



City of Flagstaff, AZ

Water, Reclaimed Water, & Wastewater Cost-of-Service Study – Wastewater Rate Design

*Joint City Council & Water Commission Work Session
March 4th, 2024*

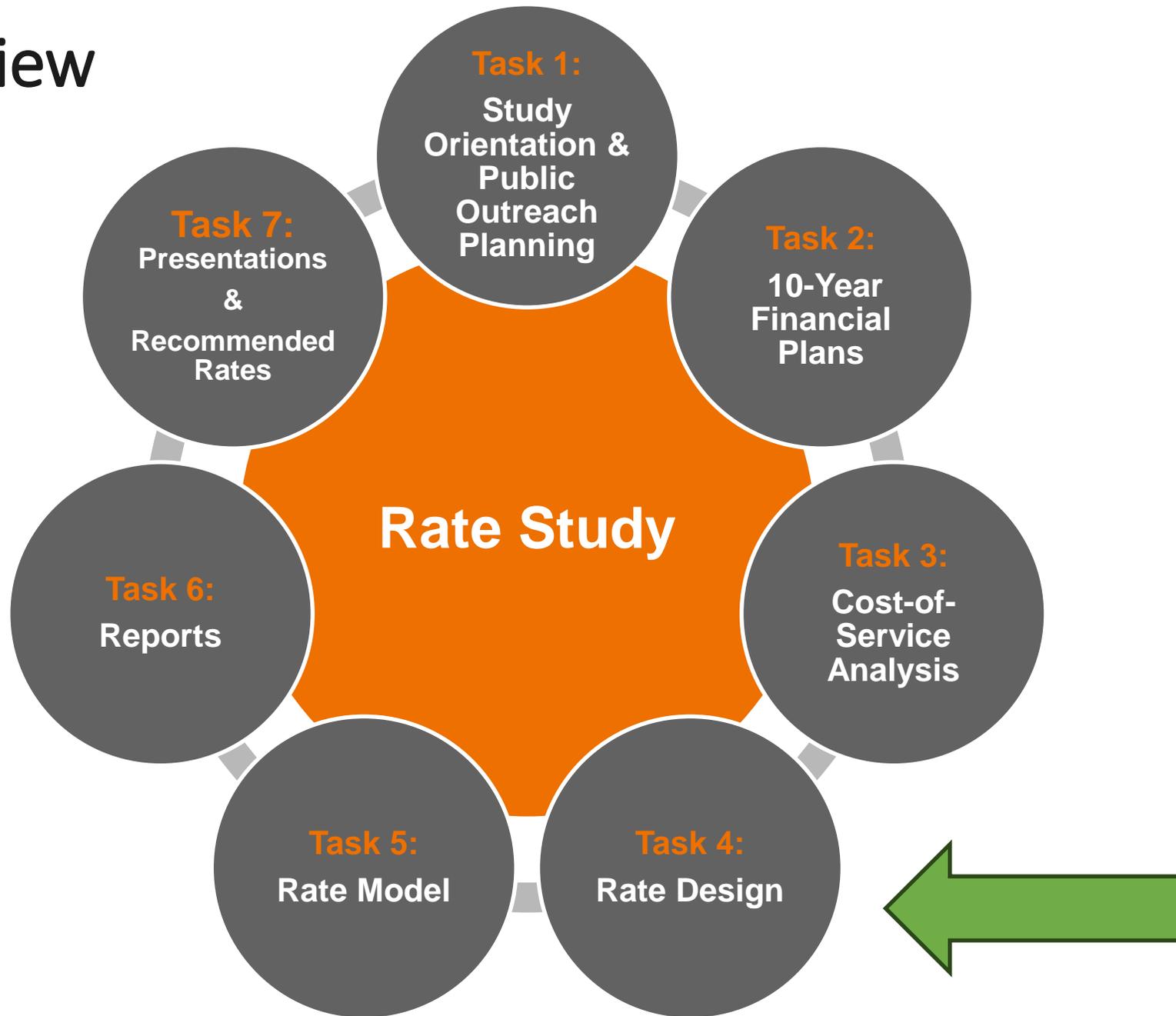


Agenda

1. Overview
2. Cost Recovery for FY 2025
3. Wastewater Rate Options (3)
4. Customer Impacts
5. Next Steps



Scope Overview





The Rate Study Process

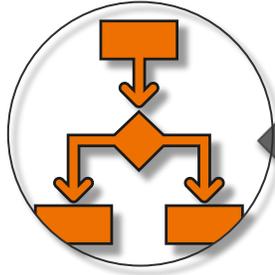
How Much?



