FY 2025-26
Utility Rate Update Discussion Continued

City Council Conference Room

Monday, August 4, 2025| 4:00 pm

CHANDLER arizona

Agenda

01. Recap of Adjustments Presented

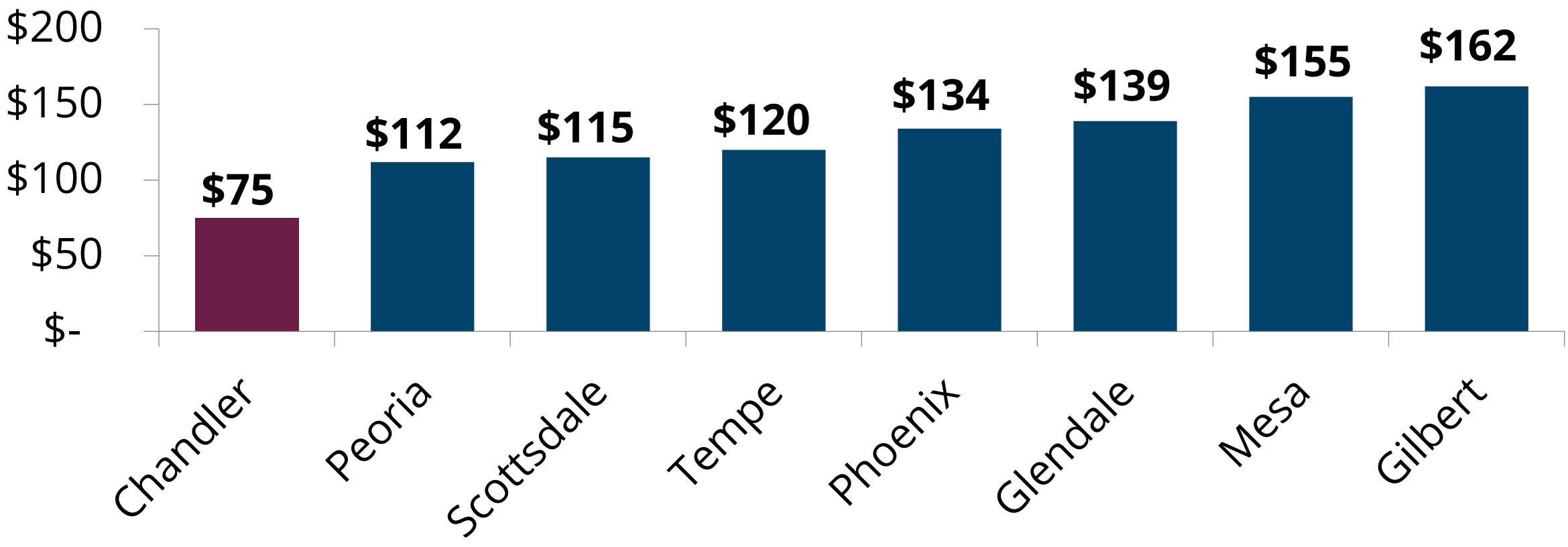
02. Follow-up Items from Prior Work Session

03. Rate Implementation Methodology Options and Direction

04. Next Steps and Key Process Dates

Recap of Adjustments Presented

Average Residential Cost Comparison for Water, Wastewater and Solid Waste



Based on Tempe Cost of Service July 2025 results at 10,000 gallons single family residential current rates

Utility Rate Adjustment History
Last COS Study Transition

Enterprise Funds are self supporting. Rate revenue must support all operating, capital, debt service and reserve requirements

The city has rate models for each Enterprise fund, updated annually to analyze rate needs

Cost of Service (COS) studies happen every 5-7 years

Full COS Transition over 5 Years

	1st COS Rates		2nd COS Rates	
Classifications	FY 2021-22 effective 7/1/22		FY 2023-24 effective 1/1/24	
	Water 2%	Wastewater 4%	Water 7%	Wastewater 8%
Residential	1.27%	1.21%	2.45%	0.00%
Multi-Family	1.83%	8.30%	3.15%	22.23%
Non-Residential	3.79%	6.88%	8.22%	17.16%
Industrial	4.33%	6.88%	9.22%	17.26%
Landscape	5.88%		14.07%	
Reclaimed	8.00%		7.00%	
Solid Waste	3.40%		7.00%	

Utility Rate Revenue Requirements Needed to Fund Operating, Capital, Debt and Reserves

A rate increase is needed to maintain the integrity of our enterprise funds and keep our systems safe. The impacts of increased capital replacements, operating costs and capital project costs is driving the rate requirement.

The direction needed in this workshop will be what implementation methodology to use to share clear customer classification impacts for public outreach

	Water	Wastewater	Reclaimed	Solid Waste
Revenue Requirement Needed	15.0%	15.0%	18.0%	6.0%
In Dollars	$ 8,849,391	$ 7,904,512	$ 324,722	$ 1,111,110

Review of Follow-up Items from Prior Work Session

Looking Back: Utility Rate COS Study Alignment Result

Original findings for Water indicated Residential and Multi-Family were slightly subsidizing other classifications

Table 2: Water Utility
Comparison of Water FY2021-22 Cost of Service to Revenue at Existing Rates [1]

Customer Class	FY 2021-22 Cost of Service	FY 2021-22 Revenue at Existing Rates	Change - $	Change - %
Inside City				
Single Family	$28,452,234	$29,063,262	($611,029)	-2.1%
Multi Family	3,598,305	3,679,664	(81,359)	-2.2%
Non-Residential	5,366,759	5,124,267	242,492	4.7%
Industrial	8,558,416	8,020,416	538,000	6.7%
Landscape	8,841,493	7,840,135	1,001,359	12.8%
Inside City Subtotal	**$54,817,207**	**$53,727,745**	**$1,089,462**	**2.0%**

