City of Prescott

City Council - Study Session

May 14, 2024 | 1:00 PM
201 N Montezuma Street
City Council Chambers, 3rd Floor
Prescott, AZ 86301

MINUTES

1. **CALL TO ORDER**
   Mayor Goode called the meeting to order at 1:00 p.m.

2. **ROLL CALL**
   Phil Goode - Mayor
   Connie Cantelme - Mayor Pro Tem
   Lois Fruhwirth - Councilwoman
   Ted Gambogi - Councilman
   Brandon Montoya - Councilman
   Eric Moore - Councilman
   Cathey Rusing - Councilmember

3. **DISCUSSION**

A. Presentation & Discussion Regarding Utility and Non-Utility Development Impact Fees Land Use Assumptions (LUA) and Infrastructure Improvement Plan (IIP).

City Clerk Sarah Siep stated that there is a good deal of information to cover today as well as a remote presenter and asked the Council to hold all questions until the end.

Finance Director Mark Woodfill introduced Raftelis Consultants Todd Cristiano (Vice President) and Andrew Rheem (Senior Manager) who will be providing the presentations regarding Utililty and Non-Utility Impact Fees, Land Use Assumptions and the water and wastewater rate study.

Councilmember Rusing asked when the impact fees were looked at last.

Mr. Woodfill responded that they are evaluated every five-years.

Mr. Christiano provided a presentation regarding non-utility impact fees.

<u>Legislative Process:</u>
* Land use assumptions
* Development Impact Fees
* Projected service units - residents, jobs, vehicle miles of travel
* Existing facilities and level of service (LOS)
* Project demand for facility expansions and costs based on same LOS
* The standard and quality of public services a community aims to provide residents

* Benchmark for infrastructure provision
* LOS Metrics - square feet of facilities or vehicles per person, square foot of facilities or vehicles per vehicle trip end, and lane miles or intersections per vehicle mile traveled

He continued with a review of the schedule for the adoption of the fees:
* May 28 - Public Hearing on IIP and LUA
* July 9 - Study Session on Development Impact Fees (DIF)
* July 9 - Adoption of IIP and LUA; Adoption of Notice of Intent and set public hearing regarding DIF
* August 27 - Public hearing on DIF
* October 8 - Adoption of DIF
* January 1, 2025 - new fees in effect

<u>Industry Accepted DIF Valuation Methodologies:</u>
* Cost recovery (historical) - oversize and unique facilities, funds typically used for debt service
* Incremental Expansion (current) - formula based approach documents level-of-service with both quantitative and qualitative measures
* Plan Based (future) - common for utilities but can also be used for other public facilities

<u>LUAs:</u>
* Period - 2024-2034
* Population - 1.5% growth rate annually (+7617)
* Housing Units - 2.0 person per household (+3809)
* Jobs - census bureau (+2,970)
* Non-residential Square Foot - Institute of Transportation Engineers (+1010)

<u>Streets:</u>
* IIP Projects - includes growth share for the 10-year study period
* Current Infrastructure - 101.4 lane miles of arterials (two or more lanes which connect to other cities through a major arterial) with 14 intersections
* Current LOS - 1.33 lane miles per 10,000 vehicles miles traveled (VMT), and 0.18 intersections per 10,000 VMT
* Components - residential population growth, nonresidential growth in jobs and square foot of building space, projected number of adjusted residential and nonresidential trips, projected number of total vehicle miles traveled, IIP (new lanes and intersections), capacity of new lanes and intersections, cost per VMT
* Fees = $per VMT x Trip Ends x Trip Rate Adj. x Trip Length Adj x Avg Trip Length

Mayor Goode discussed tourism and how that impacts these fees.

Mr. Woodfill reiterated that these fees are charged on residents and if the tourism component were to be incorporated in that would actually likely lower the fees for residents. He added that growth rate within the city is in fact 1.5% and that is based on our utility accounts so even though Yavapai County may be 2.2 ours is lower.