Financial Plan

- Operations & Maintenance, debt service, projects
- Financial policies & targets
- Council direction for funding full CIP on October 23, 2023

From Whom?



Cost-of-Service Allocations

- Identifies how costs are incurred
- Determines how customers use the systems
- Council direction on capacity fees February 6, 2024

How to Collect?



Rate Design

- Identifies objectives of the City
- Ties rate structure alternatives to objectives
- Communicates costs of service to customers



How Much: Revenue Requirements FY 2024 vs. FY 2025

Wastewater Fund	FY 2024 (millions)	FY 2025 (millions)
Operations & Maintenance	\$8.3	\$8.7
Debt Service	\$2.6	\$3.1
Capital	\$8.3	\$5.5
Total Expenditures	\$19.2	\$17.3
<i>Use of Reserves</i>	(\$7.7)	(\$3.7)
<i>Non-Rate Revenue</i>	(\$0.9)	(\$0.6)
Rate Revenue	\$10.6	\$13.0

Change in rate revenue needed – 22%



Revenue Requirements FY 2024 - FY 2025

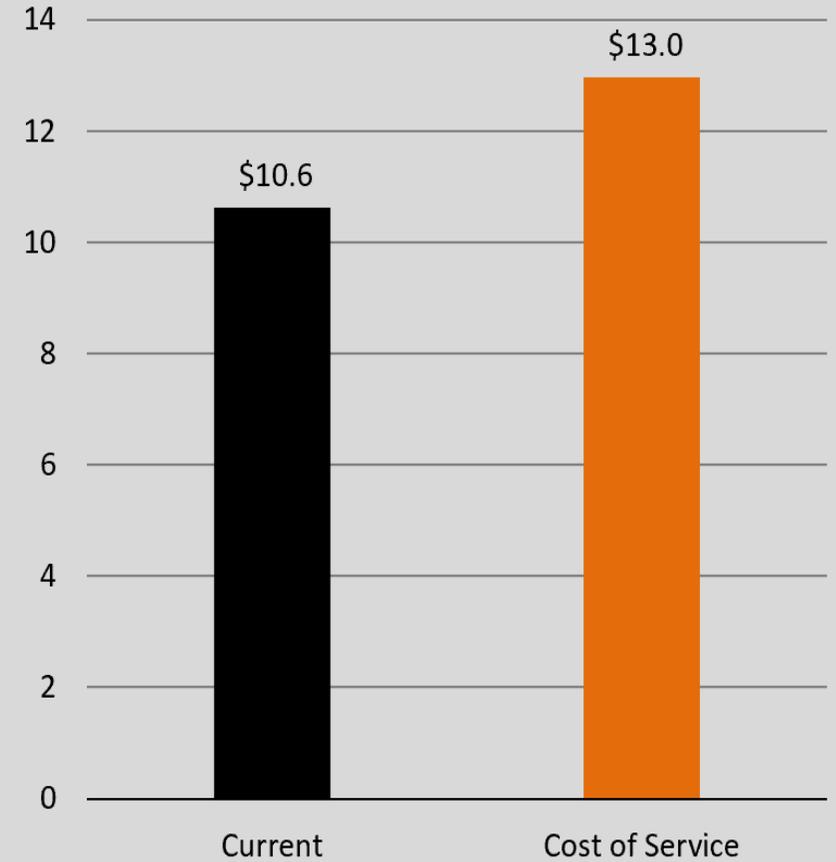
Change (\$M)

\$2.33

Change (%)

