

MINUTES

1. CALL TO ORDER

Mayor Nabours called the Special Meeting of February 17, 2016, to order at 6:01 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 regular meeting, the City Council may vote to go into executive session, which will not be open to the public, for legal advice and discussion 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. **Pledge of Allegiance**

The City Council and audience recited the Pledge of Allegiance.

3. ROLL CALL

NOTE: One or more Councilmembers may be in attendance telephonically or by other technological means.

PRESENT

MAYOR NABOURS
COUNCILMEMBER BREWSTER
COUNCILMEMBER EVANS
COUNCILMEMBER ORAVITS
COUNCILMEMBER OVERTON
COUNCILMEMBER PUTZOVA

ABSENT

VICE MAYOR BAROTZ

Others present: City Manager Josh Copley and City Attorney Michelle D'Andrea.

Mr. Copley introduced the new Deputy City Manager Shane Dille who will be replacing Deputy City Manager Jerene Watson when she retires.

4. **PUBLIC HEARING:** Continuation of Public Hearing on Utilities Rate Adjustments - Discussion of Water - Wastewater - Stormwater.

Utilities Director Brad Hill explained that the intent of the discussion is to get clear direction from the Council in regards to the utility rate adjustments. He provided a PowerPoint presentation that covered the following:

AGENDA
OPTIONS
RELATIONSHIPS

Councilmember Putzova clarified that the Capital Improvement Program (CIP) is not tied to reclaim water rates, it is just for the other infrastructure. Mr. Hill confirmed stating that staff will be returning to Council at a later time to discuss the CIP and rates for reclaim water.

Utilities Engineering Manager Ryan Roberts continued the presentation.

EXISTING RATE FUNDED WATER CIP 5-YEAR PLAN
PROPOSED ADDITIONAL RATE FUNDED WATER CIP

Councilmember Oravits asked if any bonds would be considered new debt and if that is factored into the increase. Mr. Roberts confirmed that it would be but they are factored into the rate increase.

Mayor Nabours asked how the CIP project list was developed and if the Water Commission had the opportunity to provide input. Mr. Roberts explained that before the process started master plans were conducted on the water side and sewer side. For each water well and pump house the consultants looked at the condition and the needs of the future. The same was done for the water distribution system. They then prepared a needs assessment and that was presented to staff with a list of the capital needs within the next five to ten years. The list before Council is reflective of a portion of that list. Staff took the master plans and needs assessments to the Water Commission and they vetted the list, determined the priorities and trimmed down the original list to what is presented.

Councilmember Oravits asked how the reserves are prepared for unexpected things that may happen in the next five years. Mr. Hill stated that there is a contingency fund of \$1.5 million for unexpected failures of the system. This plan allows a 25% fund balance in the reserves; historically it has only been 10%. For the size of Flagstaff the reserve needs to be much higher.

Mayor Nabours asked the significance of the 28% debt limit and 20% debt limit as set out in the options. Mr. Roberts explained that staff has proposed raising the debt service to 28%. It is an issue of how comfortable the City is with incurring the debt. In the past the City was up to 40% and reduced down to 20%; optimally it is ideal to keep a low debt service. Staff directed the consultant to look at what other communities were doing and what their limits were. It is common for cities to have a debt service between 26% and 32%. At this level it gives some flexibility to do the necessary projects. It makes sense to spread some costs over 30 years where others make sense to pay as you go such as those that have an annual or frequent cost or short asset life.

Mayor Nabours stated that when the Water Policy was adopted there was an aspirational debt limit of 20%. Raising that limit to 28% will require the policy to be amended. Mr. Roberts

agreed and stated that the proposed language in the policy is changed from shall to should in order to allow the Council more flexibility to make adjustments based on what the community is comfortable with. At the time the Water Policy was presented, staff was recovering from a 40% debt limit and wanted to set the goal low to make sure the City had the ability to add debt capacity. The City was able to surpass that goal with a current debt limit of 19%. One of the key changes is that the interest rates are much lower now and the City has retired a number of old bonds.

Mayor Nabours asked Council what they were interested in with regards to the list of capital improvement projects. Option 1 is the 3% increase but the debt limit increases to 28% and Option 2 is a 7% increase but the debt limit stays at 20%.

