



# Utility Rate Update Council Work Session

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**4:30 pm | July 20, 2023**  
**Council Conference Room**







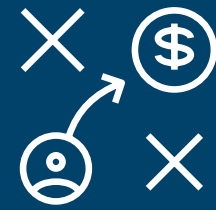
# Utility Rate Setting Overview





# Cost of Service (COS) Process Completed Every 4-5 Years

City's Financial Plan Review  
(completed annually)



What is the funding requirement?

Cost of Service Analysis  
(completed every 4-5 years,  
last update 2021)



Is everyone paying their fair share?

Rate Design Change  
Recommendations -If any  
(1<sup>st</sup> 2021 COS rate changes 7/1/22  
and rate design only Solid Waste)



How can our rates help ensure fairness?





# Wet Utilities Background







# COS Realignment

- It took us many years to get out of alignment, so we would not correct misalignment in one year
- A 5-year projection of revenue requirements was completed, which included the additional projected rate increases needed
- Decision was to transition COS over 5 years, every other year rate changes
- Water would be at 100% COS by year 5 and Wastewater at 75% COS by year 5
- Wastewater COS to be re-evaluated at 100% at second rate change
- Plan began implementation July 1, 2022





# Revenue Requirements

## Revenue Increases - %

### Adopted Budget

Fiscal Year	Water	Wastewater	Reclaimed
July 2022	2.0%	4.0%	8.0%
2022 - 23	0%	0%	0%
Jan. 2024	5%	6.0%	7.0%
2024 - 25	0%	0%	0%
Jan. 2026	7%	6.0%	7.0%

### Jan. 2024 Utility Rates Interim Update

Fiscal Year	Water	Wastewater	Reclaimed
July 2022	2.0%	4.0%	8.0%
2022 - 23	0%	0%	0%
Jan. 2024	7%	8.0%	7.0%
2024 - 25	0%	0%	0%
Jan. 2026	7%	6.0%	7.0%