Development of Streets Fees:
* Land Use Assumptions
* Travel Demand Statistics
* LOS
* Fee Calculation
* Infrastructure Improvement Plan - $17,733,000 to be recovered over a 10-year period within the city that are not covered through other fees and is not part of maintenance fees

Fire Assumptions:
* IIP Projects - include growth share, excludes portion of facilities that will service population/jobs beyond the 10-year study period
* Service Demand Allocation - functional population basis/proportional distribution of demand by land use (70% residential)
* LOS Vehicles - based on current inventory of 41 vehicles and average replacement cost (average cost $517,966)
* LOS Buildings - based on current inventory of fire stations (38,594 sq feet, average cost per square foot $700)
* Methodology Change 1 - allocation of vehicle inventory and building square feet based on functional population, previous study used calls for service, functional population is more stable over time, calls for service has more variability between residential and nonresidential calls
* Methodology Change 2 - nonresidential level of service based on vehicle trip ends, previous study used jobs
* Impact - updates better reflect level of service demands for residential and nonresidential land uses, changes should produce more predictable results for the residential and nonresidential land use types
* Components - inventory of existing building square feet, inventory of existing vehicles, residential functional population, nonresidential functional population, average unit costs of building, inventory of existing vehicles, residential population growth and nonresidential growth stated in vehicle trips
* Building & vehicle allocation using functional population - from census bureau "On the Map", stable method of allocating buildings and vehicles between residential and nonresidential, premised on daytime population (employed in the city but living outside the city, employed/living in the city, living in the selection area but employed outside)
* Fire Infrastructure Improvement Plan - $5,762,200 net growth cost

Police Assumptions:
* IIP Projects - includes growth share, excludes portion of facilities that will service population/jobs beyond the 10-year study period
* Service Demand Allocation - functional population basis (70% residential)
* LOS Vehicles - based on current inventory of 70 vehicles and average replacement cost (average cost $100,000)
* LOS Buildings - based on current inventory of police stations (39,516 sq feet at $700 per square foot)
* Methodology Change - allocation of vehicle inventory and building square feet based on functional population, previous study used calls for service, functional population is more stable over time, and calls for service has more stable

variability between residential and nonresidential calls
* Impact - update better reflects LOS demands for residential and nonresidential land uses, and change should result in more predictable results for the residential and nonresidential land use types in future studies
* Components - same as fire
* Improvement Plan - $3,684,000 million in growth related costs

Mr. Cristiano stated that fees have gone up quite a bit over the last several years with inflation so this is not uncommon to see these large jumps. He added that the Council can adopt fees anywhere up to these figures but it doesn't have to be the maximum.

Mr. Woodfill added that all of the documents related to this are available on the city website.

Mr. Rheem continued the presentation with a discussion regarding the Utility LUAs and impact fees.

Legislative Process:
* Adoption Process - LUAs, IIP and DIFs
* Water and Wastewater LUA and IIP dated November 2023
* Project service units - accounts, volume and equivalent development units (EDU)
* Identify existing facilities and LOS
* Project demand and timing of utility expansions and IIP eligible improvements
* Project timing costs based on same level of service

Timeline Review:
* May 28 - Public Hearing
* July 9 - Council workshop on DIFs
* July 9 - Final adoption of LUAs and IIPs
* July 9 - Adopt notice of intent and set DIF public hearing
* August 27 - DIF public hearing
* October 8 - Council to adopt DIFs
* January 1, 2025 - Fees effective

Valuation Methodologies:
* Buy-in (historical) - available facility capacity to serve future development, unit cost of available capacity for new development
* Incremental (future) - future facilities that add capacity for new development, unit cost of future capacity for new development
* Hybrid (historical and future) - current and future facility capacity, weighted average unit cost of existing and future capacity for new development

Utility LUA:
* Objective - legislative requirement to project growth over the 10-15 year period, also projected build out Affective capacity and timing of growth related facilities
* Outcomes - growth in utility customer accounts and EDUs, anticipated locations where growth is likely to occur, water and sewer demands requiring additional facilities

* Adjustments - growth has slowed since 2021 and 2022, more conservative revenue projections for rate setting, small impact on timing of facility expansion projects

Water System:
* Meter Size and total number of accounts (total water accounts 25,127)
* Water EDUs - 31,549
* 13.14 million gallons per day (MGD) existing facility
* Peak Day Demand - 11,700,000 in 2024 versus 12,026,000 in 2019
* EDUs - 31,549 in 2024 versus 28,149 in 2019
* Peak day demand per EDU is 13% less, increase in customers and EDUs and existing facilities can serve more customers
* Review of IIP eligible projects totaling $29.15 million DIF funded

Water Resource DIF:
* Fee covers the value of a 2004 city acquisition of the Big Chino ranch
* City portion is 4365 acre-feet per year or 3.90 MGD (54% of the 2004 investment)
* Fee used to repay outstanding debt service
* Fee elements include - city portion of 2004 acquisition, less remaining non-growth portion of principal, plus net present value of future interest payments
* Down $259

Wastewater System:
* Wastewater Accounts based on meter size (20% less than water)
* System Capacity - centralization to single wastewater treatment facility (pipelines, lift stations and additional infrastructure to convey wastewater to one plant and expand plant to provide sufficient capacity) 6.75 MGD increasing to 7.50 MGD over the course of the 10 years
* Water Service Level and Demand per EDU - annual volume at wastewater treatment plants increased by 32%
* IIP through 2033-34 - $75.81 funded by DIFs
* Wastewater base meter size fee - $2846

This item was for discussion only, no formal action was taken.

