



CITY OF FLAGSTAFF
WATER COMMISSION
March 24, 2022
Virtual Meeting
SUMMARIZED MINUTES

MEMBERS PRESENT

<u> X </u> Commissioner Kurt Riegelman	<u> X </u> Commissioner Robert Dilday
<u> X </u> Commissioner Joe Loverich	<u> X </u> Commissioner John Nauman
<u> X </u> Commissioner Malcolm Alter	<u> </u> Commissioner Ben Ruddell
<u> X </u> Commissioner Don Bills	

COUNCILMEMBER / LIAISON TO THE CITY COUNCIL

 Council Rep Miranda Sweet

STAFF & OTHERS PRESENT

Andy Bertelsen	Marion Lee	Gregg Clifton
Erin Young	Tamara Lawless	Bill Case

I. CALL TO ORDER

Chair Kurt Riegelman called the meeting to order at 4:00 p.m.

II. APPROVAL OF MINUTES – February 17, 2022

Moved by Robert Dilday and seconded by Joe Loverich to approve the meeting minutes of February 17, 2022. Motion carried unanimously.

III. PUBLIC PARTICIPATION – None

IV. NEW BUSINESS

A. Update on Wastewater Bond Presentation – Jim Huchel

Andy Bertelsen, Water Services Director announced that Jim Huchel is unable to attend because he is meeting with the Bond Committee at the Wildcat Wastewater Treatment Plant at the same time. Andy indicated the solids are currently at 88% which is near capacity at Wastewater Treatment Plant. He said from an infrastructure standpoint this is extremely concerning. Staff is looking at funding opportunities and one is a Bond election in November 2022. The Bond Committee will prioritize what to put on the ballot for voters.

Malcolm indicated the City recently sent out a survey on the Bond and asked what the role was for the Water Commission on the Bond. Andy said the Commission is a recommending body to City Council, as is the Bond Committee. The Bond Committee is a newly appointed committee. The Water Commission and staff will work on priorities to recommend to Council. John Nauman indicated he saw Jim Huchel give his presentation and asked if staff has looked at infrastructure

monies for other projects mentioned in the presentation. Andy said staff is looking at funding for other projects mentioned.

Kurt said since the plant is at 88%, how long until it reaches max before upgrade. Asked if it was six month or two years? Andy said this is a real issue and the message is being heard. Staff is aware they do not have much time and that it is a major expense. A potential short-term solution is to use both plants, by sending flows to Rio de Flag WWTP. This is still a major investment but not as much as upgrading (180 million).

B. Update on Water Awareness Month – Tamara Lawless

Tamara Lawless, Water Conservation Manager gave a brief update on April Water Awareness Month. Each April, the Water Conservation Program provides additional outreach during this special week and helps to lead the city in the [annual Mayor's Challenge for Water Conservation](#).

This year, the Water Conservation team is putting together water conservation toolkits for Flagstaff community members. These kits will include a home water checkup instruction booklet which walks community members through the procedure to check for leaks and improve water use efficiency throughout their home. The kits will also include a high efficiency aerator and showerhead. Community members will register for the kits, and afterwards the Conservation team will follow-up to inquire whether the high efficiency fixtures were installed. Water customers will also be eligible to receive a \$10 bill credit for performing the home water checkup.

The Water Conservation Team will be providing water conservation tips and invitations to participate in the Mayor's Challenge at a number of in-person public events this April:

- April 1st – First Friday fun in Heritage Square, 5 pm – 8 pm
 - Kick off of the Wyland Foundation Mayor's Challenge for Water Conservation
- April 7th – Flagstaff Mountain Film Festival
- April 9th – Tours of the Rio Water Reclamation Plant – 9:30 am and 11 am
- April 13th – Flagstaff Open Market
- April 15th or 16th – Social event for Arizona Water Professionals Appreciation Week
- April 21st – NAU Earth Jam
- April 23rd – Flagstaff Earth Day Festival
- April 30th – Full STEAM Ahead event

There will also be ample opportunities to participate in the month's festivities through educational content on the [website](#) and on social media via [Facebook](#), [Instagram](#), and [Twitter](#).

V. OLD BUSINESS

A. Upcoming Rate Study and Policy Discussion – Erin Young

Erin Young, Water Resources Manager presented an update on the Rate Study and Policy Discussion. At the January 2022 Water Commission meeting, staff presented a number of polices and considerations as objectives to include in the next rates and cost-of-service study, as requested by previous water commissioners, councilmembers, staff and the public. The presentation included a review of these considerations, concluding with a request that commissioners ultimately recommend this list be incorporated into the scope of work with the selected rate consultant later. Those considerations were summarized into the strategies and objectives being presented.

