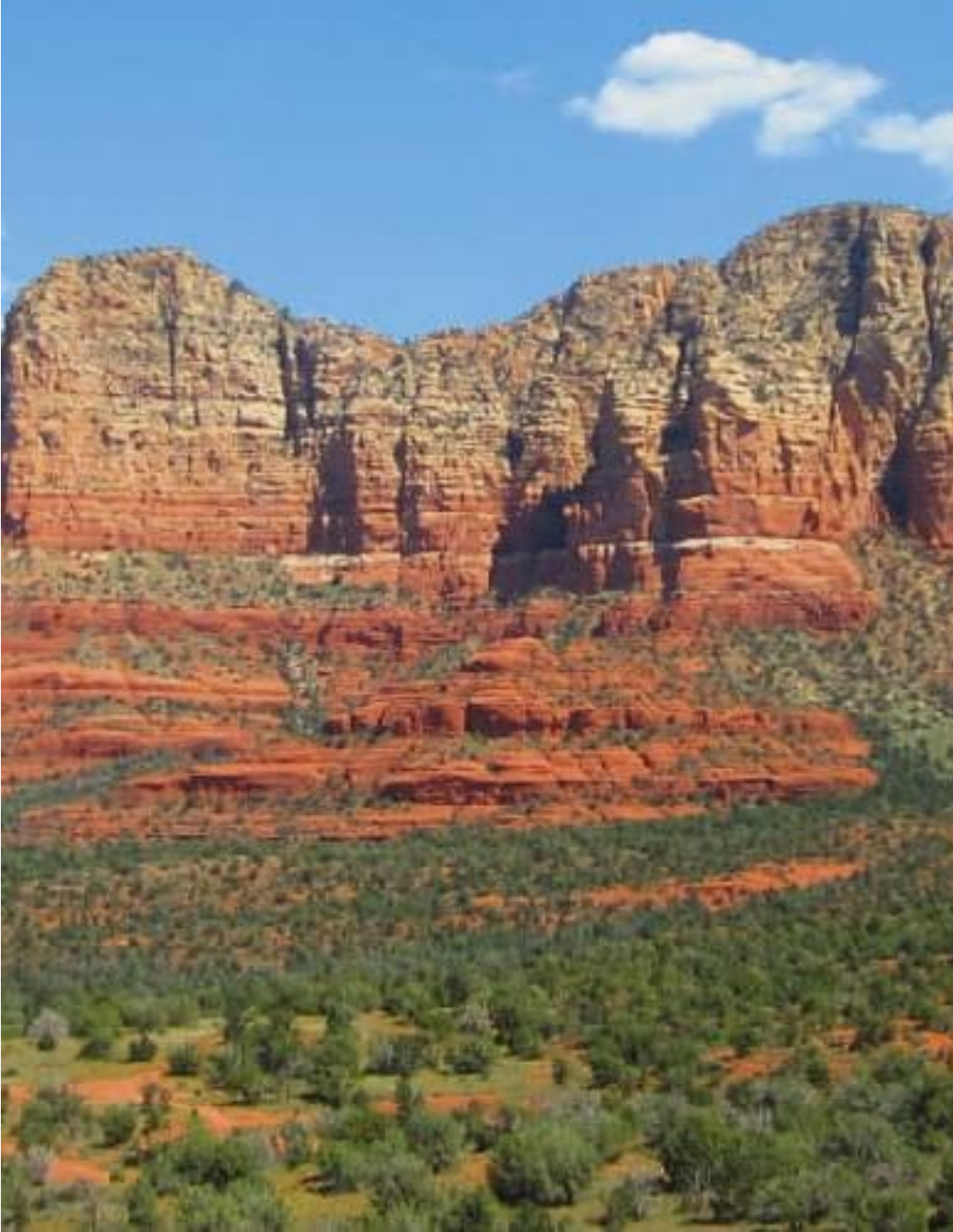


City of Flagstaff, AZ

Water, Reclaimed Water, & Wastewater Cost-of-Service, Rates & Fees Study

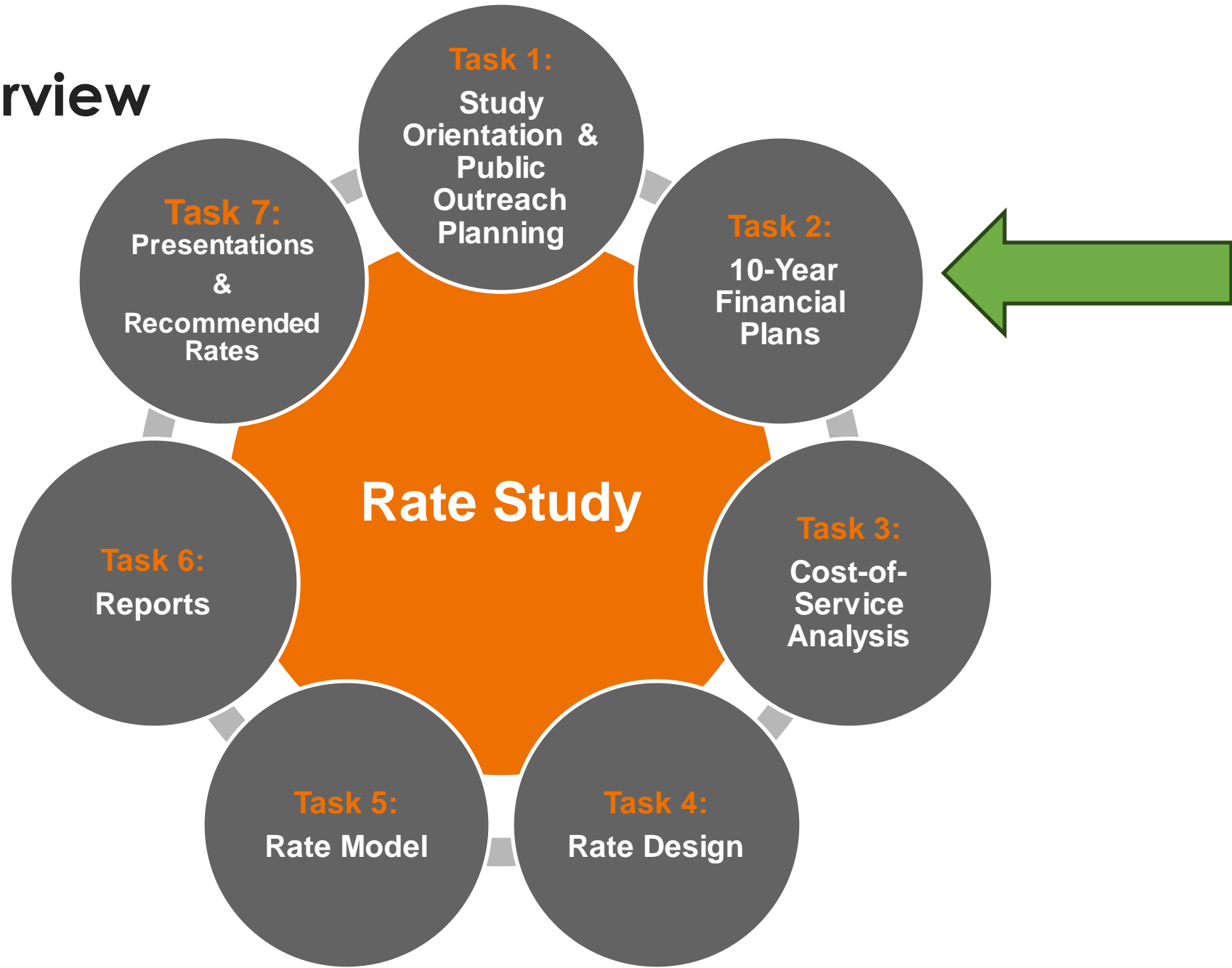
*Flagstaff City Council Retreat
October 12, 2023*



1. Review Policy Strategies
2. Financial Planning Scenarios Defined
3. Capital Funding
4. Preliminary Findings
5. Discussion and Feedback



Scope Overview





Policy Strategies

- Strategy 1: Implement water & wastewater rates and charges that are legal, fair, and equitable through a cost-of-service study
- Strategy 2: Develop a Long-Range Financing Plan that sets forth the long-term funding needs of Water Services
- Strategy 3: Establish fees that cover the cost of service, ensuring the utility meets regulatory requirements
- Strategy 4: Discuss forward-thinking or new opportunities for how rates and pricing strategies can help achieve goals of the utility or City



Financial Planning Scenarios Defined

- Scenario 1: Consumer Price Index (CPI) Increase
 - Annual rate adjustments equal annual water and sewer rate CPI (July 2022 – July 2023)
 - 5% annual rate adjustments forecasted from FY25-FY33 to maintain target reserve balances, O&M levels, & capital project investments
- Scenario 2: Smooth Catch-up
 - 8.5% annual rate adjustments from FY25-FY29 to align with inflation since last rate increase (2020)
 - 5% annual rate adjustments forecasted from FY30-FY33 to maintain target reserve balances, O&M levels, & capital project investments
- Scenario 3: Full Funding
 - Rate adjustments needed to fully fund all O&M and capital needs
 - Identifies the difference between improvements and investments needed by Water Services and historical funding available



Key Financial Assumptions & Adjustments

WATER, RECLAIMED WATER, & WASTEWATER STUDY

Assumption	Details
Growth	1.00% annually*
Reserve Targets	90 days O&M
Debt Service Coverage	Target: 1.25x Minimum: 1.20x
Base Operating Budget	“Balanced” O&M budget adjusted to reflect average spending rate, carry-forwards, one-time requests, and operating capital
Cost Escalation Factors	Default inflation factor at 3.5% Chemicals, Utilities, Equipment Maintenance at 6.00%
CIP Escalation	Approved CIP, Informed CIP, and Unfunded CIP adjusted for 4% annual cost escalation beginning in FY2025
Funding Sources	Rate revenues, fund balances, debt, grant funding, and capacity fees
Grant Funding	\$25.9M in Water; \$3.2M in Reclaimed Water
Major Projects	Water – Red Gap Ranch Pipeline Design & Construction Wastewater – Wildcat Hill Wastewater Treatment Plant Design & Expansion

*Reclaimed Water Fund assumes 0% annual growth



Capital Improvement Program Levels (\$M)

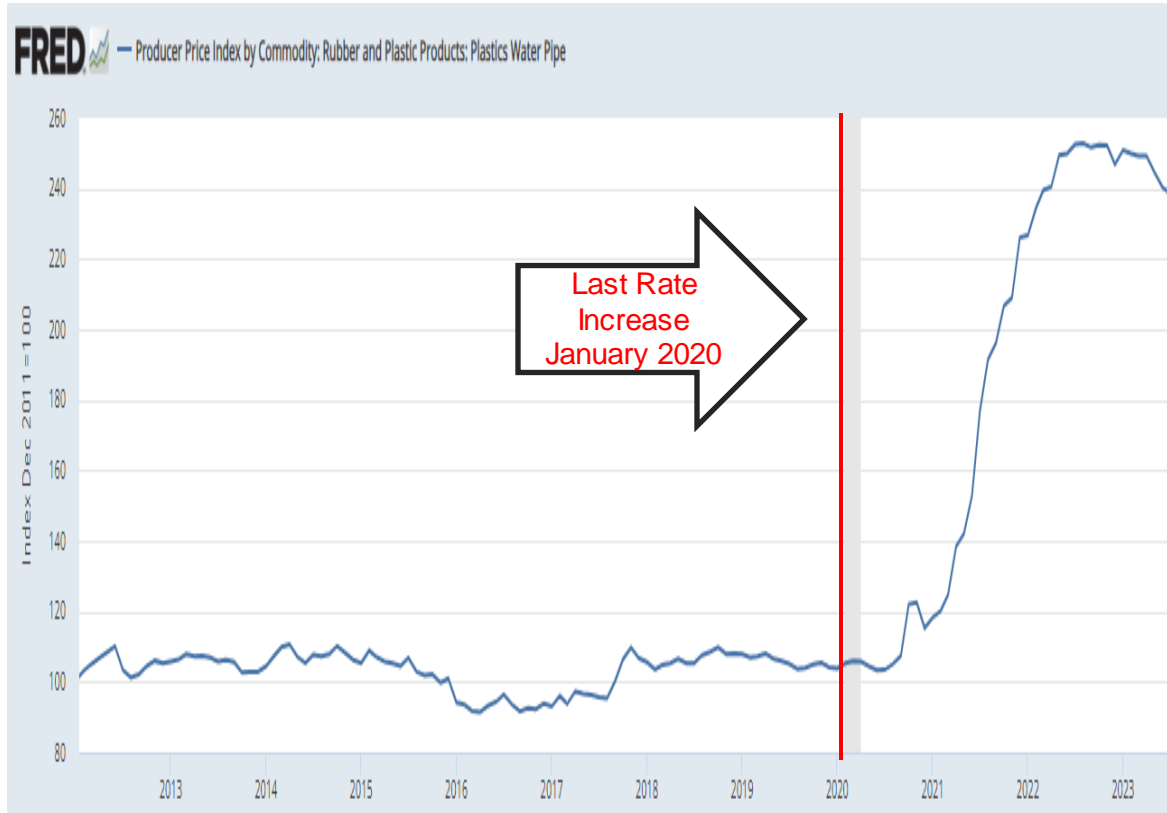
		Approved CIP ¹	Approved + Informed CIP ²	Approved + Informed + Unfunded CIP ³
Water	<i>Annual Average</i>	\$13.1	\$19.7	\$20.8
	<i>Total CIP Funding FY24 – FY33</i>	\$130.7	\$196.9	\$207.9
Wastewater	<i>Annual Average</i>	\$8.7	\$10.0	\$12.5
	<i>Total CIP Funding FY24 – FY33</i>	\$86.7	\$99.5	\$124.6
Reclaimed	<i>Annual Average</i>	\$0.5	\$3.3	\$6.9
	<i>Total CIP Funding FY24 – FY33</i>	\$5.2	\$32.8	\$68.6