Looking Back: Utility Rate COS Study Alignment Result

Original findings for Wastewater indicated Residential subsidizing other classifications

Table 5: Wastewater Utility
Comparison of FY2021-22 Cost of Service to Revenue at Existing Rates [1]

Customer Class	FY 2021-22 Cost of Service	FY 2021-22 Revenue at Existing Rates	Change - $	Change - %
Inside City				
Single Family	$22,942,174	$26,193,281	($3,251,107)	-12.4%
Multi-Family	4,463,520	3,235,761	1,227,759	37.9%
Non-Residential	20,003,155	16,165,031	3,838,125	23.7%
Total Inside City	**$47,408,849**	**$45,594,072**	**$1,814,777**	**4.0%**

Industrial Classification

22 Industrial Businesses with at least one meter designated as Industrial

Aligned Data Centers (Chandler) Propco LLC
Air Products & Chemical
Allied Waste Transportation Inc.
Applied Materials Inc
Avnet Inc
Bowman Consulting
Chandler Air Services
Chandler HFP II LLC
CRP III Chandler Airport LLC
Dr Horton Inc
Emerald On 87 LLC
FCL Builders Arizona LLC
Ferguson Enterprise LLC
First Electronics
Gila River Indian Community (Lone Butte)
Intel Corp
Microchip Technology Inc
NXP USA Inc.
Rogers Corp
South Bay Circuits Inc
True Up Companies, LLC
Unbound 165 LLC

Utility SDF Fund Balances

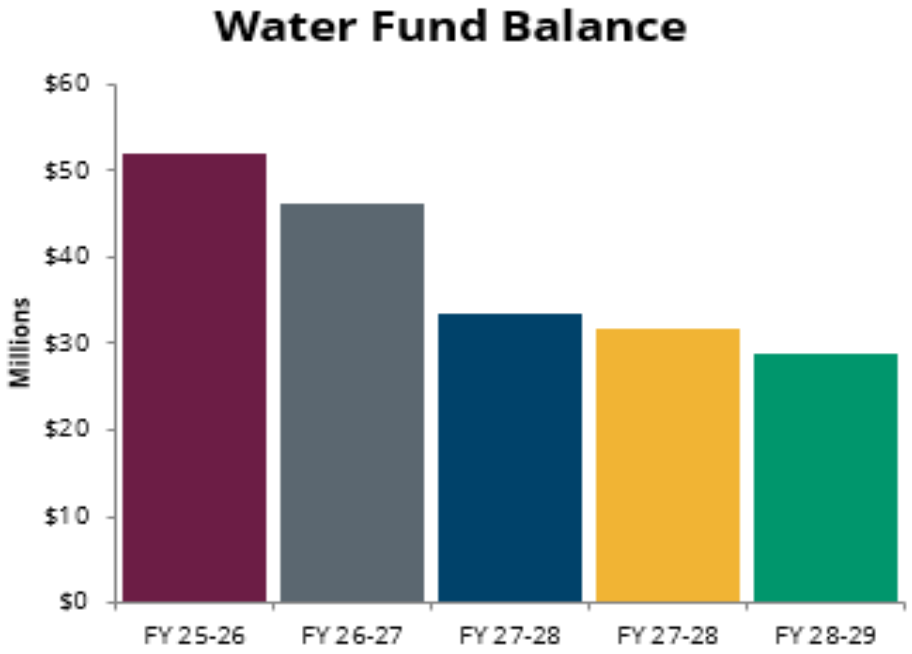
SDFs are allocated based on projects that are related to growth and repayments are made to normalize the impact of these revenues.

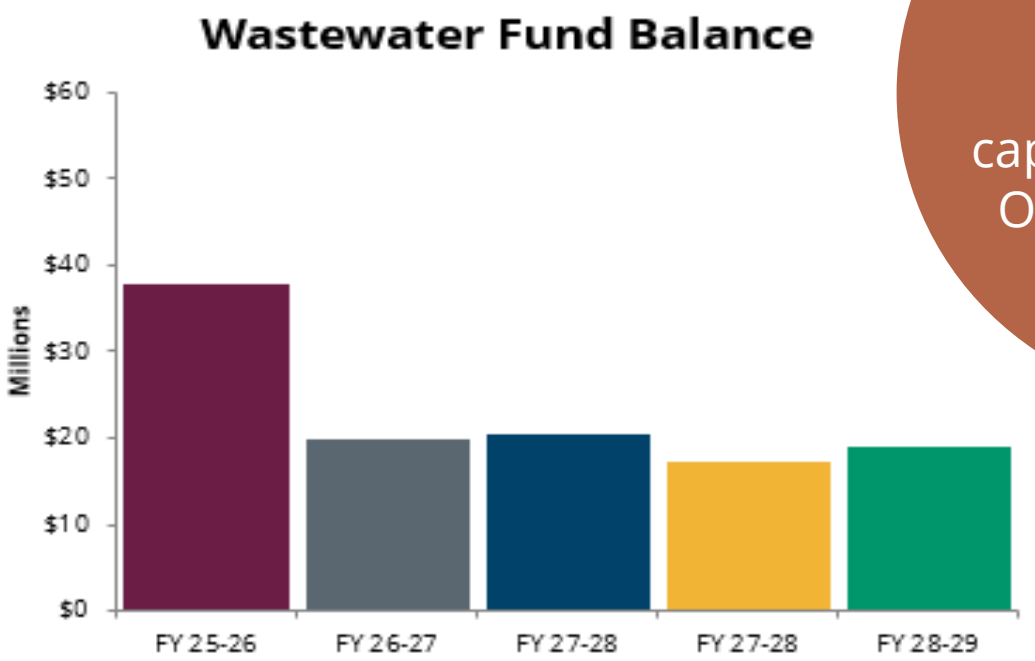
Utility Area	SDF Fund Balance (All as of July 1, 2024)	SDF Fund Balance at Year End FY 2025-26	Balance at Year End FY 2026-27	Balance at Year End FY 2027-28
Water	$11,981,465	$9,077,000	$3,000,000	$0
Wastewater	$3,010,516	$0	$0	$0

