FY 2025-26
Utility Rate Workshop #1

City Council Conference Room

Monday, July 14, 2025| 4:00 pm

CHANDLER arizona

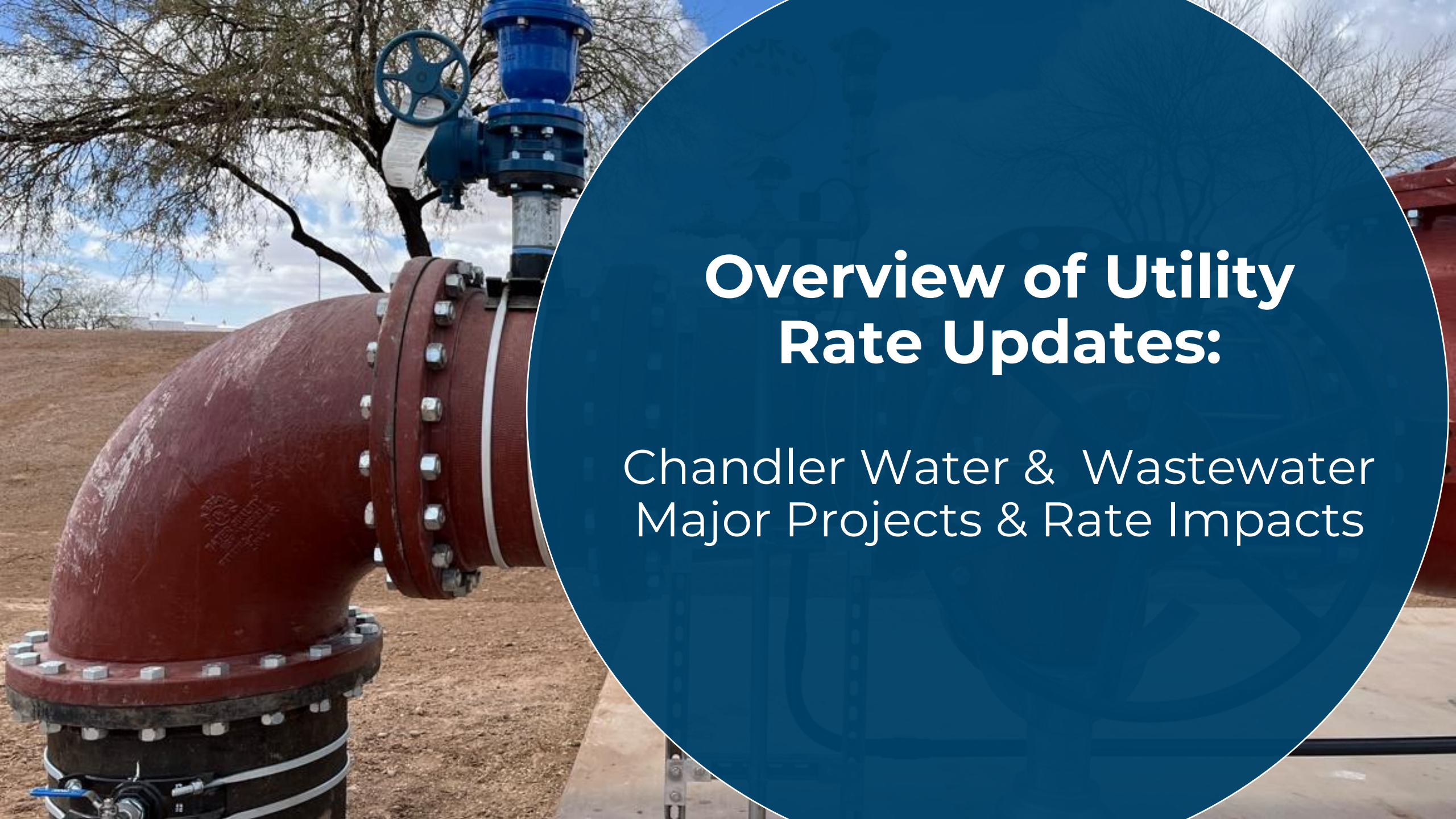
Agenda

01. Overview of Utility Rate Updates

02. Changes Impacting Prior Cost of Service Study

03. Rate Adjustment Options and Determination on Direction

04. Next Steps and Key Process Dates
Questions Throughout



Overview of Utility Rate Updates:

Chandler Water & Wastewater
Major Projects & Rate Impacts

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

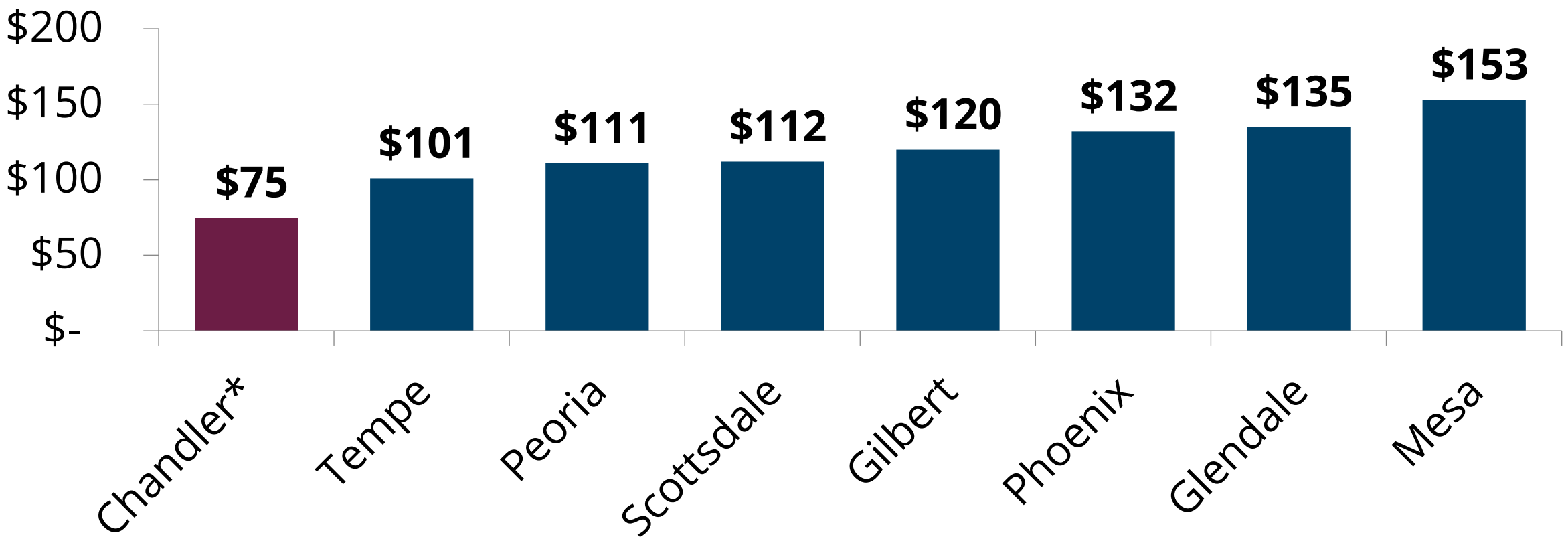
The city has rate models for each Enterprise fund, updated annually to analyze rate needs

