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JUL 12 2013

CITY OF CHANDLER
CITY CLERK

MEMORANDUM

Management Services Memo No. 14-003

DATE: JULY 12, 2013

TO: CITY CLERK

THRU: DAWN LANG, MANAGEMENT SERVICES DIRECTOR *DL*

FROM: GREG WESTRUM, BUDGET MANAGER *GW*

SUBJECT: REPORT ON REVIEW OF POTENTIAL UTILITY RATE INCREASES

The City of Chandler is considering increases to existing water, wastewater, and reclaimed water user fees. In accordance with Arizona Revised Statutes 9-511.01, paragraph A1, data supporting the increased rates must be made available to the public by filing a copy in the Office of the City Clerk at least 30 days before the public hearing. The City Council has set the public hearing for August 12, 2013.

Per City Financial Policy, utility rates are reviewed every year to determine if rate increases are required to meet operating, capital, or debt service costs. The analysis for Fiscal Year 2013-14 showed that increases were necessary for certain water, wastewater, and reclaimed water fees. The attached report provides the background and analysis for the fee increase recommendations.

Citizens who have questions about the report or the recommendations may contact Helen Parker in the Budget Division at 782-2265 or contact me at 782-2256.

Attachment: City of Chandler Review of Utility Rates and Fees

City of Chandler Review of Utility Rates and Fees



Filed with the City Clerk in accordance with Arizona
Revised Statutes Section 9-511.01
on
July 12, 2013

Outline

1. Review of Projected Rates and Proposed New or Changed Fees
 - a) Solid Waste Fund
 - b) Water Fund
 - c) Wastewater Fund
 - d) Reclaimed Water

2. Recommended Rates and Timeline for Implementation in FY 13-14

Overview



- ▶ Water, Wastewater, and Solid Waste Funds are analyzed annually to evaluate if rate adjustments are needed
 - Rate studies performed, at minimum, every four years
- ▶ Key drivers for necessary changes to rates include:
 - New capital construction requiring debt
 - Increases to operating costs (personnel costs, contracted services, utilities, supplies, etc.)
- ▶ This presentation highlights the following by utility:
 - Projected 10 year bond sale requirements
 - Projected Debt Service expense
 - Projected Rates and factors impacting rate changes
 - Proposed changes to existing fees or new fees for FY 2013-14
 - Financial compliance summary re: reserves & bond covenants

Overview (continued)

- ▶ Increases to existing fees are primarily of three types:
 - Increases due to the cost of material or equipment. For example, the cost of curbside solid waste containers have increased so the fee to add a contained is increased from \$55 to \$60.
 - Increases due to the cost of administrative overhead to provide a service. For example, the Utility Billing Account Establishment Fee is increased from \$15 to \$25 because the labor cost to establish an account is higher as salary and benefit costs increase.
 - Simplification. For example, residential utility deposits without a letter of credit are being establish at \$120 for a single family residence (2 x typical monthly bill).



Solid Waste Enterprise

Solid Waste



- No Projected Bond Sales
- No Debt Service

Solid Waste Projections



FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
--	--	6%	--	8%	--	8%	--	8%	--

What is impacting projections?	
Positive Impact on Rates:	Negative Impact on Rates:
Indirect Cost Reduction (\$122,600 per year for 5 years)	Annual adjustments to Waste Management contract unit prices and fuel
Reductions to O&M and lower estimated inflation	Personnel cost increases
Proposed new and increased fees generating \$350,000 per year	

Solid Waste Proposed Fee Changes



Fee Name	Type	Existing Amount	Proposed Amount
Additional Curbside Refuse Container	Increase	\$55.00	\$60.00
Replace Damaged Curbside or Recycling Container	Increase	\$55.00	\$60.00
Reschedule Missed Container Repair Appointment	New	N/A	\$20.00
Additional Curbside Refuse Container (per month)	Increase	\$5.00	\$10.00
Freon Recovery	New	N/A	\$10.00
Bulk Material Collection of Concrete & Construction Debris (per ton)	New	N/A	\$50.00

