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JUL 09 2015

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Where Values Make The Difference

MEMORANDUM **Management Services Memo No. 16-001**

DATE: JULY 9, 2015

TO: MAYOR & COUNCIL

THRU: MARSHA REED, ACTING CITY MANAGER MR

FROM: DAWN LANG, MANAGEMENT SERVICES DIRECTOR for DL

SUBJECT: PUBLIC HEARING - STAFF PRESENTATION ON CHANGES TO CERTAIN WATER, WASTEWATER, RECLAIMED WATER AND SOLID WASTE FEES

BACKGROUND/DISCUSSION

As required by the City's Financial Policies, a review of current utility rates was conducted as part of the Fiscal Year (FY) 2015-16 Budget process. A review was completed for the Water, Wastewater, and Solid Waste Enterprise Funds, as well as Reclaimed Water operations. In addition, the City engaged the consulting firm of Raftelis Financial Consultants, Inc., to provide a more extensive review of the City's current and future revenue requirements for the Water, Wastewater, and Reclaimed Water systems. (The consultant did not participate in the review of the Solid Waste Enterprise.)

There is no Council vote associated with the July 9, 2015, Public Hearing. The proposed changes will be introduced as an Ordinance at the August 10, 2015, meeting with final adoption planned for the August 13, 2015, meeting. Rate changes would go into effect on October 1, 2015.

The proposed changes are summarized below and on the attached PowerPoint Public Hearing presentation.

Water: The review of the Water Enterprise determined that no rate increase was required at this time. The review does recommend converting the Water rate structure from a seasonal rate to a year-round rate. The changes to year-round rates are proposed to go into effect on October 1, 2015, and are cost neutral.

Wastewater: The review of the Wastewater Enterprise determined that a rate increase of 9% ($3.4 million) is required for Single Family Residential, Multi-Family, and all Non-Residential customers in order to generate sufficient revenues for anticipated increases in operating costs and

for additional debt service costs due to the anticipated sale of bonds for capital expansions and upgrades.

Reclaimed Water: As part of the FY 2015-16 reviews of utility rates, the consultant conducted a full financial evaluation of the City's Reclaimed Water operations. As part of this process, the consultant (with the City's assistance) identified operating and debt services costs in the Water and Wastewater Funds that can be directly attributable to the Reclaimed Water operations. The review determined that a rate increase of 18% ($216,000) is required for FY 2015-16. The review does recommend converting the rate structure from a seasonal rate to a year-round rate. Both Wastewater and Reclaimed Water changes are proposed to go into effect on October 1, 2015.

Solid Waste: The review of the Solid Waste Enterprise determined that a 6% rate increase is required for all covered residences. The increase is needed to keep pace with annual Consumer Price Index (CPI) increases that are part of the existing Solid Waste contract and is the first Solid Waste rate increase since 2005. The rate increase is proposed to go into effect on October 1, 2015.

Note: Outside City rates will continue to be calculated using the current differentials of 1.4 times the Inside City rates for Reclaimed Water, and 1.6 times the Inside City rates for Wastewater.

PUBLIC NOTIFICATION

In accordance with State Statutes, the "Official Notice of Intention to Increase Certain Wastewater, Reclaimed Water, and Solid Waste Rates and to Modify Certain Water and Reclaimed Water Rates from Seasonal Rates to Year-Round Rates" was posted on the City's web site and published in the Arizona Republic newspaper showing the date, time and place of the Public Hearing. Also as required by State Statues, a copy of the documents supporting the revised Wastewater and Reclaimed Water rate was filed with the City Clerk for public review for 30 days prior to the hearing. In addition, social media was used to advertise the date of the Public Hearing.

FINANCIAL IMPLICATIONS

The financial plan reflects rate increases up to a maximum 9% for Wastewater, 18% for Reclaimed Water, and 6% for Solid Waste to generate needed revenues. These increases will cover additional debt service costs due to infrastructure needs and maintain the financial integrity of the Water, Wastewater, and Solid Waste Enterprise Funds, including debt service coverage and cash reserve policy requirements over the next fiscal year.