Councilmember Oravits stated that he feels that the entire list of projects need to be funded.

Councilmember Putzova stated that she will rely on the expertise of staff; if this is what they feel should be funded then she agrees that all the projects should be funded.

Mr. Hill offered that the policy question is not to determine which of these projects are good or bad, the question is if the Council has a tolerance for a rate increase, if so, is it at 3% or 7%. The other question is if they are comfortable increasing the debt limit.

Councilmember Brewster stated that she trusts the people they hired to do the job and is in favor of doing the entire list. She is also in favor of a 3% rate increase with a 28% debt limit.

Councilmembers Evans and Putzova stated that they would like to hear the entire presentation before they offer an opinion.

Rudy Preston addressed Council with concerns about the proposed \$1.4 million for the Lake Mary land acquisition.

Councilmember Oravits asked for clarification on the Lake Mary land acquisition. Mr. Roberts stated that the City has leased this area from the Forest Service for the past 60 years for the land that the Lake Mary Treatment Plant sits on. The land has recently become available from the Forest Service as they want to get out of being the lease holder and want the City to purchase the land instead. Mr. Hill added that anytime the City touches anything on the ground it has to get approval from the Federal government and it is not an easy or quick process. The area is part of the area that the Airport is purchasing so the timing is good for the Utilities Department to move forward with the acquisition.

Mr. Roberts continued the presentation.

EXISTING RATE FUNDED WASTEWATER CIP 5 YEAR PLAN PROPOSED ADDITIONAL RATE FUNDED WASTEWATER CIP

Councilmember Evans asked what is needed for correct and adequate funding. Mr. Hill stated that with the capital projects and the policies for the rates, it will fund the utility, operations and fund the capital projects. Utilities has been under collecting the last couple years by roughly \$400,000 per year. What is being proposed will correct the issue.

Councilmember Evans requested information about private haulers that deliver solids to the City's treatment plants and the volume at which they do so. She also would like to know who else can take the material and what the City's rate is compared to the other entities.

Councilmember Putzova stated that everything that comes to the wastewater plant is paid through sewage fees, the moment it leaves the treatment plant it goes into the reclaim rate structure. She asked if it is fair to say that the City is reselling treated water but the original customer pays for the treatment of that water; the reclaim water customers do not pay for the treatment only the delivery. Mr. Roberts indicated that she is correct. Councilmember Putzova stated that she feels that the method is problematic. The way the funds are separated, the cost of reclaim water does not capture the true cost of the water that is used for reclaim water. She would like to see a different separation of funds. The City knows the proportion of water that goes to the Rio de Flag, the treatment for the remainder should be included in the reclaim water users rates.

Stormwater Manager Chris Kirkendall continued the presentation.

EXISTING RATE FUNDED STORMWATER CUP OPTION 1 5-YEAR PLAN

Mayor Nabours stated that the City is doing the \$400,000 per year now and asked why an increase is needed to continue to maintain \$400,000. Mr. Hill stated that the fund has been flat for a number of years, the reason for the extra increase is to maintain the \$400,000 with the operational increases that occur. The proposal is an incremental increase over inflation to cover construction costs.

Mr. Kirkendall continued the presentation.

PROPOSED RATE FUNDED STORMWATER CIP OPTION 2 – ADDITIONAL \$200,000/YR

Councilmember Oravits stated that Fanning has been a problem for a long time and asked if the \$600,000 will take care of that. Mr. Kirkendall stated that the total cost of the project is slightly over \$1 million with just over \$400,000 coming from the road initiative. \$600,000 is the projected cost to Utilities. The project will address the severe flooding that occurred last year with upstream and downstream channel improvements. It will bring the system up to the 100 year flood level.

Mr. Kirkendall continued the presentation.

PROPOSED RATE FUNDED STORMWATER CIP OPTION 3 – ADDITIONAL \$600,000/YR

Mayor Nabours asked why the Water Commission recommend Option 2 over the other options. Mr. Kirkendall explained that the Water Commission did not want to incur additional debt to fund the projects, they preferred to pay as it goes.