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%	

Average Residential Cost Comparison for Water, Wastewater and Solid Waste



Based on Tempe Cost of Service July 2024 results at 10,000 gallons single family residential rates for FY 2024-25

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 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
Projection from FY 2023-24 in FY 2024-25 Adopted Budget for FY 2025-26	8.5%	8.0%	12.0%	7.0%
Updated Rate Change	15.0%	15.0%	18.0%	6.0%

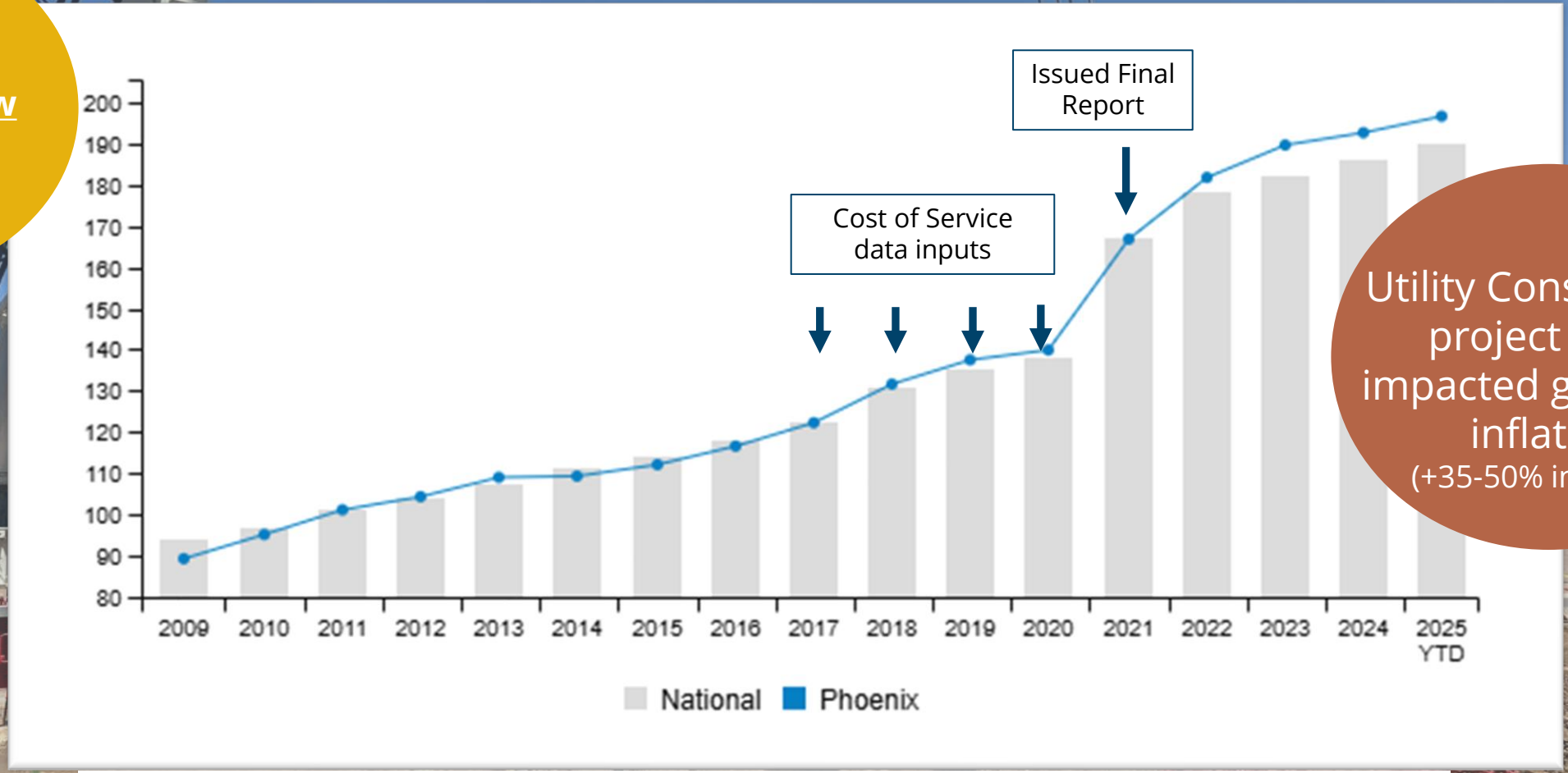
What Chandler Has Done to Keep Utility Rates Lower

Utility rate increases are needed to fund operating, capital, debt service, and reserve requirements. The following steps have been taken to minimize rate impacts to residents and businesses:

- Offsetting rate need with revenue with SDF loan paybacks
- Adjusted CIP by planning mains and manhole replacements at a slower rate for water and wastewater aging infrastructure from 20 year to 30 year to spread costs
  - Evaluated a 38-year spread based on Council request
- Planned additional of solar infrastructure using one-time General Fund to generate ongoing future utility electric savings
- Re-rated facilities to allow for max capacity so as to avoid the need for additional facilities thereby reducing costs
- Reducing water purchase costs through conservation incentives and xeriscaping (does have revenue impact)