Solid Waste Proposed Fee Changes

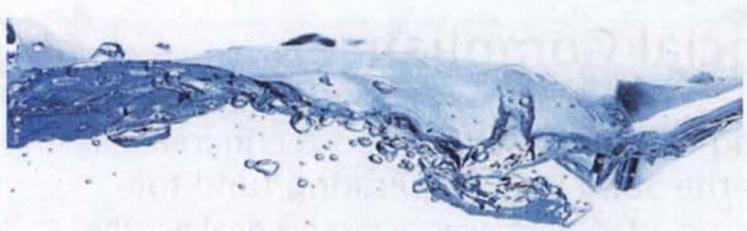


Fee Name	Type	Existing Amount	Proposed Amount
Bulk Material Collection of Dirt, Gravel & Rock (per ton)	New	N/A	\$50.00
Bulk Material Collection of Manure (per ton)	New	N/A	\$50.00
Multi-Family Disposal Fee (per load)	Increase	\$10.00	\$20.00

Financial Compliance



- ▶ Timing of proposed rate and fee increases allow the Solid Waste operating fund to:
 - Maintain a 10% contingency reserve goal per the City's Financial Policies (\$1.4M)
 - Maintain required Landfill Postclosure reserve per State/Federal regulations (\$4.3M)
- ▶ Solid Waste has no bonds outstanding, therefore no debt covenants to be met

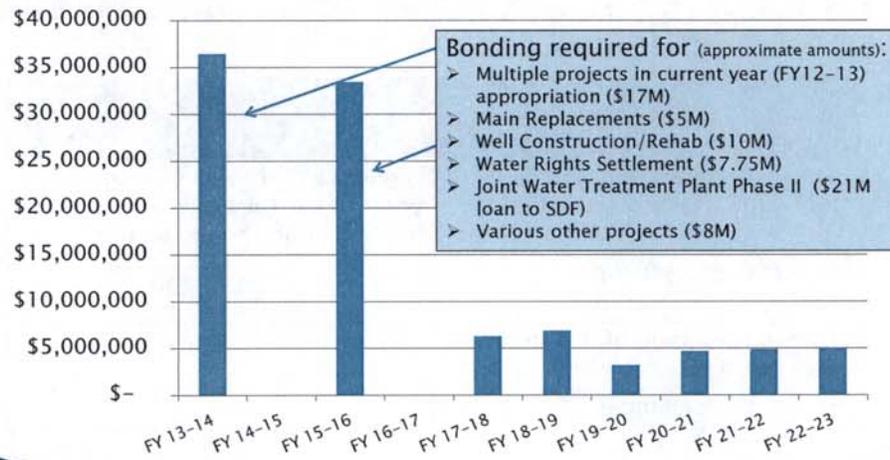





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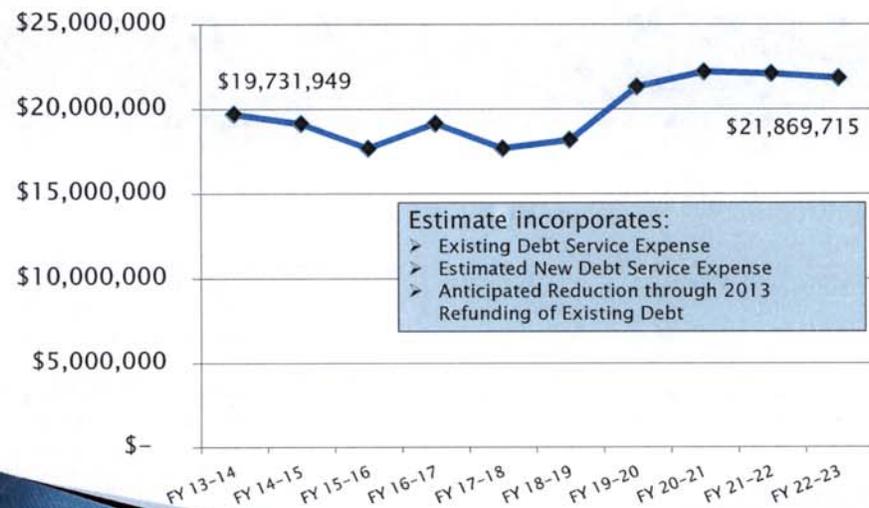
Water Enterprise

Water Bond Sale Projections for Capital Projects



- Bonding required for (approximate amounts):**
- > Multiple projects in current year (FY12-13) appropriation (\$17M)
 - > Main Replacements (\$5M)
 - > Well Construction/Rehab (\$10M)
 - > Water Rights Settlement (\$7.75M)
 - > Joint Water Treatment Plant Phase II (\$21M loan to SDF)
 - > Various other projects (\$8M)

Water Debt Service Projections



- Estimate incorporates:**
- > Existing Debt Service Expense
 - > Estimated New Debt Service Expense
 - > Anticipated Reduction through 2013 Refunding of Existing Debt

Water Projections



FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
--	--	--	--	4%	--	4%	--	4%	--

What is impacting projections?