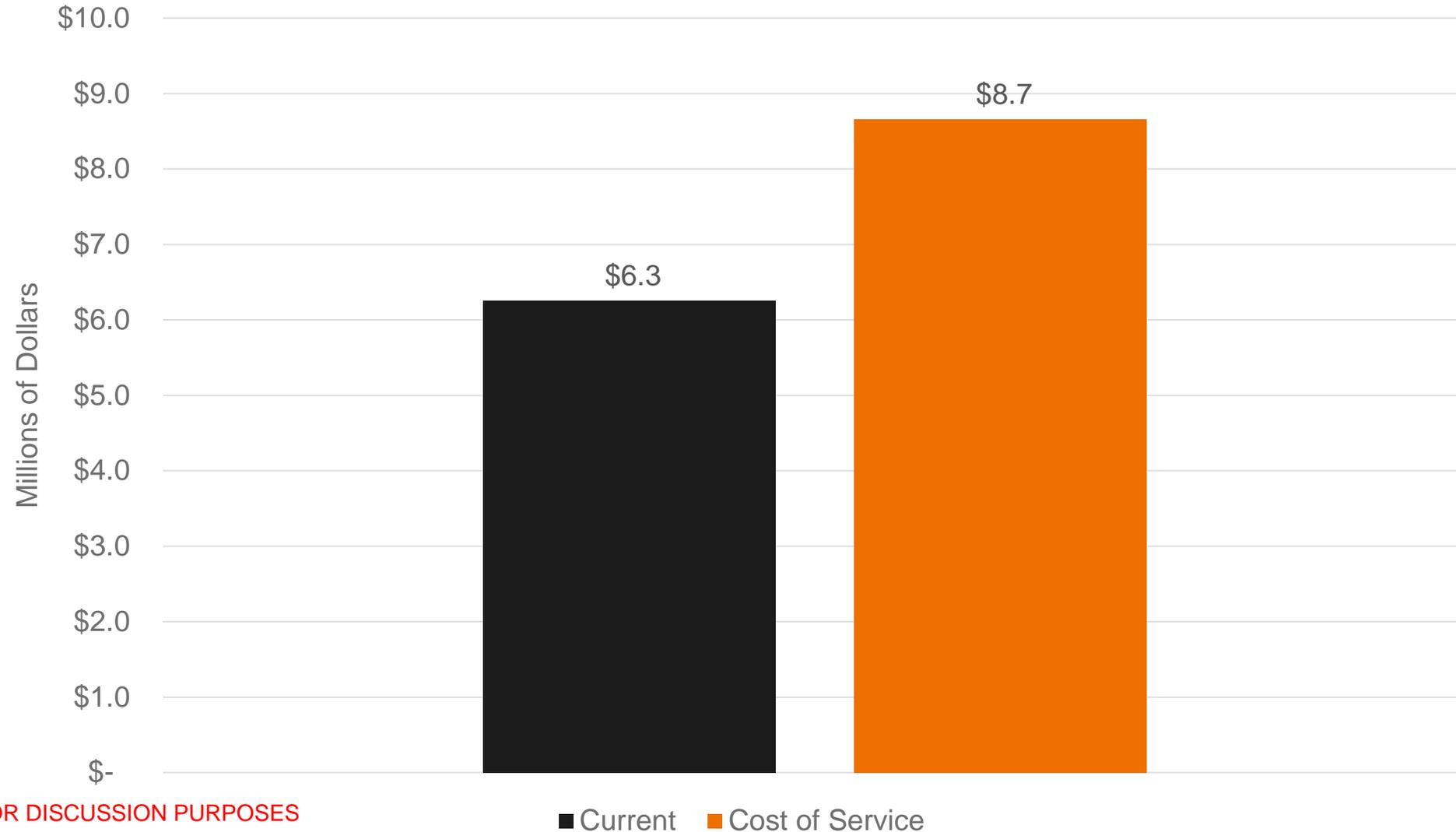
22.0%

Total Revenue/Cost of Service (\$M)