Capital Plan Inflation Impacts

Construction Price Index's **new normal**



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

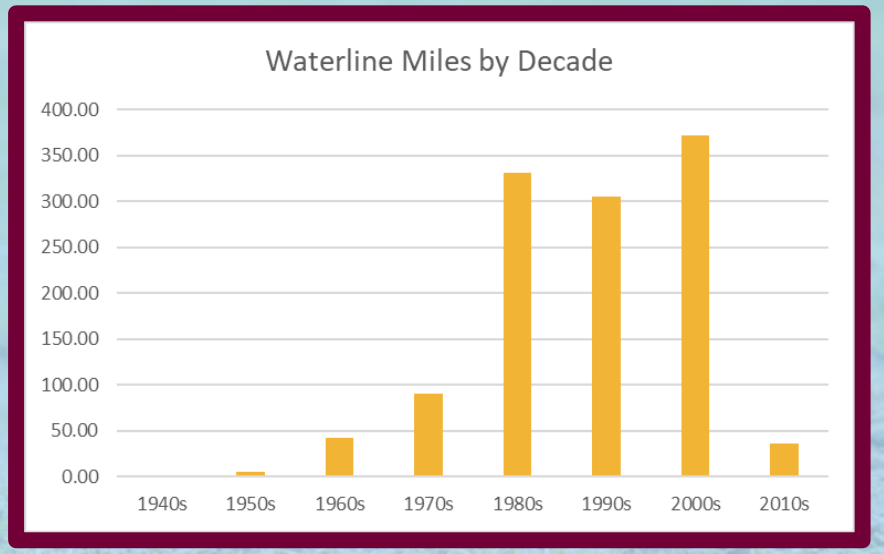
Data source: The Mortenson Construction Cost Index is calculated quarterly by pricing a representative non-residential construction project in geographies throughout the country. YTD through May-2025

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

Utility System Development Fees (SDF)

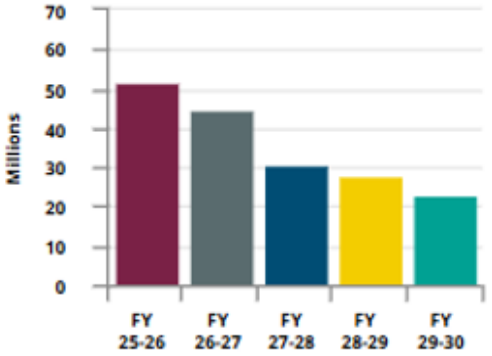
SDFs are allocated based on projects that are related to growth and are listed in the Infrastructure Improvement Plan (IIP) adopted in January 2024. In prior periods, if existing SDF revenues were not sufficient to cover project costs, a loan was established to fund the project until revenues were received.

Utility Area (All as of June 2025)	SDF Loans Outstanding	Planned New SDF Project Funding in CIP	Planned SDF Revenue/ Loan Repay FY 2025-26	Planned SDF Revenue/ Loan Repay FY 2026-27	Planned SDF Revenue/ Loan Repay FY 2027-28	Planned SDF Revenue/ Loan Repay FY 2028-29	Planned SDF Revenue/ Loan Repay FY 2029-30
Water	$107,942,818	$3M	$3.3M / $5.6M	$2M / $6M	$2M / $4M	$2M / $3.5M	$2M / $2.5M
Wastewater	$116,924,609	$0	$3M / $3M	$3M / $6M	$3M / $5M	$3M / $3M	$3M / $3M
Reclaimed	$22,870,726	$227K	$750K / $500K	$300K / $500K	$200K / $500K	$200K / $500K	$200K / $500K

*Annual SDF Loan payback revenues help minimize needed rate increase

5-Year Enterprise Funds Fund Balance Projection & Revenue Requirements

Water

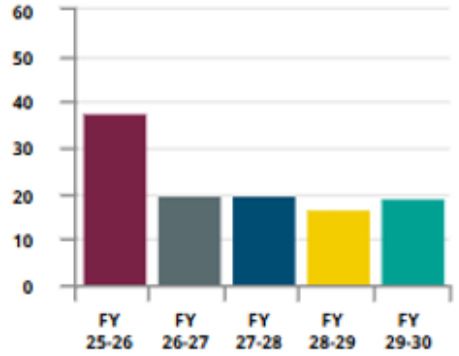


Water Rate Plan

FY 2025-26 +15%

- Maintains minimum 20% Operating Reserve
- Focus on maintaining aging infrastructure: facilities, wells, water mains, and filters
- Final Cost of Service (COS) transition January 2026
- Increased focus on aging infrastructure is impacting rate

Wastewater



Wastewater Rate Plan

FY 2025-26 +15%

- Maintains minimum 20% Operating Reserve
- Focus on maintaining aging infrastructure: facilities, manholes, wastewater mains
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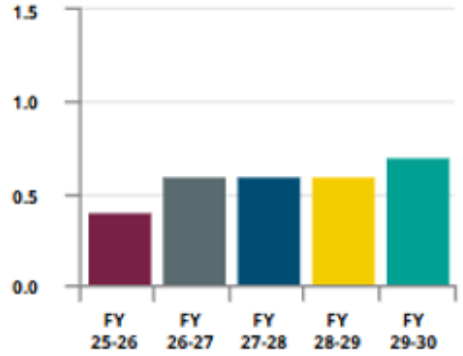
Reclaimed

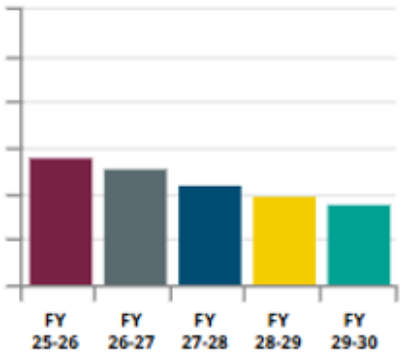


Reclaimed Water Rate Plan

FY 2025-26 +18%

- Maintains minimum 20% Operating Reserve
- Rates support operating, water planning, conservation and adding capital costs
- Increased cost alignment is impacting rate

Solid Waste



Solid Waste Rate Plan

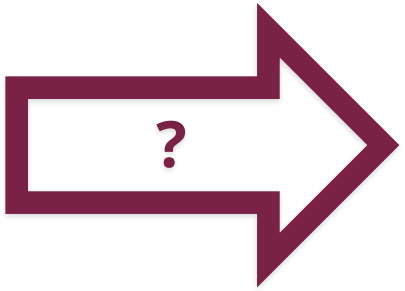
FY 2025-26 +6%

- Maintains minimum 15% Operating Reserve
- Addresses increased hauling and collection contract and nationwide recycling impact
- Contract cost increases are impacting rate

Changes Impacting Prior Cost of Service Study

Cost of Service (COS) Analysis

Revenue Requirement
(based on FY 2019-20 data. COS transitioned over 5 years)



Residential

Multi-Family

Commercial

Is everyone paying their fair share?