Councilmember Putzova offered that the Rio de Flag is an issue that the community has been dealing with for so long, she asked what the discussion was regarding the Rio de Flag.

Mr. Kirkendall stated that Option 4 addresses the Rio de Flag. Councilmember Putzova asked why the Water Commission did not feel that Option 4 was the best route. Mr. Hill explained that they felt that the decision about the Rio de Flag should be left to Council.

Mr. Kirkendall continued the presentation.

PROPOSED RATE FUNDED STORMWATER CIP OPTION 4 - \$15M RIO DE FLAG + EXISTING

Councilmember Overton stated that the proposal is just the City portion of the project in addition to funds that have already been set aside. He would like to know if advancing the

construction the City would undermine its federal effort and what the cost benefit is to advancing the construction. The City has been disappointed for a number of years with the federal funding. He is curious to know if there is any savings realized by not waiting for the federal funding. If the community agreed to take on more of the project and find a way to fund it he asked if there is a greater benefit by pulling those properties out of the floodplain sooner and avoiding the federal obstacles the City continues to run into. Councilmember Evans agreed. She stated that when the Rio de Flag issue first came up it was \$25 million to fix the project with the City contribution being 15%, now it is at \$100 million. She would like to know how much it would cost the City to take on the project at a different standard level than the Army Corp of Engineers and if it would be practical. The cost of this project is huge and the City could have built it for what the City's current match is.

Mr. Copley stated that the City has entertained the option of self-funding and going to FEMA standards. Staff is hopeful that the City can get to 100% design with the Army Corp and they are at the cusp of having to come back to Council to determine where the City goes from here. This would preserve the option should the City be unsuccessful with 100% design.

Councilmember Overton stated that he is concerned that the City may not get a funding mechanism should it have to go to another option. The options need to be open and the City needs to protect and keep its investment moving forward. Mr. Hill offered that the purpose of the option and discussion was to show the cost to each customer should the City chose to fund its portion through the stormwater utility.

Mayor Nabours asked if the City could do a part of the project itself that might relieve some of the properties in the flood zone and get credit for the contribution. Mr. Copley stated that it is a complicated formula that is used to obtain credit for work done at the city level. He offered that there have been some recent successes and there may be a more detailed plan proposed on how best to move forward.

Mayor Nabours asked if the City is precluded from revisiting a stormwater rate sooner than five years. Mr. Solomon indicated that the City is able to revisit rates sooner than five years.

Water Resources Manager Erin Young continued the presentation.

WATER CONSERVATION
HISTORIC FUNDING & EXPENSES
COMPARISON OF MUNICIPAL WATER CONSERVATION PROGRAMS
EXISTING PROGRAM – NO NEW FUNDING
OPTION 1 – REBATES
OPTION 2 – CUSTOMER, COMMUNICATION & OUTREACH

Mayor Nabours asked if the .07% increase is included in the 3% or in addition. Mr. Hill stated that it would be in addition to the 3%.

Councilmember Evans asked why the oversight of the reclaim water agreements fall to this department. Ms. Young explained that several years ago, the regulatory compliance work and water conservation work was combined into one position. Since that time a Regulatory Compliance Section was created. The reclaim water agreements seem to fit within the water conservation program because it offsets the potable water use. Councilmember Evans stated that she does not feel that it is the most appropriate place for reclaim water agreements and that it should be re-evaluated.

In regards to the rebate program, Councilmember Evans stated that the program expenses have increased by 463% but the rebates have only increased by 20%. She asked what amount is needed annually to fully fund the requested rebates. The program consistently runs out of money halfway through the year. Ms. Young stated that \$50,000 is what is needed. Councilmember Evans asked what water savings have been realized from the rebates and if it would be advantageous for the City to increase the funding higher to achieve higher savings. Ms. Young explained that a cost/benefit analysis has been done for all of the options; in looking at the high efficiency toilets, for every \$100 rebate there is a savings of 1108 gallons of water per year. Councilmember Evans stated that if someone took advantage of all three options the savings would be about 2000 gallons per year; she asked how many households have participated. Ms. Young stated that the study focuses on how many households there are left to convert, through this they have estimated the savings and she can provide that information to the Council.