1. Conforms to anticipated revenues projected by City of Flagstaff (partial CIP list)
2. From complete CIP list informed by Master Plan recommended projects (e.g., Water Master Plan, Sewer Master Plan)
3. Project needs without identified funding source

CIP Handouts

Operational Cost Inflation: 2020-2024

WATER, RECLAIMED WATER, & WASTEWATER STUDY



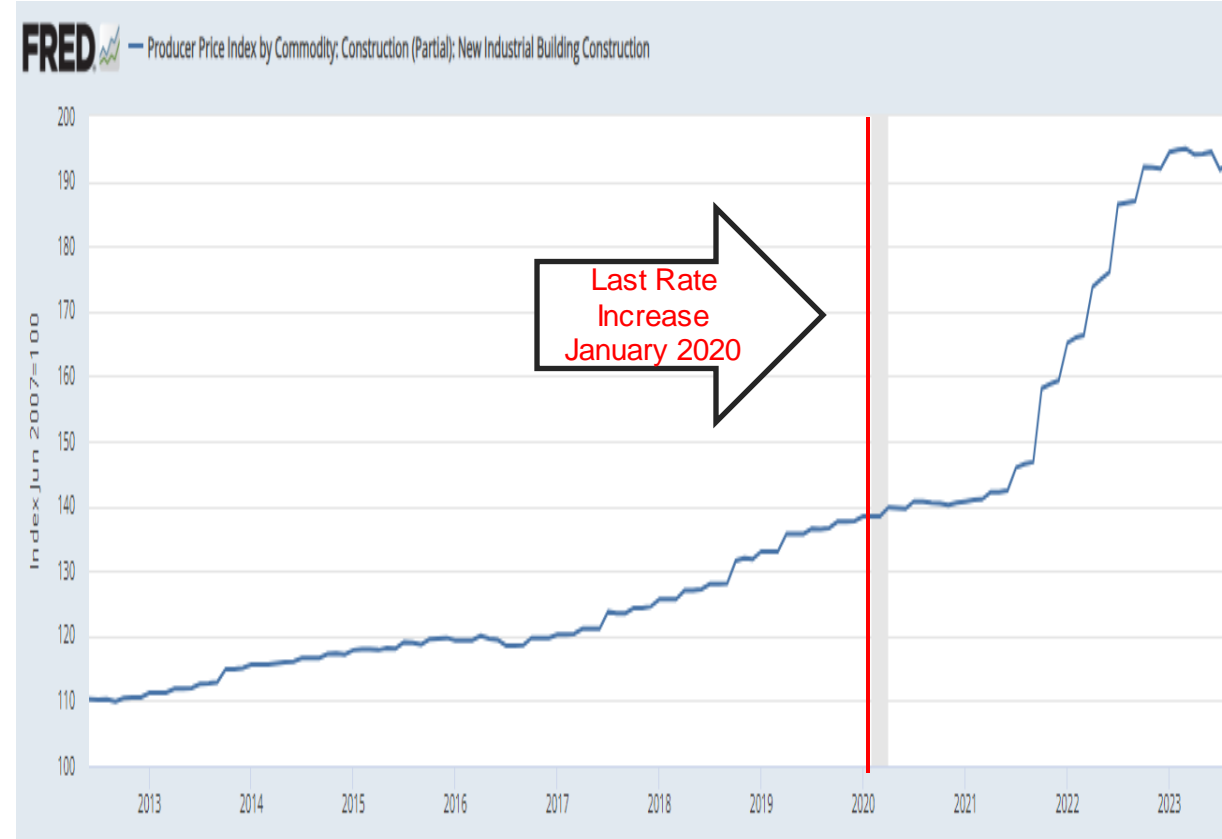
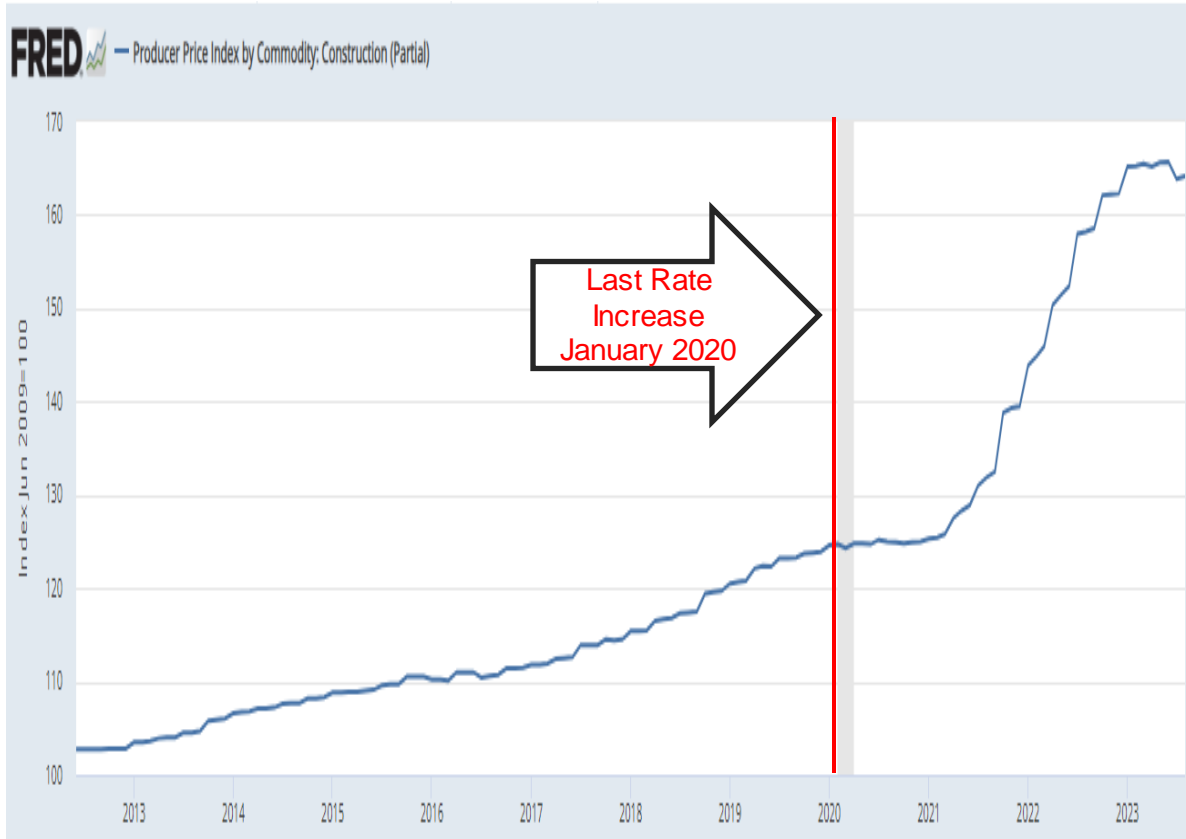
National Commodity Index – Plastic Water Pipe

- Up 132% from Jan 2020 to June 2023

National Water Treatment Chemical Index

- Up 31% from Jan 2020 to June 2023

Construction Cost Inflation: 2020-2024



National Cost Index – Construction

- **General Construction - Up 33% from Jan 2020 to June 2023**
- **Industrial Construction - Up 40% from Jan 2020 to June 2023**

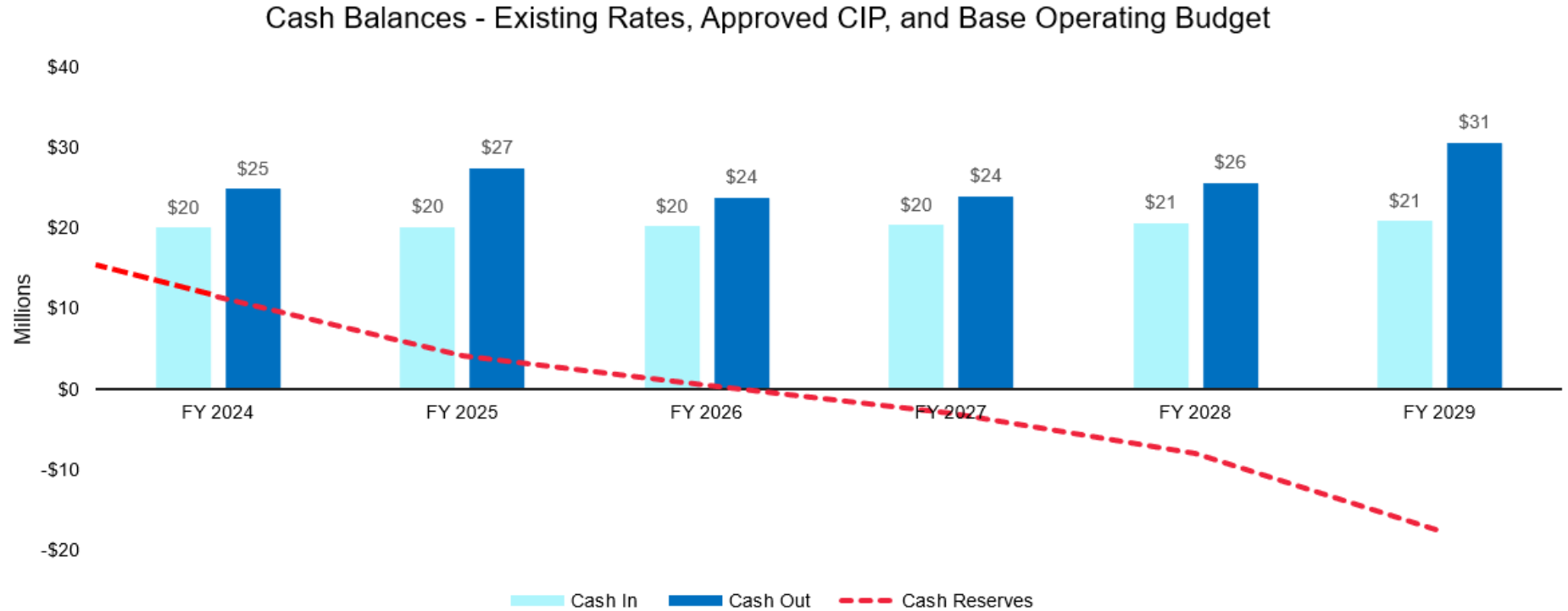


Water Fund



Current 5-Year Financial Outlook - Water

Exhaust Cash Reserves by FY26 Due to ~\$5M Annual Funding Gap



Differences from Balanced 5-Year Plan:

1. Base operating budget is adjusted to reflect average spending levels, carry-forwards, one-time requests, and operating capital.
2. 4% annual cost escalation to Approved CIP.
3. FY23 Ending Cash Balance excludes funds restricted for capacity improvements.



