

Meeting Minutes

City Council Work Session

November 1, 2021 | 4:00 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ



Call to Order

The meeting was called to order by Mayor Kevin Hartke at 4:00 p.m.

Roll Call

Council Attendance

Mayor Kevin Hartke
Vice Mayor Mark Stewart
Councilmember OD Harris
Councilmember Terry Roe
Councilmember René Lopez
Councilmember Christine Ellis
Councilmember Orlando

Appointee Attendance

Josh Wright, City Manager
Debra Stapleton, Assistant City Manager
Dawn Lang, Deputy City Manager/CFO
Kelly Schwab, City Attorney
Dana DeLong, City Clerk

Staff in Attendance

Matt Dunbar, Budget Manager
Gregg Capps, Utility Resource Manager
John Knudson, Public Works and Utilities Director
Cori Harris, Mayor and Council Communications Manager
Helen Parker, Financial Analyst
Ryan Peters, Governmental Relations and Policy Manager
Matt Burdick, Communications and Public Affairs Director
Rick Giardina, Raftelis

Discussion

1. Utility Cost of Service Results

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, Acting City Manager, introduced the discussion item and said a few weeks ago Council discussed Solid Waste and now this would be the second part of the discussion.

DAWN LANG, Deputy City Manager/Chief Financial Officer, said staff would discuss the cost of service results and present recommendations. Ms. Lang introduced the consultant from Raftelis, Rick Giardina, who has worked with the City on this since 1991.

1. Background leading to today's discussion

MS. LANG presented the following presentation.

- FY 2021-22 Cost of Service Study Results for Water, Wastewater, and Reclaimed
- Agenda
 - Background Leading to Today
 - Review City Utility Financial Plan
 - Review Raftelis Utility Cost of Service (COS) Analysis/Results
 - Next Steps – Implementation Timeline
- Background Leading to Today
 - City Financial Policy requirements
 - Annually review the Financial utility Rate Models
 - COS reviewed every 4-5 years to accurately charge rates by class and rate structures
 - Last COS Realignment implemented FY 2017-18
 - Identified misalignment between COS and revenue generated by customer class
 - Implemented 1st year and next planned increase averted
 - Changes that affect COS update
 - Changes in overall customer usage characteristics and demographics
 - Capital projects/system expansions
 - Data improvements
 - Rate structure changes

VICE MAYOR STEWART asked when new businesses come in if the growth pays for itself.

RICK GIARDINA said in theory growth pays for growth through the onetime system development fees that are assessed. Once the customer connects to the system the cost to treat that water is the same as it was the day before they connected because the customer is also paying.

MS. LANG continued the presentation.

- Cost of Service Process Completed Every 4-5 Years
 - City's Financial Plan Review
 - What is the funding requirement?
 - Cost of Service Analysis
 - Is everyone paying their fair share?

- Rate Design Change Recommendations (if any)
 - How can our rates help ensure fairness?
- Historical Rate Changes by Customer Class 10 Year History

VICE MAYOR STEWART asked if there was a reason why it skips each year.

MS. LANG said because it is on the off-election cycle.

MR. GIARDINA said it is not unusual and there is the desire in local government to do more frequent smaller increases than wait and do a large increase. The small increases are easier to absorb and the impact is not as great. The costs are increasing every year and it does not get cheaper to run a water system and the cost never goes away. The pipes will always deteriorate and there will always be a need for additional investments.

COUNCILMEMBER LOPEZ asked if there was a cost to change the rate or is it simple to go in and change the rate in the system.

MS. LANG said there is an effort that goes into changing rates and there is a lot of regulation around changing the rates. There is a lot of public outreach and education for the public regarding the change that takes time.

COUNCILMEMBER LOPEZ said the actual implementation is not that difficult.

MS. LANG said no it is more the process of changing the rate.

MR. GIARDINA said there are Councils that have adopted multiyear rate plans by ordinance so staff can move forward.

MS. LANG said that staff still ensures that there is a lot of outreach around the rate changes.

MS. LANG continued the presentation.