*Annual SDF Loan payback revenues help minimize needed rate increase

Once fund balances reach zero, any annual revenues will be used to continue to pay outstanding loans keeping the fund balances at or near $0

5-Year Enterprise Funds Fund Balance Projection





Fund balances is being drawn down to support Pay-go capital, One-time and Ongoing O&M, and Debt Service

Fiscally prudent planned drawdown of fund balance is considered in annual rate analysis

Rate Adjustment Options and Determination on Direction

FY 2025-26 Utility Rate
Adjustment Timing Methodology

A change from rate adjustments every other year to every year would affect estimated planned rates as follows for Water & Wastewater

Water					
	Jan 2026	Jan 2027	Jan 2028	Jan 2029	Jan 2030
Revenue Requirement Needed	15.0%		18.0%		17.0%
OR if Every Year vs. Every Other Year					
Revenue Requirement Needed	15.0%	7.5%	7.0%	7.0%	7.0%

Wastewater					
	Jan 2026	Jan 2027	Jan 2028	Jan 2029	Jan 2030
Revenue Requirement Needed	15.0%		14.0%		15.0%
OR if Every Year vs. Every Other Year					
Revenue Requirement Needed	15.0%	6.5%	6.5%	6.0%	6.0%

FY 2025-26 Utility Rate
Adjustment Implementation Methodologies

- Implement Across the Board (ATB)
  - Increase needed (revenue requirement) for FY 2025-26 applied evenly ATB to all classifications, therefore all classifications increase at the same percent
  - Allows full inflation and new projects to be allocated over the next COS update
- Implement Blended (COS/ATB blended rates)
  - Continues using FY 2019-20 data to align COS rate increases for anticipated increase needed based on the prior projection, then
  - Additional increase needed for FY 2025-26 applied evenly ATB to all classifications
- Implement ATB **and** Blended for one or the other
  - Use ATB with one utility, and Blended for another

Utility Rate Adjustments by Implementation Method

Water				
Classification	Blended COS	Monthly Avg, Bill Impact	Across the Board	Monthly Avg, Bill Impact
Residential	9.8%	$ 3	15.0%	$ 4
Multi-Family (150 units)	8.6%	$ 111	15.0%	$ 194
Non-Residential	17.9%	$ 90	15.0%	$ 76
Industrial	28.4%	$ 215,300	15.0%	$ 113,715
Landscape	20.4%	$ 165	15.0%	$ 122
Reclaimed	18.0%	$ 48	18.0%	$ 48
Solid Waste				
Solid Waste Residential	6%	$ 1	6%	$ 1

Wastewater				
Classification	Blended COS	Monthly Avg, Bill Impact	Across the Board	Monthly Avg, Bill Impact
Residential	5,8%	$ 1	15.0%	$ 4
Multi-Family (150 units)	25.7%	$ 473	15.0%	$ 276
Non-Residential	21.5%	$ 184	15.0%	$ 128
Industrial	21.5%	$ 276,460	15.0%	$ 192,879

Utility Rate Adjustments by Implementation Method

Combined Monthly Average Bill Increase

	Both ATB	
Classification	Total Bill % Change	Monthly Avg. Bill Impact
Residential	12.6%	$ 9
Multi-Family (150 units)	15.0%	$ 470
Non-Residential	15.0%	$ 204
Industrial	15.0%	$ 306,594
Landscape	15.0%	$ 122
Reclaimed	18.0%	$ 48

Combined Monthly Average Bill Increase

	Both Blend COS	
Classification	Total Bill % Change	Monthly Avg. Bill Impact
Residential	7.3%	$ 5
Multi-Family (150 units)	18.6%	$ 584
Non-Residential	20.2%	$ 274
Industrial	24.1%	$ 491,760
Landscape	20.4%	$ 165
Reclaimed	18.0%	$ 48

Prior year A-OK donations were $25,509. An additional $25,000 could assist customers most at risk

Current average residential bill of $75 is $37 lower than closest valley city

Combined Monthly Average Bill Increase

	Water Blend / WW ATB	
Classification	Total Bill % Change	Monthly Avg. Bill Impact
Residential	10.7%	$ 7
Multi-Family (150 units)	12.4%	$ 387
Non-Residential	16.1%	$ 219
Industrial	20.0%	$ 408,179
Landscape	20.4%	$ 165
Reclaimed	18.0%	$ 48

Combined Monthly Average Bill Increase

	Water ATB / WW Blend	
Classification	Total Bill % Change	Monthly Avg. Bill Impact
Residential	9.2%	$ 8
Multi-Family (150 units)	21.3%	$ 666
Non-Residential	19.1%	$ 260
Industrial	19.1%	$ 390,175
Landscape	15.0%	$ 122
Reclaimed	18.0%	$ 48

Chandler Utility Rate Adjustment Direction

Determine method of implementing rates prior to public outreach and allocate revenue requirement

