

CITY COUNCIL REPORT



Meeting Date: February 6, 2024
 General Plan Element: ***Public Services & Facilities***
 General Plan Goal: ***Maintain a sustainable water and wastewater system.***

ACTION

Adopt notice of intention to increase water and wastewater rates, increase miscellaneous water charges and make housekeeping adjustments to Chapter 49 City of Scottsdale Revised Code for fiscal year 2024/25 and establish May 14, 2024 as the date for a public hearing.

BACKGROUND

Financial Planning Process: As prescribed by the City of Scottsdale's adopted Comprehensive Financial Policies, the City sets rates for water and wastewater customers based on an annually updated five-year financial plan for each enterprise fund. The five-year plans are used to ensure that rate changes generate sufficient revenues to cover costs of serving customers and to maintain adequate reserves in accordance with the City's adopted financial policies; reserve policies provide for contingencies and stabilize rate increases over the five-year planning period. As part of the comprehensive planning effort, the impact on the combined utility bill is carefully considered in determining the appropriate balance between rate increases and expenditure needs including future capital improvements and debt financing needs. The City believes that a strategy of annual marginal rate increases to smooth out long term revenue requirements produces more affordable and predictable rates for customers.

State Public Notification Process: State statutes establish the public notice and public hearing process to ensure that City water and wastewater customers receive adequate notice time, the ability to study the rate report supporting the proposed rate increases, and the opportunity to speak at a public hearing regarding the proposed increases. State statutes require:

- Adoption of a notice of intention to modify rates and miscellaneous water charges at a regular Council meeting (February 6, 2024) and setting of a date for a public hearing (May 14, 2024) on the proposed changes to be held not less than 60 days after adoption of the notice of intention;

Action taken Approved on Consent

- Posting of a written report or data supporting the changes with the City Clerk at least 30 days prior to the public hearing (March 15, 2024);
- Publication of a notice of public hearing regarding City's intention to modify rates and miscellaneous water charges in a newspaper of general circulation within the boundaries of the municipality not less than 20 days prior to the public hearing date (March 15, 2024);
- A public hearing at a City Council meeting (May 14, 2024);
- Adoption of the proposed changes any time after the public hearing (May 14, 2024);
- Implementation of changes no sooner than 30 days after adoption (proposed water rates and miscellaneous water charges, and wastewater rates effective July 1, 2024).

ANALYSIS & ASSESSMENT

In accordance with its adopted financial policies, the City completed the annual updates to the comprehensive five-year financial plans that incorporate all projected operating and capital revenues and expenses to determine the cash needs of the water and wastewater enterprise funds. The City is proposing modifications to the water and wastewater rates and is proposing increases to miscellaneous water charges to meet cost recovery requirements for services provided to specific customers. As part of the comprehensive planning effort, the impact on the combined utility bill for water and wastewater service was carefully considered in determining the appropriate balance between the proposed rate changes and debt financing. Based on the updated five-year financial plans, a synopsis of cost impacts is explained below.

Water Cost of Service Study – Periodically, Scottsdale Water contracts with a third-party consultant to evaluate the utility fund's financial sustainability and customer rate structures. It's an opportunity to hear from an independent source if the utility is using financial best practices, how the utility compares with financial industry standards and forecast forward utility rate structures based on a point in time set of data. Scottsdale Water contracted with Raftelis in FY 2023/24 to study the city's water utility. The primary objectives of the study included:

- A financial plan for the study period of FY 2023/24 through 2028/29,
- Cost of service analysis to ensure costs are allocated equitably to customer classes,
- Design rates to recover the revenue requirements of each customer class, and
- Develop an interactive rate model for city staff to development financial plans and rates in the future.

The final report will be available and posted to the City's website in early March. The rates and rate structures proposed for FY 2024/25 are based on the study recommendations.