Industrial

Landscape

Shifting cost burden of revenue requirement to customer classifications differently based on burden on system. Allows for more accurate reflection of actual cost of providing service to each customer class.

Cost of Service Benefits

Completed once every 5-7 years

Fair and equitable; the approach most commonly utilized in Water and Wastewater industry

More accurately reflects actual cost of providing service to each customer class

Distributes revenue requirements to customer classes based on their proportional units of service

Customers in each class are assumed to have similar usage characteristics or impact to system

Utility Rate Adjustment History
Last COS Study Transition

Full COS Transition over 5 Years

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Industrial	4.33%	6.88%	9.22%	17.26%
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Reclaimed	8.00%		7.00%	
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FY 2025-26 is Final Transition to Full COS Data Impacts

- New accelerated replacements of aging infrastructure impacting the CIP
- Significant inflationary impacts in capital and operating
- New Intel treatment plant and changes to demand (causing lower revenues)
- Industrial contributed capital (i.e. Interconnect facility and related O&M)

COS classification impacts are still valid with higher costs and new projects being greatest impact

The next study is planned to kick off in mid-summer 2026.

Rate Adjustment Options and Determination on Direction

FY 2025-26 Utility Rate
Adjustment Implementation Methodologies

- Implement 5th year of full Cost of Service (COS) rate increase
  - Continues using FY 2019-20 data to align COS rate increases
  - Does not consider inflationary impacts and new projects from beginning of transition

Not Recommended

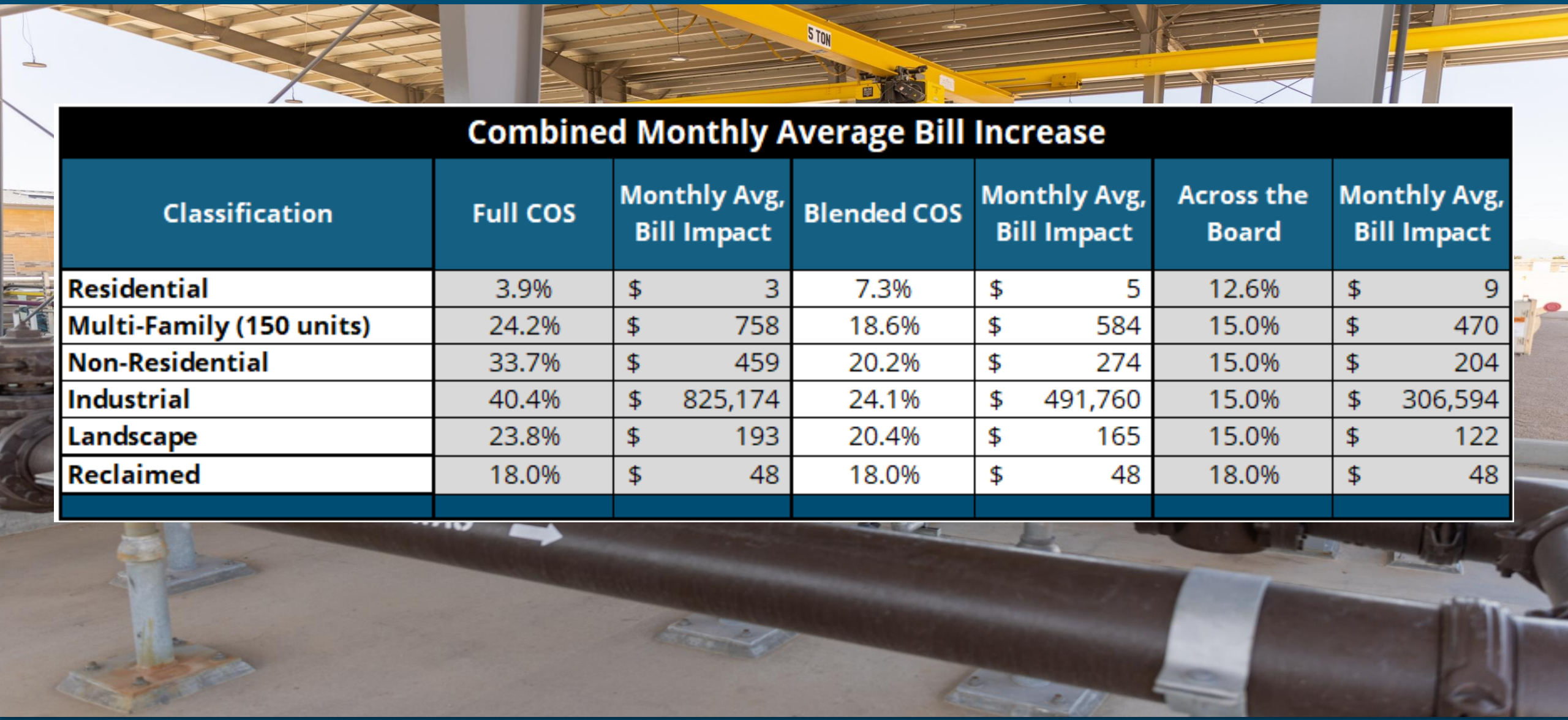
- Implement Blended- COS and Across the Board (ATB) rate increase
  - Continues using FY 2019-20 data to align COS rate increases for anticipated increase needed based on the prior projection, then;
  - Additional increase needed for FY 2025-26 applied evenly ATB to all classifications
- Implement Across 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

