



Utility Rate Update Council Work Session

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

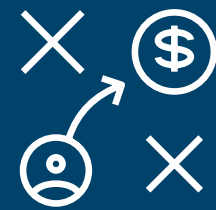


Utility Rate Setting Overview



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
(1st 2021 COS rate changes 7/1/22
and rate design only Solid Waste)



How can our rates help ensure fairness?

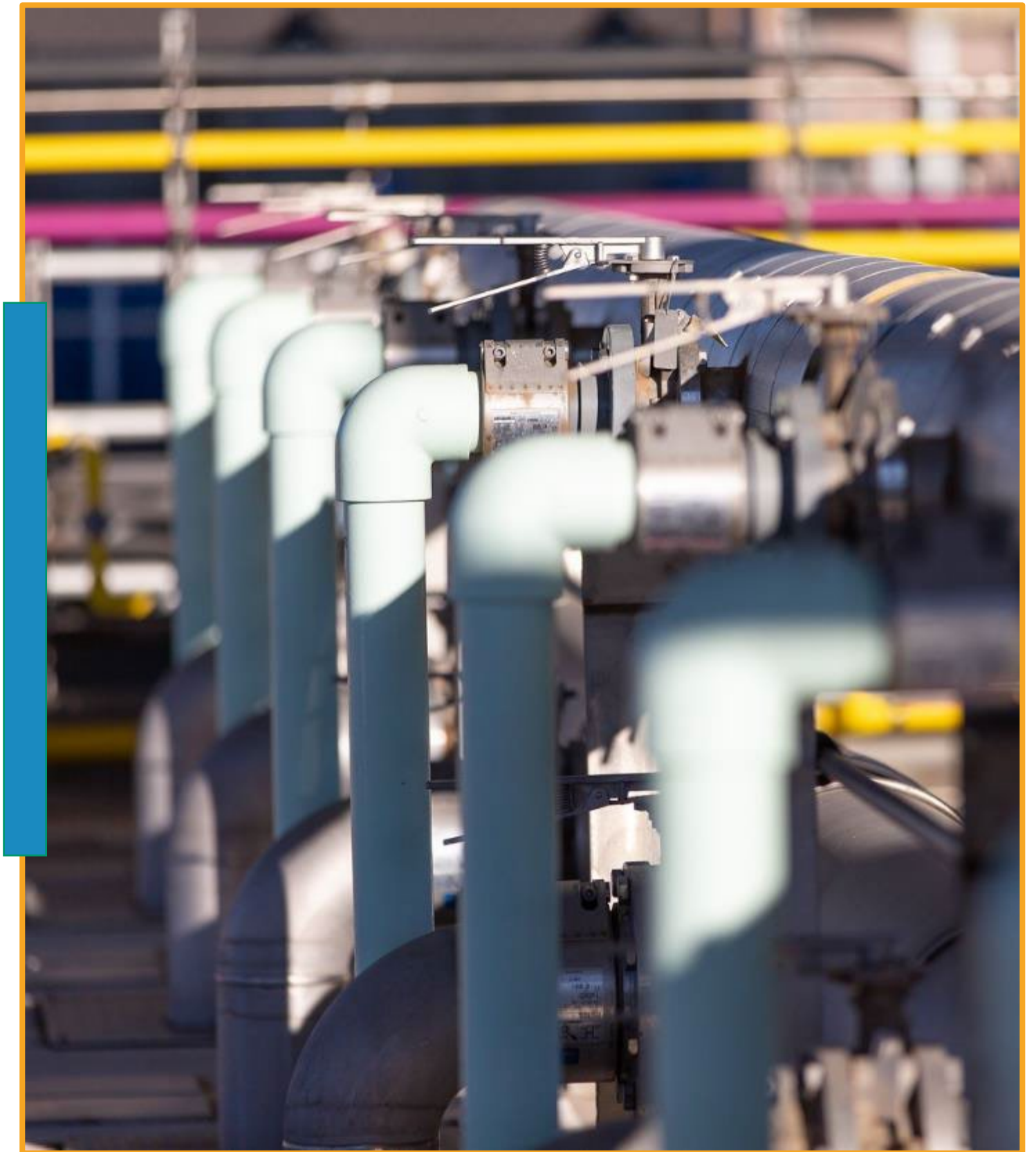
Wet Utilities Background





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

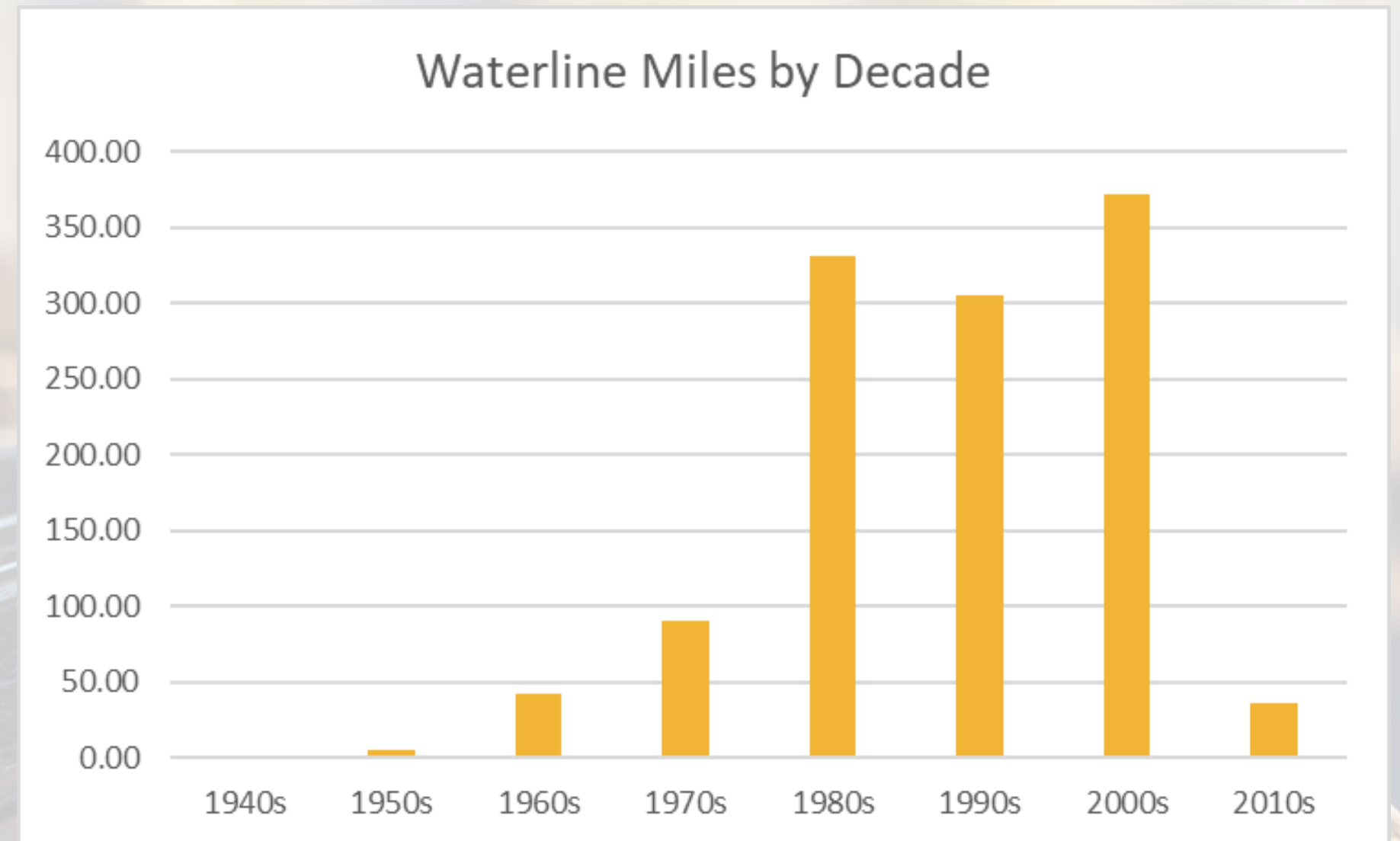
Fiscal Year	Water	Wastewater	Reclaimed
July 2022	2.0%	4.0%	8.0%
2022 - 23	0%	0%	0%
Jan. 2024	7%	8.0%	7.0%
2024 - 25	0%	0%	0%
Jan. 2026	7%	6.0%	7.0%