Positive Impact on Rates:	Negative Impact on Rates:
Higher revenues and reductions to O&M – lower estimated inflation	Higher capital costs in second 5 years of CIP for projected water purchases and rehabilitation
Indirect Cost Reduction (\$240,000 per year for 5 years)	
Planned refunding of 3 Water/WW revenue bonds	
Proposed fee changes	

Proposed Fee Changes Water Operations and Utility Billing



Fee Name	Type: New/ Increase/ Decrease/ Deposit or other Clarification	Existing Amount	Proposed Amount
Utility Billing Account Establishment Fee	Increase	\$15.00	\$25.00
Utility Account Reconnect After Disconnect	New	N/A	\$30.00
Unauthorized Water Use	Increase	\$75.00, plus damages	\$100 plus equip. Repair/repl. Cost
Residential Utility Deposit without letter of credit (rentals & owner occupied)	Simplify utility deposit administration	\$70-\$275, dependent on meter size	\$120 Resid. flat fee \$240 Duplex \$360 Triplex

Proposed Fee Changes Water Operations and Utility Billing

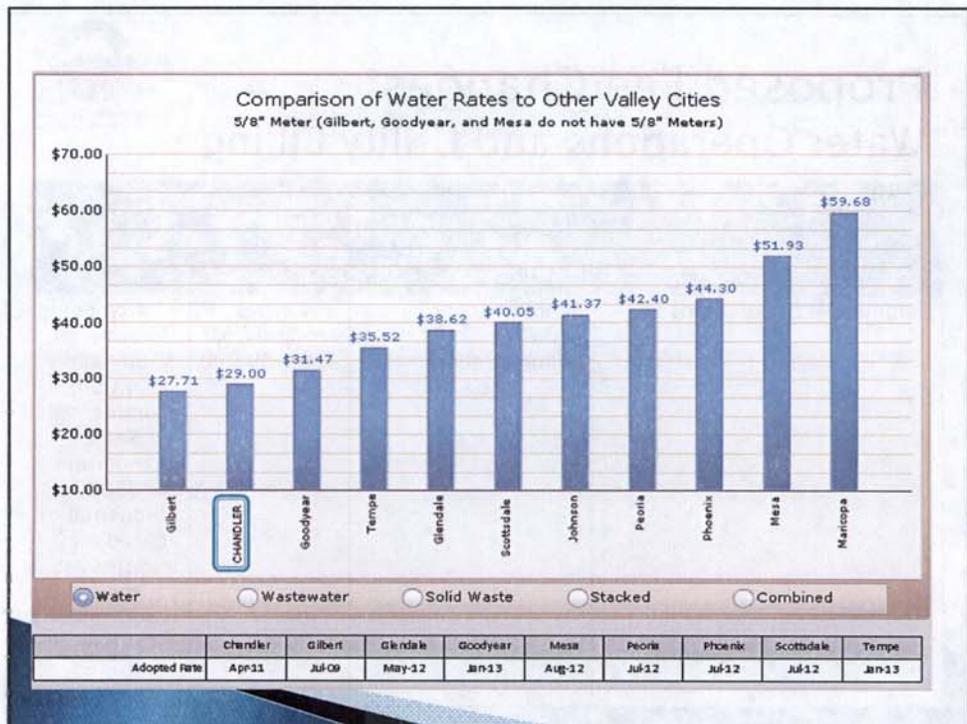


Fee Name	Type: New/ Increase/ Decrease/ Deposit or other Clarification	Existing Amount	Proposed Amount
Commercial Utility Deposits	Simplify utility deposit administration	7 types, ranging from \$200-\$9,000	4 types (per meter): Multi-family \$1,000; Commercial \$400; Landscape \$300; Industrial-based on 2 months est. mthly consumption
Fire Hydrant Meter Deposit	Increase	\$755	\$1,450