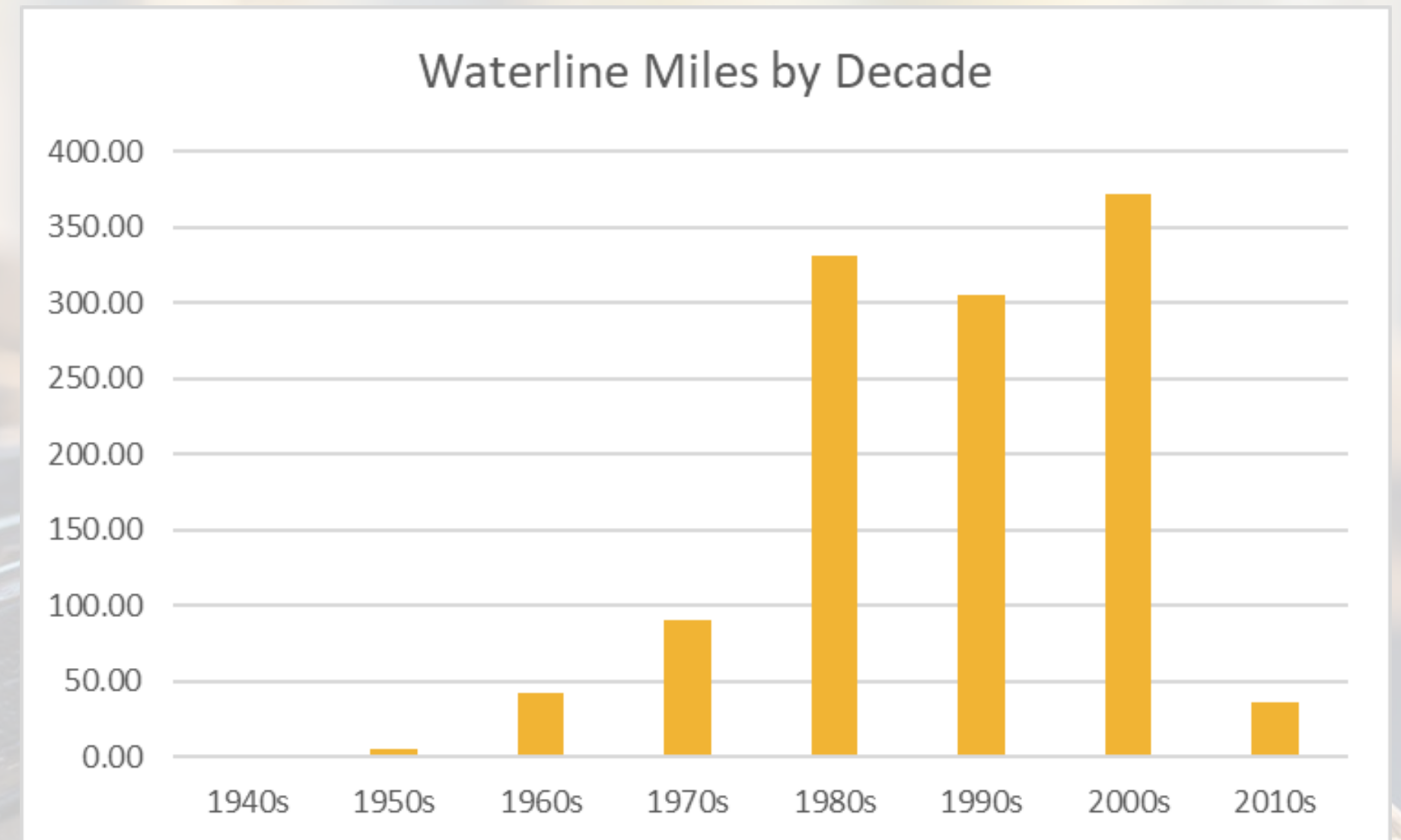
Projection subject to change



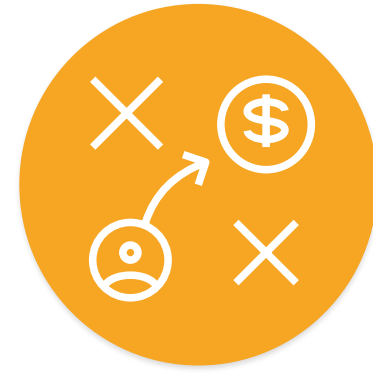
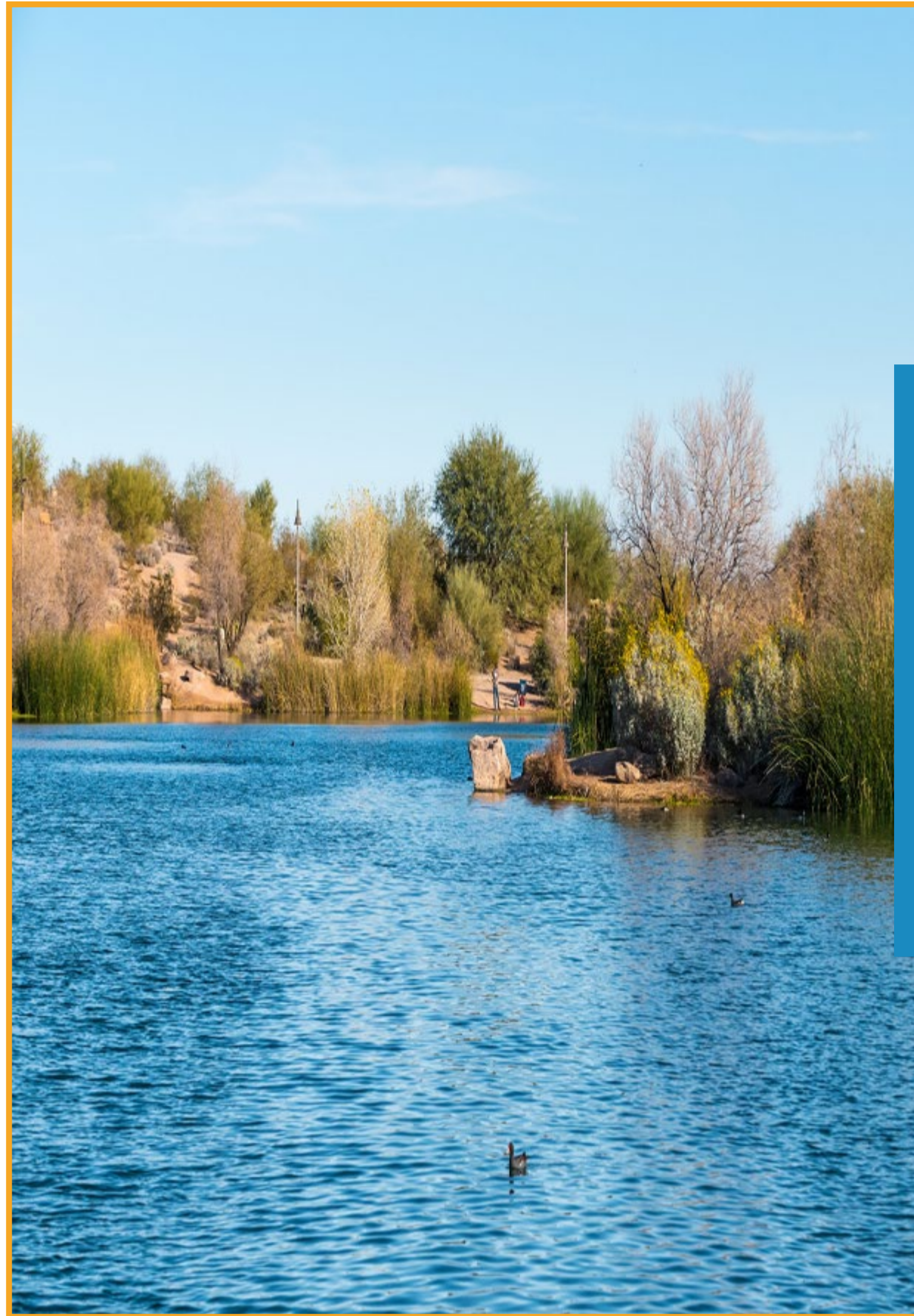
# Major Driver - Aging infrastructure

## Water

- Total mains 1,238 miles
- 10-year CIP \$81.6M
- Reflects 1-2 miles/year
- Proactive replacements based on risk (breaks interrupt plan)
- Increasing regulation for TTHM (Trihalomethanes) adds \$2M to chemicals
- Increasing rate 2% adds ongoing capacity for operations and debt service
- Compounds to \$5M by year 5 and \$11.8M by year 10 with current projections
- Allows us to bond for \$62M in projects by year 5 and \$146M by year 10







# Major Drivers – Aging Infrastructure

## Wastewater

- Total pipes & valves 947 miles
- 10-year CIP \$131.8M
- Reflects significant individual projects (e.g. 66" Sewer Main)
- Reactive replacements based on video/inspections
- Increasing regulation for Water Effluent Quality
- Increasing rate 2% adds ongoing capacity for operations and debt service
- Compounds to \$4.8M by year 5 and \$11M by year 10 with current projections
- Allows us to bond for \$59M in projects by year 5 and \$137M by year 10



# Water Rates







# Cost of Service Rates

*To ensure everyone is paying their fair share*



Revenue  
Requirement



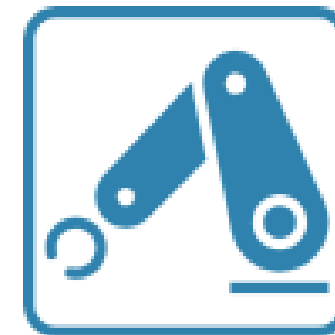
Residential



Multifamily



Non-residential



Industrial



Landscape

Shifting cost burden of revenue requirement to customer classifications differently allows for more accurate reflection of actual cost of providing service to each customer class