Water Fund Scenario Results Summary

Scenarios	FY24-FY33 CIP Funding Level (\$M)	FY24	FY25	FY26	FY27	FY28	FY29	FY30-FY33 Annual
Consumer Price Index (CPI)	\$120	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Smooth Catch-Up	\$152	0.0%	8.5%	8.5%	8.5%	8.5%	8.5%	5.0%
Full Funding	\$208	0.0%	20.0%	20.0%	15.0%	10.0%	10.0%	5.0%

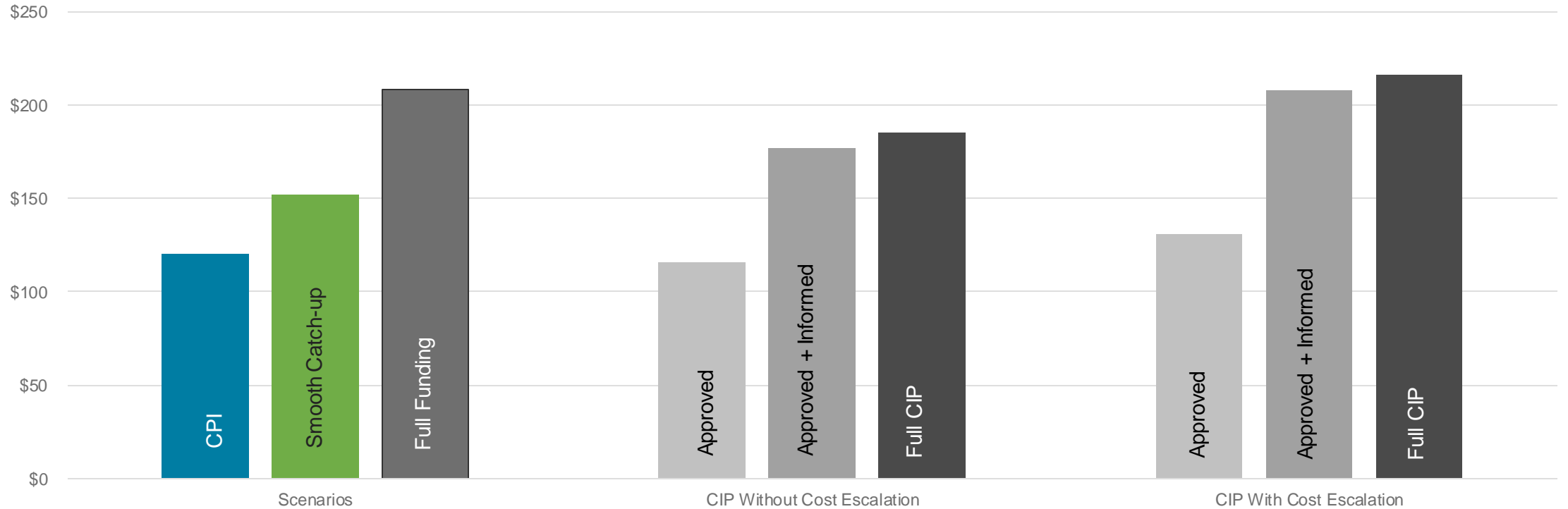


Water Fund Scenario Results Summary: 3/4" Typical Water Bill Impact (4KGAL), FY24-33

Scenarios	FY24-FY33 CIP Funding Level (\$M)	FY24	FY25	FY26	FY27	FY28	FY29	FY30-FY33 Total
Consumer Price Index (CPI)	\$120	\$0.00	\$1.54	\$1.62	\$1.71	\$1.79	\$1.88	\$8.47
Smooth Catch-Up	\$152	\$0.00	\$2.62	\$2.85	\$3.08	\$3.35	\$3.62	\$9.99
Full Funding	\$208	\$0.00	\$6.19	\$7.43	\$6.66	\$5.12	\$5.64	\$13.37



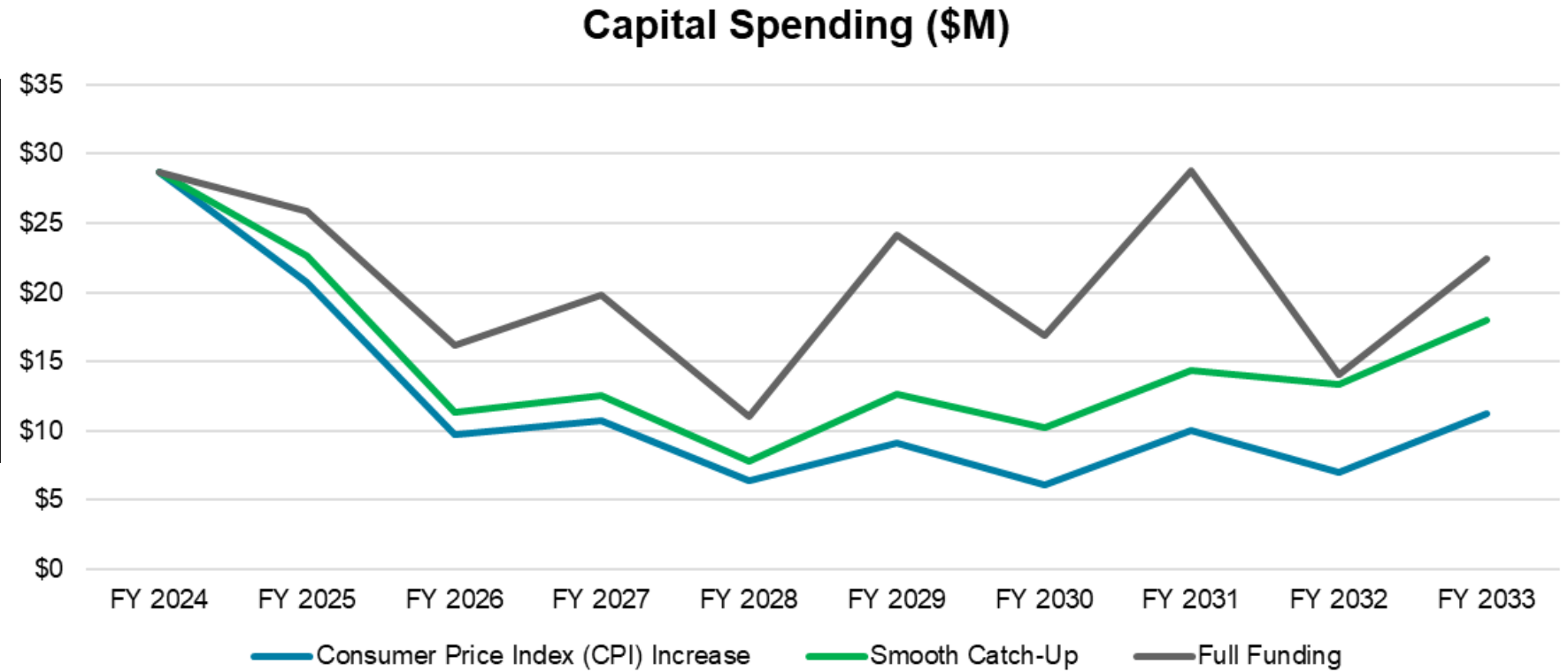
Comparison of Scenario Funding vs 10-year CIP





Water Fund CIP Expenditures FY24-33

Scenarios	FY24-FY33 CIP Funding Level (\$M)
Consumer Price Index (CPI)	\$120
Smooth Catch-Up	\$152
Full Funding	\$208

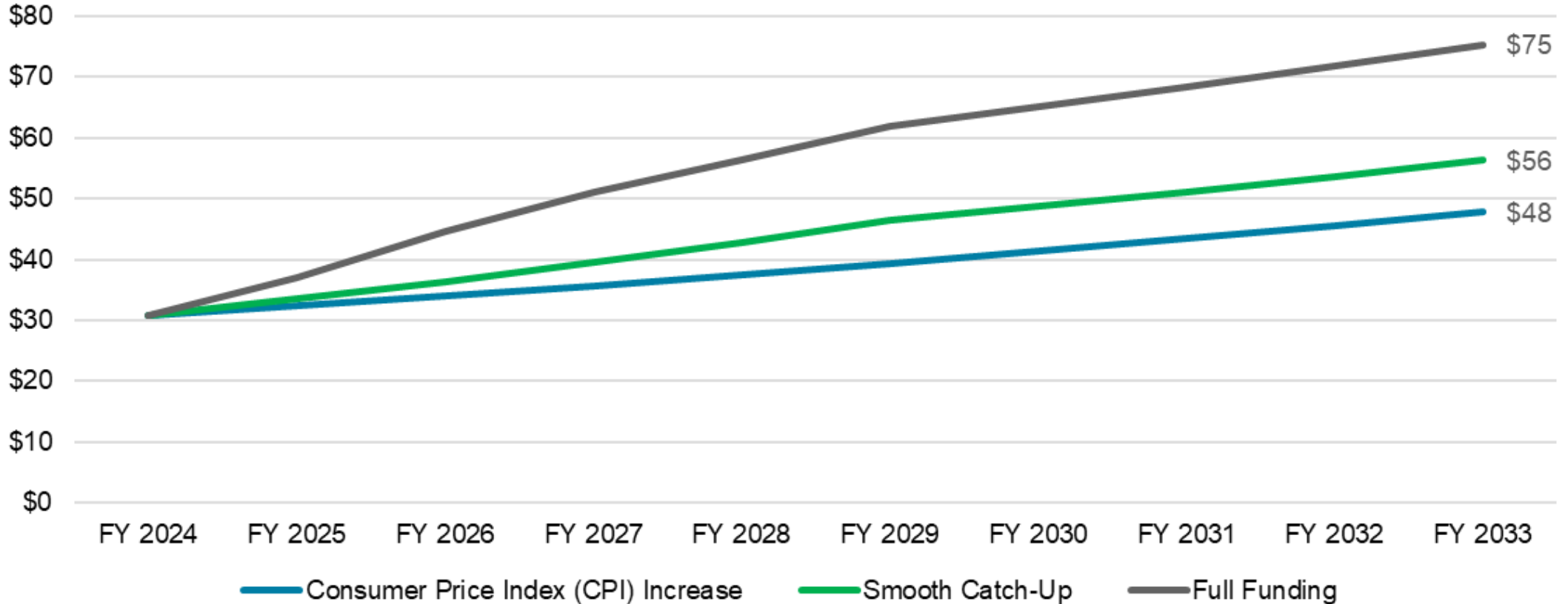




Residential, 3/4" Typical Water Bill (4KGAL), FY24-33

WATER, RECLAIMED WATER, & WASTEWATER STUDY

Residential, 3/4" Typical Bill (4 KGAL)



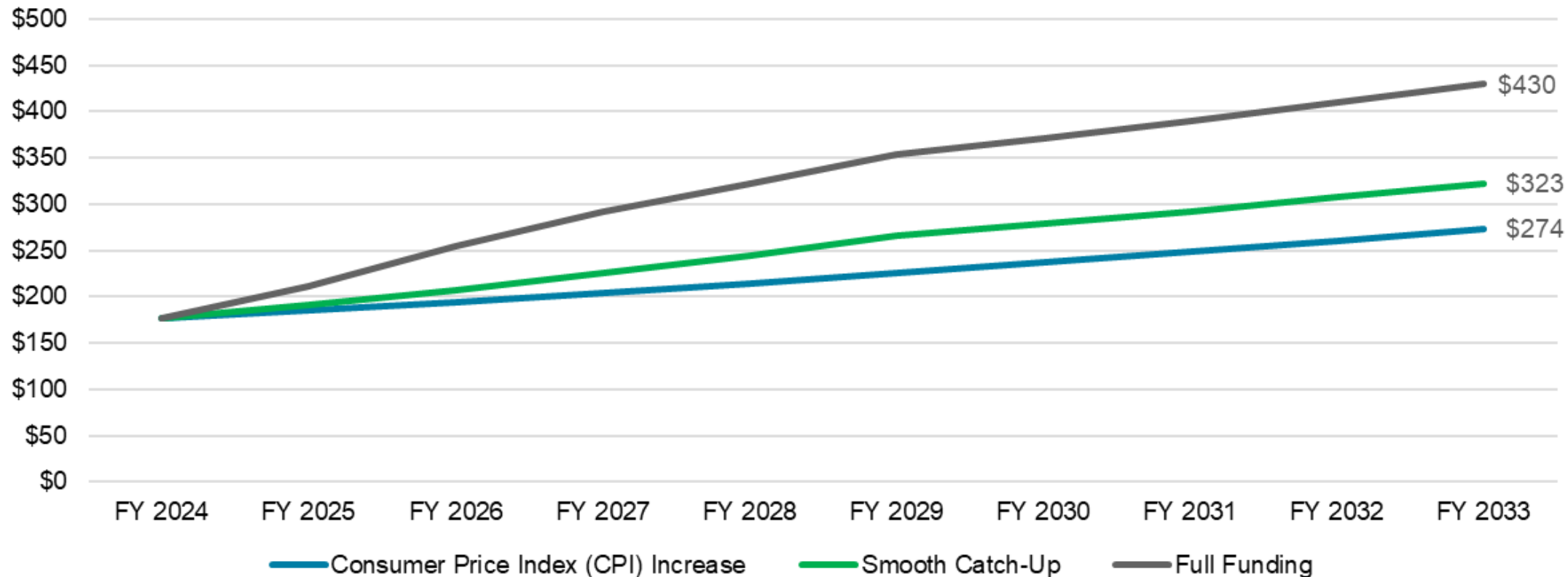
*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service & rate design tasks.