Attachment: PowerPoint-Public Hearing Presentation on Proposed 2015 Utility Rate Changes

c: Nachie Marquez, Assistant City Manager
Dave Siegel, Municipal Utilities Director

CITY OF CHANDLER ARIZONA

Public Hearing on Proposed 2015 Utility Rate Changes

July 9, 2015

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Overview

- Water, Wastewater & Solid Waste Operations are each set up as separate Enterprise Funds (self supporting)
  - Water Enterprise: Rate Revenue Supports Operations, Capital Improvements, Debt Service and Required Reserves
  - Wastewater Enterprise: Rate Revenue Supports Operations, Capital Improvements, Debt Service and Required Reserves
  - Solid Waste Enterprise: Rate Revenue Supports Operations, Capital Improvements, Debt Service and Required Reserves
- Financial Policy Requirements
  - Rate Analysis Completed Annually and Forecast Updated
  - Rate Study Performed Every 4 Years (at a minimum)
    - ✓Completed by Raftelis Financial Consultants, Inc.

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Utility Rate Analysis & Study Update

- City Prepared the Long-Term Financial Plans for Water, Wastewater, Reclaimed Water, and Solid Waste
  - Determined Revenue Increases Needed for all Except Water
- Raftelis Consultants Reviewed Rate Design
  - Propose Winter/Summer Rates Change to Year-Round Rate for Water and Reclaimed Water

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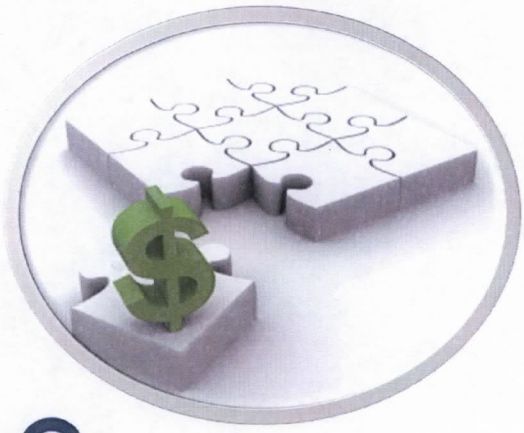
FINANCIAL PLAN Revenue Requirements Needed



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FINANCIAL PLAN RESULTS
Revenue Increases - %

Fiscal Year*	Water	Wastewater	Reclaimed Water	Solid Waste
2015-16	0%	9%	18%	6%
2016-17	-	-	-	-
2017-18	4%	9%	8%	6%
2018-19	-	-	-	-
2019-20	4%	9%	2%	7%

* Increases effective October 1st

Note: FY 2015-16 rate projections remain the same

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FINANCIAL PLAN RESULTS
Revenue Increases - $

Fiscal Year*	Water	Wastewater	Reclaimed Water	Solid Waste
2015-16	+$0	+$3.4M	+$216K	+$785.5K
2016-17	-	-	-	-
2017-18	+$2.1M	+$3.8M	+$113.3K	+$840.9K
2018-19	-	-	-	-
2019-20	+$2.2M	+$4.2M	+$30.6K	+$1.4M

* Increases effective October 1st; reflecting 12 months.

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FINANCIAL PLAN RESULTS
Key Rate Increase Drivers
for FY 2015-16

- Debt Service Related to Growth
  - New Capital for Ocotillo Water Reclamation Facility (WRF)
- Debt Service Related for Non-Growth
  - Capital System Maintenance
  - Infrastructure Improvements
- Operations & Maintenance
  - Ocotillo and Airport WRFs
  - Solid Waste Contract CPI Increases

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WATER
Rate Design & Customer Impacts

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WATER
Rate Design Recommendation

- Keep Existing Volumetric Tiered Block Consumption Structure and Base Charges
  - Supports Conservation
- Change Winter/Summer Rates to Year-Round Rate
  - Impacts all Customer Classes
  - Reduces Confusion by Eliminating May/Oct. Rate Changes
  - Will not Dilute Conservation Efforts
  - Enables Customers to Better Forecast
  - Enhances Water Utility Revenue Stability