1. **Across the Board (ATB)** – uses the same revenue increase rate for all customer classifications, OR
2. **Blended Cost of Service** - allocating the original revenue requirement following COS and additional revenue requirement ATB to all classifications
3. **Blended Cost of Service mixed with ATB** - allocating the original revenue requirement following COS and additional revenue requirement across the board to one utility, and full

Advise on timing of future utility rate changes (every other year or annually)

Next Steps and Key Process Dates

Utility Rate Key Process Steps	Date
Council Utility Rate Workshop #1 (Determination on rate adjustment methodology prior to outreach)	**Completed**
Community Outreach	**August-October**
Adopt Notice of Intent to Change Rates	**10/16/2025**
Council Utility Rate Workshop #2 (Report out on public outreach)	**11/10/2025**
Public Hearing & Ordinance Introduction	**1/8/2026**
Final Adoption	**1/22/2026**
Effective Date for Utility Bills Issued On or After Date	**3/2/2026**
New COS Study to Determine Each Classification is Paying What they Should Based on New Use/Cost Data	**Mid-Summer 2026**

Questions?

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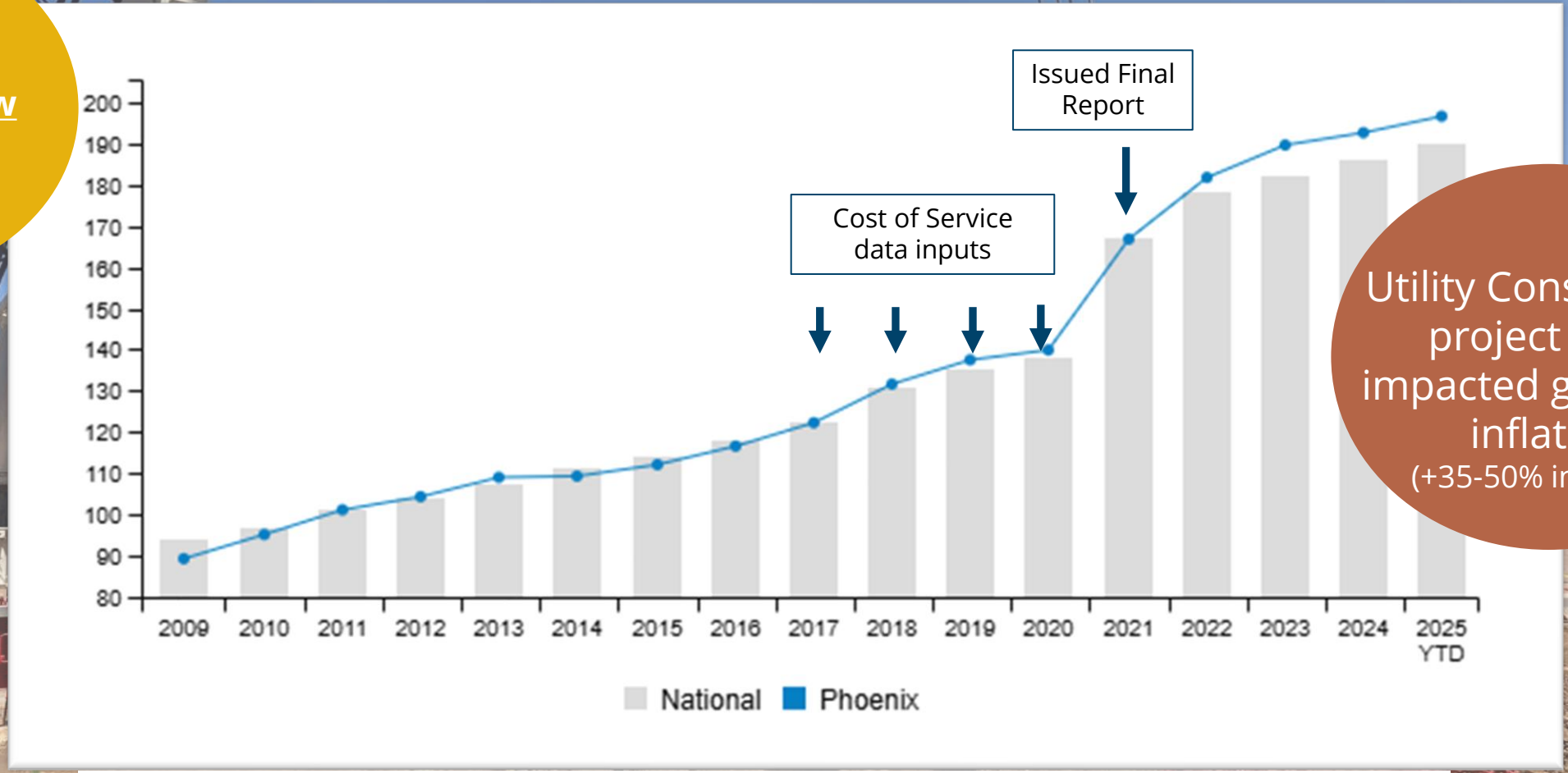
arizona

Capital Plan Inflation Impacts

Construction Price Index's **new normal**



Utility Construction project costs impacted greatly by inflation
(+35-50% increases)

