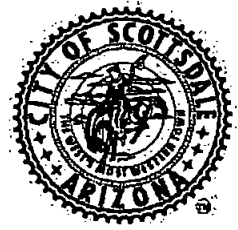


CITY COUNCIL REPORT



Meeting Date: April 8, 2014
 General Plan Element: ***Public Services & Facilities***
 General Plan Goal: ***Maintain a sustainable water and wastewater system.***

ACTION

Adopt notice of intention to modify wastewater rates and increase miscellaneous water fees for fiscal year 2014/15 and establish May 13, 2014 as the date for a public hearing.

BACKGROUND

Financial Planning Process: As prescribed by the City of Scottsdale's adopted Comprehensive Financial Policies, the City sets rates for water and wastewater customers based on an annually updated five-year financial plan for each enterprise fund. The five-year plans are used to ensure that rate adjustments generate sufficient revenues to cover costs of serving customers and to maintain adequate reserves in accordance with the City's adopted financial policies. The reserve policies are to provide for contingencies and to stabilize rate increases over the five-year planning period. As part of the comprehensive planning effort, the impact on the combined utility bill is carefully considered in determining the appropriate balance between rate increases and debt financing. To accomplish this objective, the City systematically incorporates marginal rate increases in conjunction with debt financing to avoid acute rate escalations at any point in time.

State Public Notification Process: State statutes establish the public notice and public hearing process to ensure that City water and wastewater customers receive adequate notice time, the ability to study the rate report supporting the proposed rate increases, and the opportunity to speak at a public hearing regarding the proposed increases. State statutes require:

- Adoption of a notice of intention to modify wastewater rates and miscellaneous water fees at a regular Council meeting (scheduled April 8, 2014) and setting of a date for a public hearing on the proposed changes to be held not less than 30 days after adoption of the notice of intention (May 13, 2014);
- Posting of a written report or data supporting the changes with the City Clerk at least 30 days prior to the public hearing (scheduled April 1, 2014);
- Publication of a notice of public hearing regarding City's intention to modify wastewater rates and miscellaneous water charges in a newspaper of general circulation within the boundaries of the municipality not less than 20 days prior to the public hearing date (scheduled April 11, 2014);
- A public hearing at a City Council meeting (scheduled May 13, 2014);

- Adoption of the proposed changes any time after the public hearing (scheduled May 13, 2014); and
- Implementation of changes no sooner than 30 days after adoption (proposed wastewater rate changes effective July 1, 2014).

In accordance with its adopted financial policies, the City completed the annual updates to the comprehensive five-year financial plans that incorporate all projected operating and capital revenues and expenses to determine the cash needs of the Water and Wastewater Enterprise funds. The City is proposing a modification to the wastewater rates to eliminate the monthly minimum charge and implement a base fee, and modifications to user volumetric rates for residential customers which is anticipated to be revenue neutral. No changes are proposed for the water rates. However, the City is proposing increases in some miscellaneous water charges to meet cost recovery requirements for services provided to specific customers. As part of the comprehensive planning effort, the impact on the combined utility bill for water and wastewater service was carefully considered in determining the appropriate balance between the proposed rate adjustments and debt financing. Based on the updated five-year financial plans, a synopsis of revenue requirements and recommended miscellaneous water charges and rate changes for the water and wastewater enterprise fund are explained below:

Water – Revenue requirements for the Water Enterprise fund are significantly impacted by the long term capital and associated operating impacts of federal water quality regulations (i.e., arsenic and disinfection by-products) enacted by the U.S. Environmental Protection Agency (EPA). Other cost factors affecting the water fund revenue requirements over the five-year planning period include:

- Capital costs for rate-funded water distribution system improvements to address aging infrastructure replacement needs identified through the asset management program effort
- Operating cost increases for purchased water which includes price increase to purchase Central Arizona Project (CAP) water for fiscal year 2014/15 and beyond
- Operating cost increase for electricity rates
- Operating cost increases for compliance with federal regulations
- Operating cost decrease related to City wide indirect cost allocations