Financial Compliance



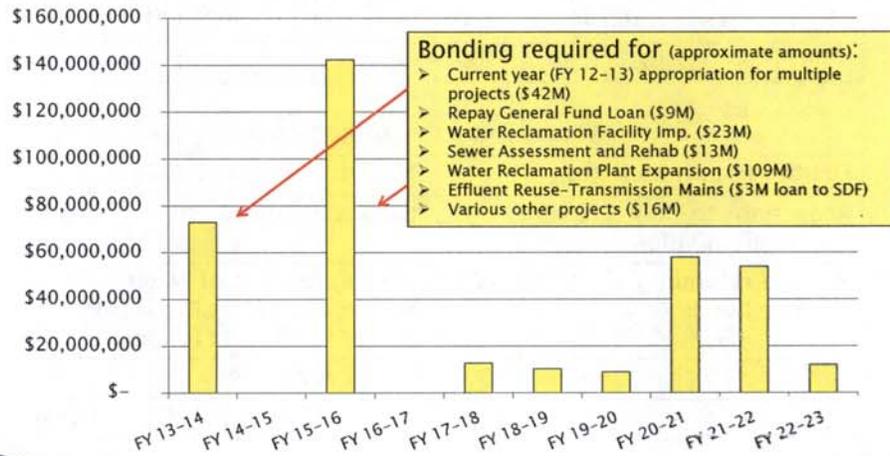
- ▶ Timing of proposed rate and fee increases:
 - Allow the Water operating fund to maintain a 20% contingency reserve goal per the City's Financial Policies
 - Allow the combined Water & Wastewater operating funds to maintain the 1.20 coverage of operating expenses per the Revenue Bond covenants



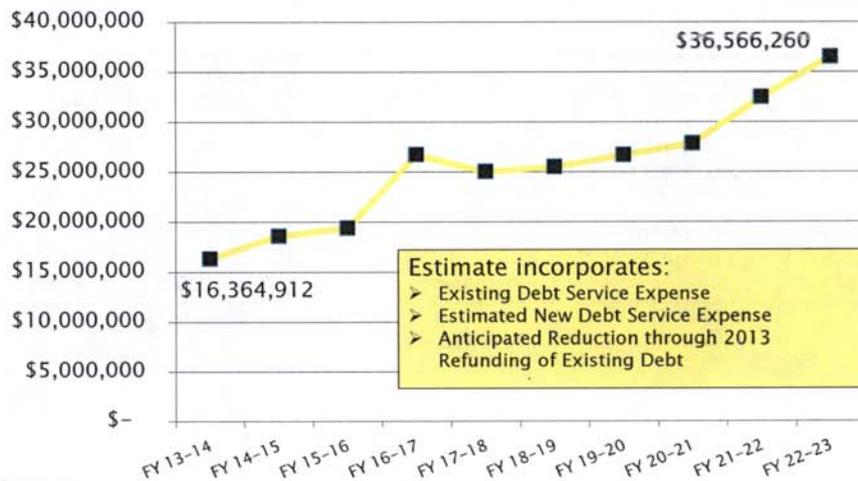
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Wastewater Enterprise

Wastewater Bond Sale Projections for Capital Projects



Wastewater Debt Service Projections



Wastewater Projections



FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
9%	--	9%	--	9%	--	15%	--	15%	--

What is impacting projections?

Positive Impact on Rates:	Negative Impact on Rates:
Reductions to O&M - lower estimated inflation	Large capital projects
Planned refunding of 3 Water/WW revenue bonds	Moving full cost of Water Reclamation Plant Expansion CIP to FY 15/16 vs. split funding
	Flatter revenues
	Indirect Cost +\$31,486 per year

