

MINUTES

1. Call to Order

Mayor Daggett called the joint meeting of the Flagstaff City Council and Water Commission held October 23, 2023, to order at 2:30 p.m.

NOTICE OF OPTION TO RECESS INTO EXECUTIVE SESSION

Pursuant to A.R.S. §38-431.02, notice is hereby given to the members of the City Council and to the general public that, at this work session, the City Council may vote to go into executive session, which will not be open to the public, for discussion and consultation with the City's attorneys for legal advice on any item listed on the following agenda, pursuant to A.R.S. §38-431.03(A)(3).

2. ROLL CALL

NOTE: One or more Councilmembers may be in attendance through other technological means.

PRESENT:

MAYOR DAGGETT
VICE MAYOR ASLAN
COUNCILMEMBER HARRIS
COUNCILMEMBER HOUSE
COUNCILMEMBER MATTHEWS
COUNCILMEMBER SWEET

CHAIR RIEGELMAN
VICE CHAIR LOVERICH
COMMISSIONER ALTER
COMMISSIONER BILLS
COMMISSIONER DILDAY
COMMISSIONER NAUMAN
COMMISSIONER RUDELLE

ABSENT:

COUNCILMEMBER MCCARTHY

Others present: City Manager Greg Clifton; City Attorney Sterling Solomon; Water Services Director Shannon Jones; Water Services Manager Erin Young

3. Pledge of Allegiance, Mission Statement, and Land Acknowledgement

The Council, Commission, and audience recited the pledge of allegiance, Councilmember Matthews read the Mission Statement of the City of Flagstaff, and Councilmember Harris read the Land Acknowledgement.

MISSION STATEMENT

The mission of the City of Flagstaff is to protect and enhance the quality of life for all.

LAND ACKNOWLEDGEMENT

The Flagstaff City Council humbly acknowledges the ancestral homelands of this area's Indigenous nations and original stewards. These lands, still inhabited by Native descendants, border mountains sacred to Indigenous peoples. We honor them, their legacies, their traditions, and their continued contributions. We celebrate their past, present, and future generations who will forever know this place as home.

4. Discussion and Direction on the Rate Study Financial Plans

Water Services Manager Erin Young led the Water Commission through introductions with the City Council. Mayor and Council thanked the commission for making time to meet together.

Ms. Young introduced the Team from Stantec Tim Hancock, Andrew Burnham, and Carol Malesky who provided a PowerPoint presentation.

WATER, RECLAIMED WATER, & WASTEWATER COST-OF-SERVICE, RATES & FEES STUDY
COMMUNICATIONS AND OUTREACH
MEETING PLATFORMS
PROJECT WEBSITE
ADDITIONAL MATERIALS
UPCOMING EVENTS
ADDITIONAL OPPORTUNITIES
AGENDA
SCOPE OVERVIEW
POLICY STRATEGIES
FINANCIAL PLANNING SCENARIOS DEFINED
KEY FINANCIAL ASSUMPTIONS & ADJUSTMENTS
CAPITAL IMPROVEMENT PROGRAM LEVELS (\$M)

Councilmember Matthews asked if Red Gap Ranch was funded by a bond in 2005. Ms. Young explained that the bond in 2005 was to purchase the Red Gap Ranch land. Once the land was purchased, the build-out of the project was built into the Capital Improvement Plan (CIP). There was some funding left over from the land purchase that they were able to allocate to project development.

Councilmember Matthews stated that a Master Plan was done in 2014 and that determined the needed funding that was being discussed. Ms. Young stated that the yellow projects within the spreadsheet were identified in 2014. Several projects had been deferred to fund the projects identified in green, such as projects triggered by development or other initiatives.

Councilmember Harris asked how emergencies impacted the projects within the CIP. Water Services Director Shannon Jones explained that as non-anticipated issues came up, it was possible that the CIP had to be readjusted.

Commissioner Bills asked if the numbers were adjusted for current conditions given that many were identified in 2014 as well as 2004. Ms. Malesky stated that there was a cost escalation to update the numbers for current costs.

Councilmember Matthews asked if the "approved budget" indicator meant that funds had been allocated for that project. Management Services Director Rick Tadder explained that the funding had been included within the five-year plan under the existing rates.

Commissioner Naumann asked if the biosolids treatment project would be covered by the recent bond that was passed. Mr. Jones explained that it would be covered by capacity fees rather than the bond. Mr. Tadder added that the General Obligation bonds were not included in the rate structure because they were paid through secondary property tax.