- Additional Background Aging Infrastructure
 - Review of aging infrastructure is a normal activity for utility systems
 - Investments are timed with infrastructure life cycle to ensure service continuity and safety
 - Since Enterprise Funds are self-supporting, planning for growth and replacements through rates is vital

2. Review City Utility Financial Plan

- Financial Plan Review
- Financial Plan Results Revenue Increases %
 - Adopted Budget Pre Intel Adjustments

- Updated Post Intel Adjustments
- City established financial model was found to be complete and accurate meeting forecasted Enterprise Fund expenditures with the above Enterprise Fund revenue rate increases
- Financial Plan Results Updated Revenue Increases \$
- Financial Plan Results Key Rate Drivers
 - Debt service related to capital program
 - Water treatment and production plant improvements
 - Water reclamation facility improvements
 - Focus on aging infrastructure and replacements
 - Main replacements
 - Well construction and rehabilitation
 - Sewer assessments and rehabilitation
 - Advanced wastewater treatment
 - Operations and Maintenance (O&M)
 - Water purchase cost increases
 - Utility and chemical increases

MAYOR HARTKE asked in comparison to other cities, how did Chandler compare even with the rate changes.

MS. LANG said they would show that later in the presentation for each area.

3. Review Raftelis Utility Cost of Service Analysis and Results

MR. GIARDINA continued the presentation.

- Cost of Service Analysis and Results
- Cost of Service Benefits
 - Fair and equitable, approach most commonly utilized in Water and Wastewater industry
 - More accurately reflects actual cost of providing service to each customer class
 - Distributes revenue requirements to customer classes based on their proportional units of service
 - Customers in each class are assumed to have similar usage characteristics or impact to system
- Cost of Service Analysis
 - Is everyone paying their fair share?
 - Revenue Requirement
 - Residential
 - Multifamily
 - Non-residential
 - Industrial
 - Landscape

- Shifting cost burden of revenue requirement to customer classifications differently allows for more accurate reflection of actual cost of providing service to each customer class

a. Water

- Water Cost of Service Findings
- FY2021-22 Revenue at Existing Rates Compared to COS Results (\$millions)
 - Landscape and Industrial COS are largest COS “re-alignments” needed
 - Transition to COS alignment typically achieved over a 3-5 year period
- FY2021-22 Revenue at Existing Rates with 2% Increase Across the Board Compared to COS (\$millions)
 - Landscape and Industrial COS are largest COS “re-alignments” needed
 - Transition to COS alignment typically achieved over a 3-5 year period
- COS Realignment Plan
 - It took us many years to get out of alignment, so we would not correct misalignment in one year
 - A 5-year projection of revenue requirements was completed, which included the additional projected rate increases needed
 - Recommendation is to transition COS over 5 years
- FY 2025-26 COS Post Transition Results (\$millions)
 - Includes total revenue recovery projected increases of 2.0% in FY 2021-22, 2.5% in FY 2023-24, and 2.5% in FY 2025-26
- Volumetric Water Rates COS 5-year transition plan
 - Includes total revenue recovery projected increases of 2.0% in FY 2021-22, 2.5% in FY 2023-24, and 2.5% in FY 2025-26
- Volumetric Water Rates COS 5-year transition plan (per 1,000 gallons)
 - Includes total revenue recovery projected increases of 2.0% in FY 2021-22, 2.5% in FY 2023-24, and 2.5% in FY 2025-26
- Base Water Rates COS 5-Year Transition Plan
 - Includes total revenue recovery projected increases of 2.0% in FY 2021-22, 2.5% in FY 2023-24, and 2.5% in FY 2025-26

VICE MAYOR STEWART asked for clarification on the landscape category.

MR. GIARDINA said that is where there is a meter that is dedicated just to watering plants which could be landscape areas in HOA's or other locations.

VICE MAYOR STEWART asked why a single family home pays more for water than multifamily.

MR. GIARDINA said it has to do with their irrigation use. The multifamily landscape is usually on a separate meter. Most single family do not have separate meters so they have a combination of indoor and outdoor use. And outdoor use has a higher cost of service.

COUNCILMEMBER ORLANDO asked what the average household uses.

MR. GIARDINA said about 8,000 to 10,000 gallons a month for a typical residence.

