

Meeting Minutes

City Council Work Session

December 4, 2023 | 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 Matt Orlando
Councilmember OD Harris
Councilmember Mark Stewart
Councilmember Christine Ellis (arrived at 4:10 p.m.)
Councilmember Jane Poston
Councilmember Angel Encinas

Appointee Attendance

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

Staff in Attendance

Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager / Chief Financial Officer
Andy Bass, Deputy City Manager
Matt Dunbar, Budget & Policy Assistant Director
Matt Burdick, Communications and Public Affairs Director
Alexis Apodaca, Mayor & Council Public Affairs Senior Manager
Ryan Peters, Strategic Initiatives Director

Discussion

1. System Development Fee Update, 2022-2032 Land Use Assumptions and Infrastructure Improvements Plan

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, City Manager, introduced the discussion item.

DAWN LANG, Deputy City Manager/Chief Financial Officer, gave the following presentation.

- Work Session System Development fee Update, 2022-2032 Land Use Assumptions & Infrastructure Improvements Plan
- Agenda
 - System Development Fees background
 - Program requirements
 - Fee Category Summary
 - Report overview
 - Discussion of each fee category
 - SDF permit examples:
 - Fee Structure – Current to Proposed
 - Remaining Project Timeline
- Why Charge System Development Fees?
 - One of the 1st cities to implement the full range of SDFs “Impact Fees” in 1997 in an effort to ensure growth pays for growth.
 - SDF's funded growth related infrastructure through the years, which was and still is paid by developers at the time of permitting.
 - If not for SDFs, Chandler would have had to find an alternative revenue source (e.g. additional bond elections & related taxes, etc.) to fund needed infrastructure as the city grew and continues to grow.
 - SDFs have allowed Chandler to keep taxes low over the years. Provided a capital funding source in lieu of selling bonds.
 - Examples of arterial streets, fire stations, police facilities, libraries, parks, and utilities projects completed with SDFs:
 - Desert Breeze Police Substation; Tumbleweed, Snedigar, Arbuckle, Roadrunner, Chuparosa, and Espee parks, Fire Stations 2-11, Mesquite Groves Aquatic Center, Water/Wastewater Mains, Wells, and Other Infrastructure, and all Major Arterial Street widenings.
- Background
 - SDF process governed by A.R.S. §9-463.05
 - Developers pay SDFs during the building permit process
 - One-time funding for growth-related capital infrastructure
 - Cannot be used to fund repairs or operations & maintenance
 - Cannot be used for capital that is not directly attributed to growth
 - Must be infrastructure that is a necessary public service and that directly provides a beneficial use to the development
- Program Requirements
 - A.R.S. requires the following to ensure transparency and oversight
 - Complete the LUA and IIP report as a precursor to Fee Updates based on methodology outlined in A.R.S.*

- Requires update every five years – legally required by January of 2024
 - Last LUA & IIP Adoption - January of 2019
 - Includes an updated fee schedule
 - Public outreach and Council approval process
- Prepare an “Annual Report” and post online
 - Includes actual results for the previous year
- Complete Biennial Audit*
 - Results require a Public Hearing
 - *Must be prepared by a Qualified Professional
- Fee Category Summary
 - Fees Charged by Equivalent Dwelling Unit (EDU) or SQ FT
 - Arterial Streets
 - Parks – Three Service Areas
 - Fire
 - Police
 - Public Buildings
 - Fees by Meter Size
 - Water
 - Wastewater
 - Reclaimed Water
 - Building Permits

MATT DUNBAR, Budget & Policy Assistant Director, presented the following slides.

- Report Overview
 - Infrastructure Improvement Plan (IIP)
 - Updated growth projects (6/30/2023 CIP), current and future costs
 - Updated outstanding debt for each fee category – each category carries debt
 - Land Use Assumptions (LUA)
 - Updated LUAs reflect changes in average household size, EDU’s compared to prior report, and changes in land classification
 - City projections updated - EDUs for residential and nonresidential square footage
 - EDUs increased (table 7, page 20)
 - Nonresidential square footage decreased (except Industrial, table 10, page 22)
- Land Use Assumptions Citywide Comparison

COUNCILMEMBER STEWART asked about the added EDUs during COVID and the 6 million square feet loss.

MR. DUNBAR said the value increase to the area's rezoning to residential and multi-family residential, along with anticipated future rezoning.

COUNCILMEMBER STEWART said we shifted our focus on commercial and industrial buildings in the past 6 years, and asked what caused the change.

MR. DUNBAR said we can follow up with development services for more information on their perspective behind the projection change.