Commercial, 2" Typical Water Bill (30KGAL), FY24-33

WATER, RECLAIMED WATER, & WASTEWATER STUDY

Commercial, 2" Typical Bill (30 KGAL)

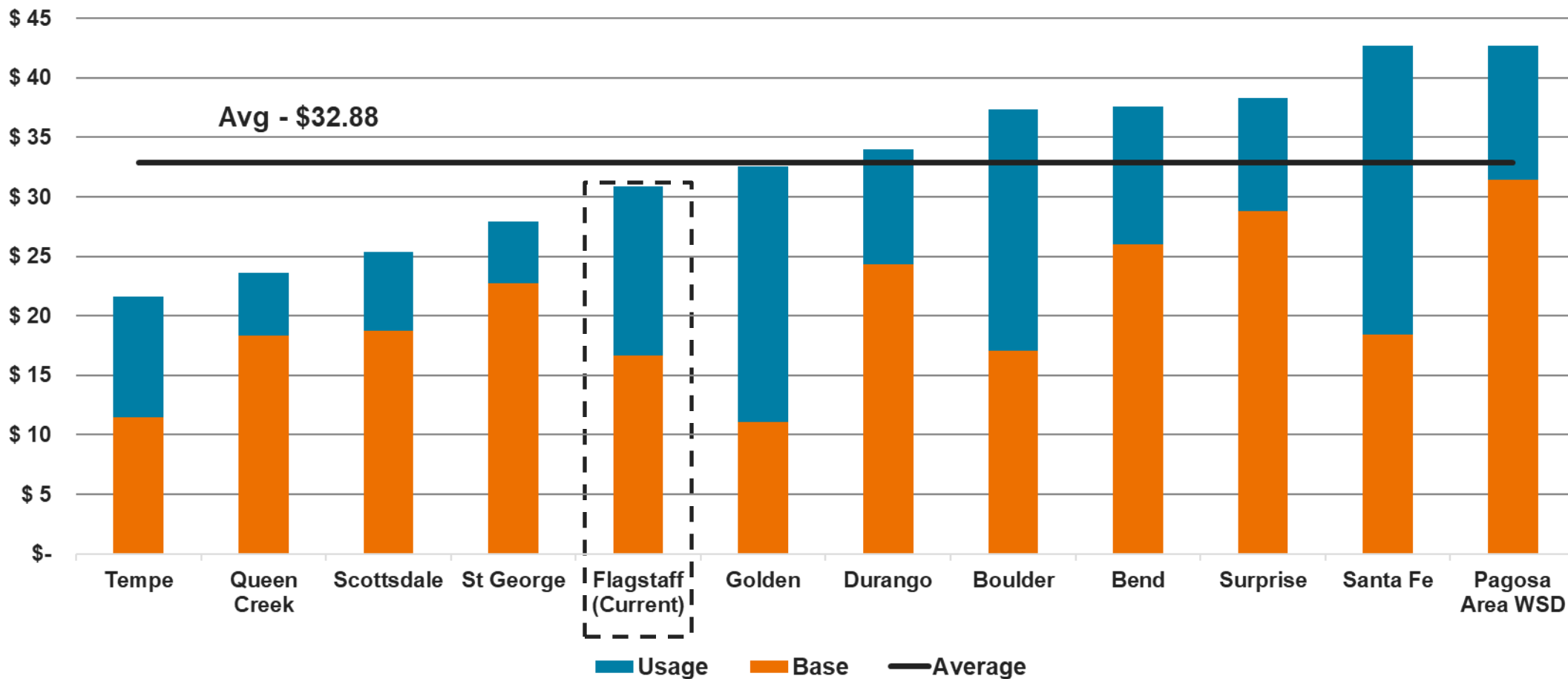


*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service & rate design tasks.



Residential Rate Comparisons - Water

FY 2023 Monthly Residential Water Base and Usage Rate Survey at 4,000 gallons

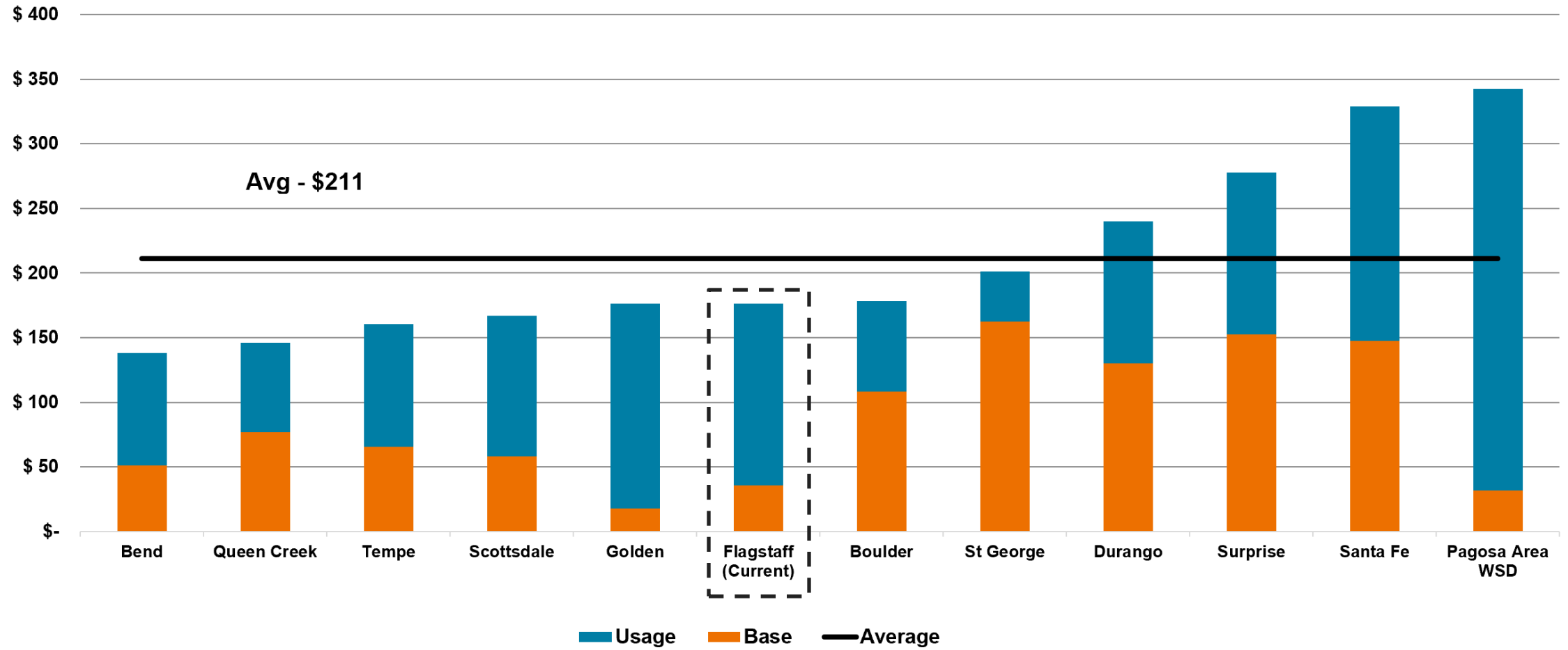




Commercial Rate Comparisons - Water

FY 2023 Monthly Commercial Water Base and Usage Rate Survey at 30,000 gallons

WATER, RECLAIMED WATER, & WASTEWATER STUDY





Discussion



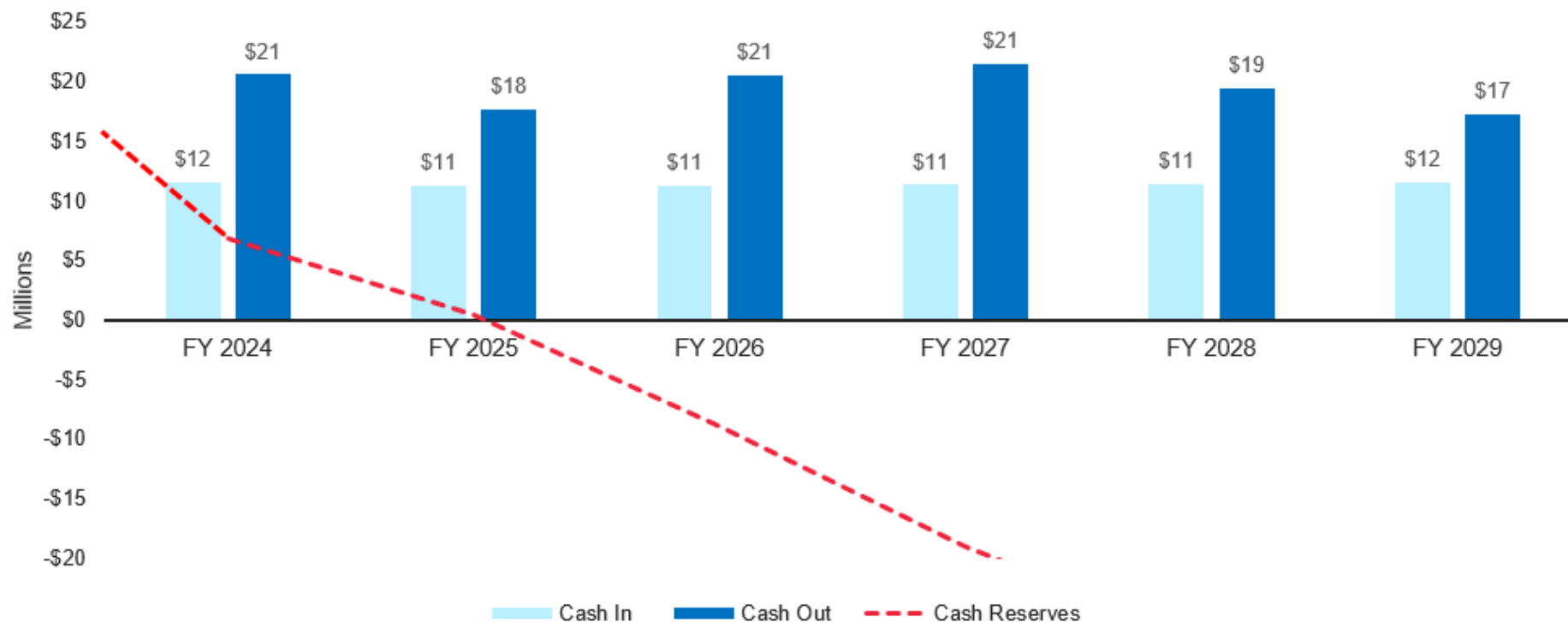
Wastewater Fund



Current 5-Year Financial Outlook - Wastewater

Exhaust Cash Reserves by FY25 Due to ~\$9M Funding Gap

Cash Balances - Existing Rates, Approved CIP, and Base Operating Budget



Differences from Balanced 5-Year Plan:

1. Base operating budget is adjusted to reflect average spending levels, carry-forwards, one-time requests, and operating capital.
2. 4% annual cost escalation to Approved CIP.
3. FY23 Ending Cash Balance excludes funds restricted for capacity improvements.



Wastewater Fund Scenario Results Summary

Scenarios	FY24-FY33 CIP Funding Level (\$M)	FY24	FY25	FY26	FY27	FY28	FY29	FY30-FY33 Annual
Consumer Price Index (CPI)	\$72	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Smooth Catch-Up	\$90	0.0%	8.5%	8.5%	8.5%	8.5%	8.5%	5.0%
Full Funding	\$125	0.0%	70.0%	70.0%	0.0%	0.0%	0.0%	0.0%

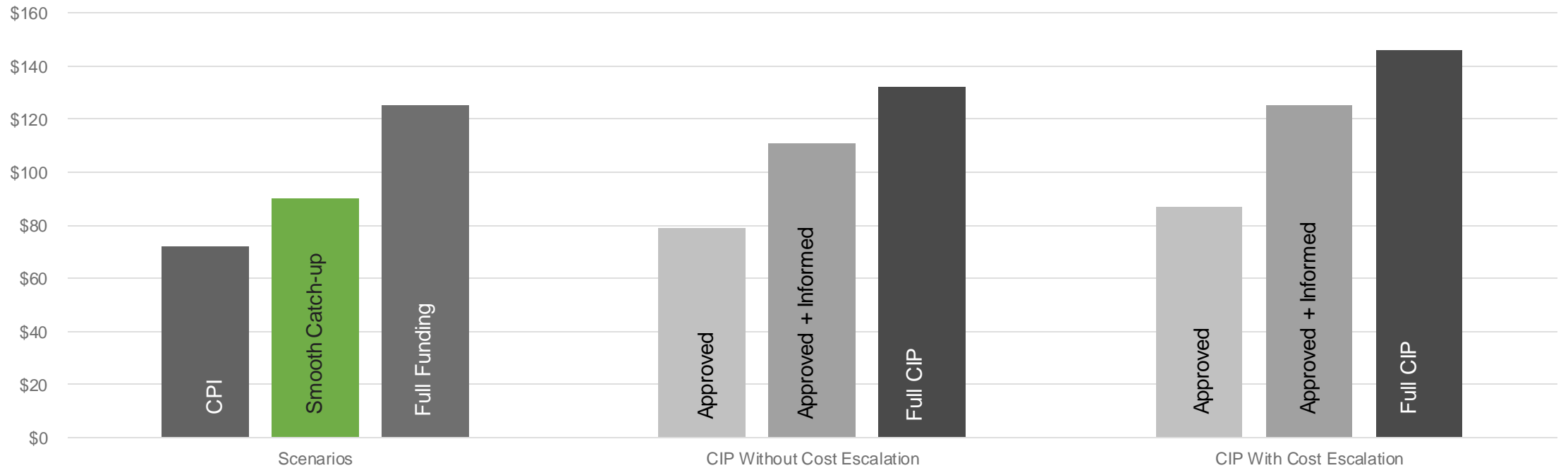


Wastewater Fund Scenario Results Summary: 3/4" Typical Wastewater Bill Impact (4KGAL), FY24-33

Scenarios	FY24-FY33 CIP Funding Level (\$M)	FY24	FY25	FY26	FY27	FY28	FY29	FY30-FY33 Total
Consumer Price Index (CPI)	\$72	\$0.00	\$1.08	\$1.12	\$1.20	\$1.24	\$1.32	\$5.92
Smooth Catch-Up	\$90	\$0.00	\$1.80	\$1.96	\$2.12	\$2.32	\$2.52	\$6.88
Full Funding	\$125	\$0.00	\$15.00	\$25.48	\$0.00	\$0.00	\$0.00	\$0.00



