



## City of Flagstaff, AZ

### Water, Reclaimed Water, & Wastewater Cost-of-Service Study – Direction on Capacity Fees

*City Council Work Session  
February 6, 2024*

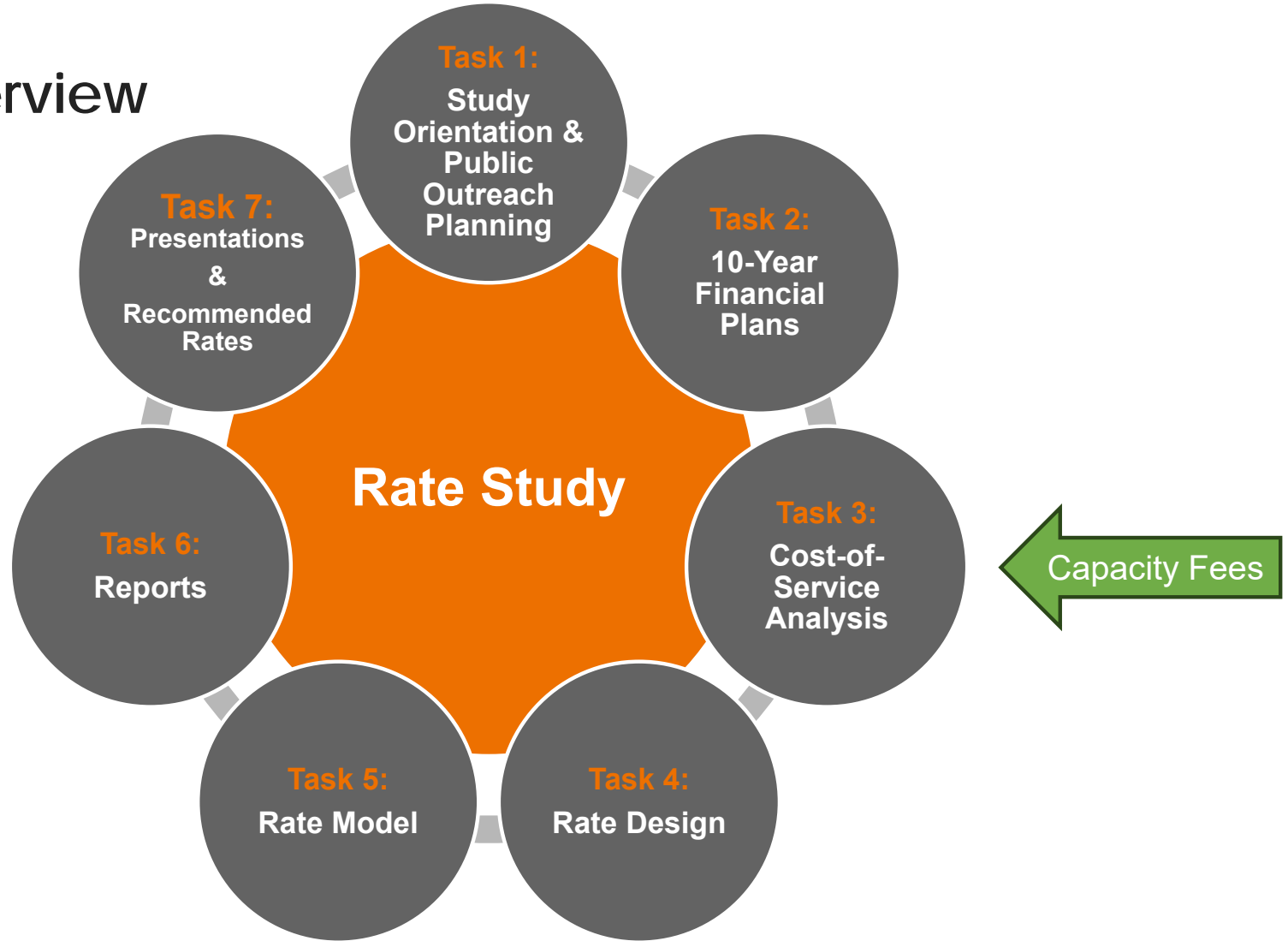


# Agenda

1. Overview of Scope
2. Capacity Fees
  1. Overview from Jan 23 Meeting
  2. Discussion
  3. Direction
3. Introduction to Rate Design



