

# CITY COUNCIL REPORT



Meeting Date: March 23, 2017  
General Plan Element: ***Public Services & Facilities***  
General Plan Goal: ***Maintain a sustainable water and water reclamation system.***

## ACTION

Adopt notice of intention to increase water and water reclamation rates, increase miscellaneous water charges and make housekeeping adjustments to Chapter 49 City of Scottsdale Revised Code for fiscal year 2017/18 and establish May 23, 2017 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 water reclamation 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 water reclamation 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 23, 2017);

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 April 21, 2017);
- 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 25, 2017);
- A public hearing at a City Council meeting (scheduled May 23, 2017);
- Adoption of the proposed changes any time after the public hearing (scheduled May 23, 2017);
- Implementation of changes no sooner than 30 days after adoption (proposed water and water reclamation rates, and miscellaneous water charges effective July 1, 2017, and water rate changes effective November 1, 2017).

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 Water Reclamation Enterprise funds. The City is proposing modifications to the water and water reclamation rates that will increase revenues by approximately 2.9% 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 water reclamation 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 water reclamation enterprise funds are explained below:

**Water** – Revenue requirements for the water enterprise fund are significantly impacted by the rising cost of raw water provided by the Central Arizona Project (CAP). The cost of CAP water is projected to rise substantially through the five year planning period. Other cost factors affecting the water fund revenue requirements over the five-year planning period include:

- 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).
- 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 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 second tier commodity rate from \$2.85 to \$2.95, an increase in the third tier commodity rate from \$3.55 to \$3.70, an increase in the fourth tier from \$4.50 to \$4.75 and an increase in the fifth tier from \$5.25 to \$5.55. Additionally the third tier is reduced from 40,000 gallons to 30,000 gallons. Proposed changes for commercial and landscaping includes an increase in the second tier commodity rate from \$2.85 to \$2.95, an increase in the third tier from \$3.55 to \$3.70 and an increase in the fourth tier from \$3.85 to \$4.05. Additionally the second tier is increased from 10,000 gallons to 12,000.

Overall, the water base fee and rate adjustments are forecasted to generate an annual revenue increase of approximately \$2.6 million or 2.9% and effective November 1, 2017.

The city is proposing additional water rate and charges updates:

- The city is proposing to increase the out of city water surcharge from 10% to 15%. The proposed change is forecasted to generate an annual revenue increase of approximately \$5,650.
- The city is proposing an increase in the bulk water rate from \$1.65 to \$1.85 per thousand gallons. This proposed change is forecasted to generate an annual revenue increase of approximately \$13,550.
- The city is proposing a new automatic meter reading technology (AMI/AMR) turn-off charge of \$25.00. This proposed charge is forecasted to generate \$25.00.
- The city is proposing a new commercial private fire suppression charge of \$2.00 per month. This proposed charge is forecasted to generate \$80,800.
- The city is proposing a new commercial water hauler base fee of \$10.00 per month. This proposed fee is forecasted to generate \$1,200.
- The city is proposing a new residential water hauler base fee of \$5.00 per month. This proposed fee is forecasted to generate \$3,000.

Each of the above water rate and charges is proposed to be effective July 1, 2017.

**Water Reclamation** - Revenue requirements for the water reclamation enterprise are significantly impacted by the Sub Regional Operating Group (SROG) multicity water reclamation plant operating costs. Other cost factors affecting the water reclamation fund revenue requirements over the five-year planning period include:

- Capital costs for rate-funded water reclamation treatment and collection system improvements to address aging infrastructure replacement needs identified through the asset management program effort
- 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
- Operating cost increases for compliance with federal regulations
- 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 third and final 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 4.3% and 7.7% 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, 2017.

The city is proposing to increase the out of city water reclamation surcharge from 10% to 15%. The proposed change is forecasted to generate an annual revenue increase of approximately \$2,500 and effective July 1, 2017.

**Long Term Financing** – To address water and water reclamation rehabilitation and replacement needs the City is planning to issued \$57.1 million in long term debt and may issue up to an additional \$35.0 million over the five year planning period.

**Water and Water Reclamation Miscellaneous Charges** - To address cost recovery, several increases to water miscellaneous charges are proposed effective July 1, 2017, to meet the City's financial policy that charges recover all direct and indirect costs of service. Miscellaneous water 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. Cost drivers that affect water miscellaneous charges include installation of smart meters and the rising percentage of copper in water meters. Other water 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 2017/18 by approximately \$178,000 and effective July 1, 2017.

There are no changes proposed for water reclamation miscellaneous charges.

Changes to the City Code for housekeeping updates, including definitions, titles and clarifications are proposed to be effective July 1, 2017.

## **RESOURCE IMPACTS**

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

## **OPTIONS & STAFF RECOMMENDATION**

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### **Recommended Approach**

Adopt the notice of intention to increase water and water reclamation rates and charges for fiscal year 2017/18 and establish May 23, 2017, as the date for public hearing in order to proceed with proposed rate increases in conformity with State statutes.

## **RESPONSIBLE DEPARTMENT(S)**

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Water Resources and Finance Department

## **STAFF CONTACT(S)**

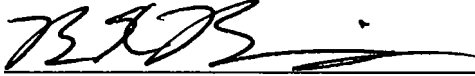
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## **APPROVED BY**

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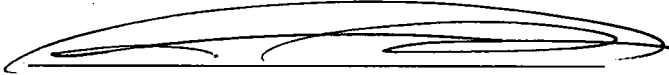


Brian K. Biesemeyer, Water Resources Director

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3-6-2017

Date



Jim Thompson, City Manager

480-312-2811, [JThompson@ScottsdaleAZ.gov](mailto:JThompson@ScottsdaleAZ.gov)

3-7-2017

Date

## **ATTACHMENTS**

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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 23, 2017 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 2017/18. 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>.

**Publish April 25, 2017**