



Mayor: Michael Farrar Council Members: Kevin Sair – Annie Spendlove – Scott Taylor – Richard Palmer

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MAYOR'S MEMORANDUM

TO: Apple Valley Town Council
FROM: Mayor Michael Farrar
DATE: June 17, 2026
SUBJECT: Water Rate Adjustment Justification

As the Town of Apple Valley transitions operation of the public water system from the Big Plains Water Special Service District to the newly established Apple Valley Water Department, Town officials have undertaken a review of the system's operational needs, maintenance requirements, and financial sustainability.

During this transition process, staff identified operational challenges and costs associated with the continued delivery of reliable culinary water service. These include water system losses, ongoing maintenance requirements, infrastructure replacement needs, regulatory compliance obligations, emergency repair preparedness, debt and the establishment of appropriate operational and capital reserves.

Based on information provided by staff and system operators, the current rate structure may not generate sufficient revenue to adequately support the long-term operation, maintenance, repair, and replacement of water system infrastructure while maintaining appropriate reserves for unexpected expenditures and future capital improvements.

If you remember back in October of 2025 as a town council, we voted to approve an upper tier level water rate reduction. We did this in hopes of being able to cut some cost, reduce expenses in the budget and have enough water system revenue to cover the yearly expenditures. On paper it looked like it might work. We felt it was worth trying. However, after fiscal year 2026 coming to an end we have seen that the numbers didn't go as planned and we will need additional revenue to cover water system expenses.

I wanted to share some quantitative analysis I used to develop the proposed rate increases. The annual water system revenue for 2025 fiscal year was \$725k. For 2026 fiscal year we are looking at about \$650k. We have been able to lower our annual operating expense down to about \$700k. That leaves us short about \$50k to cover our annual operating expenses. Increasing these upper tier levels of water usage back to where they originally were last year before we lowered the top tier rates would affect approximately 40 customers of our approximate 450 water connections and generate an estimated additional annual amount of \$40k.

Some other information that was utilized in my quantitative analysis is the AV water system has a debt of about \$4million dollars. Tiered rates are utilized to promote water conservation. I also compared the tiered rates to other nearby cities/towns (St. George, Leeds, Hurricane, Hilldale, Colorado City) and even with the increase our tiered rates will be lower than other neighboring

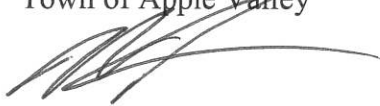
cities/towns. This rate increase also puts us in line with the with the recommended rates addressed in the Culinary Water Masterplan performed by Sunrise Engineering in July of 2023 as well as recommendations by the Utah State Division of Drinking Water.

The proposed water rate adjustment is intended to better align water system revenues with the actual costs of providing service, preserve the financial stability of the utility, and ensure the Town's ability to maintain a safe and reliable water supply for current and future customers.

The Town Council is asked to consider the proposed rate adjustment in light of these operational and financial considerations and determine whether the revised rate structure is in the best interest of the water system and its customers.

Respectfully submitted,

Michael Farrar
Mayor
Town of Apple Valley

A handwritten signature in black ink, appearing to be 'MF', with a long horizontal flourish extending to the right.