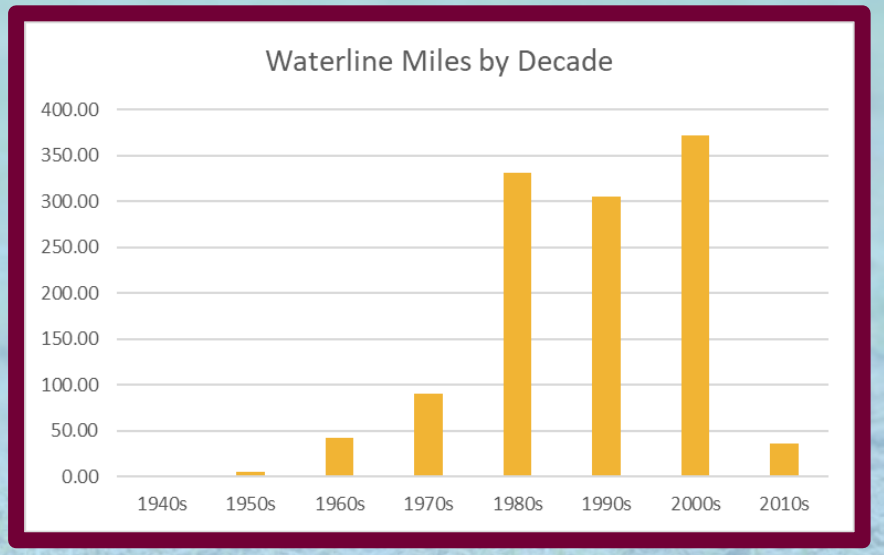
Data source: The Mortenson Construction Cost Index is calculated quarterly by pricing a representative non-residential construction project in geographies throughout the country. YTD through May-2025

Major Water Revenue Requirement Drivers

Aging Infrastructure & Operating Cost Increases

Known Water Impacts

- Increased new cost over 3 years (+$126.7M); 187 miles of highest, high, and moderate risk watermains, replaced over 30 years
- New project in FY 2024-25; redundant 48” transmission line to reduce risk of single failure point ($152.6M)
- Increased new cost over 3 years (+$168M/+79%) of aging plant work and filter media in the 10-year CIP ($379.7M)
- Increased water purchase costs are escalating with CAP and SRP (+$4.2M ongoing over 4 years)
- Increased cost of treatment chemicals used daily (+$1.4M ongoing over 4 years)
- Power costs are increasing (solar savings will offset rate requirement by 0.5%)
- New and existing personnel costs increasing as competition for certified operators increases



Major Wastewater Revenue Requirement Drivers

Aging infrastructure & Operating Cost Increases

Known Wastewater Impacts

- Increased to 10 miles of highest risk lines and 7,000 manholes of highest, high, and moderate risk rehabs over 30 years
- New project in FY 2024-25; 66” underneath Loop 202 to allow for existing pipe rehab ($40.6M)
- New project in FY 2025-26; Ocotillo Water Reclamation Facility Influent Pump Station ($31.4M)
- Increased new cost over 1 year (+$26.8M); aging plant work over 10 years ($219M)
- Increased cost of treatment chemicals used daily (+$3M ongoing over 3 years)
- Power costs are increasing (solar savings will offset rate requirement by 1.8%)
- New and existing personnel costs increasing as competition for certified operators increases

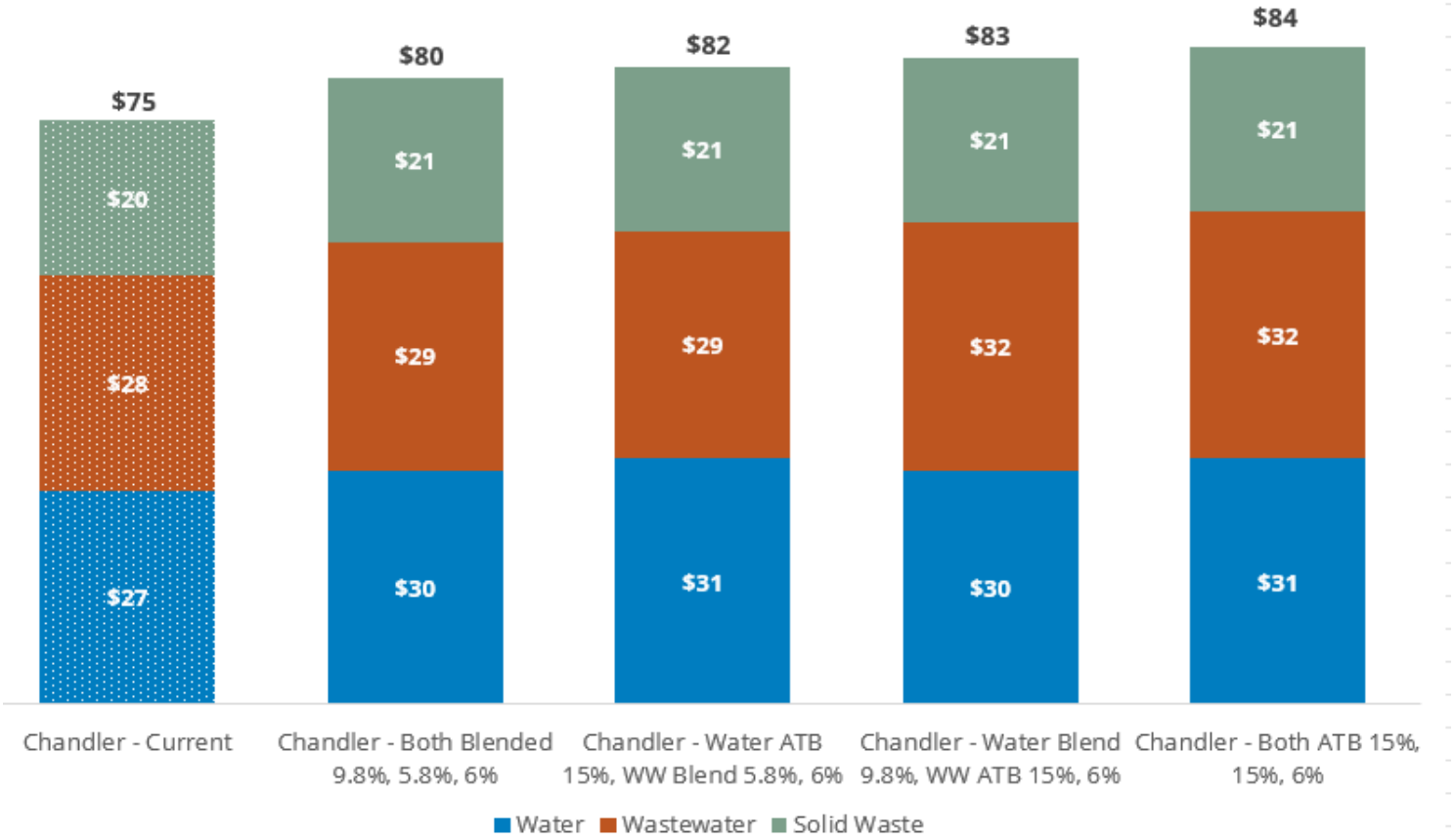
Other Potential Revenue Requirement Drivers