Councilmember Evans asked if that savings has any impact on the CIP. She would like for Council to consider looking closer at the program and consider putting more funding towards conservation and turn some of the CIP projects over in seven years instead of five years. She asked how much of the water conservation is related to commercial conservation. Ms. Young stated that commercial users are also able to apply for the rebates and there has been some savings realized. Councilmember Evans asked how much outreach is being done to the commercial customers. Ms. Young stated that the commercial advertising is a passive program and if there was more staff to do this kind of work there would be greater outreach. Councilmember Evans added that if the City is actively advertising the rebate program and asking people to apply it needs to have the money available for them to use.

Councilmember Overton offered that he feels throwing money at the rebate program is the wrong direction and he is not convinced that the rebate program is the right tool. He is not interested in that option. He feels that the City needs to look at how it delivers the education and behavior piece and suggested that it may fit better in the Sustainability Section. Councilmember Oravits agreed stating that people will replace their toilet on their own timeline and an added bonus is getting money back.

Mayor Nabours added that another aspect is that when there is more conservation there is less water being sold and that may affect the rate in order to adequately cover the CIP costs.

Councilmember Putzova exited the meeting at 7:56 p.m at which time a break was held until 8:05 p.m.

The following individuals spoke in regards to the water rate study:

- Robert Vane
- Bryan Bates
- John Nauman
- Rudy Preston
- Charlie Odegaard

The following comments were received:

- Flagstaff Water Group recommends Option 2 with a 7% increase in regards to the potable water rates however, they could live with a minimum of a 5.5% increase should the Council chose to make an intermediate decision.
- A rate above 3% is necessary to protect the City from a revenue shortfall and maintain reasonable debt levels.
- Even with a 7% increase Flagstaff rates will remain at the low end of comparison cities.

- The Council cannot responsibly choose Option 3, the spending cuts have not been identified and it could leave the City vulnerable.
- For wastewater rates, the Flagstaff Water Group recommends Option 2.
- For water conservation the Flagstaff Water Group feels that the next five year period is a good opportunity to assess conservation tools before committing to Red Gap Ranch.
- A strong conservation program needs to be developed and make something like a \$100,000 investment in learning what works and what effect that may have on Red Gap Ranch.
- The rebate program should be more business friendly.
- Why would the Council pursue Red Gap Ranch without parallel efforts to evaluate powerful water management tools such as commercial tier rates and emerging water supply technology.
- Extend the successful aspects of the single family residential conservation program to the commercial non-single family customers who consume 60% of Flagstaff's water.
- The misconception is that the increased water conservation will result in higher water bills for customers.
- Water conservation holds down capital costs.
- Without the conservation program we would likely need Red Gap Ranch now.
- People will pay more if they maintain or increase their water use while everyone is decreasing.
- Want to see Red Gap Ranch put off as long as possible.
- Reclaim water users need to pay for the treatment of the water.
- The rate study is invalid and needs to be redone.
- The Water Commission did not recommend Stormwater Option 4 because there was not enough time to really look at and consider the option. The Commission agreed that it is an option that should be looked at further down the road.
- Surprised at how little was being funded for the rebate program.

A written comment card was submitted by Rudy Preston.

Mayor Nabours stated that Council needs to look at the options and give staff some direction. Councilmember Overton stated that he would prefer Option 1 for water rates and increase the .07% to .25% with the .25% being dedicated to developing a robust conservation program to see what happens. Mr. Hill stated that if Council is seeking to embed an additional \$100,000 into the program over five years it would be a 0.07% increase each year in addition to the 3%. Councilmember Overton stated that he would like to see some extra effort put into the conservation program; to make it easier take the rate to 3.1% which would give the program an additional \$40,000 per year. He does have concern about where the extra conservation money is put, it should be well spent and bench marked.

Councilmember Oravits stated that he may be okay with that proposal understanding that the Council needs to have a discussion on where the extra money is put. He expressed concern about going from a 20% debt limit to 28% debt limit in five years and in year six it is slightly moving higher. He does not want to see the City at 40% again or even 30%. Johnathan Varnes with Willdan stated that the City does get to 28% during the five year period and maxes out at 30% in the ten year period. Councilmember Oravits asked what it would do to the average citizen if the debt limit is kept to a maximum of 25%. Mr. Hill stated that it is roughly \$2.00 per month for 65% of the residential customers.