Comparison of Scenario Funding vs 10-year CIP

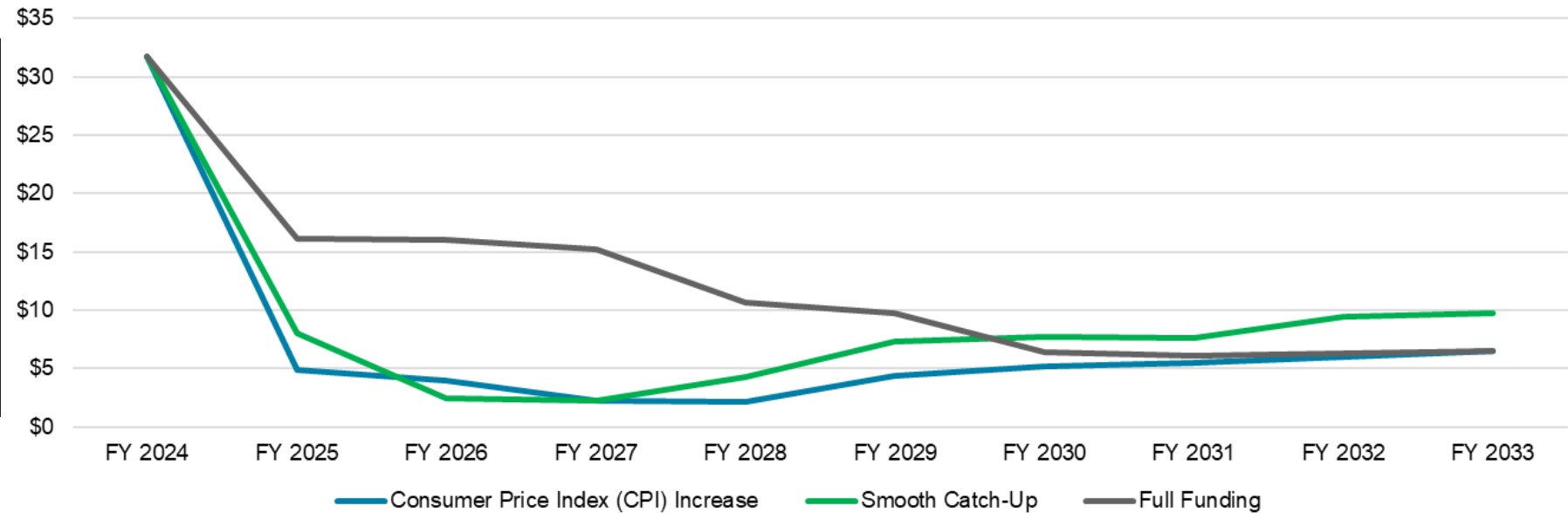




Wastewater Fund CIP Expenditures FY24-33

Capital Spending (\$M)

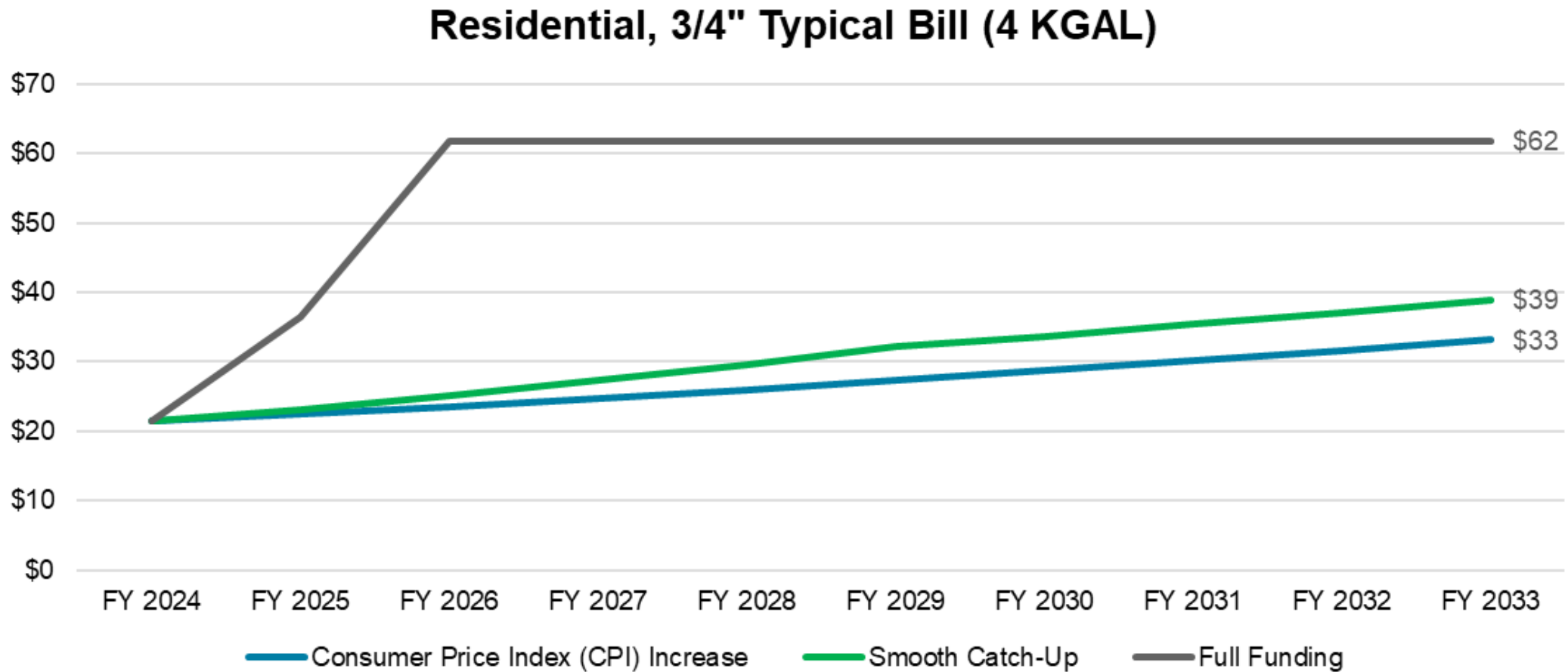
Scenarios	FY24-FY33 CIP Funding Level (\$M)
Consumer Price Index (CPI)	\$72
Smooth Catch-Up	\$90
Full Funding	\$125





Residential, 3/4" Typical Wastewater Bill (4KGAL), FY24-33

WATER, RECLAIMED WATER, & WASTEWATER STUDY

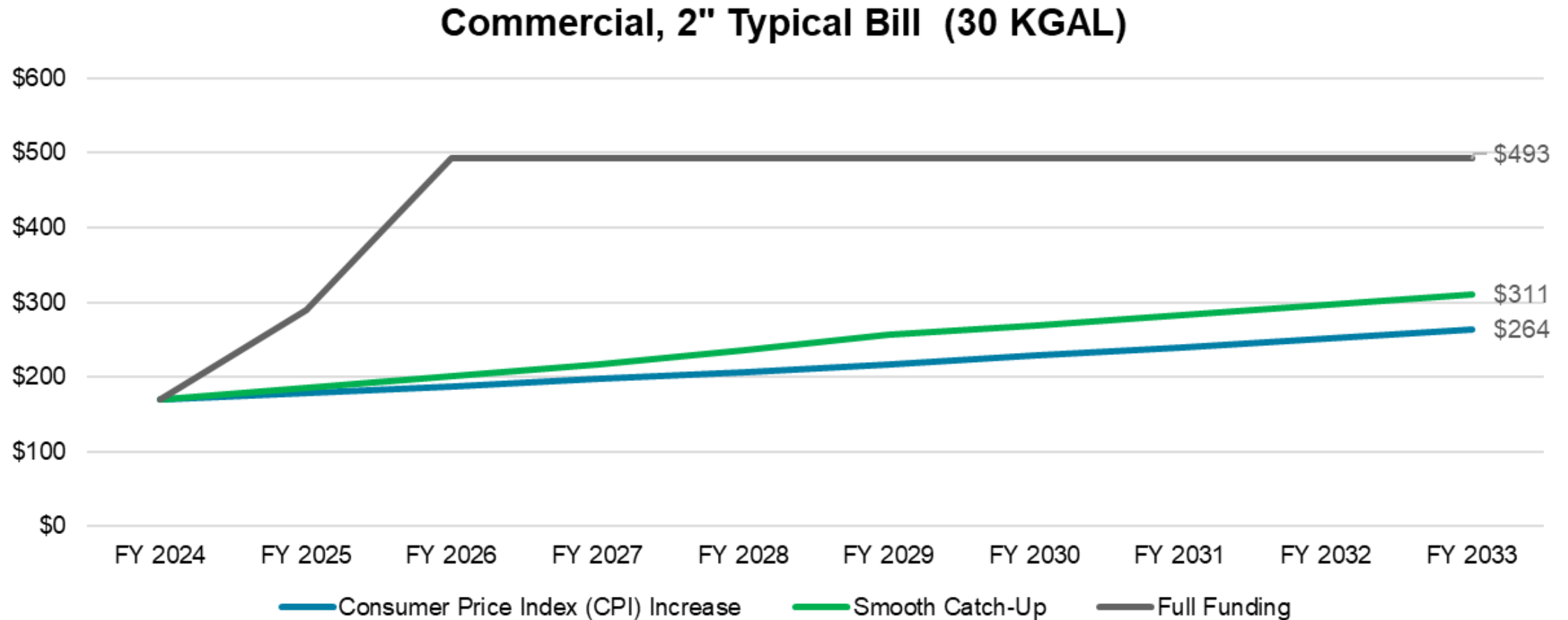


*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service & rate design tasks.



Wastewater Charts – Commercial, 2” Typical Bill (30KGAL), FY24-33

WATER, RECLAIMED WATER, & WASTEWATER STUDY



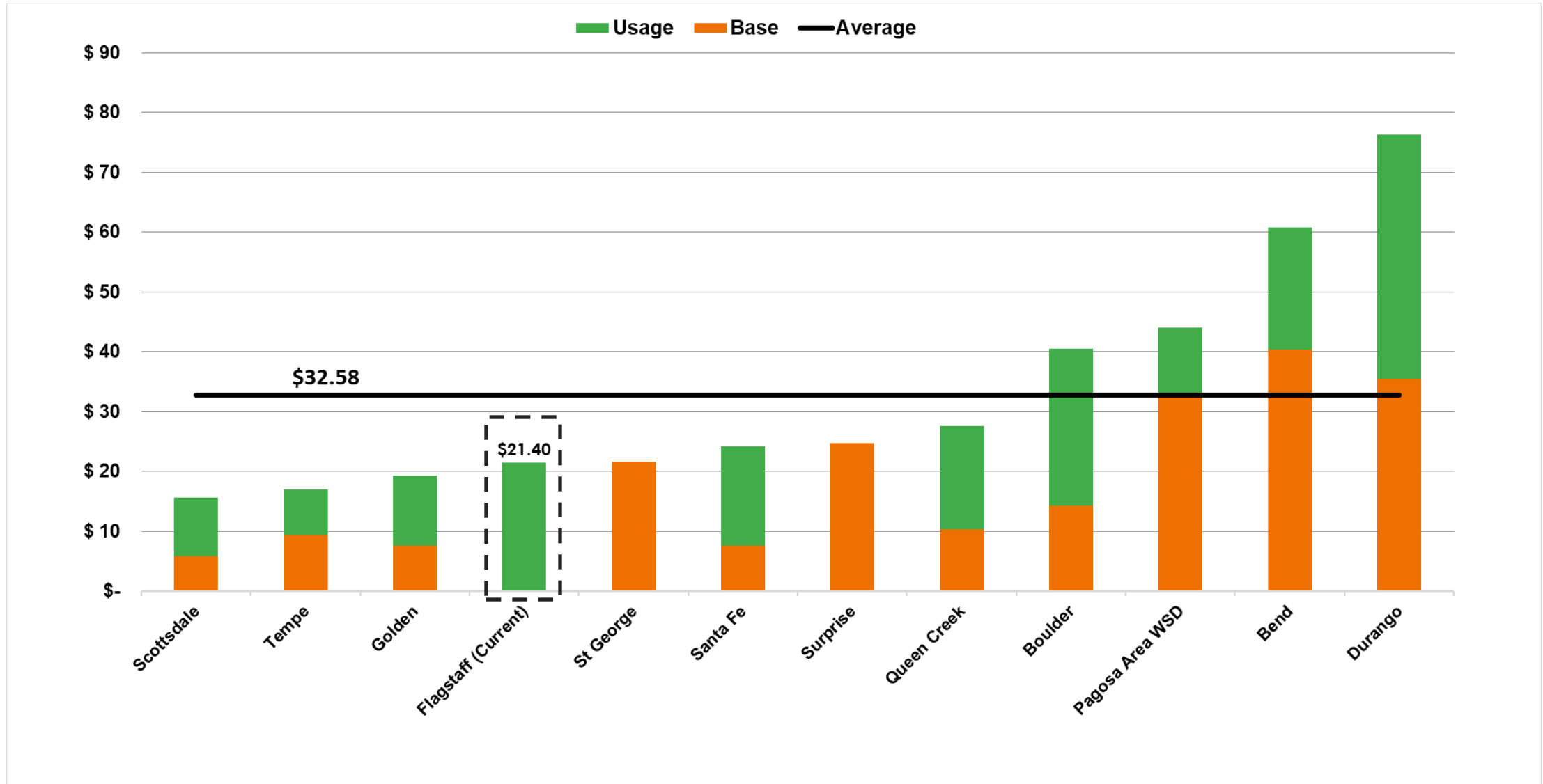
*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service & rate design tasks.