Aging Infrastructure & Operating Cost Increases

Unknown Water & Wastewater Impacts

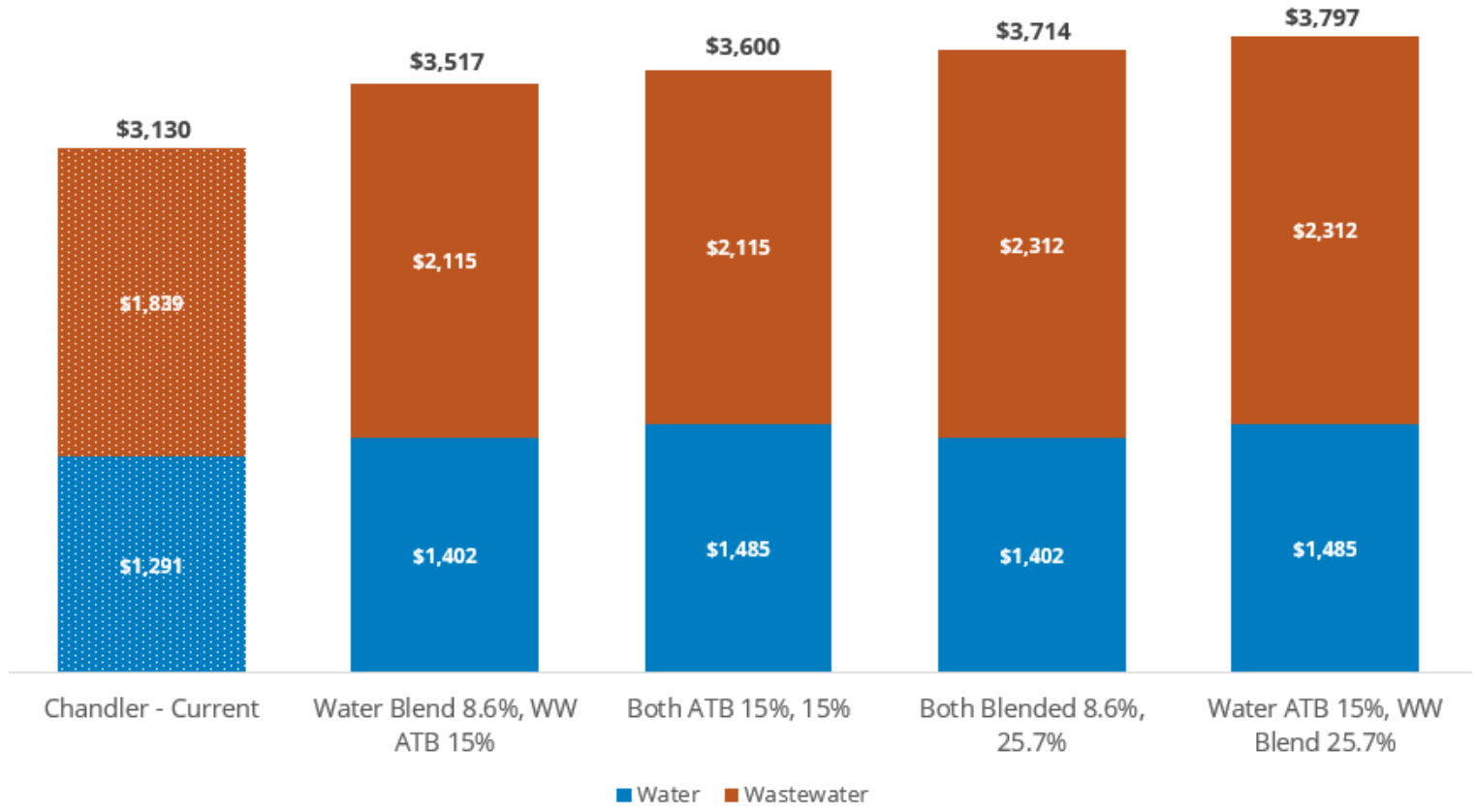
- New General Plan update and potential regulatory changes will help guide future state of infrastructure planning for any changes to densities or building up
- Tariffs may have impact on construction materials, certain chemical costs and media filter costs, depending on location of origin (will monitor and adjust contracts if needed
- AMI will help plan timing of needed infrastructure as more frequent flow data will be available
- Impacts of Intel's WATR plant on wastewater treatment and water production levels which reduces water and wastewater flows and therefore revenues decline in both areas