# Scope Overview





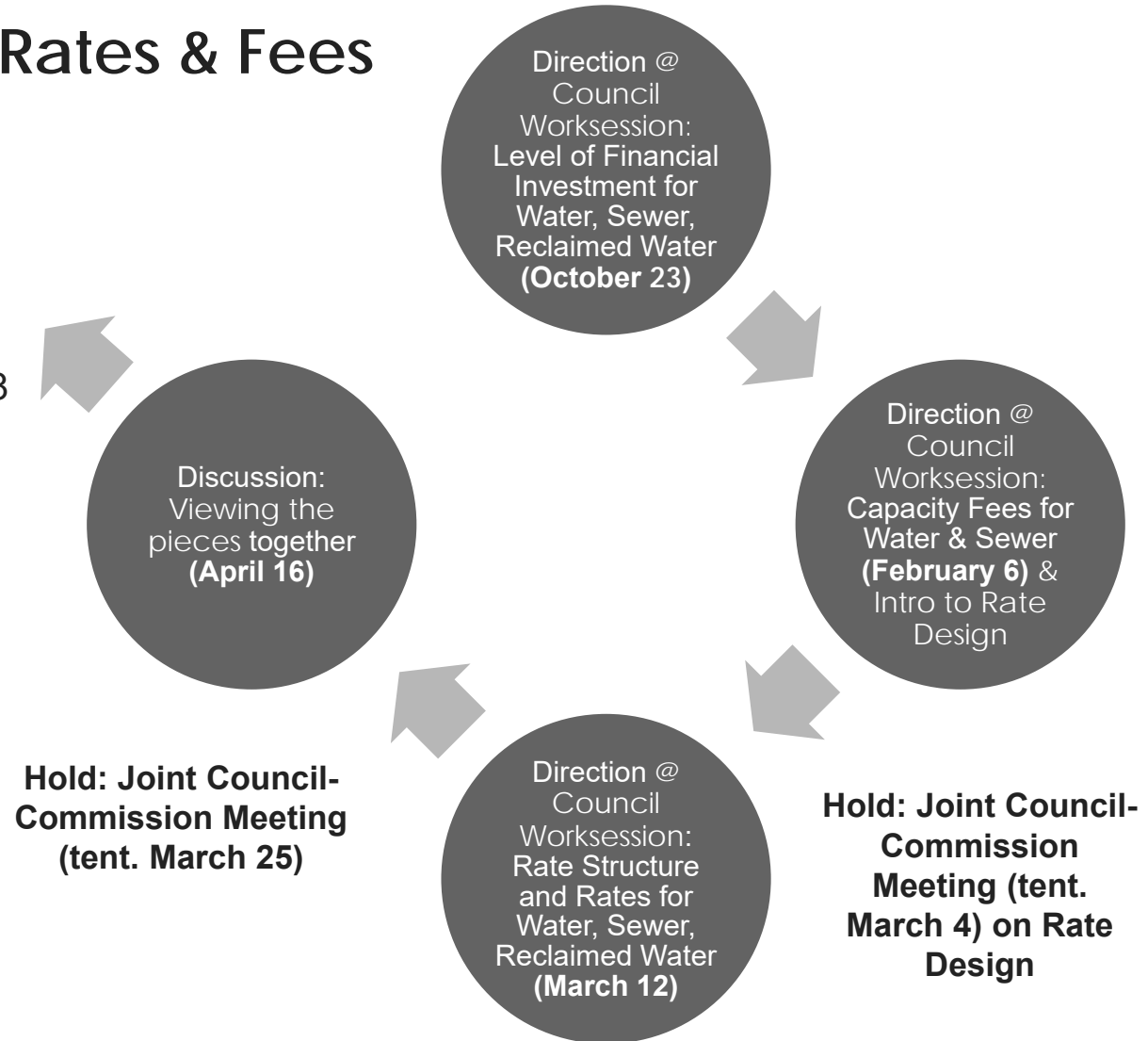
# Path to Updated Rates & Fees

## Refine Decision Points

- May 7
- May 21

## Final Adoption

- Public Hearing #1 June 18
- Public Hearing #2 July 2
- Rates Effective Sept 1





# How we fund our Water Needs

## 1) Capacity Fees

- a) Only apply to new meter or increased meter size installations
- b) Defrays costs associated with future service needs (growth)
- c) Reduces impacts to rate payers (monthly charges)

## 2) Monthly User Charges

- a) Primary source of funding for operations and maintenance
- b) Includes a base fee and usage fees which encourage conservation
- c) Must keep pace with cost of living and inflationary pressures to maintain service to customers
- d) Ensures adequate fire protection