MAYOR HARTKE said some retail spaces in the four corners are still zoned as they were before. Some have become mixed-use, and this is expected to continue.

VICE MAYOR ORLANDO asked how we would account for county areas in this.

MR. DUNBAR said we do not anticipate any annexations.

MS. LANG said any annexations already approved by council are in the update.

MR. DUNBAR continued the following presentation.

- Report Overview
 - Fee calculations – calculated by fee category & service area
 - Mix of increases and decreases across fee category and land classification
 - Fee development methodology – uses the lowest calculated fee of:
 - Existing cost per EDU
 - Ten-year cost per EDU
 - Buildout cost per EDU
 - The city will collect enough impact fee revenue to cover ALL applicable costs by the last permit
- Pledged Outstanding Internal Debt as of June 30, 2022
 - Annual SDF Permit Revenue collected fluctuates between \$15.5M to \$23M over the last 5 years
 - Streets \$34.5M
 - Parks \$8.7M
 - Public Buildings \$1.8M
 - Fire \$3.6M
 - Police \$2.0M
 - Water \$113.3M
 - Wastewater \$140.9M
 - Reclaimed Water \$24.4M
 - Total Outstanding Debt: \$329.2M

VICE MAYOR ORLANDO asked about any future debts we may need to borrow based on their impact.

MR. DUNBAR said we anticipate using impact fees.

MS. LANG added we accumulated enough not to have to increase fees.

VICE MAYOR ORLANDO said the fees collected will go towards paying off the debt without increasing it.

MS. LANG said that if there is an active growth project in the fund, it will be used to pay off any outstanding project costs before considering any new bonds.

COUNCILMEMBER HARRIS said that the fund operates under separate laws and has its own account, which is distinct from the budget process.

MS. LANG said yes.

MR. DUNBAR said when you get the CIP books each of the projects will list the revenue sources.

COUNCILMEMBER HARRIS asked if staff could call out the system development fee.

MS. LANG said yes.

COUNCILMEMBER HARRIS asked about the repayment timeline for the money.

MR. DUNBAR said that based on when the last permit is pulled, some of these will eventually fall off.

COUNCILMEMBER HARRIS asked about the expected date for payment.

MS. LANG said it is all tied to this report and this report will forecast that.

MR. DUNBAR continued the following slides.

- Arterial Streets
- Arterial Streets – Highlights
 - Primary function of Arterial Streets is to move traffic within and through the community
 - This fee considers: Vehicle Miles of Capacity, Vehicle Miles Traveled, Peak Travel Hours, Trip Lengths & Rates, EDUs, and other financial factors such as Fund Balance, CIP, Debt Outstanding, Current and Future Revenue, and related Expenses (Studies & Audits)
 - No change to methodology
 - Fees reduced for all land classifications except Office & Public/Institutional
- Arterial Streets Service Area

- Excludes northwest area of city limits where arterial streets were funded with Improvement Districts
- Future Projects Include:
 - Alma School: Germann -Queen Creek (2-4 lanes) Frye – Pecos (4-6 lanes)
 - Chandler Heights: Gilbert – Val Vista (2-4 lanes)
 - Lindsey: Ocotillo – Hunt Hwy (2-4 lanes)
- Land Use Assumptions Arterial Streets Comparison
- Arterial Streets Summary
- Parks
- Parks – Highlights
 - Currently fees are charged within 3 service areas (NW, NE & SE) with the NW fee ending as of this studies new fee implementation
 - Fees assessed only to residential - single family and multi-family
 - This fee considers: Eligible Acres of Park Land, EDUs, and other financial factors such as Fund Balance, CIP, Debt Outstanding, and Current and Future Revenue, and related Expenses (Studies & Audits)
 - No change to methodology
 - Fees eliminated for NW, reduced for NE, and increases for SE service areas
- Parks Service Area
 - Future Projects Included:
 - Mesquite Groves Community Park (30 acres)
 - Lantana Ranch Community Park (30 acres)

COUNCILMEMBER STEWART said that there was a time when businesses had to pay for the parks they built, and he questioned who built the park that was being referred to.

MR. WRIGHT said the city built that park.

COUNCILMEMBER STEWART said our residents help pay for the roads but not for the parks.

MR. DUNBAR said that the distinction between the park and an office building is not as clear as the nexus that needs to be established by the city.

COUNCILMEMBER STEWART said it is legislative.

MS. LANG said Chandler has taken the stance that we do not have that nexus.

COUNCILMEMBER ELLIS said like what we did south of McQueen and the 202.

MR. WRIGHT said no, we built that.

