

Meeting Minutes

City Council Work Session

July 20, 2023 | 4:30 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 4:31 p.m.

Roll Call

Council Attendance

Mayor Kevin Hartke
*Vice Mayor Matt Orlando
*Councilmember OD Harris
Councilmember Mark Stewart
Councilmember Christine Ellis
Councilmember Jane Poston
Councilmember Angel Encinas

Appointee Attendance

Josh Wright, City Manager
Kelly Schwab, City Attorney
Dana DeLong, City Clerk

*Vice Mayor Orlando and Councilmember Harris attended telephonically.

Staff in Attendance

Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager/ CFO
Andy Bass, Deputy City Manager
Matt Dunbar, Budget & Policy Assistant Director
John Knudson, Public Works & Utilities Director
Simone Kjolsrud, Water Resources Manager
Ryan Peters, Strategic Initiatives Director
Jeremy Abbott, Public Works & Utilities Assistant Director
Helen Parker, Budget & Research Principal Analyst
Tabitha Sauer, Solid Waste Manager

Discussion

1. Utility Rate Update Discussion
 1. Opening Remarks
 2. Utility Rate Setting Overview
 3. Wet Utility Background
 4. Water Rates
 5. Wastewater Rates
 6. Reclaimed Water Rates
 7. Solid Waste Rates
 8. Rate Adjustment Timeline
 9. Closing Remarks

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, City Manager, introduced the discussion item.

DAWN LANG, Deputy City Manager / CFO, presented the following presentation.

- Utility Rate Update Council Work Session
- Utility Rate Setting Overview

COUNCILMEMBER STEWART asked if our infrastructure improvements are paid by bonds or by enterprise funds.

MS. LANG said we use bonds often because of our low borrowing costs. We weigh between cash and debt for the rates. It is a financial exercise that changes between years based on the models. Right now, there is a greater amount of bond-funded infrastructure improvements.

MS. LANG continued the presentation.

- Cost of Service (COS) Process Completed Every 4-5 Years
 - City's Financial Plan Review (completed annually)
 - What is the funding requirement?
 - Cost of Service Analysis (completed every 4-5 years, last update 2021)
 - Is everyone paying their fair share?
 - Rate Design Change Recommendations – if any (1st 2021 COS rate changes 7/1/22 and rate design only Solid Waste)
 - How can our rates help ensure fairness?
- Wet Utilities Background
- COS Realignment
 - 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
- Decision was to transition COS over 5 years, every other year rate changes
- Water would be at 100\$ COS by year 5 and Wastewater at 75% COS by year 5
- Wastewater COS to be re-evaluated at 100% at second rate change
- Plan began implementation July 1, 2022

MAYOR HARTKE said that staff had recommended a 50% alignment, but council bumped it from the recommended 50% to 75% to get closer to alignment, council will reevaluate again.

MS. LANG continued the following presentation.

- Revenue Requirements

MAYOR HARTKE said this enterprise needs to come up with these dollars, it is self-supporting. It is a good philosophy to get started sooner to bring costs into alignment.

MS. LANG said when we know increased costs are coming forward, we need to meet the debt obligation and maintain our costs going forward.

MATT DUNBAR, Budget & Policy Assistant Director, continued the presentation.

- Major Driver – Aging Infrastructure
 - Water
 - Total mains 1,238 miles
 - 10-year CIP \$81.6M
 - Reflects 1-2 miles/year
 - Proactive replacements based on risk (breaks interrupt plan)
 - Increasing regulation for TTHM (Trihalomethanes) adds \$2M to chemicals
 - Increasing rate 2% adds ongoing capacity for operations and debt service
 - Compounds to \$5M by year 5 and \$11.8M by year 10 with current projections
 - Allows us to bond for \$62M in projects by year 5 and \$146M by year 10

VICE MAYOR ORLANDO asked how we investigate grant programs to be included in funding sources.

MR. DUNBAR said this is one of the reasons we reinvestigate our financial plan every year, because those grants change in availability. We work with our partners to identify new opportunities. It allows us to maintain our rates lower. There are still required projects, but we can change the funding source based on usage of grants.

VICE MAYOR ORLANDO requested to see grants used over the past three years for funding of water aging infrastructure to keep rates low.

MS. LANG said there is not a lot of grants in this space, but we always look for opportunities in our enterprise funds.

MR. DUNBAR continued the presentation.