Utility Rate Adjustments by Implementation Method

Water						
Classification	Full COS	Monthly Avg, Bill Impact	Blended COS	Monthly Avg, Bill Impact	Across the Board	Monthly Avg, Bill Impact
Residential	6.4%	$ 2	9.8%	$ 3	15.0%	$ 4
Multi-Family (150 units)	4.4%	$ 57	8.6%	$ 111	15.0%	$ 194
Non-Residential	19.1%	$ 96	17.9%	$ 90	15.0%	$ 76
Industrial	37.1%	$ 281,225	28.4%	$ 215,300	15.0%	$ 113,715
Landscape	23.8%	$ 193	20.4%	$ 165	15.0%	$ 122
Reclaimed	18.0%	$ 48	18.0%	$ 48	18.0%	$ 48
Solid Waste						
Solid Waste Residential	6%	$ 1	6%	$ 1	6%	$ 1

Wastewater						
Classification	Full COS	Monthly Avg, Bill Impact	Blended COS	Monthly Avg, Bill Impact	Across the Board	Monthly Avg, Bill Impact
Residential	0.0%	$ -	5,8%	$ 1	15.0%	$ 4
Multi-Family (150 units)	38.1%	$ 701	25.7%	$ 473	15.0%	$ 276
Non-Residential	42.3%	$ 363	21.5%	$ 184	15.0%	$ 128
Industrial	42.3%	$ 543,919	21.5%	$ 276,460	15.0%	$ 192,879

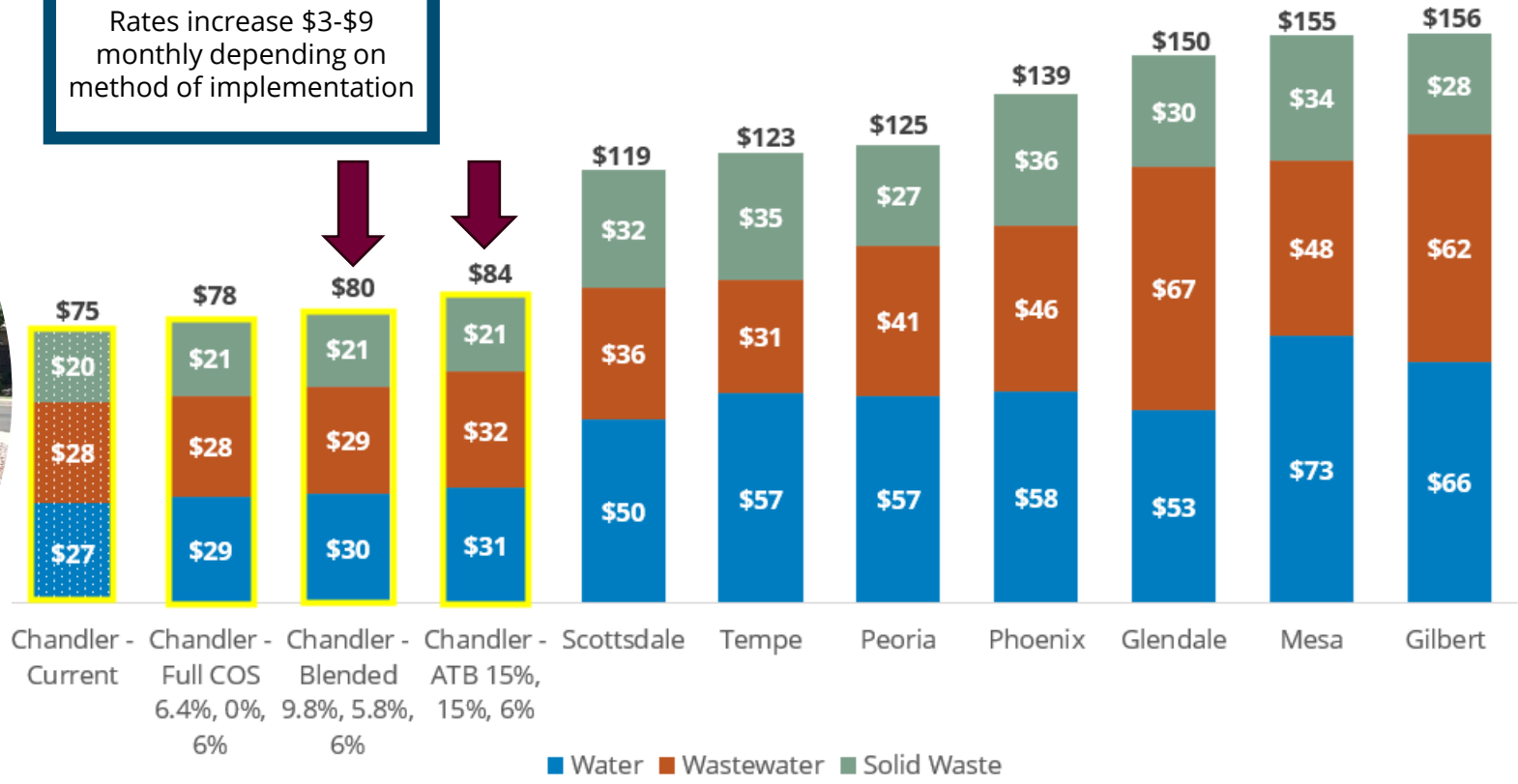
Utility Rate Adjustments by Implementation Method



Combined Monthly Average Bill Increase						
Classification	Full COS	Monthly Avg, Bill Impact	Blended COS	Monthly Avg, Bill Impact	Across the Board	Monthly Avg, Bill Impact
Residential	3.9%	$ 3	7.3%	$ 5	12.6%	$ 9
Multi-Family (150 units)	24.2%	$ 758	18.6%	$ 584	15.0%	$ 470
Non-Residential	33.7%	$ 459	20.2%	$ 274	15.0%	$ 204
Industrial	40.4%	$ 825,174	24.1%	$ 491,760	15.0%	$ 306,594
Landscape	23.8%	$ 193	20.4%	$ 165	15.0%	$ 122
Reclaimed	18.0%	$ 48	18.0%	$ 48	18.0%	$ 48