MS. LANG said they calculate based on 12,000 but staff has noticed the usage is a little lower than that.

COUNCILMEMBER LOPEZ said all the water for residential indoor and outdoor use is all potable water.

MR. GIARDINA said yes, but they need to build infrastructure to meet peak demand and that is the cost driver for household use. The cost of the water resource itself is the same but the infrastructure to serve on demand is higher.

MR. GIARDINA continued the presentation.

- SFR Meter COS Bill Impact for Average Account (Monthly Amount with Base Charge)
 - Implementing COS allows all bills to realign at a slower pace
 - Includes total revenue recovery projected increases of 2.0% in FY 2021-22, 2.5% in FY 2023-24, and 2.5% in FY 2025-26
- Water Rates SFR Inside City Bill Impact
 - Assumes 12,000 gallon usage on 5/8" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates

MAYOR HARTKE asked if other cities would likely increase as well.

MR. GIARDINA said this is what we know of their rates with the information available and other communities would increase their rates as well.

MR. GIARDINA continued the presentation.

- Water Rates Multi-Family Inside City Bill Impact
 - Assumes 500,000 Gallon Usage on 6" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Water Rates Non-Residential Inside City Bill
 - Assumes 200,000 Gallon Usage on 2" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Water Rates Landscape Inside City Bill Impact
 - Assumes 200,000 Gallon usage on 1" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates

- Water Rates Industrial Inside City Bill Impact
 - Assumes 312,000,000 Gallon usage on 8" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Recommendation: Water COS Rates
 - Transition over 5 years to full cost of service for all customer classes

COUNCILMEMBER ROE said he heard of cities using utilities to balance their general fund and asked if that practice still happened today.

MR. GIARDINA said that practice was prevalent until about the last decade. There have been challenges to that as well. This is a user fee and people should pay based on the service or goods they receive. If that money is moved to general fund it begins to look like a tax so there have been challenges to that. There are cities that require the utilities to transfer money to the general fund as a payment in lieu of taxes as justification for it. This is being seen less and less and more enterprise funds instead, so the funds stay within the fund.

MS. LANG said it is best practice to have an enterprise fund and the City has always done that.

VICE MAYOR STEWART asked if it was codified.

MS. LANG said no.

VICE MAYOR STEWART asked if it should be.

MS. LANG said it could be. Chandler has always had an enterprise fund and they have seen those who do not have an enterprise fund be challenged in court. This could be added in the financial policies as well.

MR. GIARDINA said an enterprise fund reimburses the general fund for services provided and that is a transfer seen regularly.

KELLY SCHWAB, City Attorney, said adding this to the financial policy would be the best option. If it is done through an ordinance there may be unintended consequences.

MS. LANG asked if there was support to make the rate transition.

VICE MAYOR STEWART said yes.

COUNCILMEMBER LOPEZ yes.

COUNCILMEMBER ROE said yes. Councilmember Roe said those in south Chandler get a favorable rate because they use reclaimed water.

MS. LANG said that is the way the system is structured currently and those who do not have access to reclaimed pay for potable water.

MR. GIARDINA said the reclaimed rates have gone through significant analysis and they are reflective of cost of service. By asking customers to use reclaimed water it does free up resources for those who do not have access to that and additional resources do not have to be purchased.

COUNCILMEMBER ORLANDO said yes.

COUNCILMEMBER ELLIS said yes.

COUNCILMEMBER HARRIS said yes.

b. Wastewater

MR. GIARDINA continued the presentation.

- Wastewater Cost of Service Findings
- FY2021-22 Revenue at Existing Rates Compared to COS Results (\$millions)
 - All Customer Classes need COS realignment transition to COS alignment typically achieved over a 3-5 year period
- FY 2021-22 Revenue at Existing Rates with 4% increase across the Board Compared to COS (\$ millions)
 - All Customer Classes need COS realignment transition to COS alignment typically achieved over a 3-5 year period
- COS 5-Year Transition Plan
 - It took us many years to get out of alignment, so we will not correct alignment in one year
 - A 5-year projection of revenue requirements was completed, which included additional projected rate increases needed
 - Recommendation is to transition over 5 years reaching a goal of 50% COS alignment

VICE MAYOR STEWART said he would want the equitable conversation to start today and not overtime.

