JOINT CITY COUNCIL / WATER COMMISSION
SPECIAL WORK SESSION
MONDAY, MARCH 4, 2024
CITY HALL COUNCIL CHAMBERS
211 WEST ASPEN AVE
3:00 P.M.

MINUTES

1. Call to Order

Mayor Daggett called the joint meeting of the Flagstaff City Council and Water Commission held March 4, 2024, to order at 3:04 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 Council or Commission members may be in attendance through other technological means.

COUNCILMEMBERS PRESENT:	COUNCILMEMBERS ABSENT:
MAYOR DAGGETT	
VICE MAYOR ASLAN	
COUNCILMEMBER HARRIS	
COUNCILMEMBER HOUSE	
COUNCILMEMBER MATTHEWS	
COUNCILMEMBER MCCARTHY	
COUNCILMEMBER SWEET	

COMMISSION MEMBERS PRESENT:	COMMISSION MEMBERS ABSENT:
VICE CHAIR LOVERICH	CHAIR RIEGELMAN
COMMISSIONER ALTER	COMMISSIONER RUDDELL
COMMISSIONER BILLS	
COMMISSIONER DILDAY	
COMMISSIONER NAUMAN	
COMMISSIONER VANE	

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

The Council, Commission, and audience recited the pledge of allegiance, Councilmember Harris read the Mission Statement of the City of Flagstaff, and Councilmember Sweet 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. Wastewater Rate Design Alternatives Workshop

Water Services Manager Erin Young introduced the Team from Stantec, Tim Hancock, Andrew Burnham, and Carol Malesky who provided a PowerPoint presentation that covered the following:

WATER, RECLAIMED WATER, & WASTEWATER COST-OF-SERVICE STUDY -- WASTEWATER RATE DESIGN
AGENDA
SCOPE OVERVIEW
THE RATE STUDY PROCESS
HOW MUCH: REVENUE REQUIREMENTS FY 2024 VS. FY 2025
REVENUE REQUIREMENTS FY 2024 -- FY 2025
FROM WHOM: CUSTOMER SLASS COST RECOVERY FY 2025 -- RESIDENTIAL
FROM WHOM: CUSTOMER CLASS COST RECOVERY FY 2025 -- NON-RESIDENTIAL
COST OF SERVICE (COS) RESULTS -- OPTION 1

There was discussion on how wastewater costs were allocated among different customer classes. The total cost, approximately $113 million, was broken down into treatment, collection, and administrative components. The costs were then divided into categories based on flow, biochemical oxygen demand (BOD), total suspended solids (TSS), and customer-related costs. Each customer class, such as residential or industrial users like ice cream manufacturers, wer assigned a portion of the costs based on their share of those factors. For example, residential customers, who contributed the most flow, were allocated a larger share of flow-related costs, while industrial users with higher-strength waste were assigned more of the BOD and TSS-related costs. The end result was a proportional allocation of the total cost of service across all user types.

RATE DESIGN PRIORITIES
REVENUE STABILITY THROUGH A FIXED CHARGE
FIXED + INDIVIDUALIZED -- OPTION 2

There was discussion on how base fees or fixed charges in the water rate structure compared to other communities and how they impacted both customer billing and the city's financial metrics. In some areas, base charges covered only minimal costs like billing, while others, such as Albuquerque, recovered up to 50% of their total revenue through fixed charges. The recommended 25% base charge aligned with industry practices, where bond rating agencies, use metrics such as fixed charge ratios when evaluating utilities. A higher fixed charge could improve a utility's bond rating and reduce interest rates, benefiting customers in the long term.

There was also clarification on how the shift in fixed and usage-based rates would affect customers. The actual impact varied depending on meter size and water usage. For example, a customer with a large meter and low usage may see a decrease in their bill, while a customer with a small meter and high usage may experience an increase.

There were questions about rate differences between pet food and ice cream manufacturing. Pet food producers saw reduced rates due to recent improvements in their pre-treatment processes, resulting in lower wastewater strength. The ice cream manufacturer, which did not undergo such updates, did not benefit from a similar rate adjustment.

CONSOLIDATED NON-RESIDENTIAL CLASSES

There was discussion about concerns with the cost recovery changes for hotels and motels under a proposed rate structure. It was noted that future cost recovery for that group would be lower than current rates, and there was a question about whether grouping them with other industries would place an undue burden on them. Staff clarified that hotels and motels currently paid more than their calculated cost of service, so either maintaining them as a standalone category or including them in a consolidated group would likely reduce their rates, making it more beneficial rather than burdensome. There was also a discussion about the potential legal risks of consolidating customer classes, particularly if a business with lower wastewater strength felt they were being unfairly grouped and overcharged.

A break was held from 3:36 p.m. through 3:41 p.m.

FIXED + CONSOLIDATED -- OPTION 3

WASTEWATER COS AVERAGE BILL IMPACTS FOR RATE OPTIONS 1 -- 3

Councilmembers and the Water Commission explored how different pricing models, fixed charges versus usage-based charges, affected both the city's ability to recover costs and the fairness of rates for various customer types. A major concern raised was the growing number of second homes and low-usage properties that still relied on city infrastructure but contributed less revenue under a usage-based model. While those properties use little water, the city's fixed costs for maintaining the system remained unchanged.