Residential Rate Comparisons – Wastewater

FY 2023 Monthly Residential Wastewater Base and Usage Rate Survey at 4,000 gallons

WATER, RECLAIMED WATER, & WASTEWATER STUDY

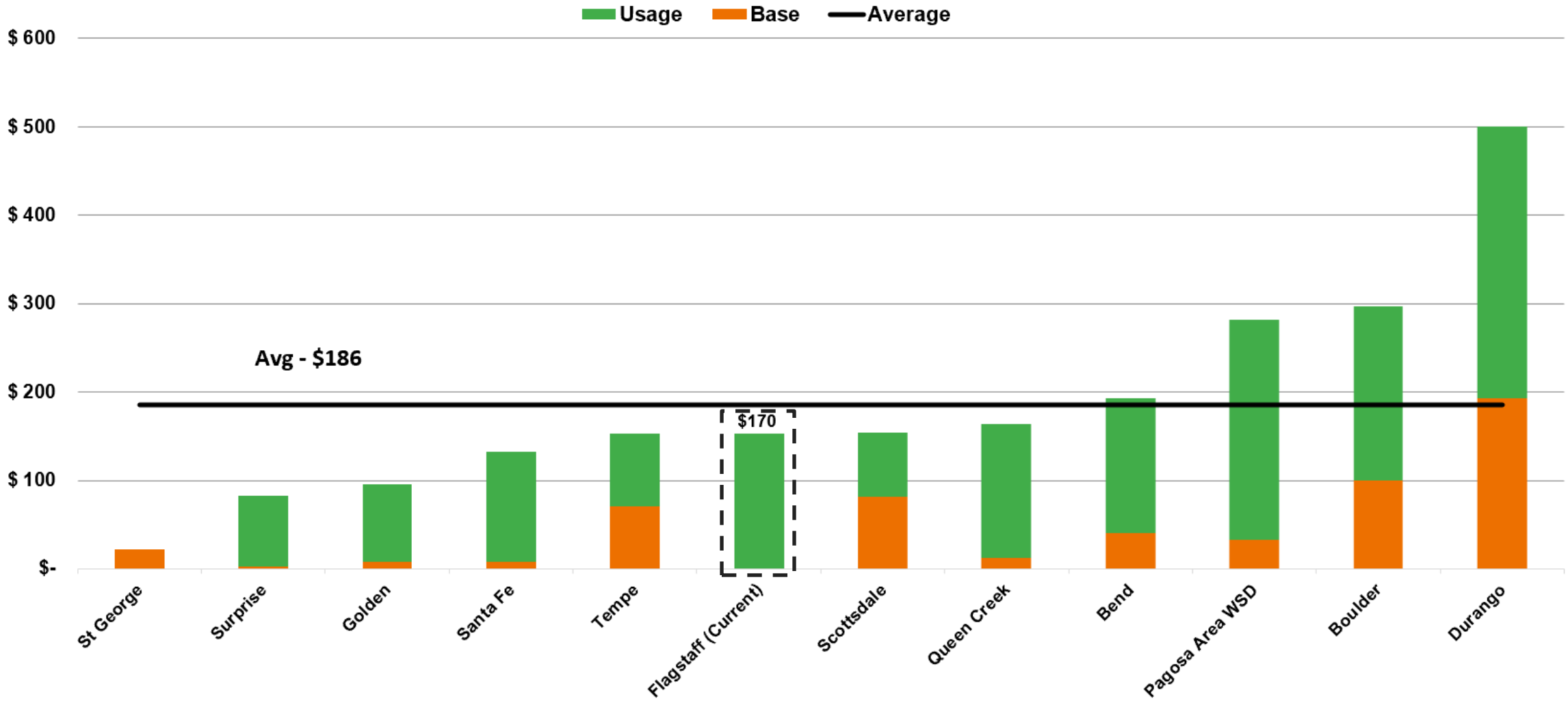




Commercial Rate Comparisons – Wastewater

FY 2023 Monthly Commercial Wastewater Base and Usage Rate Survey at 30,000 gallons

WATER, RECLAIMED WATER, & WASTEWATER STUDY





Discussion



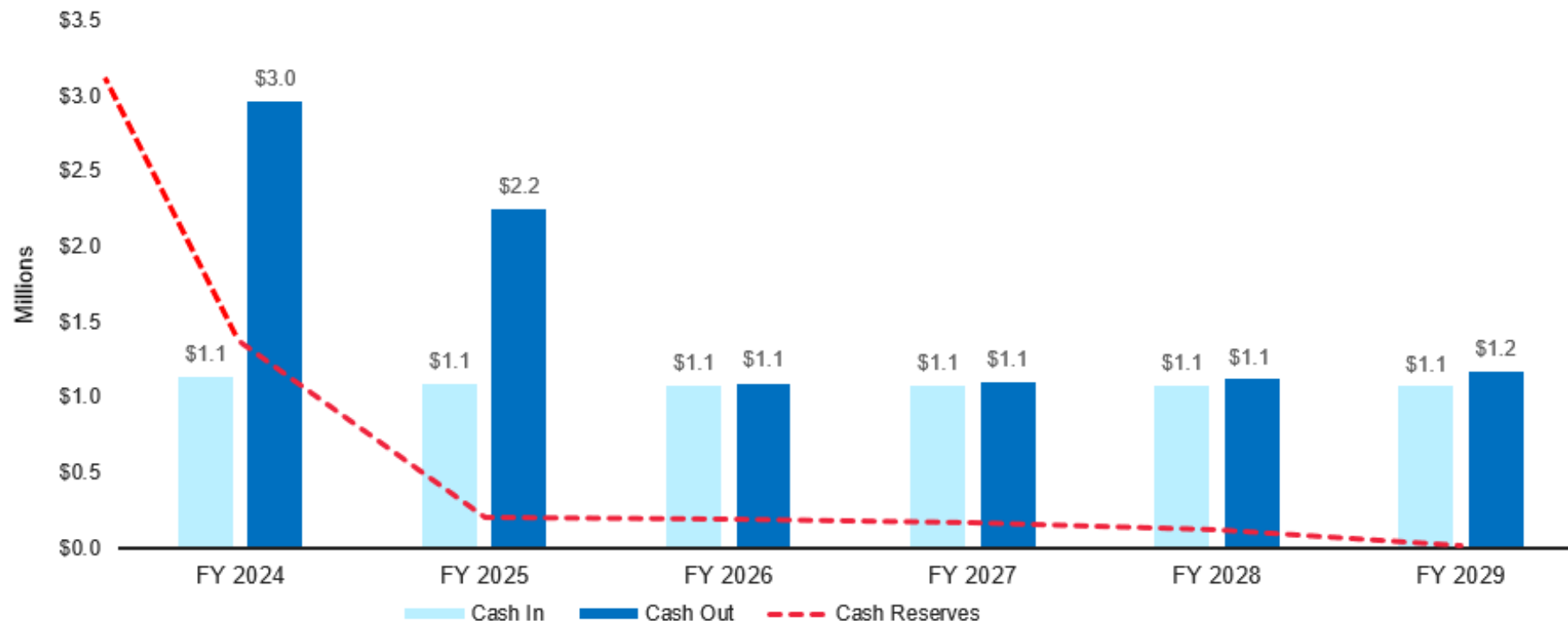
Reclaimed Water Fund



Current 5-Year Financial Outlook – Reclaimed Water

Cash Reserves Exhausted in FY29
Due to ~\$0.5M Funding Gap

Cash Balances - Existing Rates, Approved CIP, and Base Operating Budget



Differences from Balanced 5-Year Plan:

1. Base operating budget is adjusted to reflect average spending levels, carry-forwards, one-time requests, and operating capital.
2. 4% annual cost escalation to Approved CIP.



Reclaimed Water Fund Scenario Results Summary

Scenarios	FY24-FY33 CIP Funding Level (\$M)	FY24	FY25	FY26	FY27	FY28	FY29	FY30-FY33 Annual
Consumer Price Index (CPI)	\$7	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Smooth Catch-Up	\$8	0.0%	8.5%	8.5%	8.5%	8.5%	8.5%	5.0%
Full Funding	\$69	0.0%	450.0%	105.0%	38.0%	0.0%	0.0%	0.0%

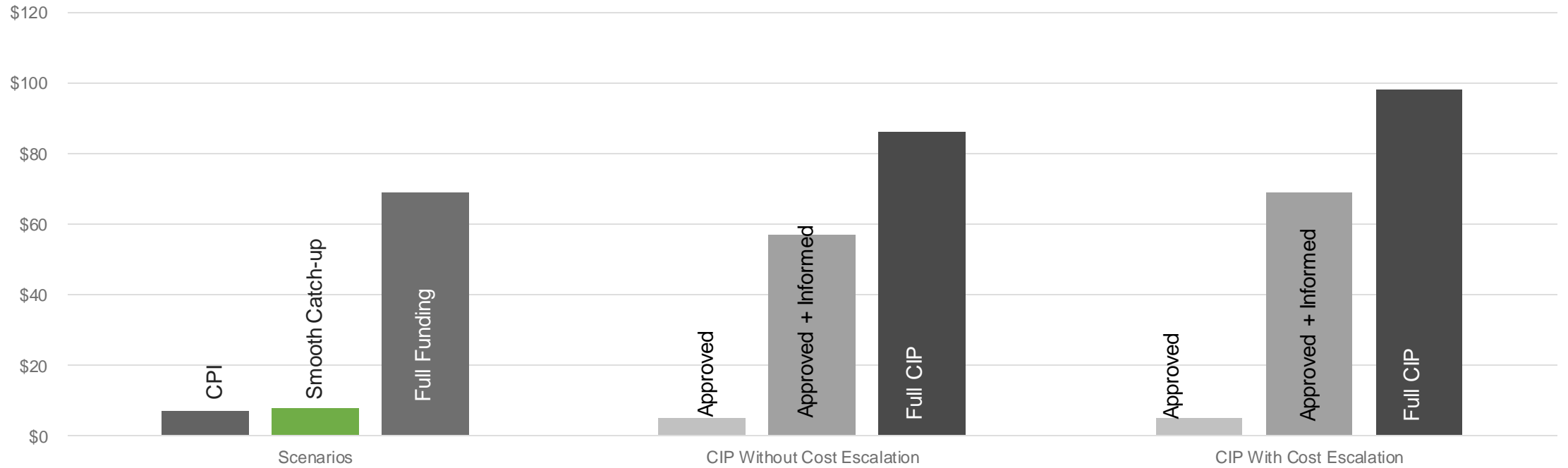


Reclaimed Water Fund Scenario Results Summary: 2” Typical Commercial Bill Impact (73KGAL), FY24-33

Scenarios	FY24-FY33 CIP Funding Level (\$M)	FY24	FY25	FY26	FY27	FY28	FY29	FY30-FY33 Total
Consumer Price Index (CPI)	\$7	\$0.00	\$7.30	\$8.03	\$8.03	\$8.76	\$9.49	\$41.61
Smooth Catch-Up	\$8	\$0.00	\$13.14	\$13.87	\$15.33	\$16.79	\$18.25	\$49.64
Full Funding	\$69	\$0.00	\$683.28	\$876.73	\$650.43	\$0.00	\$0.00	\$0.00