MAYOR HARTKE said they did a cost of service study a five years ago that corrected things before so it has not been that long.

MR. GIARDINA said it was not fully resolved but started them on the path.

COUNCILEMEMBER LOPEZ asked if this was aggressive enough to correct it.

MR. GIARDINA said they have made substantial progress and there are a lot of variables and assumptions that go into this. Rick said how fast Intel does their project may change how aggressive to be.

VICE MAYOR STEWART said he would like to see it be more aggressive because residential should not subsidize industrial.

RICK said in fixing the problem multifamily would also take some of the burden.

MR. GIARDINA continued the presentation.

- FY 2025-26 COS Post Transition Results at 50% COS (\$ millions)
 - All Customer Classes need COS realignment transition to COS alignment typically achieved over a 3-5 year period
 - Transition to COS over 5-year period including 4%, 6%, and 6% increases needed in financial plan
- COS 5-Year Transition Plan to 50% COS Rates
 - Transition to COS over 5-year period including 4%, 6%, and 6% increases needed in financial plan
- Wastewater Rates SFR Inside city Bill Impact (50% COS)
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Wastewater Rates Multi-Family Inside City Bill Impact (50% COS)
 - Assumes 150 Units
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Wastewater Rates Non-Residential Inside City Bill (50% COS)
 - Assumes 200,000 Gallon Usage on 2" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Wastewater Rates Industrial Inside City Bill Impact (50% COS)
 - Assumes 312,000,000 Gallon Usage on 8" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates

COUNCILMEMBER LOPEZ asked how Chandler was so much more expensive than Gilbert.

MR. GIARDINA said there are a lot of factors that influence rates. In enterprise funds there are onetime system development fees and ongoing rates. Rick said the system development fees are not required and some use system development fees to bring down rates.

COUNCILMEMBER ELLIS asked how do they get 100% cost of service.

MS. LANG said it is a policy decision to transition to 100% or 50%. Staff is proposing 50% based on direction from the Council in 2017/2018. Ms. Lang said knowing they were so far out of alignment they proposed more of a transition to make the adjustment; 100% is an option as well but it would cause an increase in multifamily and industrial.

COUNCILMEMBER LOPEZ said in five years the goal was 50% and then the next five years they would be at 100% but that does not seem to be what is happening.

MS. LANG said the first year of that they did take the first step, but they did not do a cost of service in 2019 2020. They did not do rate increases and started cost of service early. There was a significant increase in industrial and multifamily that first year.

COUNCILMEMBER ELLIS asked how they get to 100%.

MS. LANG said it is a policy decision. If Council would like to do a transition over five years to 100% staff can provide the numbers.

MR. GIARDINA said if they only go 50% now, they would be adjusting rates to monitor the demand characteristics to see if that target number has changed.

COUNCILMEMBER ROE asked if multifamily is created equally when it comes to this.

MR. GIARDINA said triplex and above is considered multifamily. A duplex is considered single family for this purpose.

COUNCILMEMBER ORLANDO said if the rates are raised too fast and the capital improvement cannot be done yet then there could be criticism.

MAYOR HARTKE said it is important to equalize quicker.

COUNCILMEMBER ORLANDO said they need to equalize service is one question but how fast they do that is another question. Councilmember Orlando said if they are not spending at a faster rate because of the CIP program cannot keep up.

COUNCILMEMBER LOPEZ said they are going to get the same amount of money it is just going to be spread out differently.

MR. GIARDINA said if all these numbers are perfect then five years from now then all the classes would be 50% of their cost of service with residential subsidizing multifamily and industrial. In the next few years they would go to 100% and whatever revenue is needed would not change. They would not accumulate more money under either scenario.

MAYOR HARTKE asked staff to present what the numbers would look like at a 75% and 100% split for more aggressive equitability.

MR. GIARDINA said yes.

COUNCILMEMBER LOPEZ agreed.

- Recommendation: Wastewater
 - Transition over 5 years to 50% cost of service for all customer classes

c. Reclaimed

MR. GIARDINA continued the presentation.