Councilmember Evans stated that Council still has not gone through the whole presentation so there has been no information on capacity fees. She does not have confidence in the study and feels that there are some issues with it. She believes that the City needs a tier structure for commercial users. She also does not feel that enough is being done for conservation. She

is not interested in borrowing more and does not want to increase the debt limit.

As a community it is important to understand the true cost of water including delivery and cleaning. A conversation is needed to discuss the value of water and how much it really costs.

In terms of direction she is supportive of Option 2 for water rates and keeping the CIP projects in place. For sewer rates she is supportive of Option 2. For stormwater she feels that Option 4 needs to be considered and how the City is going to deal with the Rio de Flag; if no traction for Option 4 then her next recommendation would be for Option 2. In regard to capacity fees she is supportive of Option 2 then Option 1 on sewer. Whatever the City can do to increase the conservation project is important.

Councilmember Brewster stated that she would be supportive of Councilmember Overton's proposal of an additional .1% for the conservation program. She is supportive of Option 1 for water rates, Option 1 for sewer, Option 4 for stormwater then Option 2 and is undecided in regards to capacity fees.

Councilmember Overton stated that there are more capital problems on the sewer side and he is supportive of Option 2. With regard to stormwater he is supportive of maintaining the status quo with Option 1.

Councilmember Oravits indicated that he is supportive of a modified version of Option 1 for water rates. He would propose a 4.3% increase which includes the .1% for conservation in an effort to keep the debt limit to a maximum of 25%. He is in favor of Option 2 for stormwater and Option 2 for waste water.

Mayor Nabours stated that there is a consensus for stormwater Option 2.

Additionally, a majority of Council is in favor of the 4.3% increase, including .1% for conservation, for water rates.

Kevin Burnick from Willdan continued the presentation.

CAPACITY FEES

ASSUMPTIONS ABOUT FUTURE DEVELOPMENT

WATER CAPACITY FEE COST SUMMARY

WATER CAPACITY FEE COST COMPONENTS – OPTION 1

CAPACITY FEE WATER FUNDED CAPITAL OPTION 1

CAPACITY FEE WATER FUNDED CAPITAL OPTION 2

WATER CAPACITY FEES – NEW GROWTH

SEWER CAPACITY FEE COST SUMMARY

SEWER CAPACITY FEE COST COMPONENTS

CAPACITY FEE WASTEWATER FUNDED CAPITAL

SEWER CAPACITY FEES – NEW GROWTH

COMPARISON OF WATER DEVELOPMENT/CAPACITY FEES – AZ

COMPARISON OF SEWER DEVELOPMENT/CAPACITY FEES – AZ

POSSIBLE REASONS FOR DIFFERENCES IN DEVELOPMENT/CAPACITY FEES

Mayor Nabours asked for an example of a one inch meter user. Mr. Roberts explained that a project such as the Hub with restaurants would have a four inch meter and a restaurant alone would have a 1.25 or 1.5 inch meter depending on the size of the restaurant. Hotels could have three or four inch meters, again, depending on the size. Residential units that have larger than 3/4 inch meters are those with fire suppression systems.

Mayor Nabours stated that he understands the needs but has concern with adding an additional \$700 cost to the house. Councilmember Overton added that one of the biggest complaints he hears from customers is that the City is not very welcoming and it is a hard, passed on cost. Most people recognize that there is a cost to buying into the system and that it is part of building a home. That is why vacant lots with a water meter already in place is far more valuable than one that needs infrastructure.

Mr. Hill explained that on the list of CIP projects there are some projects that are fully funded by water rates and some that are partially funded by capacity fees. If Council would elect to do something less than one of the proposed options staff would have to go back and modify the CIP projects accordingly. He stated that the difference between Option 1 and Option 2 is that the prior rate study included the \$13 million project for Red Gap Ranch, the policy question is if the Council would want to add the few extra dollars on water to do the 100% design on the pipeline which is the proposal of Option 2.