MS. LANG said that once the arterial and parks projects are completed, we will continue to collect the outstanding debts.

MR. DUNBAR continued the following slides.

- Parks – Summary
- Fire
- Fire – Highlights
 - Functional Population used to calculate EDUs – Concept based on the observation that demand for public safety facilities tends to be proportional to the presence of people
 - This fee considers: Functional Population, EDUs, and other financial factors such as Fund Balance, Debt Outstanding, and Current and Future Revenue, and related Expenses (Studies & Audits)
 - No change to methodology
 - Fees Increased for all land use classifications except Office
- Fire Service Area
 - Future Projects Included: none
- Fire – Summary

VICE MAYOR ORLANDO said we must increase the capacity of a fire station because of the increased traffic and increased calls.

MR. DUNBAR said a new facility can be incorporated in the new update. Fire Station 12 is included in the new CIP, which means that the next time an update is done, it will be included, and we will start seeing an increase in the fire fee.

VICE MAYOR ORLANDO asked when Fire Station 12 is due for an update.

MR. DUNBAR said that it exceeds the five-year limit.

VICE MAYOR ORLANDO said what if you expand in the same way that we did in South Chandler.

MS. LANG said in a conversation with our consultant we discussed the possibility of justifying the driver under the rules established by statute.

MR. DUNBAR continued the following slides.

- Police
- Police – Highlights
 - Functional Population used to calculate EDUs – Concept based on the observation that demand for public safety facilities tends to be proportional to the presence of people

- This fee considers: Functional Population, EDUs, and other financial factors such as Fund Balance, Debt Outstanding, and Current and Future Revenue, and related Expenses (Studies & Audits)
- No change to methodology
- Fees decreased for all land use classifications except Public/Institutional
- Police Service Area
 - Future Projects Included: none

VICE MAYOR ORLANDO asked about the new lab that we are considering building.

MS. LANG said the new lab is not driven by growth. While we would like to expand the service to our residents, it is not a move intended to spur growth.

VICE MAYOR ORLANDO said this lab was built 20 years ago based on population projections. However, since the population has increased, businesses have objected to the lab's expansion. The projection for senior living has also increased, so it is natural to expand your services. He is trying to find the nexus, which is where you use the nexus behind that.

MS. LANG said the administration building was undersized for their needs, which is why they are moving to a new facility. They built substations with revenues, but they are expanding the forensic facility itself to study new technologies and add additional specialties. This is a choice they made instead of using Maricopa County labs or other labs around them. They are expanding, and as they learn more about the size and nuances of the new forensic facility, they will challenge the consultant again to see if there is any opportunity to create a Nexus with it.

MR. DUNBAR continued the following slides.

- Police – Summary

MAYOR HARTKE inquired about the name and nature of the public institution.

MR. DUNBAR said public institutions are education, government, and church buildings.

MS. LANG said that the Forensic facility is currently under zoning, so more information will be available soon. This report will aid in updating the facility in the next five years, enabling us to assess whether we can make an argument for making some changes.

MR. DUNBAR continued the following slides.

- Public Buildings
- Public Buildings – Highlights
 - Single – citywide service area
 - No legal requirement to update grandfathered calculation
 - Only activity is debt being serviced

- No change to methodology
- Fees remains unchanged for all fee categories:
 - \$110 for Single Family Dwelling Unit
 - \$79 for Multi-Family Dwelling Unit
 - \$0.12 per Retail Square Foot
 - \$0.08 per Office Square Foot
 - \$0.02 per Industrial Square Foot
 - \$0.03 per Public Square Foot
- Water
- Water – Highlights
 - System Capacity used to calculate the “Service Unit” or EDU
 - This fee considers: Demand (both Peak and Average), Capacity (Production, Storage, Booster) and System Utilization including Water Supplies Available, and other financial factors such as Fund Balance, Debt Outstanding, and Current and Future Revenue, and related Expenses (Studies & Audits)
 - No change to methodology
 - Fees decreased for all meter sizes except 3” meters (due to reevaluation of the capacity of a 3” meter – from 160 GPM to 225 GPM).
- Water Service Area
 - Future Projects Included: none
- Water – Summary
- Wastewater
- Wastewater – Highlights
 - System Capacity used to calculate the “Service Unit” or EDU
 - This fee considers: Demand (both Peak and Average), Capacity (Treatment) and System Utilization, and other financial factors such as Fund Balance, Debt Outstanding, and Current and Future Revenue, and related Expenses (Studies & Audits)
 - No change to methodology
 - Fees increased for all meter sizes with 3” meter increasing at a larger percentage due to the Flow Capacity being reevaluated (as discussed in the Water Section).
- Wastewater Service Area
 - Future Projects Included: none
- Wastewater – Summary
- Reclaimed Water
- Reclaimed Water – Highlights
 - System Capacity used to calculate the “Service Unit” or EDU
 - This fee considers: Demand (both Peak and Average), Capacity and System Utilization, and other financial factors such as Fund Balance, Debt Outstanding, and Current and Future Revenue, and related Expenses (Studies & Audits)
 - No change to methodology