Proposed Fee Changes Wastewater Operating

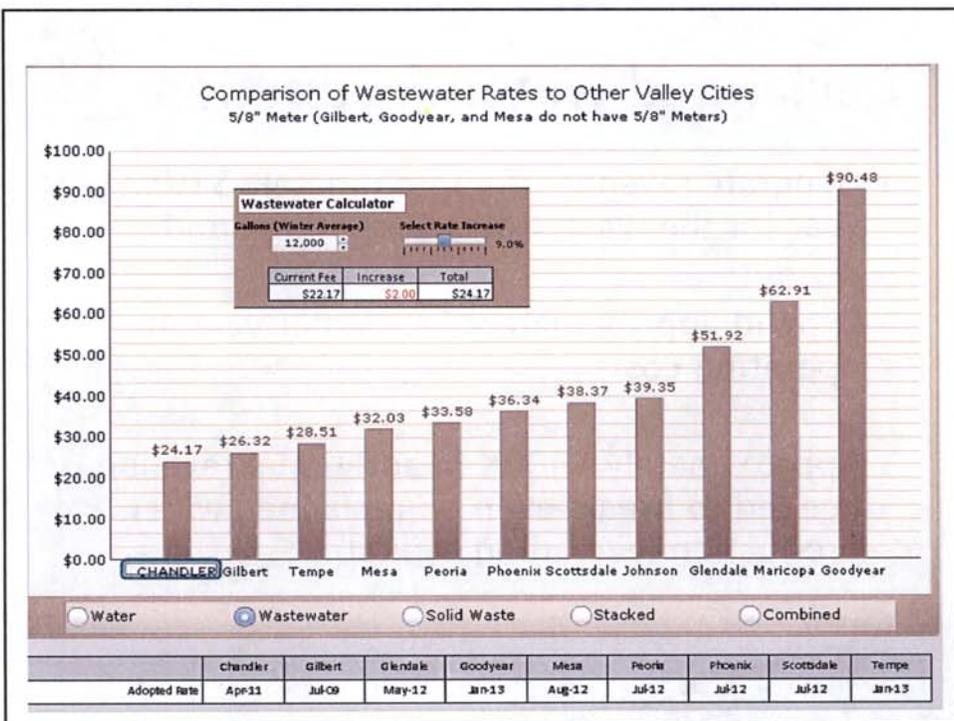


Fee Name	Type	Existing Amount	Proposed Amount
Wastewater Pretreatment, Per Excess Pound of Biochemical Oxygen Demand	Increase	\$0.207	\$0.415
Wastewater Pretreatment, Per Excess Pound of Suspended Solids	Increase	\$0.039	\$0.083

Financial Compliance



- ▶ Timing of proposed rate and fee increases:
 - Allow the Wastewater operating fund to maintain a 15% contingency reserve goal per the City's Financial Policies
 - Allow the combined Water & Wastewater operating funds to maintain the 1.20 coverage of operating expenses per the Revenue Bond covenants





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Reclaimed Water Production



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Reclaimed Water Production

- ▶ Generate revenue of approximately \$1.0M per year for the Wastewater Operating Fund
- ▶ Expend approximately \$1.4M per year in operating costs
- ▶ Approximately \$400K in additional revenue is needed to break-even on reclaimed water production (excluding capital)

Reclaimed Water



- ▶ A 36% increase would be needed eliminate current and projected deficit
- ▶ Proposing 18% increase for FY 2013-14, with future increases to be considered in conjunction with wastewater rate increases
- ▶ *Reclaimed Water Rates Per 1,000 Gallons*
 - Current rates: \$0.407 Winter \$0.442 Summer
 - 18% Increase: \$0.481 Winter \$0.522 Summer

Reclaimed Water Projections



FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
18%	--	18%	--	--	--	--	--	--	--

Impact on Rates:

Operating cost of producing and distributing reclaimed water exceeds revenue from sales

Reclaimed Water Cost per Home in Typical HOA



Entity	Number of Homes in HOA	CY 2013 Reclaimed Water Cost	Estimated Cost per Home CY 2013	CY 2014 Reclaimed Water Cost (Estimate)*	CY 2016 Reclaimed Water Cost (Estimate)**	Estimated Cost per Home CY 2016 (36% increase)
HOA "A"	388	\$5,810	\$14.97	\$6,856	\$7,902	\$20.36
HOA "B"	189	\$5,522	\$29.21	\$6,515	\$7,509	\$39.73
HOA "C"	252	\$4,680	\$18.57	\$5,522	\$6,365	\$25.25
HOA "D"	218	\$3,626	\$16.63	\$4,279	\$4,931	\$22.62
HOA "E"	341	\$2,188	\$6.42	\$2,581	\$2,975	\$8.72

* Assumed 18% rate increase for Reclaimed Water in fall 2013.