Councilmember Oravits asked how much time is available to do the design work and if it is not built for 20 years why design would be done now. Mr. Roberts explained that the projects are planned over a 10 year program. Further down the list is Red Gap Ranch design that would not begin until years 9 or 10+ and the funds would not be expended until that point. The capacity fees allow the City to capture fees from the future users so they are making a proportionate contribution to those projects. Mayor Nabours stated that the person who hooks up to the system a year from now would be helping to pay for Red Gap Ranch because they are contributing to the City getting to the point of needing Red Gap Ranch. If for some reason the design is not done the money that has been accumulated could be used for something else or to reduce the buy in costs. Mr. Roberts agreed stating that there will be a check in at five years to see where the fund is at. He pointed out that Red Gap Ranch has a minimal impact to the capacity fees, the biggest impact comes from new wells and there are five new wells projected for the next ten year period. Wells will continue to be drilled for the foreseeable future, there is still a lot of capacity in the aquifer.

Mayor Nabours stated that he feels it may be premature to charge for Red Gap Ranch and believes Option 1 is a good direction and the Council can re-evaluate in five years.

Councilmember Evans asked if fees for Red Gap Ranch are not collected for five or ten years who will ultimately pay for it. Mr. Burnick explained that if the fee is revisited five or ten years down the road the cost for that can be included in the fees provided that the design for the booster and pipeline is still 100% growth related. The City will lose any revenue that would be collected over that five or ten year period because the fees cannot be retroactively charged. Councilmember Evans feels that Option 2 is most appropriate because it spreads the cost out over ten years. She would like additional information on what other cities do in regard to affordable housing units to offset those fees and if there is a way to offset those fees for houses built in a land trust or deed restricted area for affordable housing. Mr. Copley stated that staff can do that research and provide that information in a CCR. Mayor Nabours added that the issue may come up with the housing roundtable discussions that are going on and ways to mitigate those fees.

Councilmember Overton stated that he is in favor of Option 1 and the Mayor agreed that he is also in favor of Option 1.

Councilmember Brewster stated that he is supportive of Option 2 as costs will only continue to rise and Red Gap Ranch will be needed as the City grows.

Rudy Preston addressed Council asking if something is being taken out of the current capacity fee because Option 1 is lower than the current fee. He also asked if there is an option to keep the fee the same as it currently is. Mr. Hill offered that the current fee has a list of its own to accomplish and the proposed fee has its own list that has a smaller cost associated with it. Mayor Nabours added that it goes back to the issue of not arbitrarily assigning a fee, it has to be measurable to the projects assigned. Mr. Burnick stated that should the fee be more than the list provides for another project would have to be added.

Charlie Odegaard addressed Council stating that the recommendation from the Water Commission was not a unanimous vote. Conservation is working and realistically, Red Gap Ranch is being pushed out further.

Councilmember Oravits stated that he is supportive of Option 1 and with the additional monies being assigned to conservation he would like to see what happens over five years and revisit at that time.

Mayor Nabours indicated that there is a majority of Council in favor of Option 1.

Mr. Hill continued the presentation.

NEXT STEPS

The following is a recap of Council's direction on the utility rate study.

- Water – 4.3% increase at approximately 25% debt limit with an additional 0.1% to be directed to Water Conservation for a total of 4.4% increase.
- Wastewater – 7% increase with a 20% debt limit (Option 2)
- Stormwater – 6% increase with future discussion of Rio de Flag option (Option 2)
- Water Capacity Fees – Option 1
- Wastewater Capacity Fees – Option 1

5. Adjournment

The Special Meeting of the Flagstaff City Council held February 17, 2016, adjourned at 9:39 p.m.

MAYOR

ATTEST:

CITY CLERK

CERTIFICATION

STATE OF ARIZONA)
) ss.
Coconino County)

I, ELIZABETH A. BURKE, do hereby certify that I am the City Clerk of the City of Flagstaff, County of Coconino, State of Arizona, and that the above Minutes are a true and correct summary of the Meeting of the Council of the City of Flagstaff held on February 17, 2016. I further certify that the Meeting was duly called and held and that a quorum was present.

DATED this 5th day of April, 2016.

CITY CLERK