Wastewater - Revenue requirements for the wastewater enterprise are significantly impacted by wastewater collection system maintenance and improvements which are essential to ensure regulatory compliance with Capacity, Management, Operations and Maintenance (CMOM) regulations and minimize wastewater system overflows. Other cost factors affecting the wastewater fund revenue requirements over the five year planning period include:

- Capital costs for rate-funded wastewater collection system improvements to address aging infrastructure replacement needs identified through the asset management program effort
- Capital projects related to the Multi-City Sub-regional Operating Group (SROG) 91st Avenue Wastewater Treatment Plant
- Operating cost increase for electricity rates
- Operating cost increases for compliance with federal regulations
- Operating cost decreases from the renegotiation of an effluent sales contract between the SROG and the Palo Verde Nuclear Generating Station
- Operating cost decrease related to City wide indirect cost allocations

A wastewater reclamation cost of service study is in process and being conducted by Black and Veatch. Based on the draft results the City is proposing modifications to wastewater rates which would eliminate the monthly minimum charge and implement a base fee. The new base fee, determined by meter size, would cause the user charge for residential customers to change slightly; residential customers with a seasonal sewer volume of 5,000 to 8,000 gallons would experience a \$0.11 to a \$0.50 increase. All other residential volumes outside this window would experience a small decrease. All non-residential customers would experience a small increase. In total the wastewater fund revenue is forecasted to decrease by nearly 1 percent, or \$400,000. The study also recommended changes to the loading factors for certain customer classes which are currently being reviewed by the City.

Water and Wastewater Miscellaneous Charges - To address cost recovery, several increases to miscellaneous charges are being proposed effective July 1, 2014 to meet the City's financial policy that charges recover all direct and indirect costs of service. Miscellaneous charges, i.e. water meter installation, hydrant meter deposits, etc. are assessed to specific users of the service so that general rate payers do not bear the burden. These increased charges are being phased-in over two and three year periods. Cost drivers that affect miscellaneous charges include; installation of smart meters and the rising percentage of copper in water meters. Other miscellaneous charges have increased due to increased labor rates and equipment costs which have risen due to higher fuel costs and general inflation. Water miscellaneous charge adjustments are forecasted to increase revenues in fiscal year 2014/15 by 0.1 percent or approximately \$47,000. There are no changes proposed for wastewater miscellaneous charges.

Changes to the City Code for housekeeping updates, including definitions and a clarification that all applicable taxes will be applied to services provided by the City as stated in Chapter 49 will be proposed.

RESOURCE IMPACTS

There are no resource impacts associated with this action as it strictly involves a public notice of intention to increase water and wastewater rates and charges and schedule a public hearing per State statutes.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Adopt the notice of intention to increase water and wastewater rates and fees for fiscal year 2014/15 and establish May 13, 2014 as the date for public hearing in order to proceed with proposed rate increases in conformity with State statutes.


RESPONSIBLE DEPARTMENT(S)

Water Resources and Finance Department

STAFF CONTACTS (S)

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APPROVED BY



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3-6-2014

Date

ATTACHMENTS

1. Draft - Proposed Legal Notice of Public Hearing

DRAFT

LEGAL NOTICE

CITY OF SCOTTSDALE NOTICE OF PUBLIC HEARING REGARDING CITY'S INTENTION TO INCREASE WATER AND WASTEWATER RATES

The City of Scottsdale hereby gives notice pursuant to Arizona Revised Statute section 9-511.01 of a public hearing to be held at the regularly scheduled City Council meeting on **May 13, 2014 at 5 p.m.** in the Kiva in City Hall, 3939 N. Drinkwater Boulevard, Scottsdale, Arizona in connection with the City's intention to consider an ordinance adjusting water and wastewater rates and charges for City water and wastewater service for fiscal year 2014/15. At the hearing, the City will accept verbal and written comments concerning the proposed water and wastewater rate ordinance. A report, including documentation supporting the adjustments, is available at the City Clerk's office.

Publish April 11, 2014