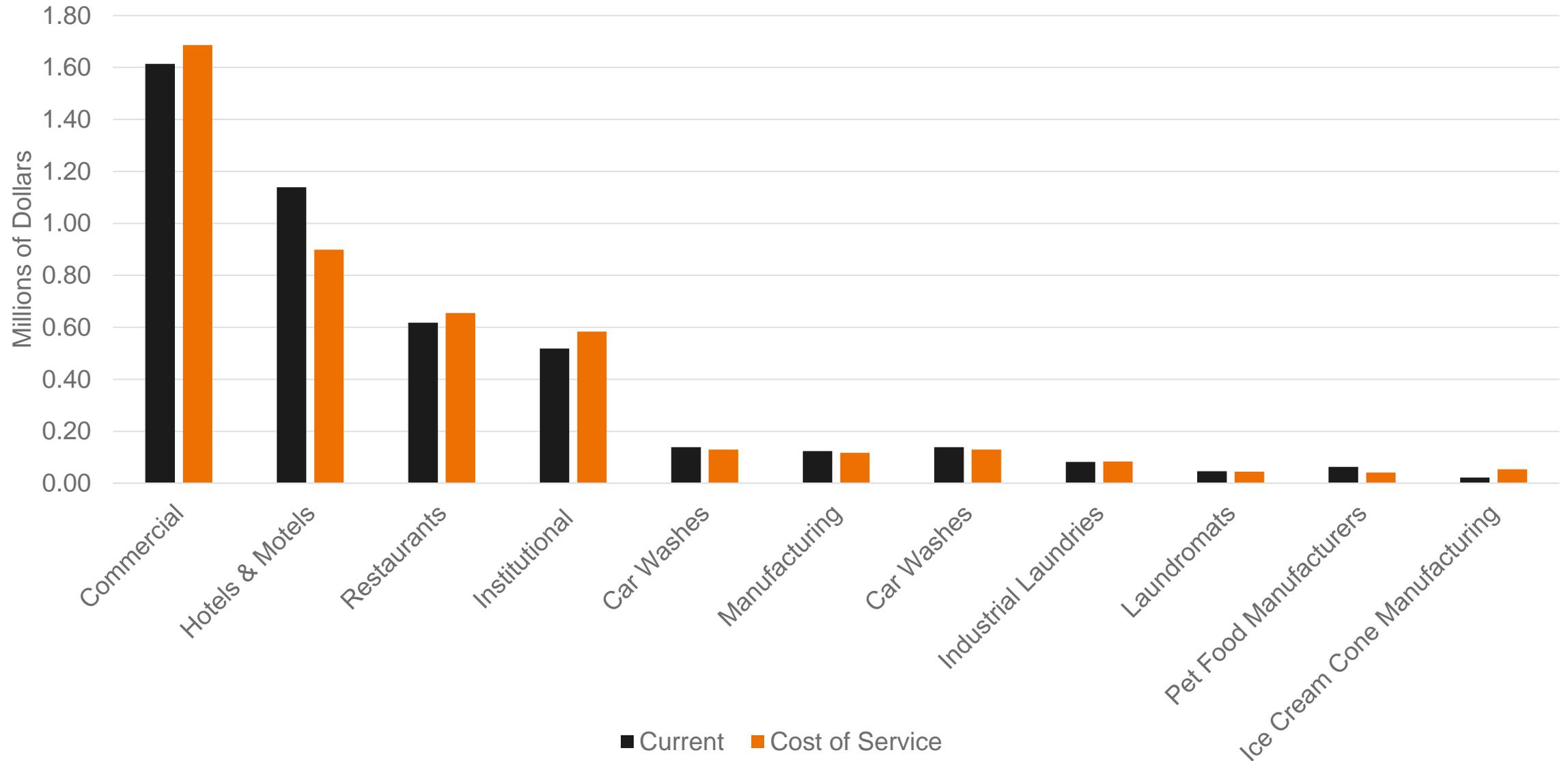
From Whom: Customer Class Cost Recovery FY 2025 - Residential



DRAFT – FOR DISCUSSION PURPOSES



From Whom: Customer Class Cost Recovery FY 2025 – Non-Residential



DRAFT – FOR DISCUSSION PURPOSES



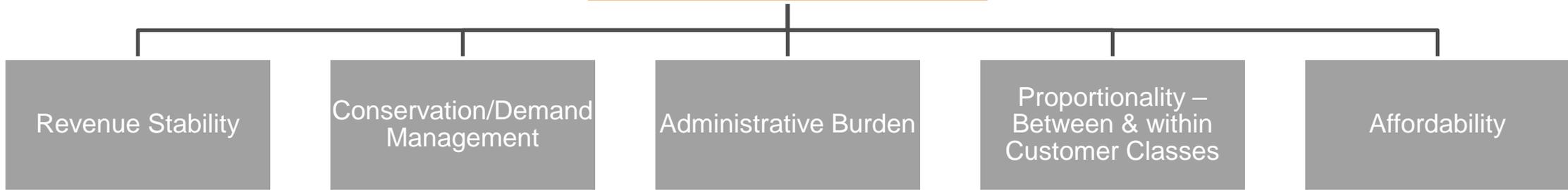
Cost of Service (COS) Results – Option 1