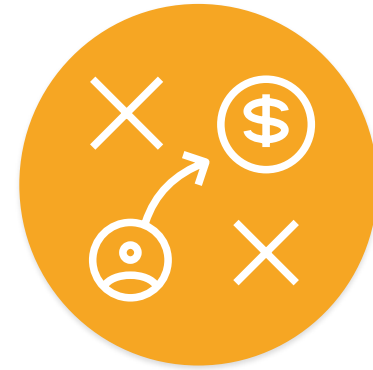
Projection subject to change

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

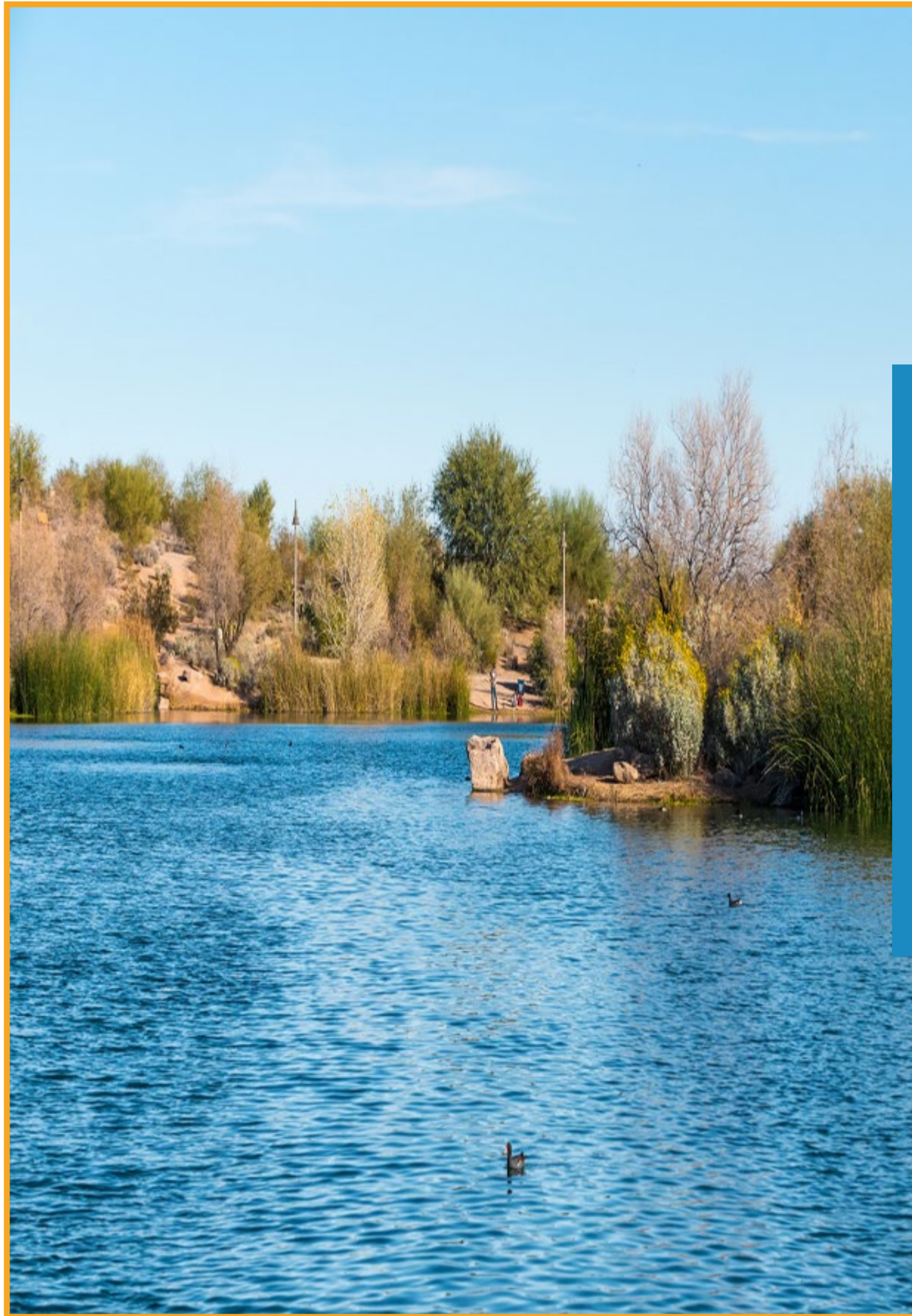




Major Drivers – Aging Infrastructure

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



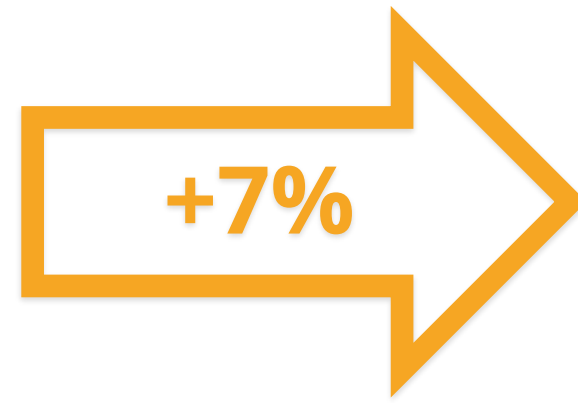


Cost of Service Rates

To ensure everyone is paying their fair share



Revenue
Requirement



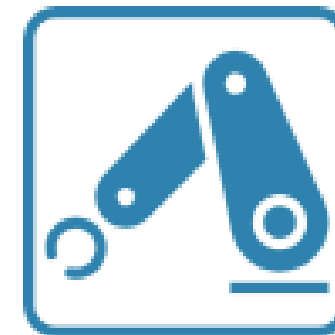
Residential



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
Existing Conservation Tiers	<u>Single Family</u>		Current FY			Projection		
	First 10 Kgal	\$1.62	\$1.66	2.47%	\$1.66	\$1.72	\$1.72	\$1.84
	Next 10 Kgal	2.11	2.15	1.90%	2.15	2.23	2.23	2.39
	Next 40 Kgal	2.65	2.73	3.02%	2.73	2.82	2.82	3.01
	Over 60 Kgal	3.31	3.39	2.42%	3.39	3.50	3.50	3.75
Existing Conservation Tiers	<u>Multi-Family</u>							
	First 10 Kgal	\$0.89	\$0.91	2.25%	\$0.91	\$0.94	\$0.94	\$1.00
	Next 10 Kgal	1.09	1.13	3.67%	1.13	1.16	1.16	1.24
	Next 20 Kgal	1.49	1.55	4.03%	1.55	1.61	1.61	1.72
	Over 40 Kgal	2.25	2.31	2.67%	2.31	2.42	2.42	2.59

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		
Non-Residential	\$2.19	\$2.37	8.22%	\$2.37	\$2.63	\$2.63	\$2.82
Landscape	2.70	3.08	14.07%	3.08	3.65	3.65	3.90
Industrial	2.17	2.37	9.22%	2.37	2.66	2.66	2.85

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

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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
