-linking rates from cost of service, and thereby charging an arbitrary higher rate for those customers in unincorporated Pima County, would not only be divisive, but would establish a dangerous precedent as well.
- CWAC members generally agreed that differential rates would create a breach of trust between the utility and a large percentage of its customers. Given the City of Tucson's and Tucson Water's history with customers located in unincorporated Pima County, it was considered too late to impose such rates solely on those long-term customers and would likely result in angry customers. This could potentially lead to long-term trust issues with the utility and other possible unintended consequences. Several committee members noted that the proposal appears to be an issue of "taxation without representation", expressing this differential rate may be considered a new revenue source for the City from solely (unincorporated) County residents.
- Water is an emotional issue in Pima County. The fact that other cities impose differential rates is not likely to convince Tucson Water customers that differential rates are a good idea. This is especially true since such a large portion of Tucson Water customers live outside the City limits as compared to other cities with existing differential rates.
- The importance of an increased proportion of State Shared Revenues may be self-evident, but those revenues might well be offset by their uses in annexed areas. It may not be a valid approach to address municipal budget gaps for Tucson. In fact, it is possible that annexed properties will need more City investment than can be obtained with State Shared Revenues.
- If one believes that water is a human right, differential rates are inconsistent with the concept of water as a revenue source. Differential rates could be construed as a regressive tax.

Although the CWAC committee voted to "not support" the Differential Rates Proposal, the committee also voted to provide Mayor and Council with a summary of the minority dissenting voters' perspectives so that Mayor and Council can consider both sides of the discussion. The following are some of the reasons that five of the committee members supported differential rates.

- Many other cities in Arizona that serve water outside of their incorporated areas use differential rates in some form.
- Water rates are already too low in the desert southwest, and CAP water is expected to become scarce in the era of climate change. Differential rates could encourage conservation. Added benefits include reducing sprawl and protecting habitat.
- Revenues generated by differential rates could be used for subsidizing water for low-income households throughout the service area, especially those that are also affected by the increased rates; paying off the existing water delinquency debt; and/or other Tucson Water programs.
- The CWAC members that expressed support for differential rates opined that any revenues generated by differential water rates should stay with the water utility, and not go to the city's general fund. One member who was against differential rates, suggested that if differential rates are implemented, that they be dedicated to those areas where the additional revenues would be generated, specifically to areas outside the Tucson city limits.

- The members who supported differential rates did not agree on the amount of the rate, suggesting amounts ranging from 10%-30%.

In conclusion, based on these initial discussions, the majority of CWAC members do not believe that differential rates would encourage annexation, the primary reason that has been presented for its possible implementation. The CWAC members who supported differential rates supported it for reasons other than annexation.

Many CWAC members did express the opinion that if such rates are implemented, members believe the funds should be used for water-related infrastructure. CWAC members did not in any manner support the idea of funds generated through differential rates going into the City's general fund.

CWAC appreciates the opportunity to provide this initial input to Mayor and Council on differential rates. Please know that CWAC recognizes the complexity and importance of this matter and plan to continue to gather more information and potentially expand its discussion to include additional aspects of the proposed policies.

Respectfully submitted,  
Citizens Water Advisory Committee

Cc: Tim Thomure, Interim Assistant City Manager  
John Kmiec Interim Director, Tucson Water  
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Chris Avery, City Attorney's Office