## 3) Other Fees

- a) Permit fees
- b) Meter fees
- c) Late fees
- d) Hauled waste



# Developers and Contractors Event Summary

- Growth-Related Capacity Fee discussion drop-in events at Water Services
- Press release & social media post on Jan 21
- Emailed invitation to the below list on Jan 22
- Confirmed with a phone call that the invitation was received for those with an asterisk
  - January 30 4-6 p.m.
  - January 31 11 a.m. to 2 p.m.
  - Engaged with two companies & Daily Sun reporter
  - Good discussion with the two companies – overall seemed not surprised by a potential increase - recognition that the fees are a “pass-through” fee to home buyer – did not share which options they support – taking information back to owners

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## Email List

All Services Building Construction	Harmony Builders Inc	Kohl Design and Construction	Smith Built LLC
AHC Construction	High Caliber Construction	Loven Contracting*	Stilley Tullos Design Build Group
B3 Construction	Holdsworth Construction*	Mike Furr Construction	Straightline Construction*
Barden Home Builders	Hope Construction*	Miramonte Homes*	US Building Company
Builder's Showcase*	JKC Inc	Outlook Construction & Remodeling	Wespac Construction
Capstone Homes*	Jirsa Construction Inc	RC Hubbard LLC	
Evolution Construction	Kinney Construction Services	Reve Design and Custom Construction	

(Could not reach Mountain Country Builders, Hunter Building Group, Ridge Top Construction)



## Requested Council Direction

- 1) **Utilize the Combined Methodology for calculating capacity fees**
  - a) Proceed with Stantec and Staff's recommendation to follow the Combined Methodology for calculating the capacity fee for both the water and wastewater systems.
  - b) Revisit the Buy-In or Incremental methodologies for water and/or wastewater systems.
- 2) **Utilize system actuals as a basis for Level-of-Service calculations**
  - a) Proceed with Stantec and Staff's recommendation to base the water and wastewater capacity fee level-of-service assumption on actual data
  - b) Base capacity fee level-of-service assumption for water and/or wastewater on the water and wastewater design standards in City Code
- 3) **Collect capacity fees towards the cost of future water supply infrastructure projects** (such as Red Gap Ranch, direct potable reuse, or indirect potable reuse projects, at Council direction)
  - a) Proceed with a capacity fee model that collects fees toward water supply infrastructure projects
  - b) Do not collect a portion of capacity fees towards a new water supply infrastructure project
- 4) **Collect capacity fees towards the cost of a new wastewater treatment facility**
  - a) Proceed with a capacity fee model that collects fees towards a new wastewater treatment facility
  - b) Do not collect a portion of capacity fees towards a new wastewater treatment facility
- 5) **Include or do not include loadings capacity along with the flow capacity as a basis for calculating the level-of-service for the wastewater system**



## Council Direction - Methodology

- 1) **Utilize the Combined Methodology for calculating capacity fees**
  - a) Proceed with Stantec and Staff's recommendation to follow the Combined Methodology for calculating the capacity fee for both the water and wastewater systems.
  - b) Revisit the Buy-In or Incremental methodologies for water and/or wastewater systems.

Water Commission Recommendation:

- Follow Combined approach



# Capacity Fee Methodologies

## Combined Method Recommended by Water Commission

Methodology	Water Fund *	Wastewater Fund
<b>Buy- In Method</b>		
<i>Fixed Assets: RCNLD**</i>	\$187.0M	\$128.6M
<i>Existing Capacity (Flow in million gallons per day)</i>	16.90 MGD	10.00 MGD
<i>Existing Capacity (Loadings in pounds per day)</i>	N/A	23,410 PPD
<b>Incremental Method***</b>		
<i>Total 10-Year CIP</i>	\$209.5M	\$115.3M
<i>Expansion-Related CIP</i>	\$70.5M	\$38.3M
<i>Incremental Capacity (Flow)</i>	1.53 MGD	0.00 MGD
<i>Incremental Capacity (Loadings)</i>	N/A	16,400 PPD
<b>Combined Method</b>		
<i>Total System Value</i>	\$257.5M	\$166.9M
<i>Total System Capacity (Flow)</i>	18.43 MGD	10.00 MGD
<i>Total System Capacity (Loadings)</i>	N/A	39,810 PPD

\* Water Fund capacity fees include growth-related Reclaimed Water distribution capital projects