<u>Base Charge \$ per Bill</u>		Current FY			Projection		
5/8" x 3/4"	\$9.26	\$9.72	4.97%	\$9.72	\$10.38	\$10.38	\$11.11
3/4"	10.56	11.10	5.11%	11.10	11.85	11.85	12.68
1"	13.49	14.17	5.04%	14.17	15.15	15.15	16.21
1.5"	21.24	22.30	4.99%	22.30	23.85	23.85	25.52
2"	29.90	31.40	5.02%	31.40	33.58	33.58	35.93
3"	63.03	66.19	5.01%	66.19	70.81	70.81	75.76
4"	88.94	93.38	4.99%	93.38	99.92	99.92	106.91
6"	168.88	177.32	5.00%	177.32	189.71	189.71	202.99
8"	255.85	268.65	5.00%	268.65	287.44	287.44	307.56
10"	435.93	457.73	5.00%	457.73	489.77	489.77	524.05
12"	616.03	646.83	5.00%	646.83	692.12	692.12	740.57

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

- 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	\$28.32	2.42%	\$28.32	\$28.85	\$28.85	\$30.58
Multifamily Base*	\$10.57	\$12.26	15.99%	\$12.26	\$13.64	\$13.64	\$14.46
Non-Residential							
Volumetric**	\$3.73	\$4.24	13.67%	\$4.24	\$4.64	\$4.64	\$4.92
Customer Charge	\$8.17	\$9.24	13.10%	\$9.24	\$10.11	\$10.11	\$10.72

* 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	\$27.65	0.00%	\$27.65	\$27.65	\$27.65	\$29.31
Multifamily Base*	\$10.57	\$12.92	22.2%	\$12.92	\$15.38	\$15.38	\$16.30
Non-Residential							
Volumetric**	\$3.73	\$4.37	17.15%	\$4.37	\$4.99	\$4.99	\$5.29
Customer Charge	\$8.17	\$9.58	17.25%	\$9.58	\$10.97	\$10.97	\$11.63

* 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	\$0.80	\$0.80	\$0.86	\$0.80	\$0.92
Change - \$		\$0.05	\$0.00	\$0.06	\$0.00	\$0.06
Change - %		7%	0%	7%	0%	7%