Chandler Utility Bill Example: Residential

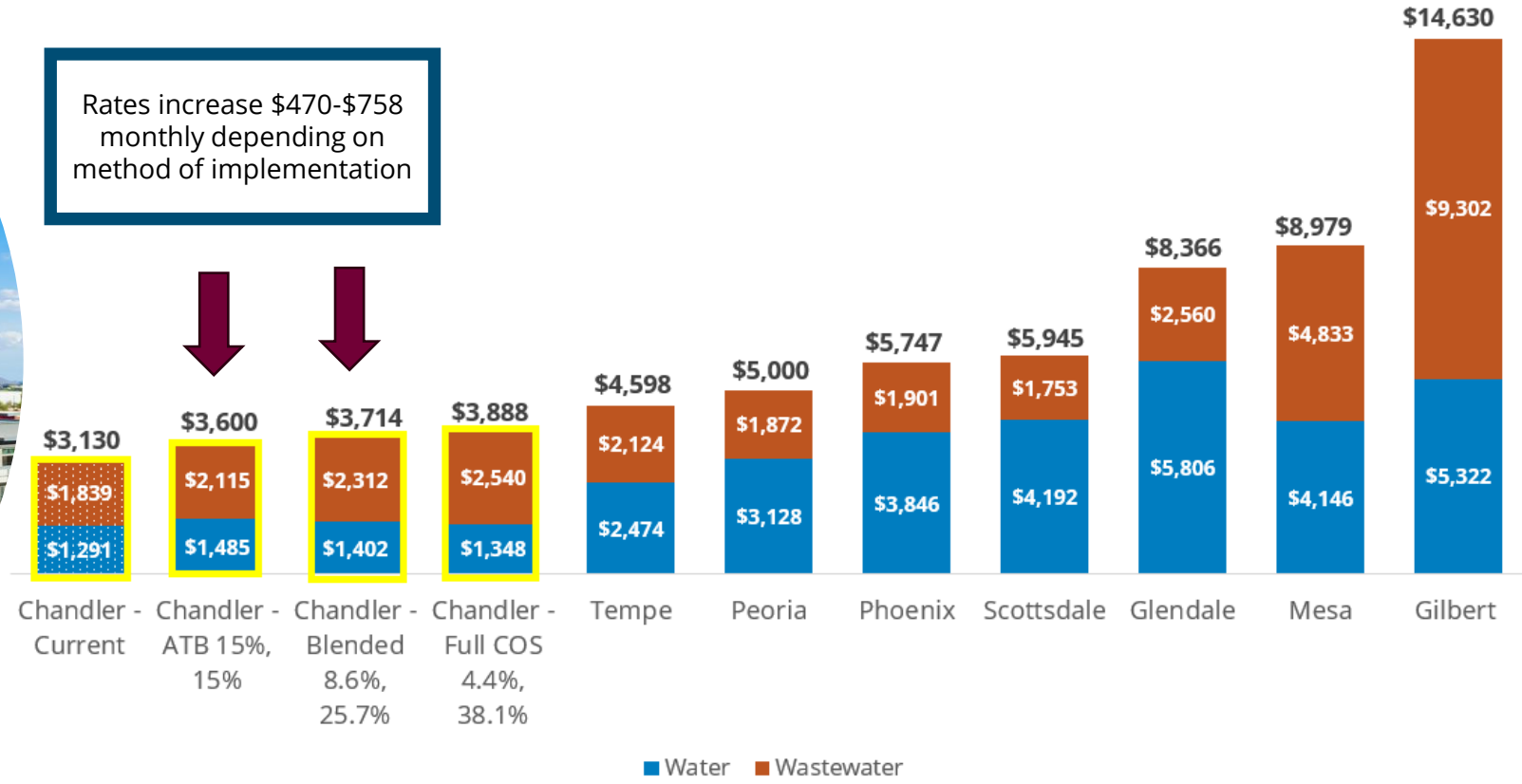
Rates increase $3-$9 monthly depending on method of implementation



Estimated based on Tempe Cost of Service July 2024 results at 10,000 gallons single family residential rates for FY 2024-25 with estimated or known adjustments

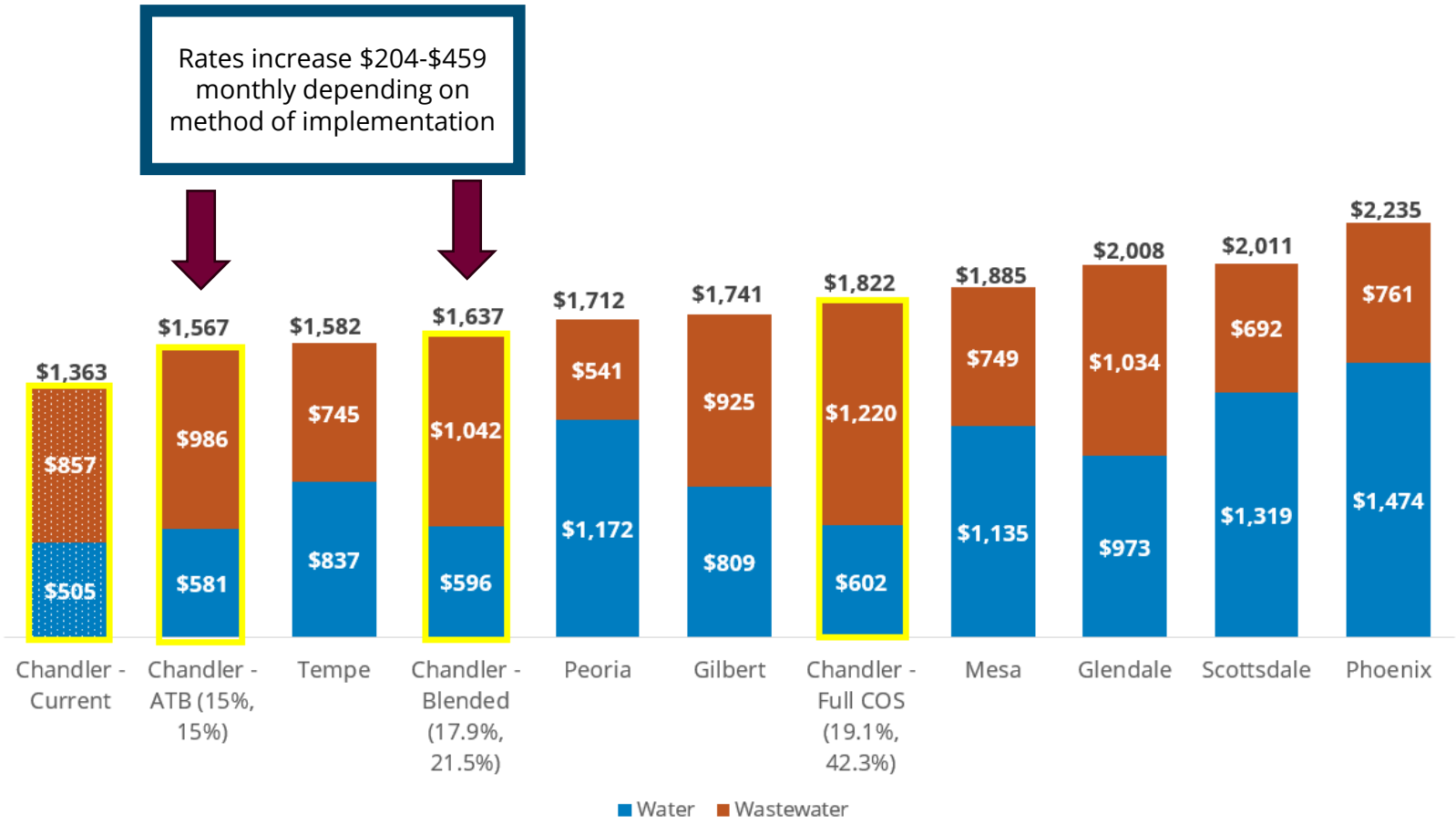
Chandler Utility Bill Example: Multi-Family