** Assumes an additional 18% rate increase for Reclaimed Water in fall 2015.

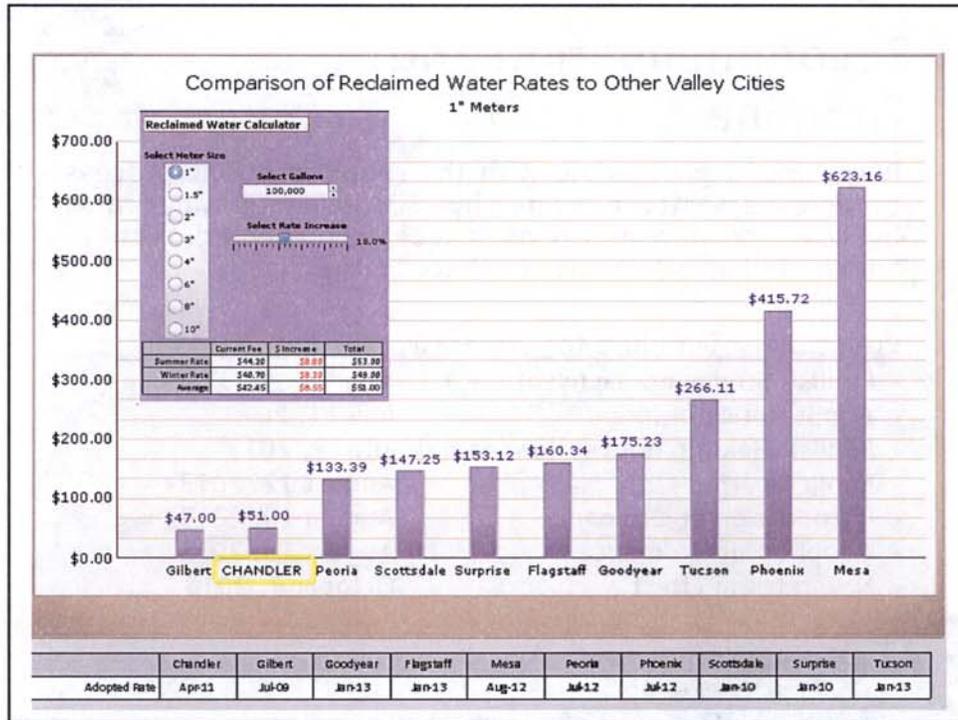
Reclaimed Water vs. Potable Water Cost Examples



Entity	Kgals (x1,000 gallons)	CY 2015 Potable Water Cost (Estimate)*	CY 2015 Reclaimed Water Cost (Estimate)**	Cost Difference Reclaimed Approx. 76% Less Than Potable
HOA "A"	13,558	\$33,470	\$7,901	\$25,569
HOA "B"	12,846	\$32,215	\$7,510	\$24,705
HOA "C"	10,980	\$26,323	\$6,364	\$19,959
HOA "D"	8,470	\$20,790	\$4,931	\$15,859
HOA "E"	5,169	\$11,918	\$2,975	\$8,943
Business "F"	4,210	\$9,966	\$2,435	\$7,531
Business "G"	2,750	\$6,432	\$1,587	\$4,845

* Uses estimated CY 2013 costs with no planned rate increases before October 2017.

** Uses estimated CY 2013 cost incorporating 8% rate increase for Reclaimed Water in October 2013 and an additional 18% increase in October 2015.



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Recommendation and Timeline

Recommendation and Timeline



Recommend proceeding with the required public process to increase wastewater rates by 9%, reclaimed water rates by 18%, and new and revised fees as presented, with an anticipated effective date of October 1, 2013

Preliminary Timeline for Water/Wastewater (revised):