This is another opportunity for discussion, suggestions, questions based on the list below, or any new topics. Becoming familiar with current rates and fees will help the commission prepare for more in-depth discussions lead by the rate consultant as well.

The solicitation for qualifications should be released on the City Planet Bids website this month. Input from Commissioners and City Council will be included into the final scope of services with the selected consultant.

Flagstaff Water Services is soliciting comments to the strategies and objectives presented in the below table, or other considerations to include in the rates and cost of service study, by email to Erin Young at eyoung@flagstaffaz.gov, before April 1.

The following comments were received during the February Water Commission meeting or emailed to staff following the meeting. The comments are summarized followed by a response from Staff.
Comments from Commissioner Nauman:

C: The Master Plan of 2025 Strategic Plan states evaluating Indirect Potable Reuse (IPR) / Direct Potable Reuse (DPR); investing purifying reclaimed water for indirect use or direct potable use which is not included in the (CIP?) plan. Suggest to add this and include costs to help better understand these projects and prioritize.

S: The CIP being presented to City Council for FY23 reflects Indirect Potable Reuse projects. The Wastewater Master Plan includes advanced treatment, currently membrane bioreactor technology, which will serve as advanced treatment and a. The CIP projects and costs are included on the March 2022 Water Commission agenda.

C: The Flagstaff Water Group made a presentation to City Council back in September 11, 2018 with regards to the future rate study. Refer back to what was presented.

S: Mr. Nauman forwarded these materials to Ms. Young. Ms. Young notes any changes that may not be reflected in the strategies and objectives in the table below.

Comments from Robert Vane, Flagstaff Citizen:

C: Strategy I states “through a cost-of-service” but none of what is listed deal with the cost-of-service study. Stated that the last rate study, a cost-of service analysis was not done.

S: Erin indicated the cost-of-service in Strategy 1 refers to tiered rates and seasonal rates. Robert said the cost-of-service is the cost to the city servicing the different classes of customers (commercial vs. residential). Erin said staff does plan to do a cost-of-service study in this rate study.

C: Mr. Vane said in 2018, one thing that was added was to exam or modify the capacity fees for projects or designs that are definitely water efficient. Another words, a standard project meets code and if a contractor goes above and beyond to do efficient, could there be a mechanism to reduce those capacity fees.

C: Mr. Vane also commented that under Strategy 1 - sixth bullet – “Ensure the lower rate for off-peak reclaimed water use is legal, fair and equitable.” Said legality is not an issue because there is no state guidelines or rules on how to charge reclaimed water. The city can do whatever it wants. So is the off-peak rate a fair rate.

C: Robert Vane also commented on Strategy 4 – “Explore option of auctioning reclaimed water to highest bidder” - this idea was raised at a previous meeting, but not if it is restricted to private bidders. Private bidders do not have to worry about long term supply of water to the City. He indicated there has to be a mechanism to reflect the public interest in the bidding.

The following comments were emailed to Ms. Young from Chairman Riegelman via email on February, 2022.

Tiered rate structures:

- The use of tiered rate structures is critical, so that we incent people to conserve as much as possible. I understand the quandary of having one household being efficient (per user)...and another household wasting water (but with an overall lower usage). Besides monitoring the number of users in a household each month (which is too invasive), maybe the consultants have seen another practice that helps measure this (?).
- I really like the idea of awarding smart/intelligent water usage-design by giving those facilities that have gone above-and -beyond a lower (different) rate structure.

Cross-subsidies in the different products:

- Based on experience, I am not a fan of cross-subsidies amongst product lines. Each product (water, sewer, reclaimed water, storm) needs a pricing plan that supports the forecasted operations. Things change...and you want each product to be self-supporting. Hiding charges in one category only leads to misconceptions and problems in future cost/pricing exercises.

Auction for reclaimed water:

- First, I think the department and city-council need to be aligned on the goal for reclaimed water. Personally, I see it as a critical tool to reduce demand for potable water whenever/wherever it can. It should also be a help in sewage: helping extend current infrastructure and reducing waste concentrations.
- I have structured and participated in auctions in the past. A couple of things I learned:
 - Demand must exceed supply to maximize revenue in an auction, or you never get past the floor-price. Right now, we release +50% of reclaimed water downstream. Everyone knows this.
 - If you are going to design an auction, you need an auction economist to model out the game-theory of your auction to drive value.
 - If we are serious about an auction, the rate consultants need to have expertise/success in this arena
- One of the folks on the call made a great comment about making sure we are not just looking at this as a private auction. The city must take “first priority”, and outlined how much reclaimed we need for:
 - Reducing waste concentrations and “cleaning” of sewage pipes
 - Reinjecting reclaimed water (safely) in the well fields for upper Lake Mary
 - After the city takes its allotment, the starting bid prices cover all the production cost of the private reclaimed water...and then a demand premium