- Fees increased for all meter sizes with 3" meter increasing at a larger percentage due to the Flow Capacity being reevaluated (as discussed in the Water Section).
- Reclaimed Water Service Area
 - Future Projects Included: none
- Reclaimed Water – Summary
- City of Chandler SDF Permit Examples
- Single Family SDF – Permit Example Northeast Service Area
- Single Family SDF – Permit Example Southeast Service Area
- Multi-Family SDF – Permit Example per Unit Northeast Service Area
- Multi-Family SDF - Permit Example per Unit Southeast Service Area
- Commercial or Retail SDF Permit Example
- Office SDF Permit Example
- Industrial SDF Permit Example
- Institutional SDF Permit Example

VICE MAYOR ORLANDO asked whether the assumptions about land use would still apply if something else is built in its place.

MR. DUNBAR said we can update the plan if trends are not meeting demands, as state statute requires it every five years.

VICE MAYOR ORLANDO asked why it takes so long

MR. DUNBAR said that the data we collect is analyzed externally, which takes about six months from sharing the draft document to conducting public meetings.

MS. LANG said with the fee included, it takes us over the timeline if everything is scheduled back-to-back.

VICE MAYOR ORLANDO said when we look at this plan, we take into consideration that office will not be taken in the next few years.

MS. LANG said chances are that yes.

MR. DUNBAR said that the 26% office cost increase is due to a decrease in the number of offices, resulting in higher fees for the remaining offices.

MAYOR HARTKE asked, when did we start the process for this report.

MS. LANG said this project began in 2021 when we hired an outside consultant. Although it took slightly longer than expected, we started early enough to account for any potential delays, and we were still on track to have it approved within the intended timeframe.

MAYOR HARTKE said it would have been 2021, and in 2022 the offices were not coming back.

MR. DUNBAR said he did not know if we captured everything.

MR. DUNBAR continued the following slides.

- East Valley Comparison SDF Permit Examples
- Comparison to East Valley Cities
- Single Family SDF Permit Comparison East Valley
- Multi-Family SDF Permit Comparison East Valley
- Commercial SDF Permit Comparison East Valley

MAYOR HARTKE asked what the driver for this was.

MR. DUNBAR said that the water plant's infrastructure and fees are being significantly affected.

MR. DUNBAR continued the following slides.

- Industrial SDF Permit Comparison East Valley
- Tentative – Timeline
 - Public outreach – October 2023 – COMPLETE
 - Council Work Session – December 4, 2023 - TONIGHT
 - Public Hearing – LUA & IIP Report – December 7, 2023
 - Adopt LUA and IIP – January 11, 2024
 - Adopt Motion of Intent to modify SDF fees – January 11, 2024
 - Public Hearing on Proposed SDF fees & First Read of Ordinance – February 22, 2024
 - Final Adoption of Ordinance to modify SDF fees – April 4, 2024
 - New Fees Effective – July 1, 2024
- Thank you Questions?

VICE MAYOR ORLANDO asked about the payback timeline and requested clarification on the expected timeframe.

MR. DUNBAR said there are two, one on page 6.

COUNCILMEMBER ELLIS said she appreciated getting a chance to review this.

COUNCILMEMBER ENCINAS inquired whether the decision to exclude the northeast from parks was made by our city and if other cities follow a similar practice. He asked if it was a statutory requirement.

MS. LANG said other cities could have different service areas depending on their nexus. Some cities might have one service area that could be divided into two.

COUNCILMEMBER STEWART asked if the consultant had considered why the neighborhood was not responsible for redoing a park.

MS. LANG said it would be beneficial if the law permitted us to use the funds for re-use. Once the building is constructed, we can choose to renovate it later, giving us more time to collect payments from the residents.

Adjourn

The meeting was adjourned at 5:03 p.m.

ATTEST: *Dana R. Dilling*
City Clerk

Kevin Harthe
Mayor

Approval Date of Minutes: January 11, 2024

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 4th day of December 2023. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this ^{11th} _____ day of January, 2024.

Dana R. Dilling
City Clerk

