

MINUTES

1. Call to Order

Mayor Daggett called the joint meeting of the Flagstaff City Council and Water Commission held March 25, 2024, to order at 3:05 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 or Commission members may be in attendance through other technological means.

COUNCILMEMBERS PRESENT:

MAYOR DAGGETT
VICE MAYOR ASLAN
COUNCILMEMBER HOUSE (virtually)
COUNCILMEMBER MATTHEWS
COUNCILMEMBER MCCARTHY (arrived at 4:38 p.m.)
COUNCILMEMBER SWEET

COUNCILMEMBERS ABSENT:

COUNCILMEMBER HARRIS

COMMISSION MEMBERS PRESENT:

CHAIR RIEGELMAN
VICE CHAIR NAUMAN (virtually)
COMMISSIONER ALTER (virtually)
COMMISSIONER BILLS
COMMISSIONER DILDAY
COMMISSIONER LOVERICH
COMMISSIONER VANE

COMMISSION MEMBERS ABSENT:

Others present: City Manager Greg Clifton; City Attorney Sterling Solomon.

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

The Council, Commission, and audience recited the pledge of allegiance, Vice Mayor Aslan 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. Water Rate Design Alternatives Workshop - Direction on Water, Wastewater and Reclaimed Water Rates

Water Services Manager Erin Young introduced Water Services Management Analyst Lisa Deem, Public Affairs Director Sarah Langley, and Carol Malesky with Stantec who provided a PowerPoint presentation.

WATER, RECLAIMED WATER, & WASTEWATER COST-OF-SERVICE STUDY --WATER RATE DESIGN
 AGENDA
 RATE STUDY OUTREACH UPDATE
 OUTREACH UPDATE -- INDIVIDUAL MEETINGS
 OUTREACH UPDATE -- EMAILS
 EMAIL COMMUNICATION
 OUTREACH UPDATE -- PRESS RELEASES
 OUTREACH UPDATE -- WEBSITE
 OUTREACH UPDATE -- WEBSITE FEEDBACK
 MATERIALS & ADVERTISING
 KIOSKS & BANNERS
 UPCOMING OUTREACH -- APRIL & MAY

Councilmember Matthews noted that while focus group feedback was positive, email respondents expressed more concern. She questioned whether participants had seen the actual rate structure, and staff confirmed they had not. Councilmember Matthews cautioned that feedback may change once people understand the financial impact, suggesting it was misleading to call the feedback entirely positive without that context. Staff responded that they had shared some rate structure concepts and had communicated that the potential impacts could be significant.

JOIN US & SPREAD THE WORD
 SCOPE OVERVIEW
 THE RATE STUDY PROCESS
 HOW MUCH: REVENUE REQUIREMENTS FY 2024 VS. FY 2025
 REVENUE REQUIREMENTS FY 2024 -- FY 2025
 FROM WHOM: CUSTOMER CLASS COST RECOVERY FY 2025 -- RESIDENTIAL
 FROM WHOM: CUSTOMER CLASS COST RECOVERY FY 2025 -- NON-RESIDENTIAL

Councilmember Matthews asked what the 9.6 million entailed on the 2024 CIP list. Water Services Director Shannon Jones stated that it was for the waterline replacement on Switzer and Soliere. Councilmember Matthews asked if they would break ground that year to which Mr. Jones responded yes.

CURRENT RATE STRUCTURE
 CUSTOMER USAGE TRENDS

Commissioner Nauman asked what the overall effect did it have on the needed capacity of the system. Ms. Malesky stated that the peaking had already impacted the system, it was designed to handle the peak capacities, but the operating cost could be impacted by the peaks.

COST OF SERVICE (COS) RESULTS -- FOR REFERENCE

Mayor Daggett asked if they were required to change the rate by the same percentage for each user.

Ms. Malesky explained that rate increases did not have to be applied equally across all user classes. Each class could have different rate changes based on how they drive system costs. While it is technically possible to shift cost burdens between user groups, doing so was not recommended because it would deviate from a cost-of-service approach and could result in subsidization or inequity.

RATE DESIGN PRIORITIES

REVENUE STABILITY THROUGH A FIXED CHARGE

25% REVENUE RECOVERY THROUGH BASE CHARGE -- OPTION 1

DISTRIBUTION OF HOUSEHOLDS FROM CENSUS DATA

OPTION 1 + CHANGE IN RESIDENTIAL TIER RATIOS -- OPTION 2

OPTION 2 + CLASS COMBINATION -- OPTION 3

There was a question on whether simplifying rate classes truly helped administratively, since water and wastewater still used different sets of customer classes, which required the city to track both systems separately. Ms. Malesky stated that it was a complexity, but the simplification still brought benefits. For wastewater, they were reduced to three non-residential classes but could not justify the same for water due to differences in service use. Staff confirmed that customers such as car washes, already fell into different classes for water and wastewater, and staff were accustomed to managing that. Consolidation helped with public records compliance, and removing individual company identifiers allowed data to be more easily aggregated.