Expand water usage survey team (?):

- We may want to consider expanding the scope/scale of the water conservation surveys. This could be a powerful tool
- Increase staff and activity to push for more conservation, via:

- Any new construction is vetted. If a new project is designed to a higher water conservation standard, it qualifies for the reduced rate tier. The group would manage that
- On an annual basis, survey 20% of the current (non-changing) meters. The team would look at a house or business and make recommendations for that building to qualify for the reduced rate tier. If the structure documents/submits compliance, they then qualify for the lower tier. This would see every structure in Flag being reviewed within 5 years. After that, we could determine if we need to do another round (in the next 5 years)

The strategies and objectives in this table were developed from the content shared in the January presentation. The objectives are clarified with staff comments provided below each, in italics.

Strategy 1. Implement water and wastewater rates and charges that are legal, fair and equitable through a cost-of-service study	
Objectives	<ul style="list-style-type: none"> • Ensure changes to the City's rate structures drive water conservation equitably in both residential and non-residential customer classes, such as through implementing indoor vs outdoor or seasonal water use pricing structures, as per strategies adopted by City Council in the City's Water Conservation Strategic Plan <i>A citizen proposal presented to the Water Commission and City Council proposed tiered water rates for commercial; staff wish to revisit rate structures that promote water efficiency. Currently, larger families that use water efficiently are automatically paying a portion of water use from a higher water tier. Tiered rates for commercial customers might put a portion of water used by a water efficient restaurant into a higher tier, while a smaller office not using water efficiently doesn't feel a price signal to incentivize water conservation.</i> • Ensure customers are charged equitably for wastewater strength concentrations, solids loading, and wastewater operations, maintenance and treatment • Review lawn meter rates are priced to encourage water use efficiency • Ensure capacity fees are collecting appropriate revenues to fund growth-related capacity and infrastructure needs; explore capacity vs. impact fees, and consider a capacity fee for the reclaimed water system • Evaluate the cost to treat wastewater is adequately captured in the cost of providing recycled water to the community <i>Industry standard is to begin the cost to provide reclaimed water service at the point where wastewater is fully treated as per its environmental permit requirements. City Council and citizens have requested reclaimed customers incur some of the costs associated with treating wastewater and even some of the costs to produce potable water.</i> • Ensure the lower rate for off-peak reclaimed water use is legal, fair and equitable
Strategy 2. Develop a Long-Range Financing Plan that sets forth the long-term funding needs of Water Services	
Objectives	<ul style="list-style-type: none"> • Develop and maintain financial planning models to include long term forecasts of operating and capital expenditures, revenue requirements and rates and charges (Policy A3.2) <i>The previous rate study did not include financial planning models</i> • Ensure the long-term financial plan is based on reasonable, conservative assumptions and accounts for uncertainties that influence water use (Policy A3.1) <i>From the vantage of a water utility manager, a high fixed component of the customer bill is highly desirable, since it reduces the volatility of revenue from one month to the next. Yet from the vantage of a customer, the proportion of the monthly bill attributable to the fixed charge may not be desirable, as this structure limits the potential savings the customer can achieve by reducing water use. Given the substantial achievements in water conservation since the increasing residential</i>