# 5-Year Transition Plan to 100% COS

## Volumetric Water Rates

Customer Class	Existing	FY 2023-24 (Jan. 2024)	Rate Change %	FY 2024-25	FY 2025-26 (Jan. 2026) 100% COS	FY 2026-27	FY 2027-28 (Jan. 2028) Across Board	
<b><u>Single Family</u></b>		Current FY			Projection			
Existing Conservation Tiers	First 10 Kgal	\$1.62	<b>\$1.66</b>	2.47%	\$1.66	<b>\$1.72</b>	\$1.72	<b>\$1.84</b>
	Next 10 Kgal	2.11	<b>2.15</b>	1.90%	2.15	<b>2.23</b>	2.23	<b>2.39</b>
	Next 40 Kgal	2.65	<b>2.73</b>	3.02%	2.73	<b>2.82</b>	2.82	<b>3.01</b>
	Over 60 Kgal	3.31	<b>3.39</b>	2.42%	3.39	<b>3.50</b>	3.50	<b>3.75</b>
<b><u>Multi-Family</u></b>								
Existing Conservation Tiers	First 10 Kgal	\$0.89	<b>\$0.91</b>	2.25%	\$0.91	<b>\$0.94</b>	\$0.94	<b>\$1.00</b>
	Next 10 Kgal	1.09	<b>1.13</b>	3.67%	1.13	<b>1.16</b>	1.16	<b>1.24</b>
	Next 20 Kgal	1.49	<b>1.55</b>	4.03%	1.55	<b>1.61</b>	1.61	<b>1.72</b>
	Over 40 Kgal	2.25	<b>2.31</b>	2.67%	2.31	<b>2.42</b>	2.42	<b>2.59</b>

**Includes total revenue recovery projected increases of 7.0% (was 5%) in FY 2023-24, 7.0% in FY 2025-26, and 7.0% in FY 2027-28**

All future year projected rate increases are estimates and are subject to change as market conditions or facility needs change over time



# Volumetric Water Rates

(per 1,000 gallons)

Customer Class	Existing	FY 2023-24 (Jan. 2024)	Rate Change %	FY 2024-25	FY 2025-26 (Jan. 2026) 100% COS	FY 2026-27	FY 2027-28 (Jan. 2028) Across Board
		Current FY			Projection		
<b>Non-Residential</b>	\$2.19	<b>\$2.37</b>	8.22%	\$2.37	<b>\$2.63</b>	\$2.63	<b>\$2.82</b>
<b>Landscape</b>	2.70	<b>3.08</b>	14.07%	3.08	<b>3.65</b>	3.65	<b>3.90</b>
<b>Industrial</b>	2.17	<b>2.37</b>	9.22%	2.37	<b>2.66</b>	2.66	<b>2.85</b>

**Includes total revenue recovery projected increases of 7.0% (was 5%) in FY 2023-24, 7% in FY 2025-26, and 7% in FY 2027-28**

All future year projected rate increases are estimates and are subject to change as market conditions or facility needs change over time