Customer Class	Current Rate*	FY 2025 COS Results
Residential	\$5.35	\$7.33
Car Washes	\$5.38	\$5.16
Laundromats	\$5.53	\$5.55
Commercial	\$5.68	\$6.11
Institutional	\$4.91	\$5.41
Manufacturing	\$6.09	\$5.92
Hotels & Motels	\$7.58	\$6.14
Restaurants	\$9.09	\$9.54
Industrial Laundries	\$8.36	\$8.81
Pet Food Manufacturers	\$13.34	\$8.56
Ice Cream Cone Manufacturing	\$16.48	\$39.95

*Inside city



Rate Design Priorities





Revenue Stability through a Fixed Charge

Charge Type	How is it Applied	Rationale	
Fixed Charge	Fixed amount per meter	Many of Utilities' costs are fixed (ex: debt)	Fixed revenues protect the utility from changes in demand
		Bond rating agencies measure fixed cost recovery	Water Services best practice - Minimum 25% our City policy for Water Fund



Fixed + Individualized – Option 2

Meter Size	ERU* Factor	FY 2025 Fixed Charge (25% Cost Recovery)
¾"	1.00	\$10.39
1"	1.67	\$17.32
1 ½"	3.33	\$34.63
2"	5.33	\$55.41
3"	11.67	\$121.22
4"	16.67	\$173.17
6"	33.33	\$346.33
8"	53.33	\$554.13