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WATER RATES
Single Family Residential (SFR)

Block	Existing Inside City FY 2014-15 Rates Winter	Existing Inside City FY 2014-15 Rates Summer	Projected FY 2015-16 Year-Round
First 10 Kgal	$ 1.60	$ 1.60	$ 1.60
Next 10 Kgal	1.98	2.15	2.08
Next 40 Kgal	2.48	2.69	2.62
Over 60 Kgal	2.69	3.36	3.27
Typical Meter Size	Base Charge		Year-Round
5/8"	$ 8.87		$ 8.87

Projected Year-Round Rate Design Change is Cost Neutral Over Entire Year

Note: 40% outside City differential for volumetric rates; unchanged.

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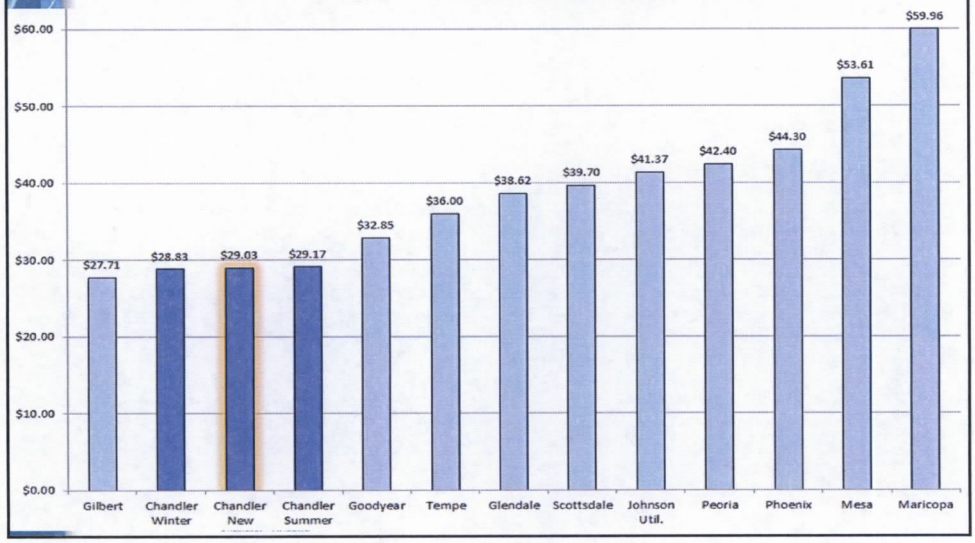
WATER RATES
SFR Inside City Bill Impact
Assumes 12,000 Gallon Usage on 5/8" Meter



WATER RATES
Multi-Family

Block	Existing Inside City FY 2014-15 Rates Winter	Existing Inside City FY 2014-15 Rates Summer	Projected FY 2015-16 Year-Round
First 10 Kgal	$ 0.87	$ 0.87	$ 0.87
Next 10 Kgal	1.07	1.07	1.07
Next 20 Kgal	1.35	1.61	1.47
Over 40 Kgal	1.69	2.81	2.21

Typical Meter Size	Base Charge		Year-Round
6"	$ 161.57		$ 161.57

Projected Year-Round Rate Design Change is Cost Neutral Over Entire Year

Note: 40% outside City differential for volumetric rates; unchanged.