# Base Water Rates

Meter Size	Existing	FY 2023-24 (Jan. 2024)	Rate Change %	FY 2024-25	FY 2025-26 (Jan. 2026) 100% COS	FY 2026-27	FY 2027-28 (Jan. 2028) Across Board
<b><u>Base Charge \$ per Bill</u></b>		Current FY			Projection		
5/8" x 3/4"	\$9.26	<b>\$9.72</b>	4.97%	\$9.72	<b>\$10.38</b>	\$10.38	<b>\$11.11</b>
3/4"	10.56	<b>11.10</b>	5.11%	11.10	<b>11.85</b>	11.85	<b>12.68</b>
1"	13.49	<b>14.17</b>	5.04%	14.17	<b>15.15</b>	15.15	<b>16.21</b>
1.5"	21.24	<b>22.30</b>	4.99%	22.30	<b>23.85</b>	23.85	<b>25.52</b>
2"	29.90	<b>31.40</b>	5.02%	31.40	<b>33.58</b>	33.58	<b>35.93</b>
3"	63.03	<b>66.19</b>	5.01%	66.19	<b>70.81</b>	70.81	<b>75.76</b>
4"	88.94	<b>93.38</b>	4.99%	93.38	<b>99.92</b>	99.92	<b>106.91</b>
6"	168.88	<b>177.32</b>	5.00%	177.32	<b>189.71</b>	189.71	<b>202.99</b>
8"	255.85	<b>268.65</b>	5.00%	268.65	<b>287.44</b>	287.44	<b>307.56</b>
10"	435.93	<b>457.73</b>	5.00%	457.73	<b>489.77</b>	489.77	<b>524.05</b>
12"	616.03	<b>646.83</b>	5.00%	646.83	<b>692.12</b>	692.12	<b>740.57</b>

**Includes total revenue recovery projected increases of 7.0% (was 5%) in FY 2023-24, 7.0% in FY 2025-26, and 7.0% in FY 2027-28**

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# Water Conservation

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- **Tiered rates encourage conservation: low water users pay less per gallon for the water they use, high water users pay more**
- **Chandler offers free water-wise workshops, site visits, and retrofit kits (homes built prior to 1992)**
- **Current and new conservation rebate programs:**
  - **Residential and commercial grass removal**
  - **Non-functional turf removal**
  - **Smart irrigation controller installation**
  - **Pursuing grant funding to increase incentives**







# Wastewater Rates







# Cost of Service Rates

*To ensure everyone is paying their fair share*



Revenue  
Requirement



Residential



Multifamily



Non-residential

Shifting cost burden of revenue requirement to customer classifications differently allows for more accurate reflection of actual cost of providing service to each customer class



# 5-Year Transition Plan to 75% COS Rates

Customer Class	FY 2022-23	FY 2023-24 (Jan. 2024)	Rate Change %	FY 2024-25	FY 2025-26 (Jan. 2026) 75% COS Reached	FY 2026-27	FY 2027-28 (Jan. 2028) Across Board
		Current FY			Projection		
Residential Base*	\$27.65	<b>\$28.32</b>	2.42%	\$28.32	<b>\$28.85</b>	\$28.85	<b>\$30.58</b>
Multifamily Base*	\$10.57	<b>\$12.26</b>	15.99%	\$12.26	<b>\$13.64</b>	\$13.64	<b>\$14.46</b>
Non-Residential							
Volumetric**	\$3.73	<b>\$4.24</b>	13.67%	\$4.24	<b>\$4.64</b>	\$4.64	<b>\$4.92</b>
Customer Charge	\$8.17	<b>\$9.24</b>	13.10%	\$9.24	<b>\$10.11</b>	\$10.11	<b>\$10.72</b>

\* Monthly Charge per Dwelling Unit

\*\* Per 1,000 Gallons

Transition to COS over 5-year period including 8% (was 6%), 6%, and 6% increases needed in financial plan

All future year projected rate increases are estimates and are subject to change as market conditions or facility needs change over time



# 5-Year Transition Plan to 100% COS Rates

Customer Class	FY 2022-23	FY 2023-24 (Jan. 2024)	Rate Change %	FY 2024-25	FY 2025-26 (Jan. 2026) 100% COS Reached	FY 2026-27	FY 2027-28 (Jan. 2028) Across Board
		Current FY				Projection	
Residential Base*	\$27.65	<b>\$27.65</b>	0.00%	\$27.65	<b>\$27.65</b>	\$27.65	<b>\$29.31</b>
Multifamily Base*	\$10.57	<b>\$12.92</b>	22.2%	\$12.92	<b>\$15.38</b>	\$15.38	<b>\$16.30</b>
Non-Residential							
Volumetric**	\$3.73	<b>\$4.37</b>	17.15%	\$4.37	<b>\$4.99</b>	\$4.99	<b>\$5.29</b>
Customer Charge	\$8.17	<b>\$9.58</b>	17.25%	\$9.58	<b>\$10.97</b>	\$10.97	<b>\$11.63</b>