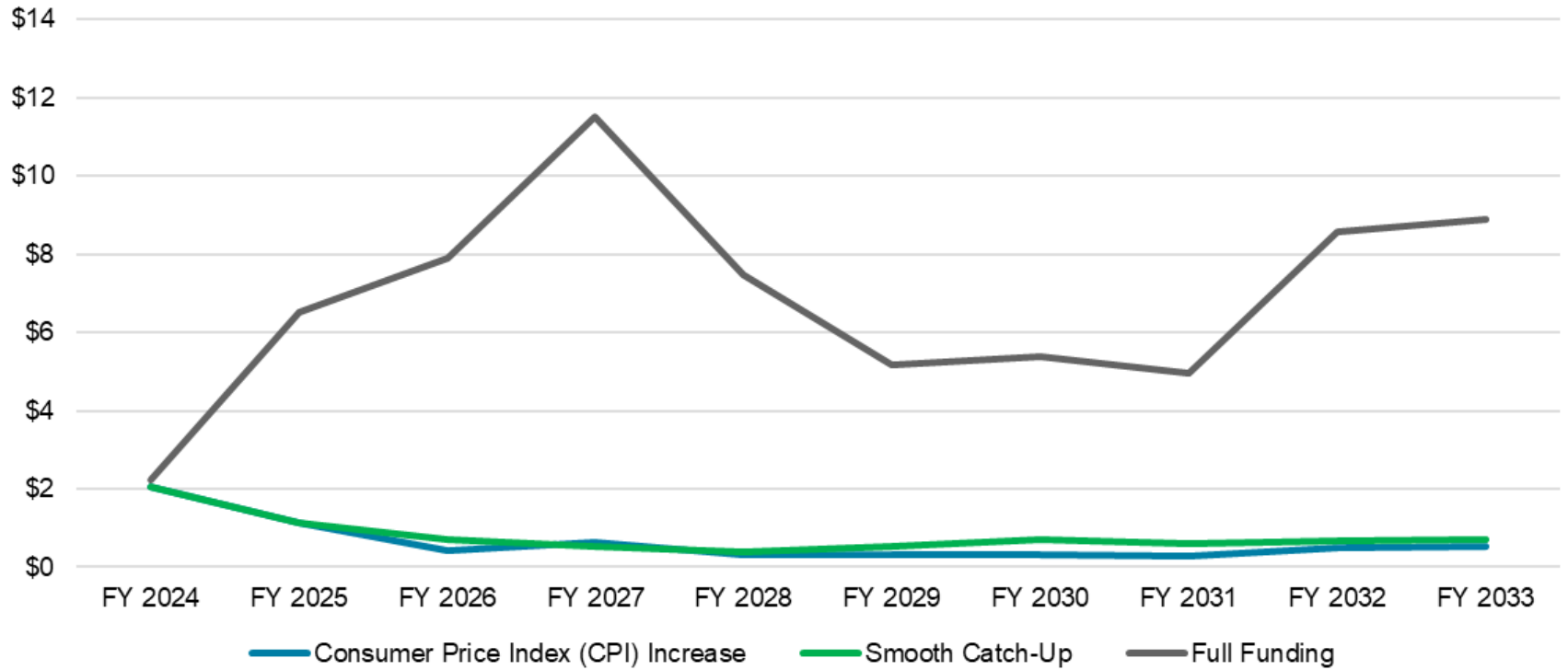
Comparison of Scenario Funding vs 10-year CIP





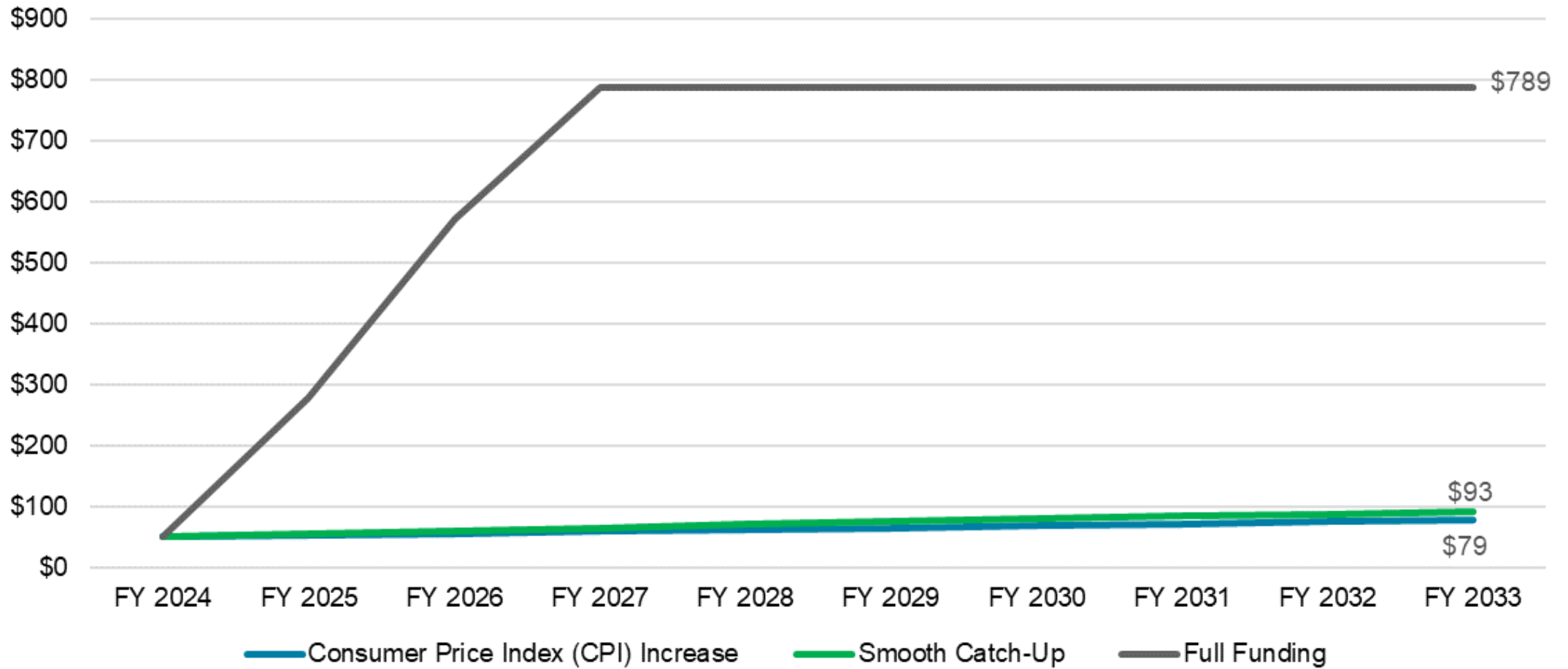
Reclaimed Water CIP Expenditures FY24-33

Scenarios	FY24-FY33 CIP Funding Level (\$M)
Consumer Price Index (CPI)	\$7
Smooth Catch-Up	\$8
Full Funding	\$69





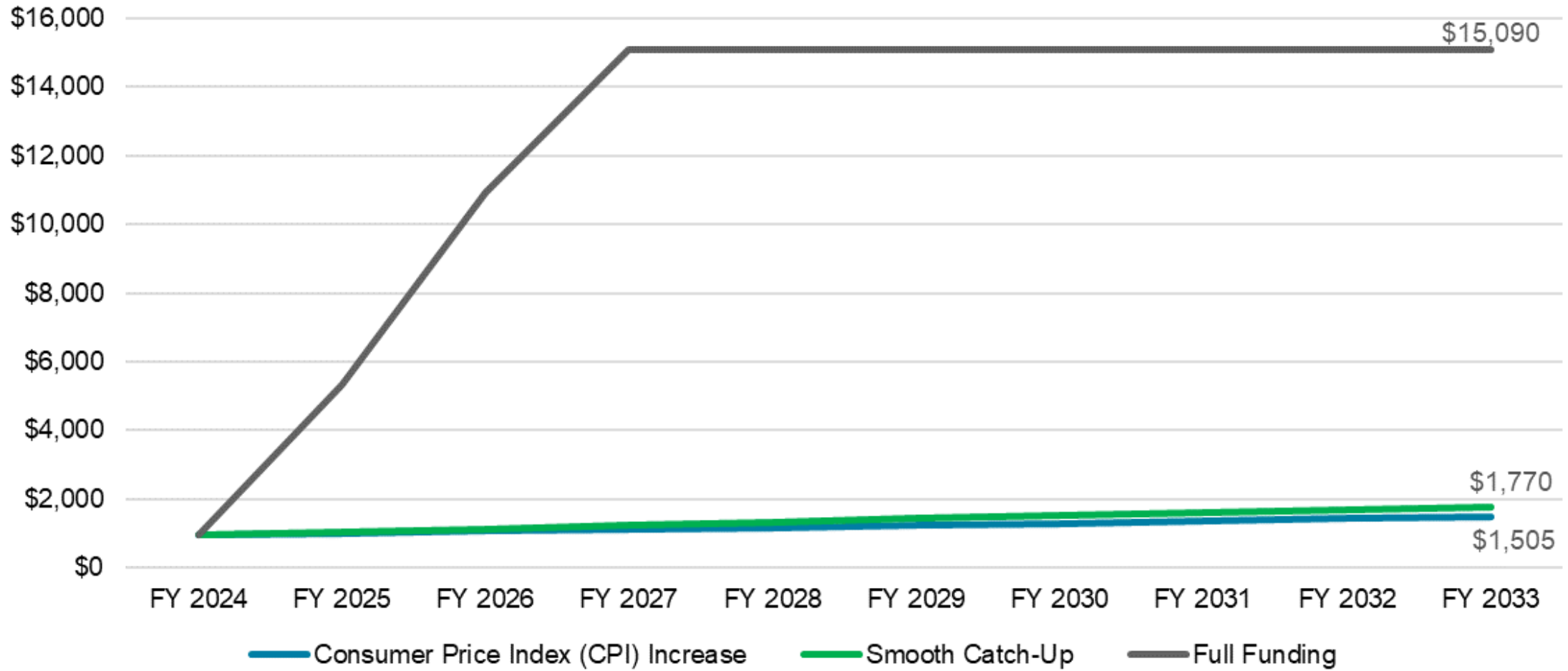
Reclaimed Charts – Golf Course, 2” Typical Bill (28KGAL), FY24-33



*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service and rate design tasks.



Reclaimed Charts – 4” Typical Bill (500KGAL), FY24-33

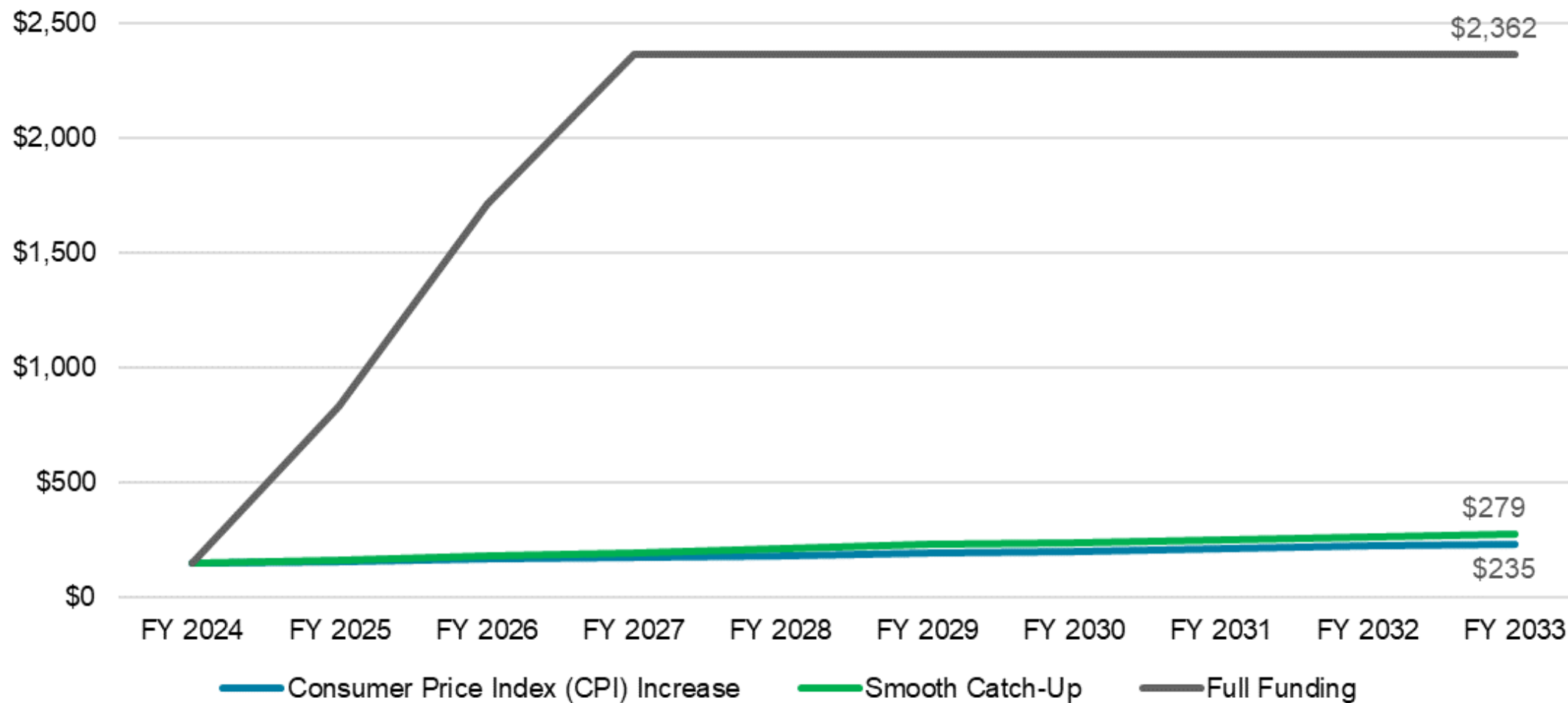


*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service and rate design tasks.



Reclaimed Charts – Commercial, 2” Typical Bill (73KGAL), FY24-33

WATER, RECLAIMED WATER, & WASTEWATER STUDY



*Typical Bill calculations reflect across-the-board increases which may differ across customer classes after cost-of-service and rate design tasks.