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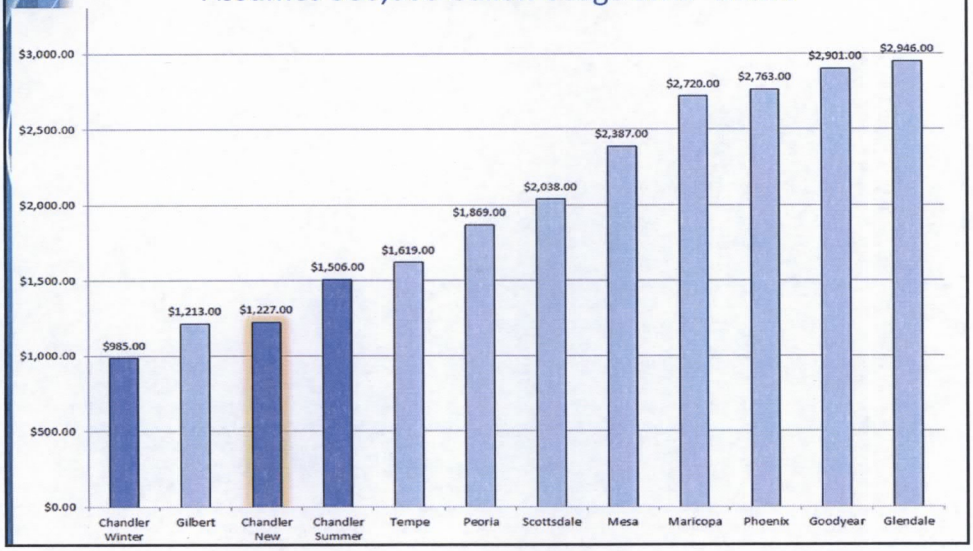
WATER RATES
Multi-Family Inside City Bill Impact
Assumes 500,000 Gallon Usage on 6" Meter



WATER RATES
Other Customer Classes

Customer Class	Existing Inside City FY 2014-15 Rates Winter	Existing Inside City FY 2014-15 Rates Summer	Projected FY 2015-16 Year-Round
Non-Residential	$ 1.72	$ 2.37	$ 2.03
Landscape	1.81	2.88	2.42
Industrial	1.85	2.37	2.02

Customer Class	Typical Meter Size	FY 2014-15 Base Charge	FY 2015-16 Year-Round
Non-Residential	2"	$ 28.61	$ 28.61
Landscape	1"	12.91	12.91
Industrial	8"	244.79	244.79

Projected Year-Round Rate Design Change is Cost Neutral Over Entire Year

Note: 40% outside City differential for volumetric rates; unchanged.