B. Presentation & Discussion Regarding the City's Water and Wastewater Rate Study.
Mr. Rheem continued the presentation with a discussion regarding water and wastewater utility rate study findings and recommendations.

Rate Study Objectives:
* Sufficient Revenue - develop 10-year financial plans for water and wastewater utilities through FY32, evaluate capital funding options and scenarios, project annual revenues, timing and amount of necessary rate adjustments over 10-year period
* Cost of Service Analysis - evaluate the cost of providing water and wastewater services for a FY28-29 test-year, review and update the basis for the increased rates for outside-city customers
* Rates and Rate Structure - develop fixed and volume over a 5-year period of

FY24-25 through FY28-29, maintain conservation pricing signal and class cost of service recovery
* Timeline - Public Hearing on May 28 and rates adopted July 1
* Fund Expenses - fund annual operation and maintenance (O&M), debt service and cash-funded capital expenses
* Debt Service Coverage (DSC) Ratio - calculated as the ratio of utility revenues less O&M divided by annual debt service, exceed annual DSC requirements targeting 150% of annual debt service for rate setting and DSC ratio of 125% is a requirement of city loan agreements
* Cash reserves - exceed minimum cash reserves
  - water fund: 90 days (25%) of O&M
  - wastewater fund: 60 days (17%) of O&M

Utility Financial Planning Process:
* Financial Plan Drivers - increases in labor costs/materials/supplies/borrowing costs, fund annual repair and replacement capital facilities, use restricted fund balance to mitigate rate revenue funding requirements, PFAS mediation and accelerated meter replacement program funding requirements, reductions in peak and outdoor water use, managing varying annual capital funding requirement and development impact fee revenues inflows, and levelized annual rate revenue adjustments while funding annual requirements and exceeding DSC and cash reserves
* Capital Projects through FY32-33 - $92 million cash funded, $50.5 million debt funded and $3 million grant funded
* Proposed Water Rate Revenue Increase
  - 13% FY24-25
  - 11% FY25-26
  - 2% FY26-27
  - 2% FY27-28
  - 2% FY28-29

Recommendations:
* Increase base charge by overall rate revenue requirements to maintain revenue stability
* Maintain the aquifer protection fee at current levels and evaluate fee based on updated funding requirements during next rate study
* Maintain customer class cost of service recovery for volume rates
* Maintain outside-city multiplier of 1.30 inside-city rates
* Increase bulk water station volume rate consistent with city developed rate recommendations
* Tie construction/hydrant customer volume rate to Tier 2 non-residential
* Maintain existing volume rate structure while increasing revenue and modifying volume rates in line with cost of service results

Wastewater Fund:
* Financial Plan Drivers - increases in labor costs, materials, supplies and borrowing costs driving study period rate increases, fund increased capital requirements including finalizing WWTP centralization project and expanding airport WRF solids and volume capacity, pursue grant and low-interest opportunities to reduce debt requirements and mitigate future rate increases,

managing varying annual capital funding requirements and development impact fee revenues inflows, and levelized annual rate revenue adjustments while funding annual requirements and exceeding DSC and cash reserves
* Major Fund Capital Projects through FY32 - $35 million cash funded, and $160.2 million debt funded
* Proposed Wastewater Rate Revenue Increases
    - 18% FY24-25
    - 17% FY25-26
    - 8% FY26-27
    - 7% FY27-28
    - 4% FY28-29

Rate & Fee Recommendations:
* Increase base charge by overall rate revenue requirements to maintain revenue stability
* Maintain customer class cost of service recovery for volume rates
* Increase septate hauler rates to maximize revenue from this source and mitigate wastewater rate increases
* Transition to single volume rate for both residential and commercial customers

This item was for discussion only, no formal action was taken.

4. ADJOURNMENT

There being no further business to discuss, Mayor Goode adjourned the meeting at 2:58 p.m.

PHILIP R. GOODE, Mayor

ATTEST:

SARAH M. SIEP, City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Voting Meeting of the City Council Voting Meeting of the City of Prescott, Arizona held on May 14, 2024. I further certify the meeting was duly called and held and that a quorum was present.

Sarah M. Siep, City Clerk

CITY OF PRESCOTT
REGNAT POPULUS
INCORPORATED FEBRUARY 21, 1883
YAVAPAI COUNTY, TERRITORY OF ARIZONA