Staff clarified that the proposed rate options were designed to be revenue neutral overall. This meant that although some users may see reductions in their bills under certain options, others would see increases, resulting in the same total revenue for the city. For example, Option 1 would result in lower impacts on residential users, while Options 2 and 3 spread costs more broadly, with varying effects across different customer classes.

Concern was raised about commercial users like Joy Cone who may face significant increases due to the high strength of their wastewater. Although it was not legal to subsidize one customer's rate with another's, the city was working with Joy Cone and state agencies to explore pretreatment solutions and had offered rebates to help offset the cost of needed upgrades.

There were suggestions to use median usage rather than averages when modeling rate impacts, especially since a small number of high-use accounts could skew the data. Others requested clearer visualizations of how the fixed and usage-based components break down on typical bills to help the public better understand the changes.

There was also a broader discussion about whether rate structures could incentivize conservation or efficiency, as some electric utilities do. Staff noted that residential sewer rates already rewarded wintertime water conservation and that businesses could lower their rates by improving wastewater quality. However, widespread conservation did reduce revenue, which may necessitate future rate adjustments to continue covering fixed infrastructure costs.

Water Services Director Shannon Jones commended Stantec for effectively following the Council's direction in developing water and sewer rate structure options that aimed to fairly recover necessary revenues.

Option 1 was the most straightforward, it simply spread the identified costs evenly across customer classes, using a linear cost-of-service approach without additional adjustments.

Option 2 introduced a base charge, aligning with water policy guidelines that recommended recovering at least 25% of revenue through fixed fees. That shift increased cost stability for the utility but reduced the control customers had over their bills by diminishing the financial benefit of water conservation. A more aggressive fixed-revenue recovery, closer to 30%, might improve bond ratings, but the 25% figure was viewed as a more conservative, customer-friendly starting point.

Option 3 went further by consolidating customer classifications, from multiple commercial categories down to just three, based on usage intensity. That simplification aimed to make the rate structure easier to administer and communicate, while still allowing for some flexibility. That streamlining was beneficial not only now, but also for future development, helping reduce disputes about classification and made it easier to assign new accounts.

Concern was expressed that residential customers appeared to be absorbing the largest increases, possibly negating the long-term benefits of conservation. Staff clarified that unlike previous models, the study incorporated wastewater loadings into the cost calculation. That reflected a more accurate picture of treatment costs and potentially increasing rates for residential users who used less water but still contributed high-strength waste.

There was further conversation about ensuring operational efficiency before raising rates. There was a significant need to demonstrate to the public that the city had explored every option to cut costs and improve performance. Staff responded that they had already applied conservative assumptions in the rate model and highlighted their commitment to fiscal responsibility. It was also stressed that transparent communication with residents was important and providing regular reports to explain how rate increases were being used to improve infrastructure and service delivery.

The proposed wastewater rate increased 25% for 2025, with additional increases planned for the next four years: 25% in 2026, followed by 15%, 10%, and 5% annually. That schedule was part of the fully funded CIP, which was chosen over previously discussed alternatives like the levelized rate increases. The impact on customers would vary depending on individual water usage and the structure of their rates, meaning some may see increases slightly above or below 25%.

There was some discussion about the difference between the levelized plan, which aimed to spread rate increases evenly over five years, and the current fully funded CIP plan that prioritized meeting all capital infrastructure needs. The Council and Water Commission acknowledged some confusion between the scenarios and requested clarification on how the current numbers related to the levelized options presented earlier.

Concerns were also raised regarding the behavioral impact of increasing fixed fees, with questions about whether it might reduce incentives for water conservation. Staff responded that although fixed fees might rise, the overall bills would still increase, which should continue to motivate conservation efforts. There was also interest in understanding the balance between usage-based and fixed charges in terms of equity, conservation, and cost recovery.

There was a preference to delay final decisions until water and wastewater rates could be reviewed together. It was requested that staff provide a clear, visual breakdown of combined water and wastewater bills year-by-year for a typical residential customer to get a holistic view rather than making decisions in isolation. Among the rate options, many favored Option 2 or 3, with Option 2 slightly preferred due to better alignment with actual water usage patterns.

The discussion also covered water usage differences between single-family and multi-family residences. A comparison showed that single-family homes used about 65 gallons per person per day, while multi-family homes used closer to 40 gallons. That highlighted the water-saving benefits of denser development. Questions were asked about how water used for common area landscaping in multi-family complexes was measured, which was typically through separate irrigation meters.

Key dates for the public process included a March 25, 2024, meeting to discuss water rate options, a formal Notice of Intent to adopt new fees at the April 16, 2024, Council meeting, followed by public hearings scheduled for June 18, 2024, and July 2, 2024.

Both Council and Commission members expressed appreciation for the thoroughness of the current rate study and noted that it was far more detailed than past efforts. They also thanked community volunteers and encouraged broader public participation to help guide the decisions.

5. Adjournment

The Joint Meeting of the Flagstaff City Council and Water Commission held March 4, 2024, adjourned at 4:59 p.m.

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MAYOR

ATTEST:

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CITY CLERK