Water –The water enterprise fund is impacted by multiple cost factors over the five-year planning period including:

- Operating cost increases for raw water to include current drought pricing, put in place by Central Arizona Project (CAP),
- Operating cost increases for electricity in the Arizona Public Service (APS) service area,

- Increasing actions and costs required for drought preparedness through enhancement of conservation measures and messaging,
- Investment in new water resources to replace CAP supplies,
- Increasing cost for replacing and repairing aging infrastructure,
- Operating cost increases for personnel services and benefits.

Increases to base fees are proposed to better reflect the recovery of fixed operating costs and adjusted to capture the demand availability designed into the system. Increases to commodity rates are proposed to generate sufficient revenues to maintain the water fund as a self-sustaining enterprise, encourage efficient water use and urge conservation.

Overall, the water base fee and commodity rate changes are forecasted to generate an annual revenue increase of approximately \$8.5 million or 7.0% and proposed to become effective November 1, 2024. The individual increases a customer may experience will vary, and dependent upon the water meter size and volume of water delivered. An average customer may experience a monthly increase between \$1.00 and \$9.00.

Wastewater Cost of Service Study – Periodically, Scottsdale Water contracts with a third-party consultant to evaluate the utility fund’s financial sustainability and customer rate structures. The last wastewater study was conducted in FY 2019/20. The recommendations are documented in a final report which can be found on the City’s website at: www.scottsdaleaz.gov/water.

Wastewater – The wastewater enterprise fund is impacted by multiple cost factors over the five-year planning period including:

- Operating cost increases for electricity in the APS service area,
- Increasing cost for replacing and repairing aging infrastructure,
- Expansion of facilities and sewer line extensions within the service area that are not covered by development fees
- Maintenance cost increases of system infrastructure due to increased system demand,
- Operating cost increases for personnel services and benefits.

Increases to base fees are proposed to better reflect the recovery of fixed operating costs and adjusted to capture the demand availability designed into the system. Increases to volumetric rates are proposed to reflect the cost of wastewater loadings by customer class and generate sufficient revenues to maintain the wastewater fund as a self-sustaining enterprise.

Overall, the wastewater base fee and volumetric rate changes are forecasted to generate an annual revenue increase of approximately \$3.9 million or 8.0% and proposed become effective July 1, 2024. The individual increases a customer may experience will vary, and dependent upon the water meter size and seasonal sewer volume of wastewater billed. An average customer may experience a monthly increase of \$2.45.

Water Miscellaneous Charges - To address cost recovery, new hydrant meter volumetric and bulk water rates are proposed in addition to increases to miscellaneous charges and are proposed effective July 1, 2024 to meet the City’s financial policy that charges recover all direct and indirect costs of service. Miscellaneous charges are assessed to specific users of the service so that general rate payers do not bear the burden. The proposed miscellaneous charge increases include:

Water Meters, Delivery, and Service Lines and Fire Lines (various sizes)	Hydrant & Construction Meter (Installation, Removal, Relocation)
Raise/Lower Meter	Meter Shop Test
Same Day Service Charge	Turn On & Off (Various)
Water Main Shutdown	Meter Removal
Bulk Water Volumetric Rate	Hydrant Meter Volumetric Rate

Increases to water miscellaneous rates and charges are proposed to maintain cost recovery for specific services and are forecasted to generate an annual revenue increase of approximately \$11,700 and become effective July 1, 2024. There are no changes proposed for wastewater miscellaneous charges.

Changes to the City Code for housekeeping updates, including processes, definitions and titles are proposed to be effective July 1, 2024.

RESOURCE IMPACTS

There are no resource impacts associated with this action as it strictly involves a public notice of intention to increase water and wastewater rates and charges and schedule a public hearing per State statutes.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Adopt the notice of intention to increase water and wastewater rates and charges for fiscal year 2024/25 and establish May 14, 2024, as the date for public hearing to proceed with proposed rate increases in conformity with State statutes.