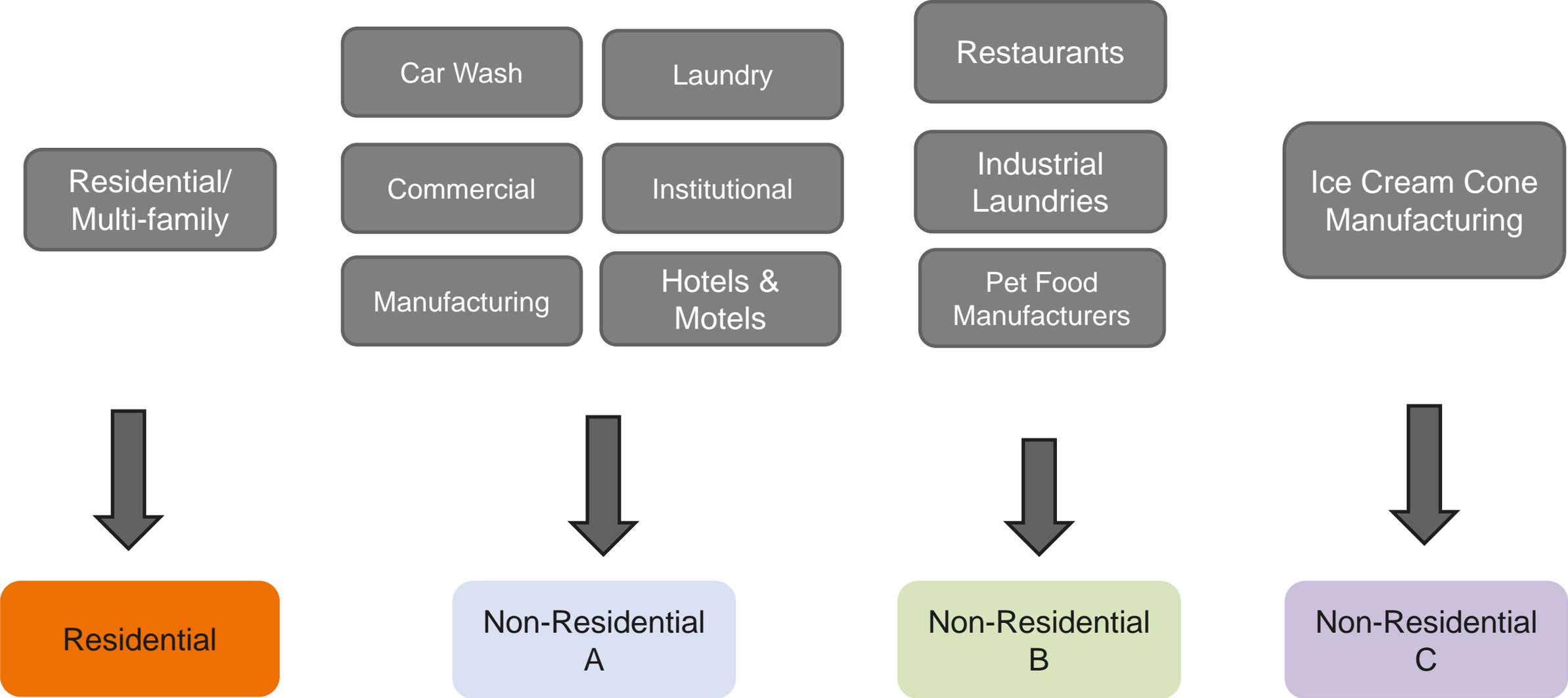
*ERU = Equivalent Residential Unit

Customer Class	Current Rate**	FY 2025 Individualized Volume Charge (per 1,000 gallons) (75% Cost Recovery)
Residential	\$5.35	\$5.50
Car Washes	\$5.38	\$3.87
Laundromats	\$5.53	\$4.16
Commercial	\$5.68	\$4.58
Institutional	\$4.91	\$4.06
Manufacturing	\$6.09	\$4.44
Hotels & Motels	\$7.58	\$4.61
Restaurants	\$9.09	\$7.16
Industrial Laundries	\$8.36	\$6.61
Pet Food Manufacturers	\$13.34	\$6.42
Ice Cream Cone Manufacturing	\$16.48	\$29.96

**Inside City



Consolidated Non-residential Classes





Fixed + Consolidated – Option 3

Meter Size	ERU* Factor	FY 2025 Fixed Charge (25% Cost Recovery)
3/4"	1.00	\$10.39
1"	1.67	\$17.32
1 1/2"	3.33	\$34.63
2"	5.33	\$55.41
3"	11.67	\$121.22
4"	16.67	\$173.17
6"	33.33	\$346.33
8"	53.33	\$554.13

*ERU = Equivalent Residential Unit

Consolidated Class	Customer Class	Current Rate**	FY 2025 Consolidated Volume Charge (75% Cost Recovery)
Residential	Residential	\$5.35	\$5.50
Non-Residential A	Car Washes	\$5.38	\$4.45
	Laundromats	\$5.53	
	Commercial	\$5.68	
	Institutional	\$4.91	
	Manufacturing	\$6.09	
	Hotels & Motels	\$7.58	
Non-Residential B	Restaurants	\$9.09	\$7.05
	Industrial Laundries	\$8.36	
	Pet Food Manufacturers	\$13.34	
Non-Residential C	Ice Cream Cone Manufacturing	\$16.48	\$29.96

**Inside City

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Wastewater COS Average Bill Impacts for Rate Options 1 - 3

Customer Class	Number of Accounts	Average Meter Size	Average Bill Volume (kgals)	Average FY 2023 Sewer Bill*	Option 1 – COS Results	Option 2 – Fixed + Individualized	Option 3 – Fixed + Consolidated
Residential	21,080	¾"	4.88	\$26.13	\$9.67	\$12.23	\$12.23
Car Washes	13	1 ½"	160.59	\$863.97	(\$35.33)	(\$212.26)	(\$119.54)
Laundromats	6	2"	157.85	\$872.92	\$3.15	(\$161.03)	(\$114.92)
Commercial	1,402	1"	17.60	\$99.96	\$7.57	\$5.07	\$2.73
Institutional	8	4"	9,559	\$46,932.24	\$4,402.71	(\$4,990.00)	(\$1,793.00)
Manufacturing	27	1 ½"	61.74	\$375.99	(\$10.50)	(\$67.72)	(\$67.03)
Hotels & Motels	97	2"	126.75	\$960.76	(\$182.52)	(\$330.31)	(\$350.09)
Restaurants	132	1"	40.86	\$371.41	\$18.39	(\$55.67)	(\$60.00)
Industrial Laundries	1	3"	778.52	\$6,508.40	\$350.33	(\$1,241.91)	(\$896.64)
Pet Food Manufacturers	1	3"	391.04	\$5,216.47	(\$1,780.00)	(\$2,651.00)	(\$2,230.00)
Ice Cream Cone Manufacturing	1	3"	109.3	\$1,801.23	\$2,565.00	\$1,595.00	\$1,595.00

*Average bill per customer class billed in FY 23.

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Red text indicates a reduction

And...more additional Information...