\* Monthly Charge per Dwelling Unit

\*\* Per 1,000 Gallons

Transition to COS over 5-year period including 8% (was 6%), 6%, and 6% increases needed in financial plan

All future year projected rate increases are estimates and are subject to change as market conditions or facility needs change over time





# Reclaimed Water Rates





# Reclaimed Water Volume Rates

## 5-Year Projection

### No interim rate adjustment

All Reclaimed Customers	Existing	FY 2023-24 (Jan. 2024)	FY 2024-25	FY 2025-26 (Jan. 2026)	FY 2026-27	FY 2027-28 (Jan. 2028)
\$ per 1,000 gallons	\$0.75	<b>\$0.80</b>	\$0.80	<b>\$0.86</b>	\$0.80	<b>\$0.92</b>
Change - \$		<b>\$0.05</b>	\$0.00	<b>\$0.06</b>	\$0.00	<b>\$0.06</b>
Change - %		<b>7%</b>	0%	<b>7%</b>	0%	<b>7%</b>

Includes projected increases of 7% in FY 2023-24 and 7% in FY 2025-26 and FY 2027-28  
 All future year projected rate increases are estimates and are subject to change as market conditions or facility needs change over time



# Solid Waste Rates





# Solid Waste Rate Projection

Fiscal Year (FY)	Adopted Rate Increase Projection	Recommended
FY 23-24 – Jan 2024	5%	7%
FY 25-26	6%	7%
FY 27-28	6%	7%

**1% Rate increase generates = \$177,400 ongoing and compounds**

All future year projected rate increases are estimates and are subject to change as market conditions or facility needs change over time



# Solid Waste Background

## Solid Waste July 2022 Implementation

### FY 2022 Rate Change

- +3.4% Residential

### FY 2022 Cost of Service

#### RSWCC

- 2 free visits for the 1<sup>st</sup> 400 lbs, any weight above 400 lbs = \$50/ton – then \$10/visit
- 2 free bulk pickups, then \$30 per pickup
- Alleyway collection \$1.61/month per residence

### FY 2024 Rate Change

- +7% Residential (was 5%)

### FY 2024 Cost of Service

#### RSWCC or Bulk

- A total of 4 free RSWCC visits or bulk pickups per calendar year
- After 4 free, RSWCC is \$10 for up to 400 lbs. and bulk pickups are currently \$30





# Solid Waste Rate Drivers

Waste Management collection costs have experienced extraordinary increases, and a contract amendment is planned for July 2023