RESPONSIBLE DEPARTMENT(S)

Water Resources and Finance Department

STAFF CONTACTS (S)

Brian Biesemeyer, Executive Director of Water Resources, 480-312-5683,
BBiesemeyer@ScottsdaleAZ.gov

Gina Kirklin, Enterprise Finance Director, 480-312-5006, RKirklin@ScottsdaleAZ.gov

APPROVED BY

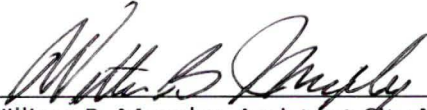


Brian K. Biesemeyer, Director of Water Resources

480-312-5683, BBiesemeyer@ScottsdaleAZ.gov

1-19-2024

Date



William B. Murphy, Assistant City Manager

480-312-7954, BMurphy@Scottsdaleaz.gov

1/23/2024

Date



Sonia Andrews, City Treasurer

480-312-2364, SAndrews@Scottsdaleaz.gov

1-22-2024

Date

ATTACHMENTS

1. Draft - Proposed Legal Notice of Public Hearing

LEGAL NOTICE

CITY OF SCOTTSDALE
NOTICE OF PUBLIC HEARING REGARDING
CITY'S INTENTION TO INCREASE
WATER AND WASTEWATER RATES

The City of Scottsdale hereby gives notice pursuant to Arizona Revised Statutes section 9-511.01 of a public hearing to be held at the regularly scheduled City Council meeting on **May 14, 2024 at 5 p.m.** in the Kiva in City Hall, 3939 N. Drinkwater Boulevard, Scottsdale, Arizona in connection with the City's intention to consider an ordinance modifying water and wastewater rates and charges for City water and wastewater service for fiscal year 2024/25. At the hearing, the City will accept verbal and written comments concerning the proposed water and wastewater rate ordinance. A report, including documentation supporting the modification, is available at the City Clerk's office and the City's website at: <https://www.scottsdaleaz.gov/Water/rates-fees>.

From: notifications@cognitoforms.com on behalf of City of Scottsdale <notifications@cognitoforms.com>
Sent: Monday, February 5, 2024 6:25 PM
To: Cordova, Rommel
Subject: City Council Public Written Comment Form - Linda Scorzo

⚠ External Email: Please use caution if opening links or attachments!

City of Scottsdale

Web Scottsdale City Council Meeting Written Comment Form

[Open Form](#)

Entry Details

Agenda Item

MEETING DATE

2/6/2024

WHICH AGENDA ITEM WOULD YOU
LIKE TO COMMENT ON?

16. Notice of Intention to Increase Water and
Wastewater Rates

Name

FULL NAME

Linda Scorzo

Contact Information

PHONE

(480) 720-4547

EMAIL

lindascorzo@cox.net

ADDRESS

8737 East San Marcos Drive

CITY

Scottsdale

Comment

COMMENT

The City of Scottsdale has many projects that are millions of dollars over budget. Instead of increasing the money going to these or new projects, put the money into the water system and stop increasing the rates of water for Scottsdale residents. While the price hike may not seem like much to some of the elitist City Council Members, there are a lot of Scottsdale residents who live on a fixed income that is still not caught up with the increase of inflation. Stop increasing the water rates!

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Agenda Item	
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WHICH AGENDA ITEM WOULD YOU LIKE TO COMMENT ON?	16. Notice of Intention to Increase Water and Wastewater Rates
Name	
FULL NAME	Ralph R Wynant III
Contact Information	
PHONE	(623) 544-3772
EMAIL	stixrwaz@gmail.com
ADDRESS	16130 W Desert Winds Drive
CITY	Surprise

Comment

COMMENT

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Name

FULL NAME Ralph R Wynant III

Contact Information

PHONE (623) 544-3772

EMAIL stixrwaz@gmail.com

ADDRESS 16130 W Desert Winds Drive

CITY Surprise

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