Ⓢ \*\* Replacement Cost New Less Depreciation

\*\*\* Does not include Future Water Supply Projects or Wastewater Treatment Plant Expansion Project



## Council Direction – Level of Service

- 1)
- 2) **Utilize system actuals as a basis for Level-of-Service calculations**
  - a) Proceed with Stantec and Staff’s recommendation to base the water and wastewater capacity fee level-of-service assumption on actual data
  - b) Base capacity fee level-of-service assumption for water and/or wastewater on the water and wastewater design standards in City Code

### Water Commission Recommendation

- Follow Combined approach
- Actual data Level of Service



# Level of Service Discussion

## Actual Use Recommended by Water Commission

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Level of Service (LOS)*	Water Fund	Wastewater Fund	
		Flow	Loadings
<b>Design Standards (City Code)</b>	875 GPD	420 GPD	N/A
<b>Actual Use</b>	335 GPD	257 GPD	0.67 PPD

Water Fund Calculations			
	People Per Household	Water Use (Gallons Per Day)	Peaking Factor
<b>Design Standards (City Code)</b>	3.5	100	2.5
<b>Actual Use</b>	2.4	93	1.5

Wastewater Fund Calculations			
People Per Household	Sewer Discharges		Peaking Factor
	Flow (gallons per day)	Loadings (Pounds Per Day)	
3.5	75	N/A	1.6
2.4	67	0.67	1.6

ⓘ \* Based on peak day demand



## Council Direction – Future Water Supply Projects

- 1)
- 2)
- 3) **Collect capacity fees towards the cost of future water supply infrastructure projects** (such as Red Gap Ranch, direct potable reuse, or indirect potable reuse projects, at Council direction)
  - a) Proceed with a capacity fee model that collects fees toward water supply infrastructure projects; supported by 4/6 on Water Commission
  - b) Do not collect a portion of capacity fees towards a new water supply infrastructure project

### Water Commission Recommendation:

- Follow Combined approach
- Actual data Level of Service
- Collect fees toward water supply projects
  - 2 of 6 Commissioners concerned



# Water Capacity Fee Options using the Combined Methodology

Level of Service (LOS) Scenario	¾” Residential Meter		2” Commercial Meter	
	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
<b>LOS – Actual Data</b>				
1A: No Future Water Supply & New Ground Water Capacity	\$5,728	\$6,507	\$30,530	\$34,682
1B: Future Water Supply & New Ground Water Capacity	\$5,728	\$8,146	\$30,530	\$43,418
<b>LOS – Design Standards</b>				
2A: No Future Water Supply & New Ground Water Capacity	\$5,728	\$17,341	\$30,530	\$92,427
2B: Future Water Supply & New Ground Water Capacity	\$5,728	\$21,603	\$30,530	\$115,143





## Water Capacity Fee Options using the Combined Methodology

Level of Service (LOS) Scenario	$\frac{3}{4}$ " Residential Meter		2" Commercial Meter	
LOS – Actual Data	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
1A: No Future Water Supply & New Ground Water Capacity	\$5,728	\$6,507	\$30,530	\$34,682
1B: Future Water Supply & New Ground Water Capacity	\$5,728	\$8,146	\$30,530	\$43,418
LOS – Design Standards	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
2A: No Future Water Supply & New Ground Water Capacity	\$5,728	\$17,341	\$30,530	\$92,427
2B: Future Water Supply & New Ground Water Capacity	\$5,728	\$21,603	\$30,530	\$115,143





# Level of Service Estimated Impacts on Revenue Requirements

Will be Updated with Option 1B for Feb 6 Meeting

	Capacity Fee	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY33
<b>Current Rate Revenue Plan</b>	\$5,728	0%	15%	15%	15%	15%	15%	5%	5%	5%	5%
<b>Option 2A – Design Standards w/o Future Water Supply Project</b>	\$17,341	0%	15%	15%	15%	13%	10%	5%	5%	0%	0%



## Council Direction – New Wastewater Treatment Facility

- 1)
- 2)
- 3)
- 4) **Collect capacity fees towards the cost of a new wastewater treatment facility**
  - a) Proceed with a capacity fee model that collects fees towards a new wastewater treatment facility
  - b) Do not collect a portion of capacity fees towards a new wastewater treatment facility
- 5) **Include or do not include loadings capacity along with the flow capacity as a basis for calculating the level-of-service for the wastewater system**

### Water Commission Recommendation:

- Follow Combined approach
- Actual data Level of Service with flow and loadings
- Collect fees toward new wastewater treatment facility
  - 1 of 6 Commissioners concerned