- Major Driver – Aging Infrastructure
 - Wastewater
 - Total pipes & valves 947 miles
 - 10-year CIP \$131.8M
 - Reflects significant individual projects (e.g. 66" Sewer Main)
 - Reactive replacements based on video/inspections
 - Increasing regulation for Water Effluent Quality
 - Increasing rate 2% adds ongoing capacity for operations and debt service
 - Compounds to \$4.8M by year 5 and \$11M by year 10 with current projections
 - Allows us to bond for \$59M in projects by year 5 and \$137M by year 10

COUNCILMEMBER STEWART asked if we are saving for replacement projects to address aging infrastructure.

MR. DUNBAR said the sooner we can adjust the rates, the compounding effect will be crucial to fund projects. We are working on target projects in knowing how many miles we will replace on a yearly basis, and any additional costs associated with each project. It is on the radar for the next ten years to act proactively.

COUNCILMEMBER STEWART asked if this is included in the 10-year CIP.

MR. DUNBAR said it is included in the 10-year CIP, but additional projects will need to be budgeted for as planning progresses.

MS. LANG added that with additional analysis more understanding of the next projection may change.

MAYOR HARTKE said it is smart to work on streets and water at the same time to coordinate projects.

JOHN KNUDSON, Public Works & Utilities said that it takes strategizing to work on water and street projects at the same time. Some projects do require separate work, but we do try to coordinate between needed work in the same place.

MR. DUNBAR continued the presentation.

- Water Rates
- Cost of Service Rates
 - To ensure everyone is paying their fair share

- Revenue Requirement + 7% → 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
- 5-Year Transition Plan to 100% COS

COUNCILMEMBER POSTON asked about the conservation tiers.

MR. DUNBAR explained that the first 10 Kgal would cost \$1.62, the next 10 Kgal would cost \$2.11, and additional costs after that. The first 10 Kgal price is \$1.62 each which remains even after the user uses more than 10 Kgal. The 11th Kgal would then cost \$2.11.

COUNCILMEMBER STEWART asked if industrial users have a conservation tier.

MR. DUNBAR answered that industrial users do not have a conservation tier.

COUNCILMEMBER STEWART asked if the conservation tier is considered a discount or regular.

MR. DUNBAR said the cost of service looks at the infrastructure and specific costs of water that users have over the span of a day. It allocates the cost of the infrastructure it supports across different thresholds.

COUNCILMEMBER STEWART asked why the conservation tier is available to only residents when over time their costs increase if they use more water like other users.

MR. DUNBAR said that the next cost-of-service study can address looking into conservation tiers for all customer classes. A tiered approach allows for conservation and distributing costs equitably. It comes down to demands during the day.

MAYOR HARKTE said this will be reevaluated in two years and can be addressed then.

MS. LANG said our practice is in line with best practice, but this can be examined.

COUNCILMEMBER ELLIS said industrial use is predictable. Councilmember Ellis noted the difference between proactive and reactive users.

MR. DUNBAR continued the presentation.

- Volumetric Water Rates

COUNCILMEMBER POSTON asked for an idea of the source costs for multifamily.

MR. DUNBAR said the peak demand and operating cost is a major cost driver. Equipment must meet the demand of the customer class.

COUNCILMEMBER STEWART inquired as to why single family and multifamily rates were different.

MR. DUNBAR said the goal is not have everyone paying the same rates, but paying an equitable share based on their demand on our system. From current existing costs, the anticipated rates will rise.

MS. LANG added that different users have different demands upon the system needed to address their type of use. Single family users require different pipe sizes, have different peak times of usage, and more connections. Their impact on our systems will be different than apartment buildings because of the way it is built. The meter type and characteristic allow single family users to use water inside and outside of their homes.

VICE MAYOR ORLANDO asked about percentages of users in each customer class.

MS. LANG said they will share that information.

MR. DUNBAR continued the presentation.

- Base Water Rates
- Water Conservation
 - Tiered rates encourage conservation: low water users pay less per gallon for the water they use, high water users pay more
 - Chandler offers free water-wise workshops, site visits, and retrofit kits (homes built prior to 1992)
 - Current and new conservation rebate programs:
 - Residential and commercial grass removal
 - Non-functional turf removal
 - Smart irrigation controller installation
 - Pursuing grant funding to increase incentives
- Wastewater Rates
- Cost of Service Rates
 - To ensure everyone is paying their fair share
 - Revenue Requirement +8% → residential, multifamily, and non-residential
 - 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
- 5-Year Transition Plan to 75% COS Rates
- 5-Year Transition Plan to 100% COS Rates

MAYOR HARTKE said we need to give direction for the model we want to pursue to vote on later.

COUNCILMEMBER STEWART said we should get to 100% as soon as we can.