Chandler Utility Bill Example: Residential



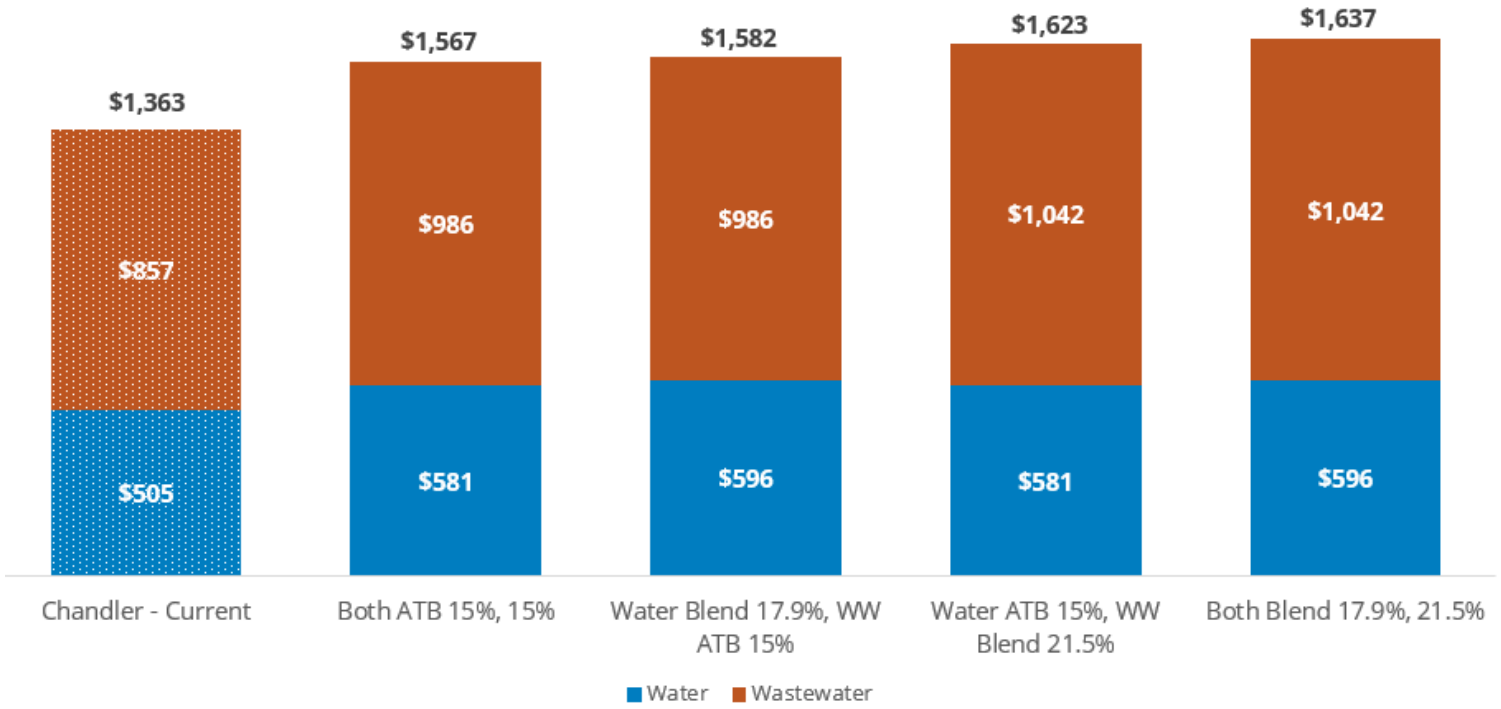
Estimated based on 10,000 gallons ¾” meter single family residential rates for FY 2024-25

Chandler Utility Bill Example: Multi-Family



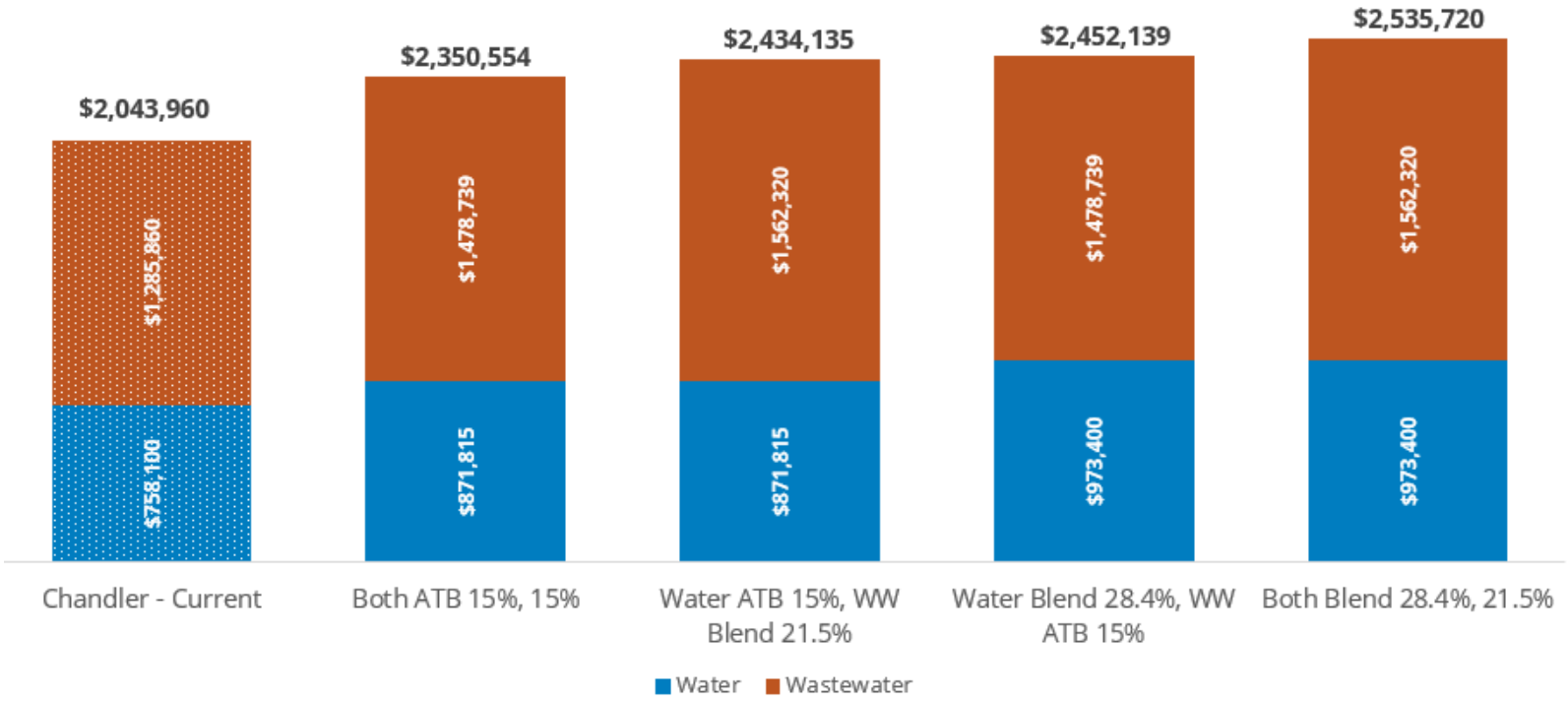
Assumes 500K gallons, 6” meter, 150 units