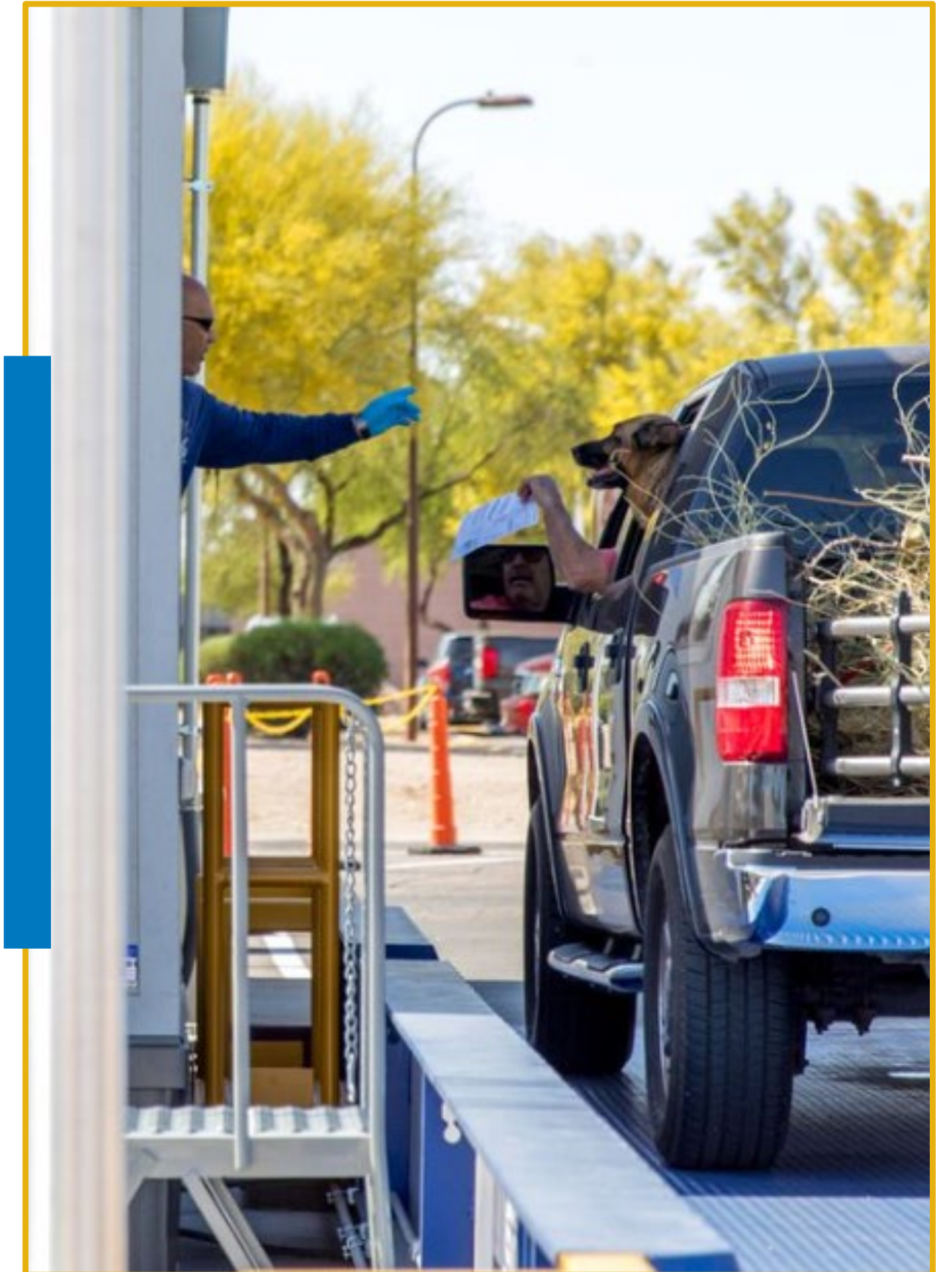
- One-time payment of \$1,068,000 in August 2023 to address new and prior year increases
- Recommend an ongoing adjustment to contract of 8.8% (\$854,400) to be effective July 2024
- Regular contracted CPI increases thereafter, capped at 3.5%