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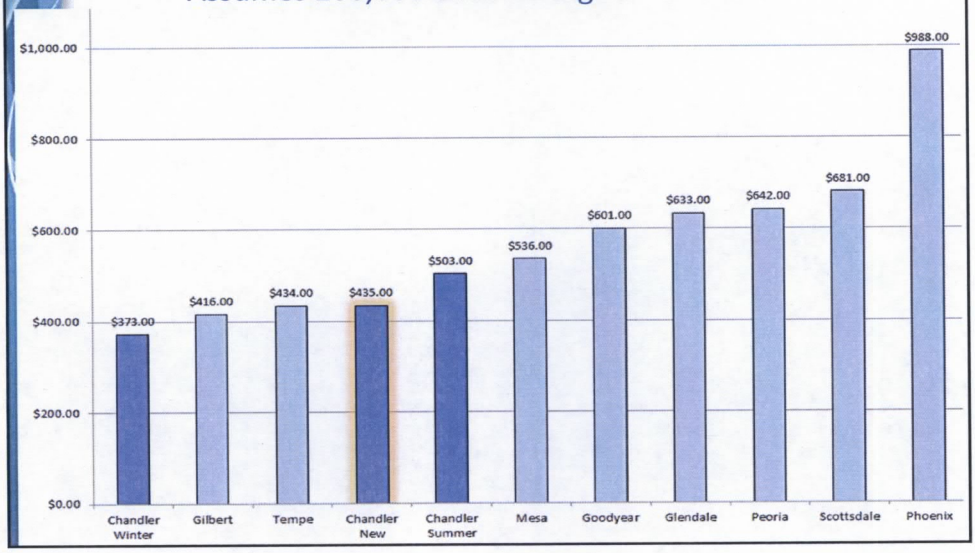
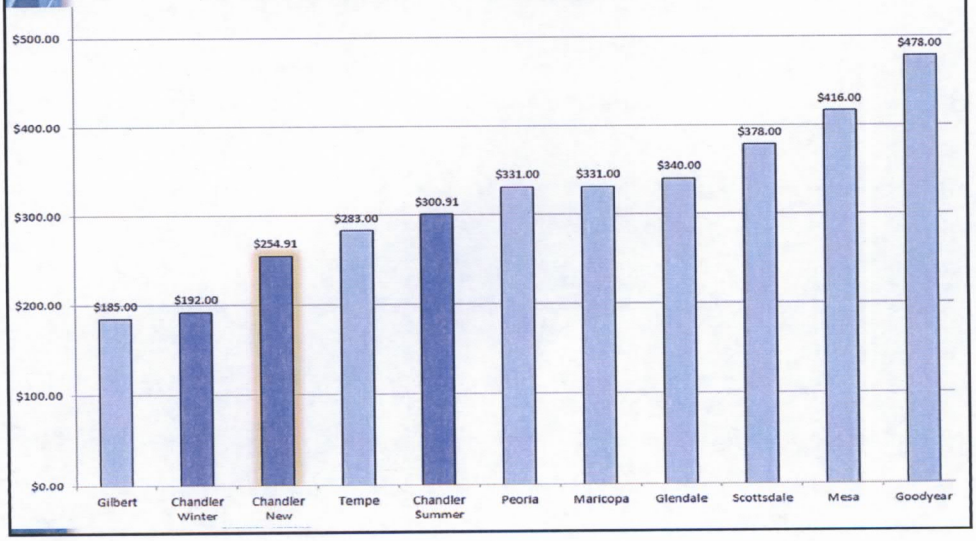
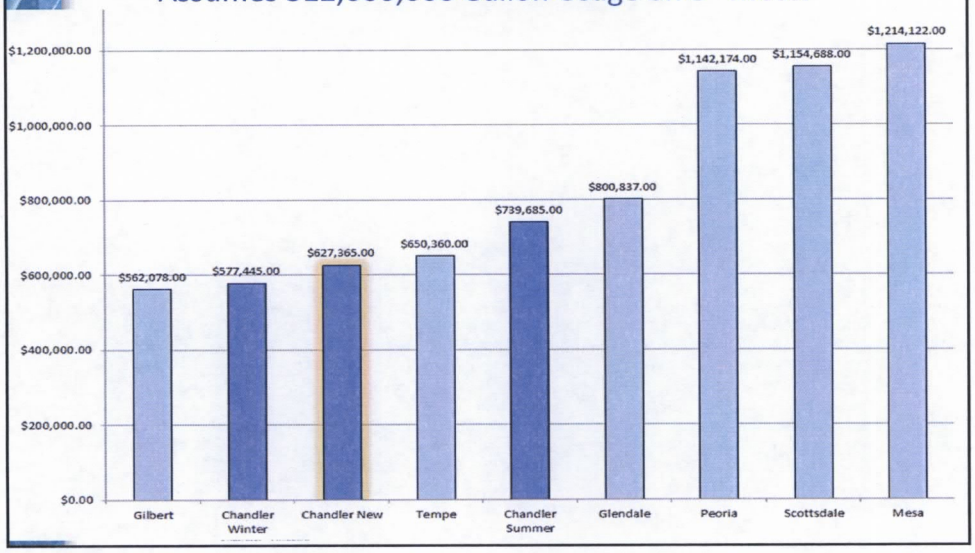
WATER RATES
Non-Residential Inside City Bill
Assumes 200,000 Gallon Usage on 2" Meter



WATER RATES
Landscape Inside City Bill Impact
Assumes 100,000 Gallon Usage on 1" Meter



WATER RATES
Industrial Inside City Bill Impact
Assumes 312,000,000 Gallon Usage on 8" Meter



WASTEWATER
Rate Design & Customer Impacts

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WASTEWATER
Rate Design & Customer Impacts

- Keep Existing Structure
  - Flat Monthly Rate for SFR and Multi-Family
  - Metered Volumetric Flow for All Other Classes
- Rate Increase Proposed for FY 2015-16
  - 9% Revenue Increase Across All Customer Classes

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WASTEWATER RATES
All Customer Classes

Customer Class	FY 2014-15 Existing	FY 2015-16 Projected	$ Increase	% Increase
SFR*	$ 24.17	$ 26.35	$ 2.18	9%
Multi-Family*	7.40	8.07	0.67	9%
Non-Residential				
Per 1,000 Gallons	2.90	3.17	0.27	9%
Base Charge	6.37	6.95	0.58	9%

* Per Dwelling Unit

Note: 60% outside City differential for volumetric rates; unchanged.