There was concern that multifamily residents who often had lower per capita water use and possibly less ability to afford increases, may face higher rate hikes than single-family homes. Ms. Malesky shared that although per capita use was lower (41 gallons vs. 60 gallons with landscaping), the multifamily bill was spread across units, making the impact less severe. Landscape water was clarified as partially counted in multifamily totals.

It was also noted that in Option 1, Tier 1 water pricing was actually higher than in other options, even though the tier price ratio was lower in higher tiers for those other options. Staff confirmed this was due to needing to meet the same revenue requirement across all tiers. Tier 4 or high usage, consisted of single-family homes using over 11,500 gallons per month, primarily due to irrigation or summer use. The number of customers in Tier 4 was not large, but cost recovery was significant due to peak demand.

OPTION COMPARISON -- FIXED CHARGE

OPTION COMPARISON -- VOLUME CHARGE (PER 1,000 GALLONS)

WATER COS AVERAGE BILL IMPACTS FOR RATE OPTIONS 1-3

Councilmember Matthees shared that she had a 21-unit extended stay hotel and their monthly water usage was around 70,000 gallons and expressed concern that larger hotels and motels likely used much more. Staff stated that commercial averages were based on account-level data, not by unit count, and included a wide range of businesses, from high-usage hotels to low-usage commercial properties, so the averages may not reflect specific cases.

It was questioned whether using a 1-inch meter in the calculator as the average was realistic, especially for commercial buildings like medical offices, which often required larger meters. A recent example was described where a medical office building had to upgrade from a 2-inch to a 3-inch meter to meet code requirements, even though the building had relatively low water volume use. The concern was that the assumptions used in rate modeling may not accurately reflect real-world conditions and that meter size and category impacts should be carefully considered in the analysis.

CONSIDERATION OF RECLAIMED WATER RATES

The Council and Commission discussed reclaimed water rates with focus on costs, values, and long-term strategy for managing the increasingly critical water source.

Director Jones began by explaining the concept of a main extension, noting that when a new reclaimed water line must be extended to serve a property, the city initially carried the cost. However, that cost was recaptured through a higher rate charged to the customer over time. If no extension was required, and the property connected near an existing line, only the standard rate applied.

From there, the conversation turned to the broader rate structure for reclaimed water, which was currently set at 35% of the potable water rate. Some members questioned whether that percentage still accurately reflected the true cost or value of reclaimed water, especially given water scarcity concerns in the region. One suggestion was to consider a modest increase, such as 36%, to begin signaling to users that reclaimed water was a valuable resource with growing significance in Flagstaff's water future.

The discussion also examined the discounted rate for off-peak users, especially golf courses. While the lower rate had been justified in the past due to the investment by these users in water storage infrastructure, members questioned whether the benefits to the users themselves might outweigh the benefits to the city, and whether that still warranted a reduced rate. Financially, reclaimed water was managed as a separate fund from potable and wastewater services. Staff clarified that the current rates covered operations, but the fund could not support large capital projects, such as pipeline upgrades, without adjustments. In recent years, the city has downsized some of those projects to stay within the constraints of available reclaimed water revenue. Staff explained that no potable or wastewater revenue was used to subsidize reclaimed water, although in past forecasts, there were indications of potential shortfalls when large capital investments were considered.

Looking ahead, multiple members emphasized that reclaimed water would play a major role in Flagstaff's long-term water strategy, including possible direct potable reuse. With around 50% of reclaimed water currently not purchased or used, but instead discharged into the environment, some members felt it would be difficult to justify significant price increases now, particularly when much of the supply is essentially free flowing. Other members urged caution against making any rate adjustments without a data-driven analysis. The original 35% rate, while once considered a rough estimate of cost, was never based on a detailed cost-of-service study. Members voiced concerns about replacing one arbitrary number with another, and stressed the need for factual, structured decision-making going forward.

It was agreed that water was water and that all water, whether potable or reclaimed, should be treated as a finite and increasingly valuable resource. Reclaimed water, especially when used for irrigation, was often lost to transpiration and did not return to the system, unlike potable water, which was typically treated and reused. This distinction could eventually factor into pricing models and policy decisions.

Given the complexity of the topic, and the lack of full data available, the consensus was to postpone any final decision on reclaimed water rates. Staff proposed bringing the topic back to Council on April 2, 2024, with more detailed financial data, rate structure options, and a deeper dive into long-term capital planning and cost recovery models.