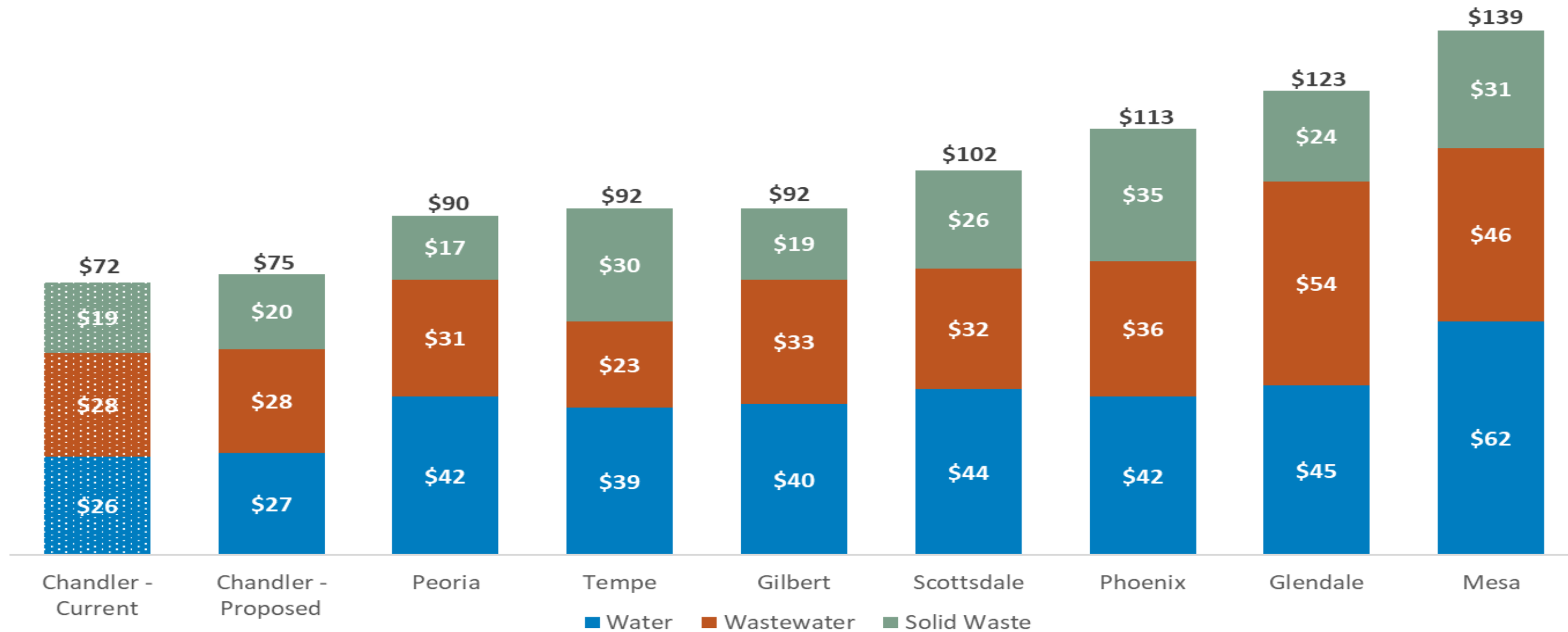
# Solid Waste Fee Updates

- Additional/Replacement container charge from \$60 to \$75 (adjusts to current City cost)
- Additional/Replacement Containers for Large Alley size change from \$235 to \$430 (adjusts to current City cost)
- City facility rate at RSWCC to true disposal cost \$46 to \$50 / ton (adjusts to current City cost)
- Additional container collection fee \$7.50 to \$15 (adjusts to current City cost)
- Special collection fee non-alley \$17.50 to \$18.50 and Alley \$25 to \$35 (adjusts to current City cost)
- Additional Bulk collections above free allocation from \$30 to \$35 (adjusts to current City cost)
- Changes would generate an additional estimated \$7,300 for solid waste fund





# Average Residential Cost Comparison for Water, Wastewater and Solid Waste



Estimated based on Tempe Cost of Service July 2022 results at 10,000 gallons single family residential rates for FY 2022-23 plus known Water and Wastewater increases across all Cities and including Chandler's planned rate increases of 7% for Solid Waste



# Rate Adjustment Timeline

Task or Event	Date
Public Outreach	<b>July 2023</b>
Feedback to Council on Public Outreach	<b>August 2023</b>
Notice of Intent Adopted (60 Days prior to Public Hearing)	<b>August 17, 2023</b>
Notice Publication in Newspaper (20 days prior to Public Hearing)	<b>September 27, 2023</b>
Public Hearing / Ordinance First Read / Resolution to Update Citywide Fee Schedule	<b>October 19, 2023</b>
Ordinance Final Adoption (Can go into effect 30 days after adoption)	<b>November 9, 2023</b>
Rates Effective for January Billing Cycle	<b>January 1, 2024</b>



# Questions?