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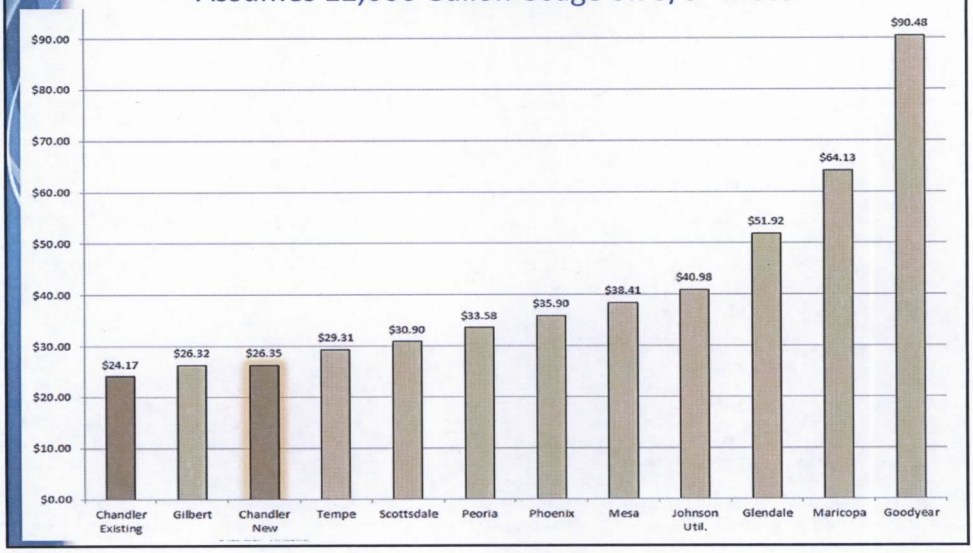
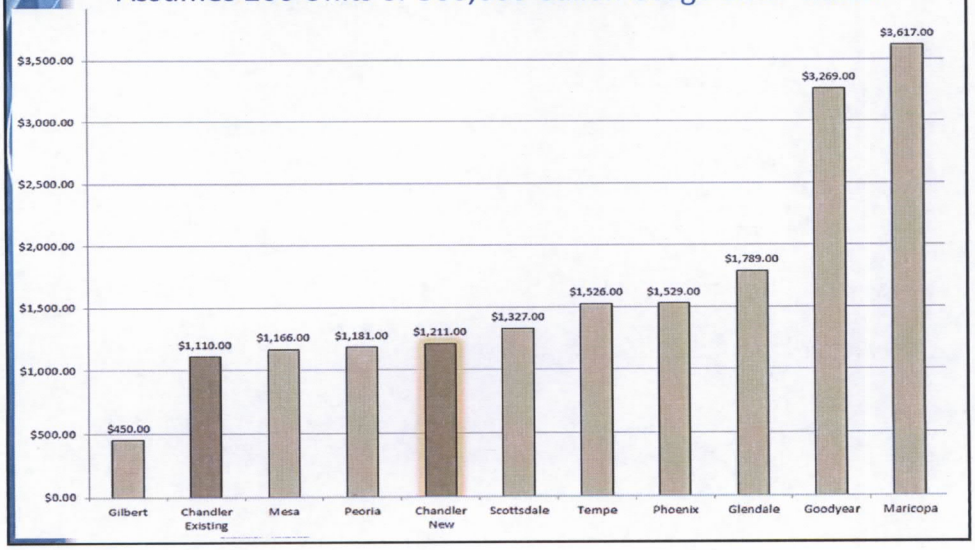
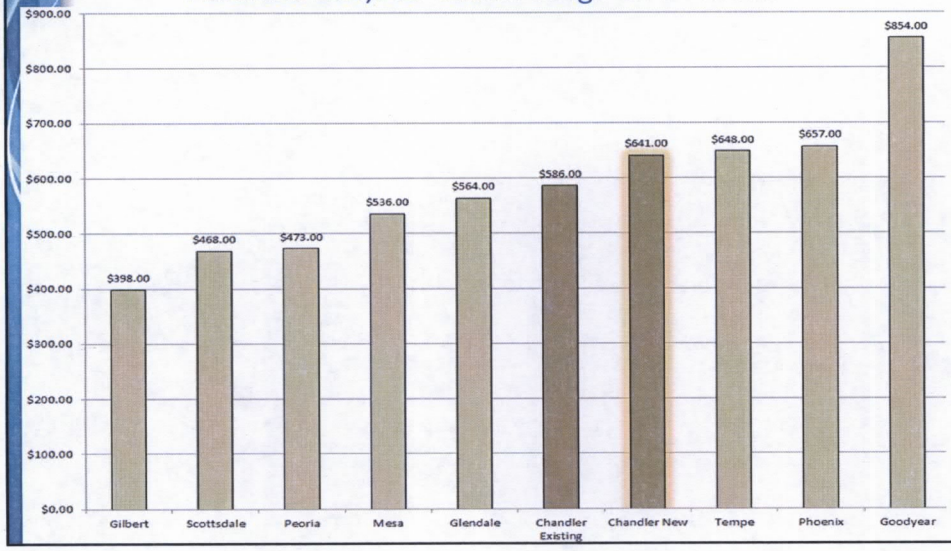
WASTEWATER RATES
SFR Inside City Bill Impact
Assumes 12,000 Gallon Usage on 5/8" Meter



