

CITY COUNCIL REPORT



Meeting Date: March 17, 2015
General Plan Element: ***Public Services & Facilities***
General Plan Goal: ***Maintain a sustainable water and wastewater system.***

ACTION

Adopt notice of intention to increase water and wastewater rates, increase miscellaneous water charges and make housekeeping adjustments to Chapter 49 City of Scottsdale Revised Code for fiscal year 2015/16 and establish May 12, 2015 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; reserve policies provide for contingencies and 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 rates and miscellaneous water charges at a regular Council meeting (this action) 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 12, 2015);

Action taken _____

- Posting of a written report or data supporting the changes with the City Clerk at least 30 days prior to the public hearing (scheduled March 17, 2015);
- Publication of a notice of public hearing regarding City's intention to modify 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 10, 2015);
- A public hearing at a City Council meeting (scheduled May 12, 2015);
- Adoption of the proposed changes any time after the public hearing (scheduled May 12, 2015);
- Implementation of changes no sooner than 30 days after adoption (proposed wastewater rates, stormwater fee and miscellaneous water charges effective July 1, 2015, and water rate changes effective November 1, 2015).

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 modifications to the water and wastewater rates that will increase revenues by approximately 1.3% and 2.6%, respectively. The City is also 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 funds 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 treatment and 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 2015/16 and beyond
- Operating cost increases for electricity rates
- Operating cost increases for treatment chemicals
- Operating cost increases for preventative maintenance

Increases to base fees are proposed to better reflect the recovery of fixed operating costs and adjusted to capture the demands placed on the system. Proposed changes for residential customers include an increase in the third tier commodity rate from \$3.45 to \$3.55, the fourth tier is reduced from 70,000 gallons to 65,000 gallons and the fifth tier commodity rate is increased from \$5.00 to \$5.25 to further encourage conservation. Proposed changes for commercial and landscaping includes volume changes for each of the four tiers to reflect typical usage and the commodity rates for tiers 2 through 4 are proposed to increase to further encourage water conservation.

Overall, the water rate adjustments are forecasted to generate an annual revenue increase of approximately \$1.2 million or 1.3% and effective November 1, 2015.

The city is also proposing to apply a water surcharge of 10% for customers located outside of city limits. This charge will treat contractual and non-contractual customers consistently and aligns costs with the cost drivers. The proposed change is forecasted to generate an annual revenue increase of approximately \$0.1 million and effective July 1, 2015.

Wastewater - Revenue requirements for the wastewater enterprise are significantly impacted by wastewater collection system maintenance and improvements that 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 treatment and collection system improvements to address aging infrastructure replacement needs identified through the asset management program effort
- Operating cost increases for electricity rates
- Operating cost increases for compliance with federal regulations
- Operating cost increases for treatment chemicals
- Operating cost increases for preventative maintenance

A water reclamation cost of service study was completed by Black and Veatch in 2014 and proposed rate adjustments that reflected the relative flows and loading experienced by the sewer system. The study results are in the second year of a phase-in approach. Base fees are increased to better reflect the recovery of fixed cost. Food service establishments are proposed to increase between 1 and 6 percent to better reflect the cost of service study results. Overall, the water reclamation rate changes are forecasted to generate an annual revenue increase of approximately \$1.0 million or 2.6% and effective July 1, 2015.

The City is also proposing to apply a wastewater surcharge of 10% for customers located outside of city limits. This charge will treat contractual and non-contractual customers consistently and aligns costs with the cost drivers. The proposed change is forecasted to generate an annual revenue increase approximately \$17,000 and effective July 1, 2015.

Long Term Financing – To address water and wastewater rehabilitation and replacement needs the City recently issued \$20.0 million in long term debt and may issue up to an additional \$30.0 million of water and wastewater debt over the five year planning period.

Stormwater Quality – An increase of \$0.10 per month to the stormwater quality charge is proposed to support expanded permit compliance costs supported by the sewer fund and are forecasted to generate an increase in annual revenues of approximately \$0.1 million and effective July 1, 2015.

Water and Wastewater Miscellaneous Charges - To address cost recovery, several increases to miscellaneous charges are proposed effective July 1, 2015, 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 installation and removal, etc., are assessed to specific users of the service so that general rate payers do not bear the burden. These increased charges are in the last year of a three-year phase-in process to bring the charges in line with actual costs. 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 higher labor rates and equipment costs which have risen due to general inflation. Water miscellaneous charge adjustments are forecasted to increase revenues in fiscal year 2015/16 by approximately \$34,000 and effective July 1, 2015. There are no changes proposed for wastewater miscellaneous charges.

Changes to the City Code for housekeeping updates, including definitions, titles and clarifications to the water and sewer appeals processes are proposed to be effective July 1, 2015.

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 charges for fiscal year 2015/16 and establish May 12, 2015, 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)

Brian K. Biesemeyer, Water Resources Director, 480-312-5683 bbiesemeyer@ScottsdaleAZ.gov

APPROVED BY



Brian K. Biesemeyer, Water Resources Director

480-312-5683, bbiesemeyer@ScottsdaleAZ.gov

3-2-2015

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 12, 2015 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 modifying water and wastewater rates and charges for City water and wastewater service for fiscal year 2015/16. 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 modification, is available at the City Clerk's office and the City's website at <http://www.scottsdaleaz.gov/Water/ratesfees>.

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