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 1st 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

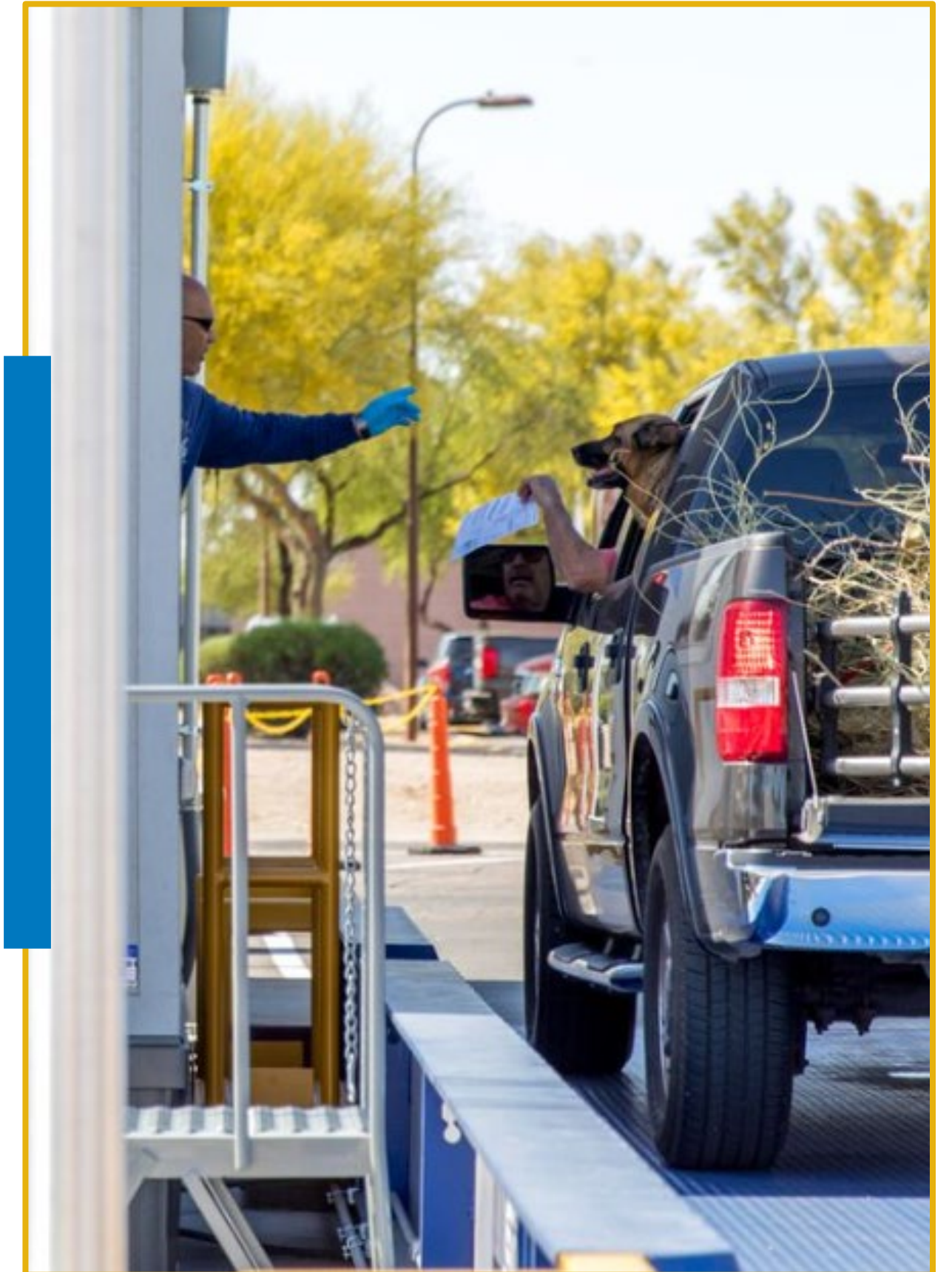
Waste Management collection costs have experienced extraordinary increases, and a contract amendment is planned for July 2023