Rates increase $470-$758 monthly depending on method of implementation



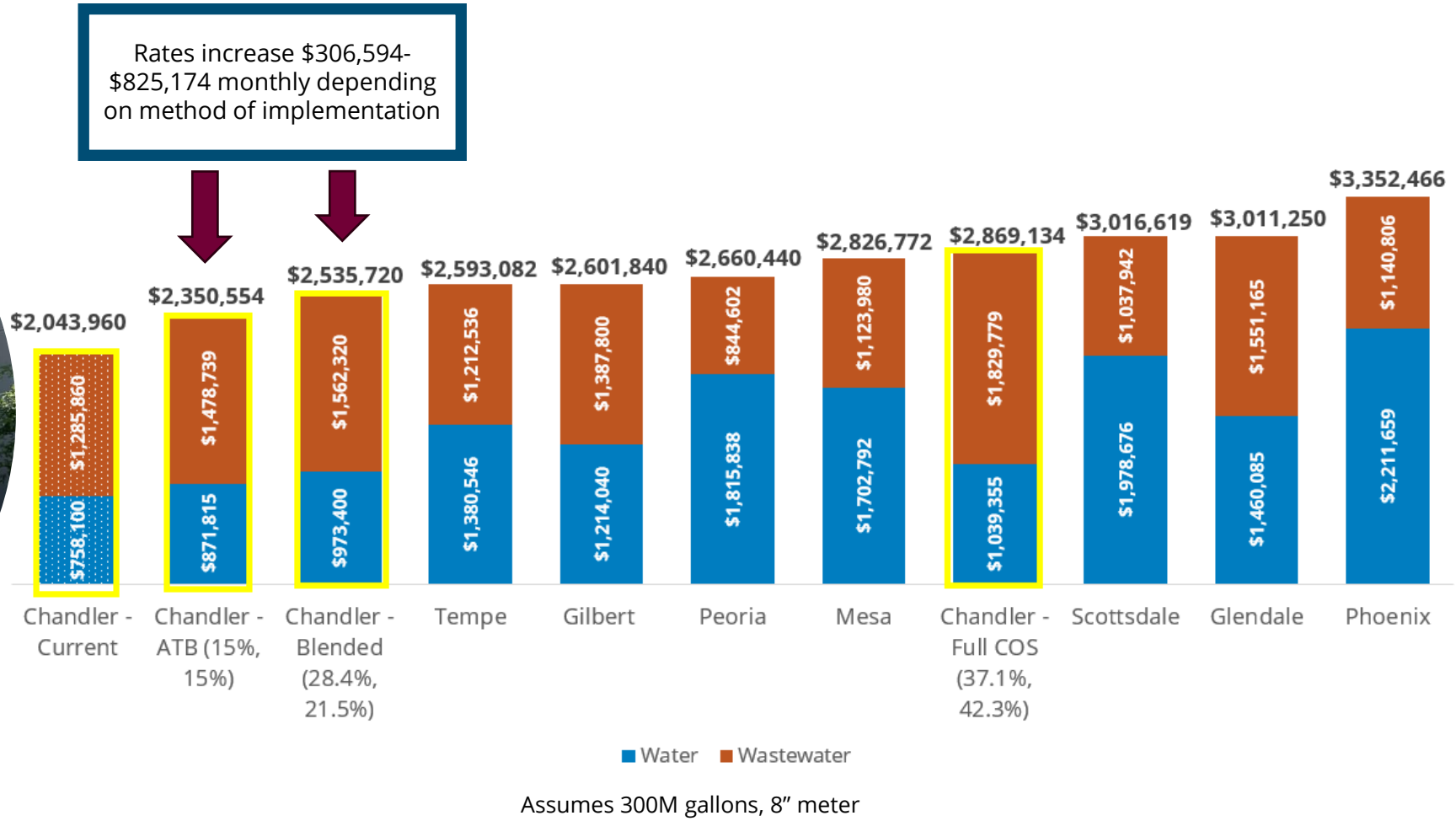
Assumes 500K gallons, 6” meter, 150 units