WASTEWATER -- DISCUSSION OF OPTIONS COUNCIL DIRECTION

The Council and Commission discussed the options presented to them. With regard to wastewater rate changes, one of the major shifts in the proposed wastewater rate structure was how the strength of the wastewater was accounted for. Previously, the entire charge was volume-based, with no clear surcharge for strength. Under the new approach, strength was now directly factored into the rate. This change was built into both Option 2 and Option 3, which introduced a 25% fixed charge component designed to support revenue stabilization.

Option 3 received broad support from both Council and Commissioners. It consolidated certain customer categories based on similar wastewater strength profiles, making the rate structure simpler and easier to administer. Staff confirmed that the consolidation would reduce administrative workload and improve customer service by making billing more straightforward. While a few members expressed flexibility between Options 2 and 3, the majority favored Option 3.

Moving on to the water rate structure, several Councilmembers expressed frustration that the proposed options did not include tiered rates for non-residential customers, which they had been discussed in prior meetings. Tiered rates were widely recognized as one of the most effective tools for encouraging conservation. Staff responded that they had explored tiered rate options for non-residential customers. However, due to the wide variation in usage patterns across commercial accounts, they found it difficult

to define tiers that would be both fair and functional. Options such as tiering by meter size or by demand profile were explored, but none offered a clear path forward. Staff acknowledged that while many other communities use tiered commercial rates, those communities often had simpler or smaller user classes. The city's water conservation program and planned rate increases would likely drive some level of conservation regardless. The Council and Commission encouraged staff to revisit the possibility of non-residential tiering in future rate studies, suggesting a comparison with other cities to identify potential paths forward.

There was also discussion about how residential water tiers were structured in the current proposals. One member voiced concern that the rate for Tier 3 users with the highest water consumption had a lower cost multiplier (1.8x) than in the current system (2.0x), which potentially reduced the incentive for high-use households to conserve. Staff explained that the Tier 3 rate was derived from a cost-of-service analysis, which included both base and capacity costs. However, they acknowledged that if Council preferred, the structure could be adjusted so long as the overall revenue target remains the same. Council requested that staff model the alternatives and present them at the next meeting.

The discussion also focused on the strategic importance of reclaimed water and the need to plan for major infrastructure investments, such as a future revamp of the sewage treatment plant. Those items were identified as longer-term issues that would require further discussion and planning over the coming year. The status of the water and wastewater utilities as enterprise funds was reaffirmed and supported.

Staff committed to bringing revised rate calculations, including potential adjustments to residential tier multipliers, back to Council at the April 2, 2024, meeting. The Notice of Intent to change rates was scheduled for April 16, 2024. Commissioners indicated they would be ready to provide public comment or written input once the revised information was available.

The council and commissioners moved to a discussion about clarifying which rate structure option they collectively preferred, and what direction to give staff moving forward.

One option suggested was to take Options 2 and 3 and recalculate them using a Tier 3 price ratio of 2.0 instead of 1.8. The goal was to increase the price signal for high-volume water users while lowering the rate for Tier 1 to maintain the same total revenue. There were concerns voiced about that approach because increasing the Tier 3 rate could unintentionally penalize larger families who may be water-efficient but still use more water due to household size. She recognized that many of those families might be low-income, and thus the proposed change could be regressive.

Staff explained how they had already adjusted the current tiered structure to narrow the gap between tiers, in order to avoid disproportionately impacting larger households or those with shared living situations. They described their methodology, which involved modeling indoor water use for average household sizes, and how tier thresholds were designed to account for those realities while still promoting conservation through higher-tier pricing for outdoor or peak usage.

After discussion, multiple members expressed their preference for Option 3, with the understanding that staff would run a revised model showing what it would look like if the Tier 3 multiplier were increased to 2.0. It was suggested that they could review the updated figures at the next meeting and adjust their positions if needed. There was a desire to see more data on how the proposed changes would affect real customers.

Another idea was suggested which was to collapse Tiers 1 and 2 into a single tier, to create a three-tier system instead of four. The reasoning was that it might further reduce the penalty on larger or multi-person households. Staff explained that they had already analyzed that approach and ultimately decided against it because it would significantly reduce the price signal for conservation. With many users in the current Tier 2, expanding Tier 1 to cover them all would stifle conservation efforts. Staff agreed to bring the analysis forward at the next meeting as well, though there was not a consensus to pursue that option.

Mayor Daggett confirmed that there was consensus in favor of Option 3 for both wastewater and water volume rates. Staff would return on April 2, 2024, with recalculated versions using a Tier 3 multiplier of 2.0. Once the revised figures were reviewed, the Council and Commission would have a chance to

finalize their recommendations. Staff also noted that a public rate calculator would be rolled out, allowing residents to estimate how the proposed rates would affect them directly.

5. Adjournment

The Joint Meeting of the Flagstaff City Council and Water Commission held March 25, 2024, adjourned at 5:38 p.m.

MAYOR

ATTEST:

CITY CLERK