Customer Class	Number of Accounts	Average Meter Size	Average Bill Volume (kgals)	Average FY 2023 Sewer Bill*	Option 1 – COS Results	Option 2 – Fixed + Individualized	Option 3 – Fixed + Consolidated	Current Average Monthly Revenue	Option 1 Average Monthly Revenue	Option 2 Average Monthly Revenue	Option 3 Average Monthly Revenue	Option 1 Average Monthly Impact	Option 2 Average Monthly Impact	Option 3 Average Monthly Impact
Residential	21,080	¾"	4.88	\$26.13	\$9.67	\$12.23	\$12.23	\$550,820.40	\$754,664.00	\$808,628.80	\$808,628.80	37.01%	46.80%	46.80%
Car Washes	13	1 ½"	160.59	\$863.97	(\$35.33)	(\$212.26)	(\$119.54)	\$11,231.61	\$10,772.32	\$8,472.23	\$9,677.59	-4.09%	-24.57%	-13.84%
Laundromats	6	2"	157.85	\$872.92	\$3.15	(\$161.03)	(\$114.92)	\$5,237.52	\$5,256.42	\$4,271.34	\$4,548.00	0.36%	-18.45%	-13.17%
Commercial	1,402	1"	17.6	\$99.96	\$7.57	\$5.07	\$2.73	\$140,143.92	\$150,757.06	\$147,252.06	\$143,971.38	7.57%	5.07%	2.73%
Institutional**	8	4"	9,559	\$46,932.24	\$4,402.71	(\$4,990.00)	(\$1,793.00)	\$375,457.92	\$410,679.60	\$335,537.92	\$361,113.92	9.38%	-10.63%	-3.82%
Manufacturing	27	1 ½"	61.74	\$375.99	(\$10.50)	(\$67.72)	(\$67.03)	\$10,151.73	\$9,868.23	\$8,323.29	\$8,341.92	-2.79%	-18.01%	-17.83%
Hotels & Motels	97	2"	126.75	\$960.76	(\$182.52)	(\$330.31)	(\$350.09)	\$93,193.72	\$75,489.28	\$61,153.65	\$59,234.99	-19.00%	-34.38%	-36.44%
Restaurants	132	1"	40.86	\$371.41	\$18.39	(\$55.67)	(\$60.00)	\$49,026.12	\$51,453.60	\$41,677.68	\$41,106.12	4.95%	-14.99%	-16.15%
Industrial Laundries	1	3"	778.52	\$6,508.40	\$350.33	(\$1,241.91)	(\$896.64)	\$6,508.40	\$6,858.73	\$5,266.49	\$5,611.76	5.38%	-19.08%	-13.78%
Pet Food Manufacturers***	1	3"	391.04	\$5,216.47	(\$1,780.00)	(\$2,651.00)	(\$2,230.00)	\$5,216.47	\$3,436.47	\$2,565.47	\$2,986.47	-34.12%	-50.82%	-42.75%
Ice Cream Cone Manufacturing	1	3"	109.3	\$1,801.23	\$2,565.00	\$1,595.00	\$1,595.00	\$1,801.23	\$4,366.23	\$3,396.23	\$3,396.23	142.40%	88.55%	88.55%
Annual Total								\$14,985,468.48	\$17,803,223.28	\$17,118,541.92	\$17,383,406.16			
												Number of Accounts Likely Preference		
												21,080	92	1,597

Green highlight indicates the likely customer preference

1,667 accounts were billed 500 gallons per month for 10-12 months in FY23.



Discussion of Options

Option 1

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Industrial Laundries	\$8.36	\$8.81
Pet Food Manufacturers	\$13.34	\$8.56
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Option 2

Meter Size	ERU* Factor	Fixed Charge (25% Cost Recovery)
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2"	5.33	\$55.41
3"	11.67	\$121.22
4"	16.67	\$173.17
6"	33.33	\$346.33
8"	53.33	\$554.13



Option 3

Customer Class	Individualized Volume Charge (per 1,000 gallons) (75% Cost Recovery)	Consolidated Volume Charge (75% Cost Recovery)
Residential	\$5.50	\$5.50
Car Washes	\$3.87	\$4.45
Laundromats	\$4.16	
Commercial	\$4.58	
Institutional	\$4.06	
Manufacturing	\$4.44	
Hotels & Motels	\$4.61	\$7.05
Restaurants	\$7.16	
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Next Steps

- March 25, 2024 - Joint City Council & Water Commission Water Rate Design Direction
- *Future opportunities for direction:*
 - April work sessions for policy topic discussions
- April 16, 2024 – adopt notice of intention (NOI) to change rates and fees
- June 18 and July 2, 2024 - Public hearings on changes in rates and fees
- September 1, 2024 - new rates are effective



Discussion & Guidance

Next Steps/Action Items



Extra Slides (do not print)