- Reclaimed Water Findings
- Reclaimed Water Rate Analysis
 - Background
 - Only one customer rate/class
 - Supports operations and a level set amount towards reclaimed capital costs
 - Not everyone in Chandler can use reclaimed
 - Used by large open spaces south of Pecos Road
 - Golf courses, City parks, schools, and greenbelts within neighborhoods
 - Industrial cooling uses
 - Benefit
 - Use of reclaimed reduces the total water resource necessary to serve the City
 - Goal
 - Continue to ensure rates support reclaimed operations and contributes to reclaimed capital costs and considers alignment with value of our water resource
- Reclaimed Water Volume Rates 5-Year Projection
 - Includes projected increases of 8% in FY 2021-22 and 7% in FY 2023-24 and FY 2025-26
- Reclaimed Water Bill Impact for an Average Account (Monthly)
 - Includes projected increases of 8% in FY 2021-22 and 7% in FY 2023-24 and FY 2025-26
- Reclaimed Water vs. Landscape Rate Comparison- 5 Year Projection
 - Includes projected increases of 8% in FY 2021-22 and 7% in FY 2023-24 and FY 2025-26
 - Reclaimed rate is keeping pace with potable
- Reclaimed Water Rates Inside City Bill Impact
 - Assumes 100,000 Gallon Usage on 1" Meter
 - Based on FY 2021-22 rates for Chandler; the comparison cities are FY 2020-21 rates
- Recommendations: Reclaimed Water
 - Continue to ensure rates support reclaimed operations and contributes to reclaimed capital costs and considers alignment with value of our water resource

COUNCILMEMBER LOPEZ asked if it was feasible to have reclaimed water north of the 202.

MR. GIARDINA said they could expand the service area, but they would not have the supply.

MAYOR HARTKE asked if it was south of Pecos or the 202.

MR. GIARDINA said south of Pecos.

4. Next Steps – Implementation Timeline

RICK continued the presentation.

- Peer Combined Utility Survey
- Combined SFR Utility Bill Comparison
 - Assumes 12,000 Gallon Usage on 5/8" Meter
 - Gilbert also charges an Environmental Fee of \$4.28 to every utility account
- Combined Multi-Family Utility Bill Comparison
 - Assumes 150 Units or 500,000 Gallon Usage on 6" Meter
- Combined Non-Residential Utility Bill Comparison
 - Assumes 200,000 Gallon Usage on 2" Meter
- Combined Industrial Utility Bill Comparison
 - Assumes 312,000,000 Gallon Usage on 8" Meter

MS. LANG continued the presentation.

- Strategy/Timeline
 - Work Session with Mayor and Council November 1, 2021
 - Public Outreach – Single Family, Multi Family, Landscape (HOAs, Golf Courses, Schools), Non-Residential & Industrial Nov 2021-Jan 2022
 - Feedback to City Manager/Council on Results of Outreach February 24, 2022
 - Adopt Notice of Intention to Increase Rates March 24, 2022
 - Conduct Public Hearing for Water, Reclaimed Water, Wastewater, and Solid Waste Rate Increases May 12, 2022
 - Introduce Ordinance to Increase Water, Reclaimed Water, Wastewater, and Solid Waste Rates May 12, 2022
 - Adopt Ordinance to Increase Water, Reclaimed Water, Wastewater, and Solid Waste Rates May 26, 2022
 - Date COS Rates Become Effective July 1, 2022

MAYOR HARTKE said they would review the other scenarios and make a decision then.

COUNCILMEMBER ROE clarified who the cost would be realigned to.

MR. GIARDINA said it would be moved from residential to industrial and multifamily.

COUNCILMEMBER ORLANDO said this is only direction on cost of service and no action is being taken on rates and those would be discussed later.

MAYOR HARTKE said yes.

Adjourn

The meeting was adjourned at 5:33 p.m.

ATTEST: *Dana R. Dilling*
City Clerk

Kevin Hartke
Mayor

Approval Date of Minutes: December 6, 2021

Certification

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the City Council of Chandler, Arizona, held on the 1st day of November, 2021. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 6th day of December, 2021.

Dana R. Dilling
City Clerk