Discussion



Looking Forward - Key Milestones

	2023							2024									
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Rate Study Begins	█																
Monthly Updates to Water Commission	█	█	█	█	█	█	█	█	█	█	█						
Review of current rates and budget forecasts	█	█	█	█													
Develop elements of communication program				█	█												
Small group stakeholder roundtables					**												
Future Stakeholder engagement events/opportunities							**	**	**	**		**					
Kick Off meeting with City Council				█													
Monthly Updates to City Council						█	█	█	█								
Work/Study Session with Council and Commission (public invited)						**											
Analysis of all current fees				█	█												
Develop Rate Design to meet community goals					█	█	█										
Develop Draft Rate Study report							█	█									
Present Draft Rate Study to Water Comm and Council									█								
Prepare 2nd Draft of Rate Study to Water Comm and Council										█							
Prepare Final Draft of Rate Study to Water Comm and Council											█						
Final Rate Study Presented to City Council												█					
Presentation of Ordinance to amend rates to Council													█				
Public Hearing on Proposed Rates (1st reading)														█			
Rate Ordinance adoption by City Council															█		
Revised rates become effective																	█

** Planned Community Outreach event



Communications and Outreach





Communications and Outreach

Goals:

1. Educate and Inform
2. Create an effective dialogue
3. Equitable Access





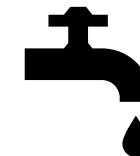
Communications and Outreach

Program Message: Keeping it Clean

(used as a key tag line in headers and banners of all materials)

Messaging elements:

- Fulfilling regulatory requirements.
- Keeping it flowing
- Providing high quality water for residents and businesses
- Reclaiming water for tomorrow
- Investing in efficiency

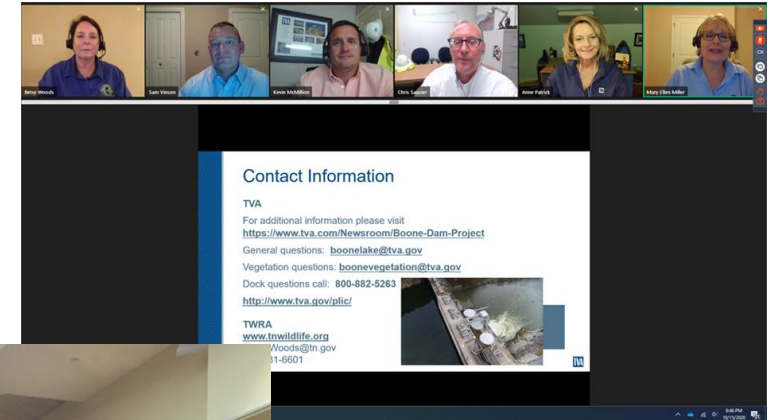




Meeting Platforms

1. Virtual Information Meetings

- Flagstaff at 100% broadband saturation for 25/3 Mbps or greater



2. In-person Meetings

- Presentation Style
- Drop-In



3. Dial-In

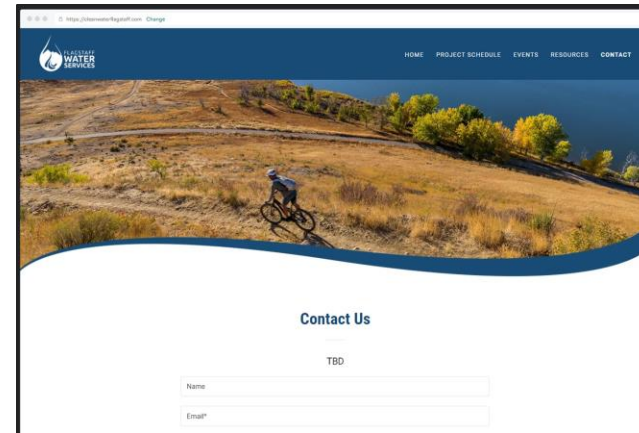
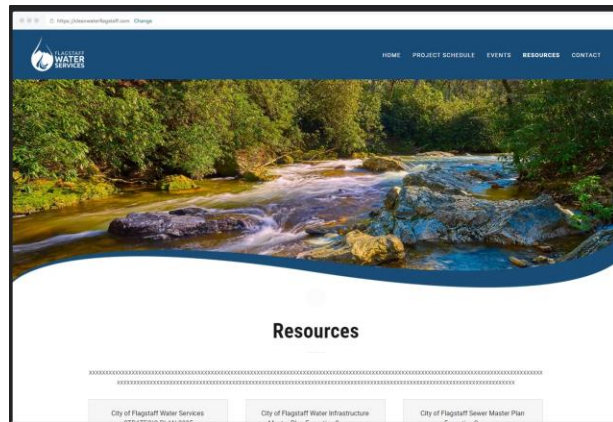
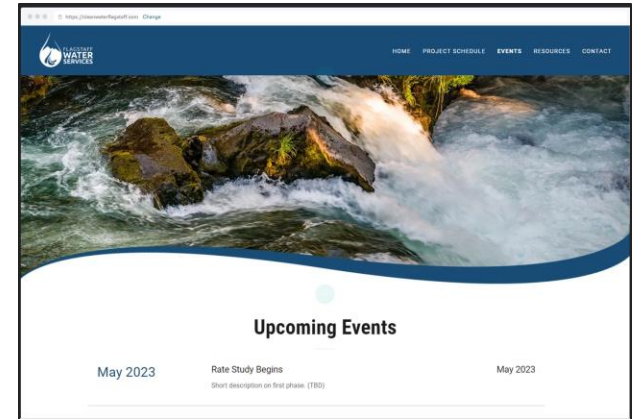
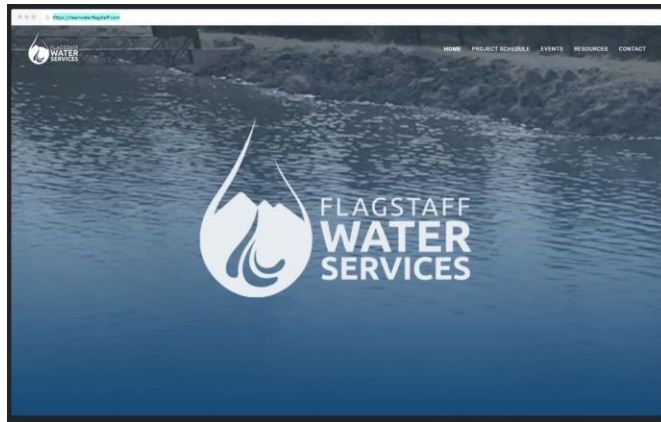
4. ESL Speakers





Project Website

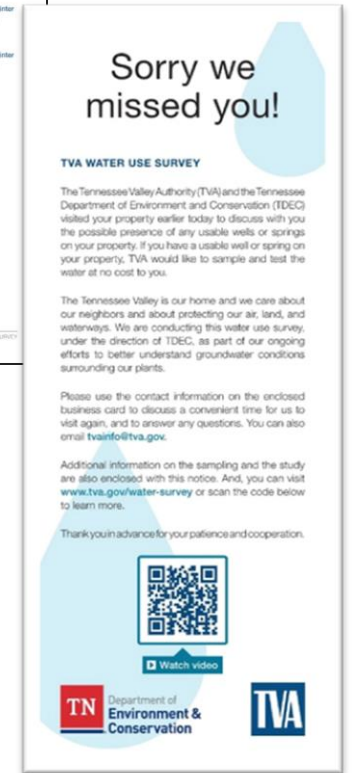
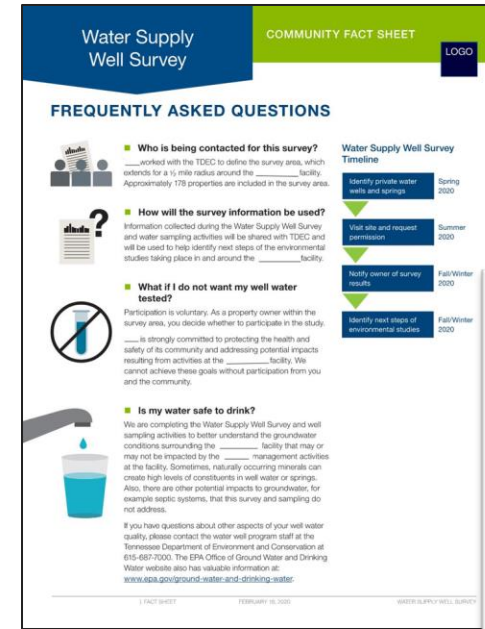
<https://cleanwaterflagstaff.com>





Additional Materials

1. Fact Sheets and Informational handouts
2. Targeted pieces such as door hangers, etc.
3. Short, informational videos.
4. Social Media and Print notices





Upcoming Events

1. Stakeholder Mapping – September 2023

2. Community Roundtables – September 2023

3. Website Launch – October 2023

4. Initial Informational Meeting – Nov. 2023

2024 Water, Reclaimed Water, Wastewater rate study outreach	
Organization Name	Organization Contact
Southside Neighborhood Association	Deb Harris
Sunnyside Neighborhood Association	Coral Evans
La Plaza Vieja Neighborhood Association	Jesse Dominguez or Laura Myers
Townsite Neighborhood Association	Charlie Silver
Townsite Community Land Trust	Ellen Ryan
Railroad Springs HOA (Peaks HOA Management Company)	Marlene Larson, Association Manager
Ponderosa Trails HOA (Sterling Real Estate Management)	Katy Kuhns, Community Manager
Alpine Mesa HOA	David Lemke
Northern Arizona Association of Realtors	Jessica Garard, President
Housing Solutions of Northern Arizona	Devonna McLaughlin, CEO
American Society of Civil Engineers	Jeremy DeGeyter
Northern Arizona Building Association	Julie Hanson
Greater Flagstaff Chamber of Commerce	Board-Joe Galli
Flagstaff Downtown Business Alliance	Terry Madeksza, Executive Director
Flagstaff Independent Business Alliance	Katy Peterson, President
Flagstaff Business Advisors	Wendy Kuhn
ECoNA	Gail Jackson, President/CEO
Flagstaff Professionals	Steven Scott, Co-Founder/Board Chair
Flagstaff Leadership Program	
Local First Arizona	Kimber Lanning, CEO; Aaron Suzuki, Flagstaff Coalition Manager
Sustainable Economic Development Initiative (SEDI)	Eric Marcus
Northern Arizona Leadership Alliance	T. Paul Thomas, CEO; Tim Kinney, Board Chair
City Council	
Airport Commission	Barney Helmick
Beautification & Public Art Commission	Jana Weldon
Commission on Diversity Awareness	
Commission on Inclusion & Adaptive Living	Alan Keay
Employee Advisory Committee	
Flagstaff Housing Authority	Caleb Alexander
Heritage Preservation Commission	Sara Dechter
Housing Commission	Adriana Fisher
Indigenous Commission	Rose Toehe
Library Board	
Mountain Line Transportation Action Team	
Open Spaces Commission	Robert Wallace
Parks & Recreation Commission	Rebecca Sayers
Planning & Zoning Commission	Alexandra Pucciarelli
Sustainability Commission	Nicole Antonopoulos
Tourism Commission	Trace Ward
Transportation Commission	Jeff Bauman
Water Commission	Shannon Jones
City Everyone email	Patrice Horstman, Jeronimo Vasquez; Matt Ryan; Judy Buggy, Lena Fowler
Coconino County Board of Supervisors	Michele Astund
Community Action Advisory Board (CAAB)	
African Diaspora Advisory Council	Areina Contreras, Diversity Coordinator
Coconino Hispanic Advisory Council	Areina Contreras, Diversity Coordinator
Indigenous Peoples Advisory Council	Areina Contreras, Diversity Coordinator
Industrial Development Authority Board	Mike Loven, President
Coconino County Parks & Recreation Committee	
Workforce Development Board	
Coconino County Planning & Zoning Commission	
Coconino County Sustainable Building Program	Amanda Acheson; Bobby Eccleston
Public Safety Personnel Retirement System Local Board	Lauren Bednar
Greater Flagstaff Chamber of Commerce - Gov't Affairs	Joe Galli
KAFF News - Great Circle Media	Dave Zorn, News Director
KNAU	
Arizona Daily Sun - Editorial	Chris Etling, Managing Editor





Upcoming Events

5. Rate Study 'Roadshow' – Nov/Dec. 2023

6. Milestone Public Meetings – Jan/Feb/May

	2023									2024								
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Rate Study Begins	█																	
Monthly Updates to Water Commission	█	█	█	█	█	█	█	█	█	█	█	█						
Review of current rates and budget forecasts	█	█	█	█														
Develop elements of communication program				█	█													
Small group stakeholder roundtables					**													
Future Stakeholder engagement events/opportunities							**		**	**	**		**					
Kick Off meeting with City Council				█														
Monthly Updates to City Council					█	█	█	█	█									
Work/Study Session with Council and Commission (public invited)					**													
Analysis of all current fees				█	█													
Develop Rate Design to meet community goals				█	█	█	█											
Develop Draft Rate Study report						█	█	█										
Present Draft Rate Study to Water Comm and Council									█									
Prepare 2nd Draft of Rate Study to Water Comm and Council										█								
Prepare Final Draft of Rate Study to Water Comm and Council											█							
Final Rate Study Presented to City Council												█						
Presentation of Ordinance to amend rates to Council													█					
Public Hearing on Proposed Rates (1st reading)														█				
Rate Ordinance adoption by City Council															█			
Revised rates become effective																█		

** Planned Community Outreach event

○ Key Points in Rate Study



Additional Opportunities

7. Drop-In Meetings (one or more)

8. Pop-up Meetings (TBD)

9. Water Commission and City Council Monthly Updates





Thank You!

Feedback/Questions?