Chandler Utility Bill Example: Non-Residential



Assumes 200K gallons, 2” meter

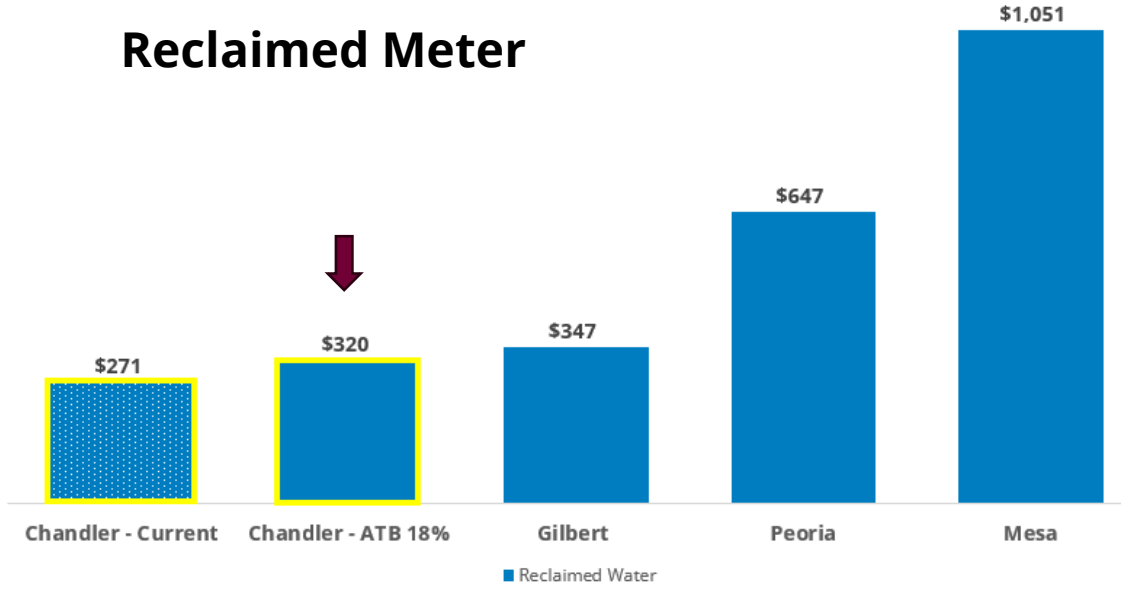
Chandler Utility Bill Example: Industrial

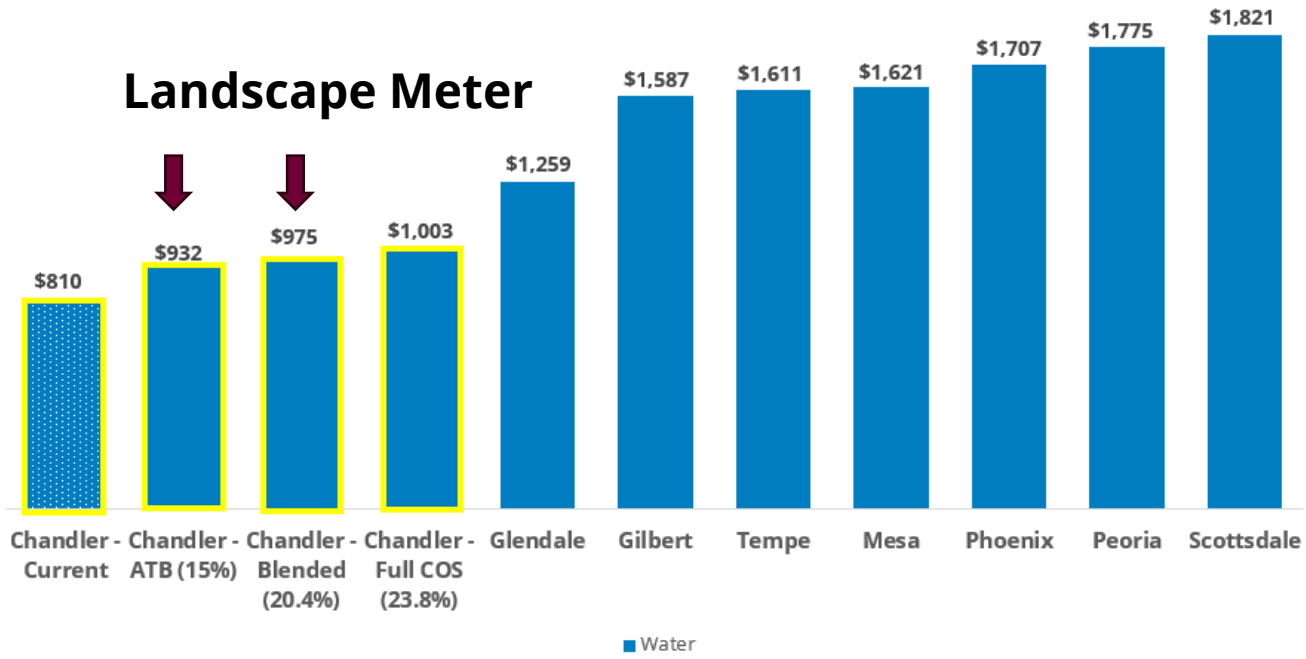


Assumes 300M gallons, 8” meter

Chandler Utility Bill Example: Reclaimed and Landscape

Estimated based on 300,000 gallons with 2" meter





*Other cities do not have a reclaimed rate/program

What Chandler Has Done to Keep Utility Rates Lower In Summary

Utility rate increases are needed to fund operating, capital, debt service, and reserve requirements. The following steps have been taken to minimize rate impacts to residents and businesses:

- Offsetting rate need with revenue with SDF loan paybacks
- Adjusted CIP by planning mains and manhole replacements at a slower rate for water and wastewater aging infrastructure from 20 year to 30 year to spread costs
  - Evaluated a 38-year spread based on Council request
- Planned additional of solar infrastructure using one-time General Fund to generate ongoing future utility electric savings
- Re-rated facilities to allow for max capacity so as to avoid the need for additional facilities thereby reducing costs
- Reducing water purchase costs through conservation incentives and xeriscaping (does have revenue impact)

Chandler Utility Rate Adjustment Direction

Determine method of implementing rates prior to public outreach. Allocate revenue requirement based on:

- **Across the Board –** uses the same revenue increase rate for all customer classifications, OR
- **Blended Cost of Service** - allocating the original revenue requirement following COS and additional revenue requirement across the board to all classifications

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	**July-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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