FINANCIAL CONSIDERATIONS

Councilmember Matthews asked how many of the projects were considered critical and how many were more of a wish list. Ms. Young indicated that all the projects were critical, there were no luxury or wish list projects. Mr. Jones added that staff did their best to list the projects in priority order.

Commissioner Ruddell asked about the realized costs incurred due to project deferral. Mr. Jones stated that deferral could double the cost of the project. There were critical points within the lifecycle and if the maintenance was deferred, it pushed things beyond rehabilitation. Things could be rehabilitated to the boundary of failure, but there ultimately came a time when it must be fully replaced. Major failures escalated costs even further.

Commissioner Alter asked how much new development impacts the budget and if there was a way to avoid that in the future. Mr. Jones stated that there were services that the city was required to provide that could not be pushed to developers. He noted that there may be opportunities to take advantage of developers who were already doing improvement work and partner with them to upsize the development based on future needs through a reimbursement agreement.

OPERATIONAL COST INFLATION: 2020-2024
WATER FUND
CURRENT 5-YEAR FINANCIAL OUTLOOK -- WATER
WATER FUND SCENARIO RESULTS SUMMARY
¾" TYPICAL WATER BILL IMPACT (4K GAL), FY24-33
COMPARISON OF SCENARIO FUNDING VS 10-YEAR CIP
WATER FUND CIP EXPENDITURES FY24-33
WATER FUND -- ALTERNATIVE OPTION
TYPICAL RESIDENTIAL WATER BILL

Councilmember Matthews noted that her water bill would double by 2033 if no change in water use was made. She stated that the rate would increase regardless of what was charged for capacity fees. Ms. Malesky stated that if the capacity fees were increased, it would not reduce the amount of revenue the city had to recover, but it could reduce the amount of revenue that needed to be recovered from the rates.

Commissioner Ruddell asked if the Wildcat expansion was included in the study. Ms. Malesky responded no and that it needed further investigation for funding sources. Commissioner Ruddell noted concern that the numbers were underestimated because they did not include that very large project or other unplanned things.

Commissioner Vane asked if the estimates were adjusted for future inflation. Ms. Malesky indicated yes and noted that inflation was accounted for through 2033.

EXAMPLE COMMERCIAL WATER BILL
RESIDENTIAL BILL COMPARISONS -- WATER
COMMERCIAL BILL COMPARISONS -- WATER
WASTEWATER FUND
CURRENT 5-YEAR FINANCIAL OUTLOOK -- WASTEWATER
WASTEWATER FUND SCENARIO RESULTS SUMMARY
¾" TYPICAL WASTEWATER BILL IMPACT (4K GAL), FY24-33
COMPARISON OF SCENARIO FUNDING VS 10-YEAR CIP
WASTEWATER FUND CIP EXPENDITURES FY24-33
TYPICAL RESIDENTIAL WASTEWATER BILL
EXAMPLE COMMERCIAL BILL
RESIDENTIAL BILL COMPARISONS -- WASTEWATER
COMMERCIAL BILL COMPARISONS -- WASTEWATER
RECLAIMED WATER FUND
CURRENT 5-YEAR FINANCIAL OUTLOOK -- RECLAIMED WATER
RECLAIMED WATER FUND SCENARIO RESULTS SUMMARY

Commissioner Ruddell offered that the plan was quite complicated and included several uncertainties, especially with inflation. He noted that when it was difficult to predict uncertainties, the plan should

prioritize flexibility and resilience to address those unknowns when they arise. He asked what the two or three biggest things were that they should focus on.

Mr. Jones stated that two major areas of focus were solids handling and the collection system. Two significant projects were underway -- real solids handling and the Wildcat interceptor. The projects were deemed critical and were expected to amount to around \$15 million in design and construction costs. Additionally, there were bond projects, totaling \$60 million between stormwater and wastewater, which were not yet listed. In the five-year timeframe, a total of \$110 million worth of projects needed to be completed. However, the dynamic nature of project costs necessitated a proactive approach to mitigate inflation. Grant funding was seen as a vital tool to supplement finances, with efforts already underway to secure grants, though there was a need for smarter prioritization to ensure critical projects were not delayed due to lengthy grant acquisition processes. Larger projects may not be included in the rate study due to optimism regarding grant success and the necessity of securing additional funding. There was a commitment to advancing projects that were funded and moving forward with those that were prioritized for immediate action.