- 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%

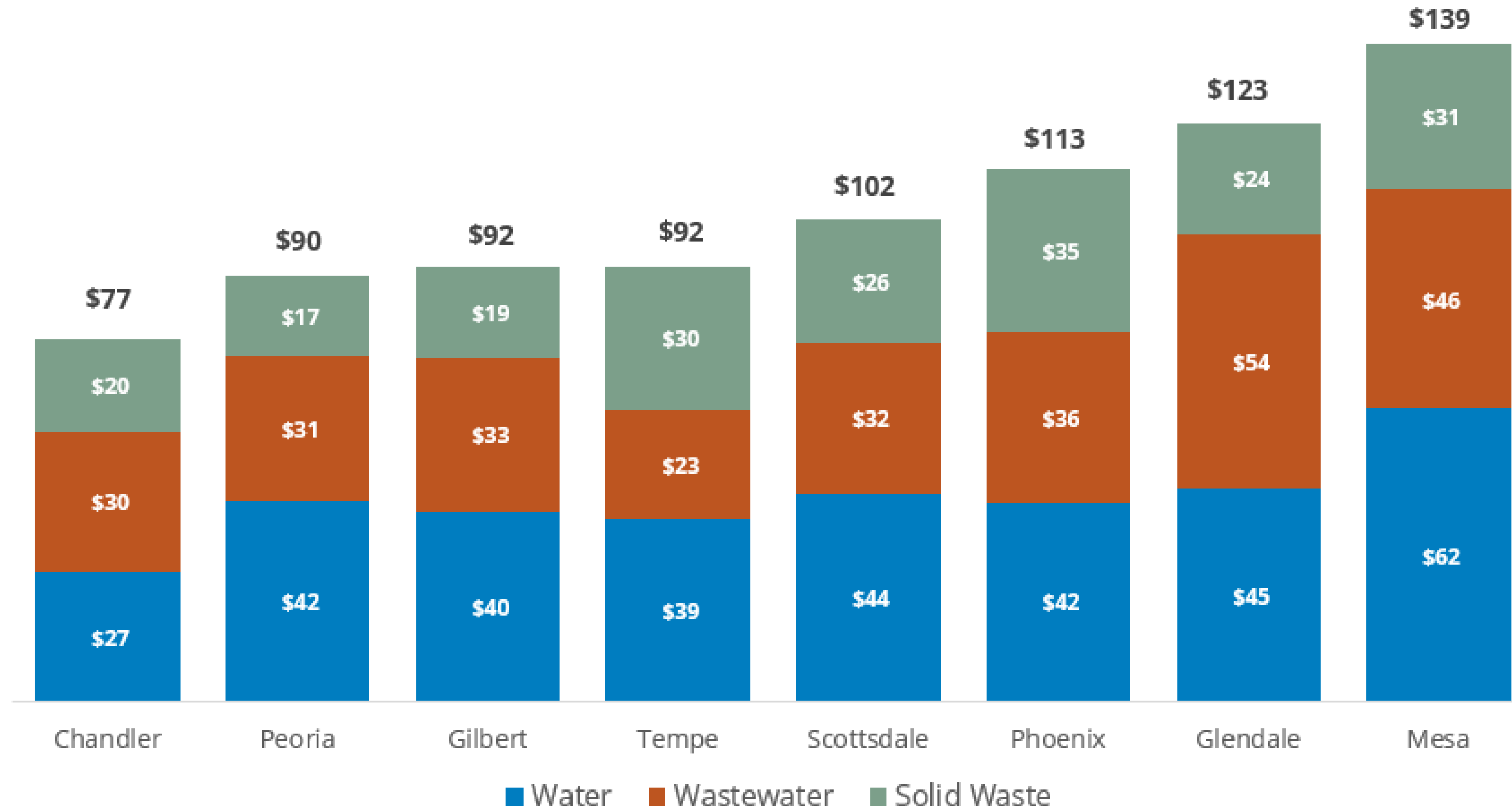


Solid Waste Fee Updates

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

Questions?



Conservation Rebate Programs

Recommended new and updated water-wise rebate incentives

- Residential Grass Removal
 - Increase grass removal incentive from \$0.20/sq. ft. → \$1/ sq. ft. removed
(current min. 1,000 sq. ft. – new min. 500 sq. ft.)
 - Eliminate new home rebate program
(lack of participation)
- New Commercial Rebate (Multi-family, HOA, Commercial)
 - New grass removal rebate – 25% of project, (up to \$75,000)
min. 5,000 sq. ft
 - Non-functional grass removal – \$3/sq. ft. (up to \$25,000)
 - Water Efficient Technology Rebate – 50% of the cost
(up to \$10,000)
 - Smart Controller Rebate – 50% of the cost (up to \$3,000)