# Wastewater Capacity Fee Options using the Combined Methodology

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Level of Service (LOS) Scenario	¾" Residential Meter		2" Commercial Meter	
	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
<b>LOS – Actual, Flow Only</b>				
1A: No WWTP Expansion	\$3,723	\$4,203	\$19,845	\$22,404
1B: WWTP Expansion	\$3,723	\$4,249	\$19,845	\$22,649
<b>LOS – Actual, Flow + Loadings</b>				
1C: No WWTP Expansion	\$3,723	\$3,824	\$19,845	\$20,383
1D: WWTP Expansion		\$4,086	\$19,845	\$21,780
<b>LOS – Design Standards, Flow Only</b>				
2A: No WWTP Expansion	\$3,723	\$6,861	\$19,845	\$36,572
2B: WWTP Expansion	\$3,723	\$6,937	\$19,845	\$36,977
<b>LOS – Design Standards, Flow + Loadings</b>				
2C: No WWTP Expansion	\$3,723	\$5,785	\$19,845	\$30,836
2D: WWTP Expansion	\$3,723	\$5,866	\$19,845	\$31,268



## Wastewater Capacity Fee Options using the Combined Methodology

Level of Service (LOS) Scenario	¾" Residential Meter		2" Commercial Meter	
LOS – Actual, Flow Only	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
1A: No WWTP Expansion	\$3,723	\$4,203	\$19,845	\$22,404
1B: WWTP Expansion	\$3,723	\$4,249	\$19,845	\$22,649
LOS – Actual, Flow + Loadings	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
1C: No WWTP Expansion	\$3,723	\$3,824	\$19,845	\$20,383
1D: WWTP Expansion		\$4,086	\$19,845	\$21,780
LOS – Design Standards, Flow Only	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
2A: No WWTP Expansion	\$3,723	\$6,861	\$19,845	\$36,572
2B: WWTP Expansion	\$3,723	\$6,937	\$19,845	\$36,977
LOS – Design Standards, Flow + Loadings	<i>Existing Fee</i>	<i>Calculated Fee</i>	<i>Existing Fee</i>	<i>Calculated Fee</i>
2C: No WWTP Expansion	\$3,723	\$5,785	\$19,845	\$30,836
2D: WWTP Expansion	\$3,723	\$5,866	\$19,845	\$31,268



# Level of Service Estimated Impacts on Revenue Requirements

Will be Updated with Option 1B for Feb 6 Meeting

	Capacity Fee	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY33
<b>Current Rate Revenue Plan</b>	\$3,728	0%	25%	25%	15%	10%	5%	5%	5%	5%	5%
<b>Option 2A – Design Standards w/o New Wastewater Treatment Facility</b>	\$6,861	0%	25%	25%	12%	7%	5%	0%	0%	0%	0%



# Discussion & Direction



# Agenda

1. Overview of Scope
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**Thank you!**



# Water Capacity Fees

## *Combined Methodology & Design Standards without Future Water Supply Projects*

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Meter Size	Existing Number of Accounts	FY 2023 Average Usage per Month (gal)*	ERU Factor	Existing Fee	Option 2A
¾"	19,188	4,147	1.0	\$5,728	\$17,341
1"	1,068	10,000	1.67	\$9,566	\$28,960
1 ½"	378	34,505	3.33	\$19,074	\$57,745
2"	676	84,485	5.33	\$30,530	\$92,427
3"	34	212,656	10.00	\$57,279	\$173,407
4"	24	387,872	16.67	\$95,484	\$289,069
6"	5	255,082	33.33	\$190,910	\$577,963
8"	4	2,170,630	53.33	\$305,468	\$924,777
10"	0	0	76.67	\$439,157	\$1,329,508



\*Based on FY 2023 billing data



# Wastewater Capacity Fee Options

## *Combined Methodology without New Wastewater Treatment Facility*

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Meter Size*	Existing Fee	ERU Factor	Option 2A
¾"	\$3,723	1.0	\$6,861
1"	\$6,218	1.67	\$11,459
1 ½"	\$12,399	3.33	\$22,850
2"	\$19,845	5.33	\$36,572
3"	\$37,233	10.00	\$68,616
4"	\$72,068	16.67	\$132,812
6"	\$124,099	33.33	\$228,698
8"	\$198,566	53.33	\$365,931
10"	\$285,468	76.67	\$526,080

\*For larger meter sizes, Stantec recommends customized fee calculations