WASTEWATER RATES
Multi-Family Inside City Bill Impact
Assumes 200 Units or 500,000 Gallon Usage on 6" Meter



WASTEWATER RATES
Non-Residential Inside City Bill
Assumes 200,000 Gallon Usage on 2" Meter



RECLAIMED WATER
Rate Design & Customer Impacts

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RECLAIMED WATER
Rate Design & Customer Impacts

- Change Winter/Summer Rates to Year-Round Rate
  - Impacts all Customer Classes
  - Reduces Confusion by Eliminating May/Oct. Rate Changes
  - Will not Dilute Conservation Efforts
  - Enables Customers to Better Forecast
  - Enhances Water Utility Revenue Stability
- Rate Increase Proposed for FY 2015-16
  - 18% Revenue Increase Across All Customer Classes

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RECLAIMED WATER RATES
All Customer Classes

Customer Class	Existing Inside City FY 2014-15 Rates		Projected FY 2015-16
	Winter	Summer	Year-Round
All Classes	$ 0.481	$ 0.522	$ 0.596

Projected Year-Round Rate Includes 18% Increase Which Equates to +$0.074 over Summer Rate and +$0.115 over Winter Rate

Note: 40% outside City differential for volumetric rates; unchanged.

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SOLID WASTE
Rate Design & Customer Impacts

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SOLID WASTE
Rate Design & Customer Impacts

- Keep Existing Structure
  - Flat Monthly Rate for All Covered Residences
    - Single-family homes, Duplexes, Tri-plexes, and Multi-plexes, other than business establishments, with separate garages for each unit, and that permit curbside collection for each unit
- Rate Increase Proposed for FY 2015-16
  - 6% Revenue Increase for All Covered Residences

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SOLID WASTE RATES
All Customer Classes

Customer Classes	FY 2014-15 Existing	FY 2015-16 Projected	$ Increase	% Increase
Covered Residences	$ 15.07	$ 15.97	$ 0.90	6%