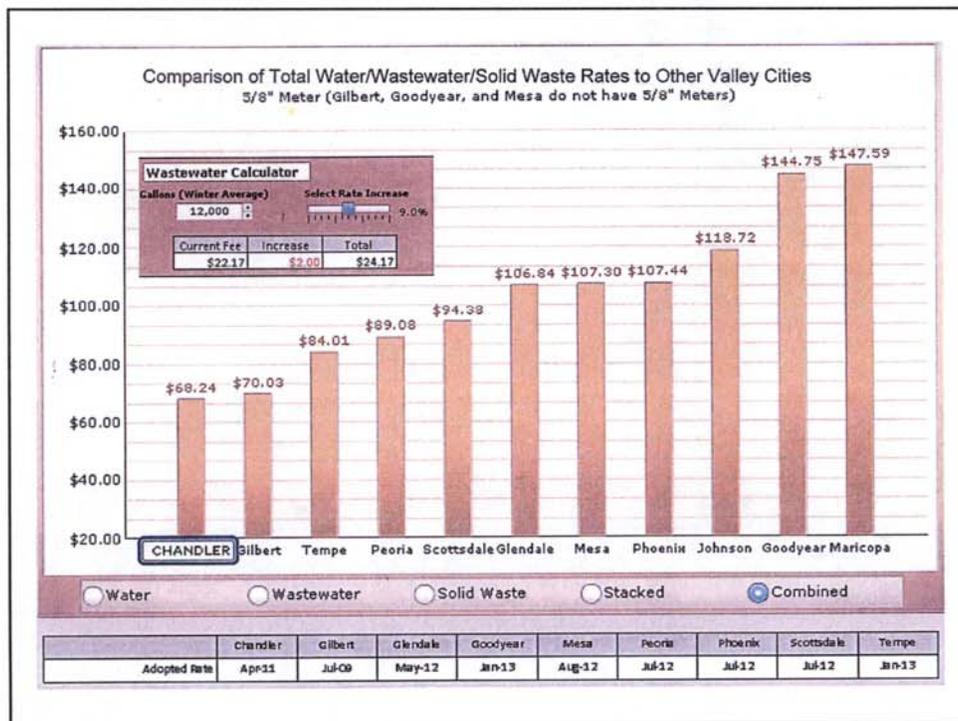
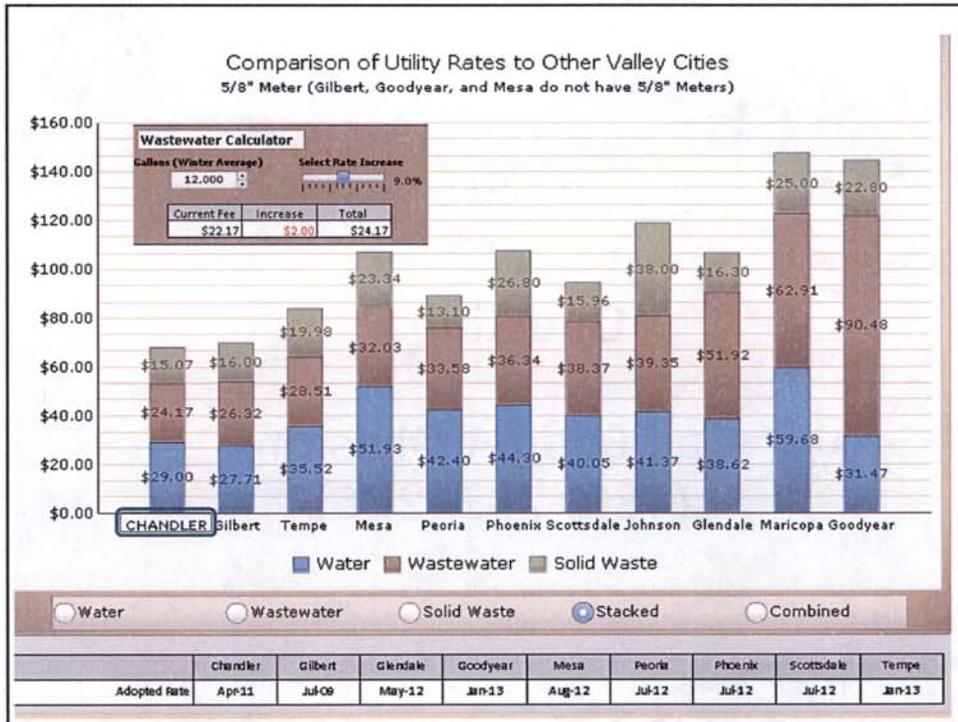
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|--------------------------------------|-----------------|
| • Publish 60 day notice (web) | May 15, 2013 |
| • Adopt Notice of Intent | July 11, 2013 |
| • Publish Hearing notice (newspaper) | July 22, 2013 |
| • Public Hearing | August 12, 2013 |
| • Introduction of Ordinance | August 12, 2013 |
| • Adoption of Ordinance | August 15, 2013 |
| • New rates in effect | October 1, 2013 |

To Summarize...



Even after proposed rate increases

A typical Chandler household will pay the lowest for Water, Wastewater and Solid Waste Services combined compared to other valley cities





Questions?

Call Budget Division
(480) 782-2265