Mr. Clifton noted that the Wildcat expansion was unfunded. He indicated that it should be embedded into the CIP and given more prominence. It was a critical project that could not be deferred.

Councilmember Mathews asked about a three-year check-in on the rates. Ms. Young indicated that by policy, the rates should be reevaluated every three years, so it had already been built into the process.

Commissioner Dilday stated that the comparison cities were not in line with Flagstaff and other Arizona cities could be better to compare. He indicated that the lack of revenue was further delaying important projects and improvements. He suggested that residential may need to see an increase.

Mayor Daggett asked if there was a tiered system for reclaimed water. Mr. Tadder stated that residential had a tiered system but not commercial. He noted that a tiered rate for commercial was something they were looking at in the rate structure. He noted that it was difficult to build an equitable tier structure for commercial because the uses were so varied.

Commissioner Davis offered that the reclaimed water rate could increase, and it was unlikely that there would be a reduction in reclaimed water users. Water was becoming water and it should be charged as such.

Vice Chair Loverich stated that the city was behind the curve of where it should be. Getting bogged down in the details and not keeping the bigger picture in mind was a hindrance to the process. It was not whether the rate needed changing, it was how much of a change was necessary to accomplish what needed to be accomplished and how much of the list they were willing to cut and take the risk on.

Commissioner Alter stated that he did not feel that it was the role of the commission to adjust the CIP, that was a Council decision. The public would be asking questions as to why the projects were important.

Councilmember Harris left the meeting at 4:41 p.m.

Vice Mayor Aslan offered that there was plenty of room left for discussion. It was not helpful to debate about what projects were needed or not because he trusted staff to vet them appropriately. He wanted to focus on the big picture through the perspective of the citizens. He indicated that he found himself supportive of going all in and funding fully with a promise to revisit in the future. He was concerned if they started small, people would be upset when they had to go big later. It was important to tell the public what was at stake and the crisis that was before them and, while they were troubled with the decisions that needed to be made, they had to find a way to move forward.

Councilmember Matthews asked about how second homes were charged within a tiered structure based on usage. They were only in Flagstaff for part of the year, which significantly reduced their overall usage, but they still had an impact on the system. She also asked if there had been a consideration for a base charge versus a usage charge to make it more equitable for those who live full-time in Flagstaff. Mayor Daggett added a question as to whether they were able to charge a different base rate for a

second home or short-term rental.

Mr. Tadder stated that he was not sure that it could be justified but that it was something that they would look at as part of the study. Ms. Malesky added that they would be considering a variety of options. There were different reasons for each rate structure that would be based on the cost of service. She noted that some communities were considering standby service and different charges for short-term rentals.

Mr. Clifton indicated that second homeownership was the bigger challenge as only a small percentage of residences were short-term rentals. Consideration of a vacancy rate for customers who turn the water off for periods of time would be worthwhile.

Vice Chair Loverich and Commissioner Ruddell left the meeting at 4:51 p.m.

Commissioner Davis offered that the last study was a 3% to 7% increase. The 7% was advocated for, but they ended up with a 4.3% increase. The 7% would have funded everything, and they were now back where they started with similar considerations.

Al White addressed the Council and Commission and noted his support for full cost recovery and encouraged the consideration of long-term leases on the property the city owned, particularly Red Gap Ranch.

Mayor Daggett stated that she wanted to stop falling further behind on capital projects. The increase would be difficult, but it was what needed to be done.

Councilmember Sweet agreed and indicated that it was time to move things forward.

Councilmember House also agreed. She requested consideration toward equity and equitability. In addition to part-time residency and multiple homes, another equity concern would be the impact on some of the older neighborhoods in Flagstaff and the older infrastructure in those areas that lend themselves to more leaky pipes that would increase usage at no fault of the resident. She acknowledged that it would be difficult to factor in those considerations, but it would behoove them to at least acknowledge them and consider them to let people know those things were not overlooked.

Mayor Daggett stated that she preferred more burden on usage rather than base.

Councilmember Matthews voiced her support for the consideration of second homes and how a base rate could be adjusted to accommodate for that. She expressed frustration that they were again faced with making up for deferred projects. She was worried about the economy, businesses, and citizens, and the long-term effect of rate increases.

5. Adjournment

The Joint Meeting of the Flagstaff City Council and Water Commission held October 23, 2023, adjourned at 5:02 p.m.

MAYOR

ATTEST:

CITY CLERK