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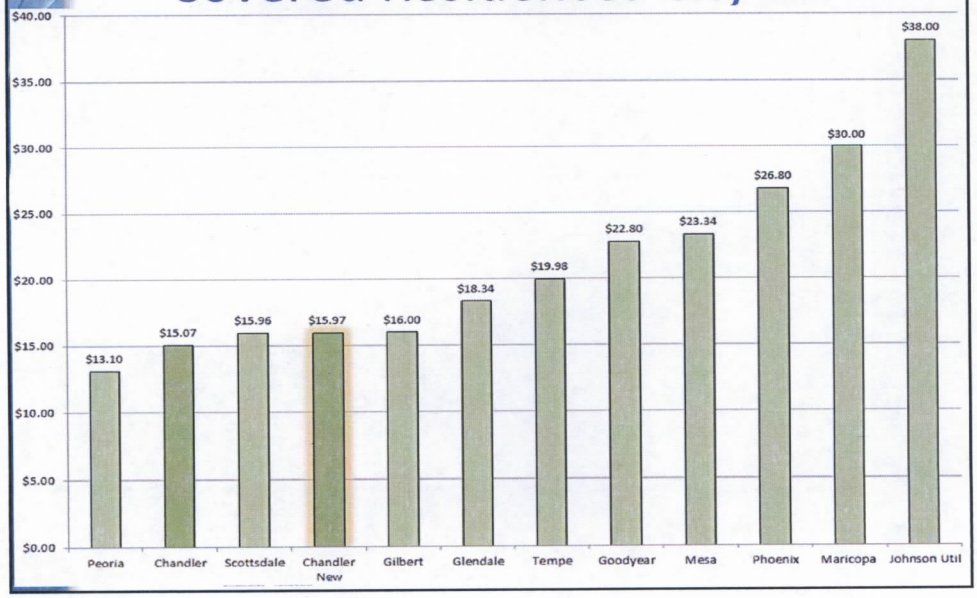
SOLID WASTE RATES
Covered Residences City Bill



UTILITY COMBINED CUSTOMER IMPACTS & COMPARISON

CHANDLER UTILITY SERVICES

ACCOUNT LOGIN

Fast and Easy ◆ Safe and Secure ◆ Eco-Friendly

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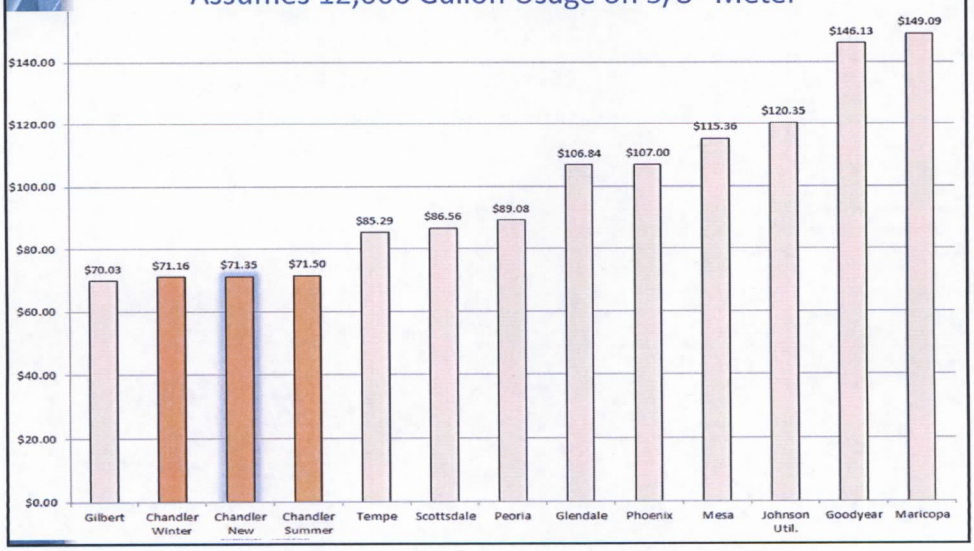
COMBINED SFR UTILITY BILL COMPARISON

Assumes 12,000 Gallon Usage on 5/8" Meter



QUESTIONS?

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