MAYOR HARTKE said it is not a large increase.

COUNCILMEMBER ELLIS commented that we are experiencing inflation. It is not a large increase, but the idea of having 100% will need education as to why we are pursuing this. Councilmember Ellis said 100%.

MS. LANG said outreach was extensive during the cost-of-service study.

COUNCILMEMBER ENCINAS said 100%.

COUNCILMEMBER POSTON said 75%.

Council consensus was to look to 100% COS rates.

MR. DUNBAR continued the presentation.

- Reclaimed Water Rates
- Reclaimed Water Volume Rates 5-Year Projection No interim rate adjustment
- Solid Waste Rates
- Solid Waste Rate Projection
- Solid Waste Background Solid Waste July 2022 Implementation
 - FY 2022 Rate Change
 - +3.4% Residential
 - FY 2022 Cost of Service
 - RSWCC
 - 2 free visits for the 1st 400 lbs, any weight above 400 lbs = \$50/ton – then \$10/visit
 - 2 free bulk pickups, then \$30 per pickup
 - Alleyway collection \$1.61/month per residence
 - FY 2024 Rate Change
 - +7% Residential (was 6%)
 - FY 2024 Cost of Service
 - RSWCC or Bulk
 - A total of 4 free RSWCC visits or bulk pickups per calendar year
 - After 4 free, RSWCC is \$10 for up to 400 lbs. and bulk pickups are currently \$30
- Solid Waste Rate Drivers
 - Waste Management collection costs have experienced extraordinary increases, and a contract amendment is planned for July 2023
 - One-time payment of \$1,068,000 in August 2023 to address new and prior year increases

- Recommend an ongoing adjustment to contract of 8.8% (\$854,400) to be effective July 2024
- Regular contracted CPI increases thereafter, capped at 3.5%
- Solid Waste fee Updates
 - Additional/Replacement container charge from \$60 to \$75 (adjusts to current City cost)
 - Additional/Replacement Containers for
 - Large Alley size change from \$235 to \$430 (adjusts to current City cost)
 - City facility rate at RSWCC to true disposal cost \$46 to \$50 / ton (adjusts to current City cost)
 - Additional container collection fee \$7.50 to \$15 (adjusts to current City cost)
 - Special collection fee non-alley \$17.50 to \$18.50 and Alley \$25 to \$35 (adjusts to current City cost)
 - Additional Bulk collections above free allocation from \$30 to \$35 (adjusts to current City cost)
 - Changes would generate an additional estimated \$7,300 for solid waste fund

COUNCILMEMBER STEWART asked what happens to containers that need replacement.

TABITHA SAUER, Solid Waste Manager, explained that containers that are damaged due to normal wear and tear are replaced or repaired at no additional cost.

- Average Residential Cost Comparison for Water, Wastewater and Solid Waste
- Rate Adjustment Timeline
- Questions?

COUNCILMEMBER STEWART asked to see the ordinance with the rate changes.

MS. LANG said it can be written at any time. It would come forward October 19 for public viewing.

COUNCILMEMBER STEWART asked if all changes will be one ordinance.

MS. LANG said all changes will be in one ordinance with one vote.

KELLY SCHWAB, City Attorney, added that typically all rate changes are included in one ordinance with one vote, it is possible to draft separate ordinances.

MAYOR HARTKE requested if a councilmember wants something different, we can break it out.

VICE MAYOR ORLANDO said a yes vote with their opinion would suffice.

COUNCILMEMBER ENCINAS asked if increases will help us sustain and give back for next time in January 2026 or will there be more than projected.

MS. LANG said we are in the process of the analysis of aging infrastructure. We would anticipate that the information would impact the next rate change, but it was not included in the estimate.

MAYOR HARTKE said moving to 100% is a good move to bring everyone closer to equitable water, to support full services.

COUNCILMEMBER ENCINAS asked if the solid waste one time payment contract increase is going forward with the continuation of contract.

MS. LANG said that the amendment has language where if council chooses to support a future ongoing increase, the onetime payment will become permanent. If rates change, we will build in the ongoing change.

VICE MAYOR ORLANDO emphasized the diligence in investing the possibility of grants subtracting from the total cost of upcoming projects and encouraged staff to look for grants.

Adjourn

The meeting was adjourned at 5:48 p.m.

ATTEST: *Dana R. DeLong*
City Clerk

Kevin Hartke
Mayor

Approval Date of Minutes: August 14, 2023

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 20th day of July 2023. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 14th day of August, 2023.



Dana R. DeLong
City Clerk