	<p><i>tier structure was adopted circa 1990 staff wish to review monthly water use and revenue patterns to ensure the monthly meter charges are adequate for revenue and operational stability while encouraging conservation.</i></p> <ul style="list-style-type: none"> • Ensure the long-term plan maintains the Water Services good standing in the credit markets to provide ready access to cost-effective capital financing • Evaluate Water Services' capital financing and debt service coverage policies to optimize cash funding of capital investments (Policy A1.1) <i>Our annual payment for debt service across the four funds (water, sewer, reclaimed, stormwater) is about 20% of total annual Operating Revenues, which is policy. Staff wish to explore exceeding this limit to capitalize on new funding opportunities administrated through the Water Infrastructure Finance Authority, to achieve critical infrastructure projects.</i> • Evaluate Water Services cash reserve policies to consider optimal uses and levels of reserves (Policy A1.2)
Strategy 3. Establish fees that pay that cover the cost of service, ensuring the utility meets regulatory requirements	
Objectives	<ul style="list-style-type: none"> • Ensure customer service fees are adequate to cover the cost of service, such as connection fees, service charges, permits, late fees, liquid waste, etc. • Review fees and charges for Industrial Waste customers • Review liquid waste fees, such as water haulers, restaurant grease, mud sump waste, river cans, to ensure fees and charges cover the cost of service
Strategy 4. Discuss forward-thinking or new opportunities for how rates and pricing strategies can help achieve goals of the utility or City	
	<ul style="list-style-type: none"> • Explore option of a recycled water credit to customer's water or sewer bills based on return flow for recycling <i>A citizen proposal to the Water Commission and City Council; staff like the value this proposal puts on recycled water. Discussion points include how to incentivize return flows without deconvincing water conservation and how the credit is funded (by reclaimed water revenues?)</i> • Explore option of auctioning reclaimed water to highest bidder <i>This was an idea provided by a Water Commissioner at the January meeting. WestWater Research recently completed an evaluation on this and other ways the community can value reclaimed water for the Reclaimed Water Master Plan. This document can be accessed at https://www.flagstaff.az.gov/4453/Materials-and-Resources</i>

Kurt asked if a member of the Water Commission was selected to serve on the consultant solicitation evaluation team for the Water, Reclaimed Water, and Wastewater Cost-of-Service, Rates and Fees Study for City of Flagstaff, Water Services Division. Erin indicated staff is not aware, but it is kept confidential. Erin announced again that the City's Procurement team is looking for a member of the Water Commission to serve on the consultant solicitation evaluation team for the Water, Reclaimed Water, and Wastewater Cost-of-Service, Rates and Fees Study for City of Flagstaff, Water Services Division. Being an evaluator involves reviewing and scoring all submittals for the solicitation, meeting with the evaluation team to discuss whether interviews are necessary, and if so, participating in the interviews and final selection. It is important we keep the names of the evaluators anonymous. If anyone is interest, please email Marion and CC Patrick Brown at pbrown@flagstaffaz.gov with questions or if you are interested and Procurement staff will let you all know once a person is selected. It is important the individual selected does not share with others that they are an evaluator.

VI. INFORMATIONAL ITEMS TO/FROM THE CHAIR, COMMISSION OR STAFF

Erin Young gave a brief update on the pot of fundings:

- Bureau of Reclamation \$8.3 billion western water infrastructure – met with them on 2/15 and later this month
 - WaterSMART grants
 - Become an authorized project to receive feasibility and construction funding
 - Rural water supply
 - Environmental protection
 - Reuse
 - Drought planning
 - Letter seeking technical assistance approved by Council on 3/15
 - Waiting for response from BOR to accept our request
 - Kick-off meeting with BOR to discuss all project needs
 - Water Services define priorities projects and challenges
 - BOR to provide a road map to help Water Services seek the right funds on projects that lead to additional funding
- Earmark opportunities for wastewater through our lobbyist – we’ve been asked for drinking water, stormwater projects and wastewater projects
- WIFA Loans – met with WIFA staff on Monday and Wednesday
 - Infrastructure Investments and Jobs Act – Water Infrastructure – Environmental Benefit/efficiency
 - They manage the State revolving funds – loans – forgivable principal
 - Clean water, drinking water
 - They are getting federal funds and have to make the request in May
 - Best fit for Flagstaff are design projects; get ready for construction
- Infrastructure Investment and Jobs Act
 - \$3.3 billion for wildfire risk reduction (we should get an update from Neil Chapman)
- Water Resources Development Act of 2020 – Environmental Infrastructure. Gave council approved list through lobbyist for water and stormwater projects April 20, 2021
 - Submitted priority list – top two project funded
 - Killip Elementary School detention basin
 - Flagstaff downtown flood laterals
- Other Stormwater grants or loan programs? BRIC & HMG Grants, FEMA
- ADWR Water Protection Fund
- Arizona Water Authority – recently proposed legislation. We are watching and waiting to understand how the AWA would administer funds and prioritize projects across the state.
 - ✓ John Nauman asked if the Commissioners can get a copy of this email on funding. Staff will revise and email out.
 - ✓ Don Bills added the Arizona Water Authority Bill is bill #1611.
 - ✓ Malcolm requested an update on the Rio de Flag Project.
 - ✓ Erin announced that April 11-17 is the State’s recognition of Arizona Water Professional Appreciation Week. On Friday, April 15th, the Arizona Hydrological Society & Az Water Association plans to host an event at the Museum Club from 5-9 p.m. and the Commissioners are invited. Staff will email more info on this event.

VII. ADJOURNMENT

Meeting adjourned at 5:04 p.m.