Chandler Utility Bill Example: Non-Residential



Assumes 200K gallons, 2” meter

Chandler Utility Bill Example: Industrial

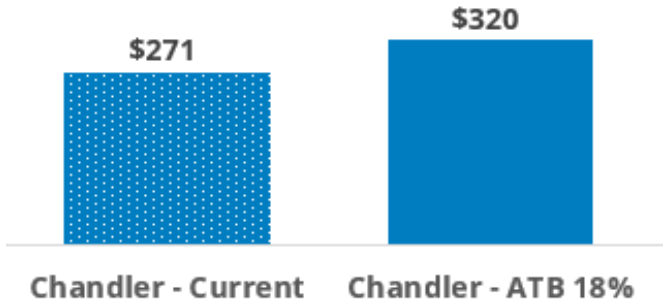


Assumes 300M gallons, 8” meter

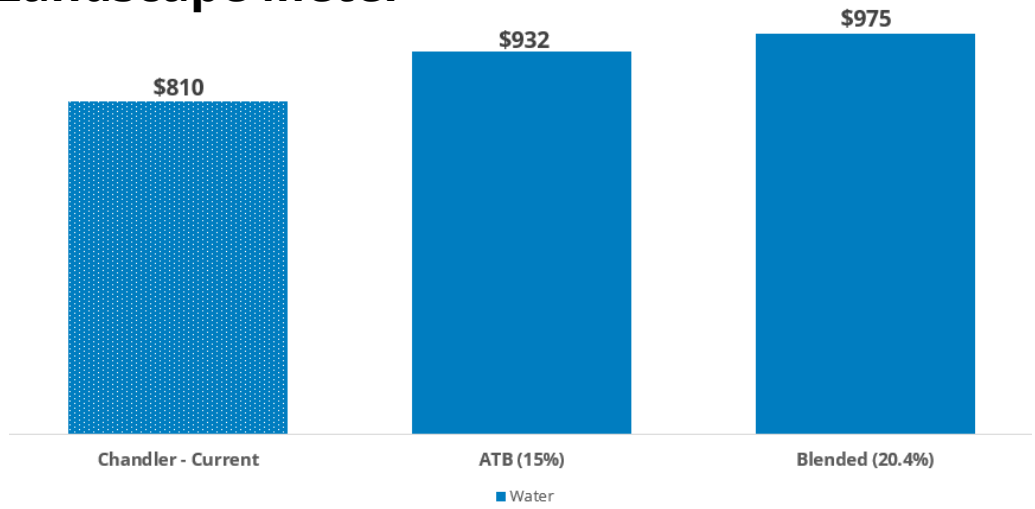
Chandler Utility Bill Example: Reclaimed and Landscape

Estimated based on 300,000 gallons with 2" meter

Reclaimed Meter



Landscape Meter



*Other cities do not have a reclaimed rate/program

Utility Rate Adjustments by Implementation Method

Combined Monthly Average Bill Increase

	Both Blend COS		Both ATB		Water Blend / WW ATB		Water ATB / WW Blend	
Classification	Total Bill % Change	Monthly Avg, Bill Impact	Total Bill % Change	Monthly Avg, Bill Impact	Total Bill % Change	Monthly Avg, Bill Impact	Total Bill % Change	Monthly Avg, Bill Impact
Residential	7.3%	$ 5	12.6%	$ 9	10.7%	$ 7	9.2%	$ 8
Multi-Family (150 units)	18.6%	$ 584	15.0%	$ 470	12.4%	$ 387	21.3%	$ 666
Non-Residential	20.2%	$ 274	15.0%	$ 204	16.1%	$ 219	19.1%	$ 260
Industrial	24.1%	$ 491,760	15.0%	$ 306,594	20.0%	$ 408,179	19.1%	$ 390,175
Landscape	20.4%	$ 165	15.0%	$ 122	20.4%	$ 165	15.0%	$ 122
Reclaimed	18.0%	$ 48	18.0%	$ 48	18.0%	$ 48	18.0%	$ 48