

Meeting Minutes

City Council Work Session

July 14, 2025 | 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 Christine Ellis
Councilmember Angel Encinas
Councilmember Jane Poston
Councilmember Matt Orlando
Councilmember Jennifer Hawkins

Appointee Attendance

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

Absent

Councilmember OD Harris - excused

Staff in Attendance

John Pombier, Acting City Manager
Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager / Chief Financial Officer
Andy Bass, Deputy City Manager
Alexis Apodaca, Mayor & Council Public Affairs Senior Manager
Matt Burdick, Communications & Public Affairs Director
Matt Dunbar, Budget & Policy Director
John Knudson, Public Works & Utilities Director
Helen Parker, Budget & Research Principal Analyst
Gina Ishida-Rayburn, Principal Engineer
Simone Kjolsrud, Water Resources Manager

Discussion

1. Utility Rate Update Discussion
 - Overview of Utility Rate Updates
 - Changes Impacting Prior Cost of Service Study
 - Rate Adjustment Options and Determination on Direction
 - Next Steps and Key Process Dates

MAYOR HARTKE called for a staff presentation.

JOSHUA WRIGHT, City Manager, introduced the discussion item.

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

- FY 2025-26 Utility Rate Workshop #1
- Agenda
 - 01. Overview of Utility Rate Updates
 - 02. Changes Impacting Prior Cost of Service Study
 - 03. Rate Adjustment Options and Determination on Direction
 - 04. Next Steps and Key Process Dates *Questions Throughout*
- Overview of Utility Rate Updates:
 - Chandler Water & Wastewater Major Projects & Rate Impacts
- Utility Rate Adjustment History Last COS Study Transition
 - Enterprise Funds are self-supporting. Rate revenue must support all operating, capital, debt service, and reserve requirements
 - The city has rate models for each Enterprise fund, updated annually to analyze rate needs
 - Cost of Service (COS) studies happen every 5-7 years
- Average Residential Cost Comparison for Water, Wastewater, and Solid Waste
 - Chandler
 - Tempe
 - Peoria
 - Scottsdale
 - Gilbert
 - Phoenix
 - Glendale
 - Mesa
 - Based on Tempe Cost of Service July 2024 results at 10,000 gallons single family residential rates for FY2024-25
- Utility Rate Revenue Requirements Needed to Fund Operating, Capital, Debt and Reserves
 - A rate increase is needed to maintain the integrity of our enterprise funds and keep our system safe

- The direction needed in this workshop will be what implementation methodology to use to share clear customer classification impacts for publication outreach
- What Chandler Has Done to Keep Utility Rates Lower
 - Utility rate increases are needed to fund operating, capital, debt service, and reserve requirements. The following steps have been taken to minimize rate impacts to residents and businesses:
 - Offsetting rate need with revenue with SDF loan paybacks
 - Adjusted CIP by planning mains and manhole replacements at a slower rate for water and wastewater aging infrastructure from 20 year to 30 year to spread costs
 - Evaluated a 38-year spread based on Council request
 - Planned additional of solar infrastructure using one-time General Fund to generate ongoing future utility electric savings
 - Re-rated facilities to allow for max capacity so as to avoid the need for additional facilities thereby reducing costs
 - Reducing water purchase costs through conservation incentives and xeriscaping (does have revenue impact)

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

- Capital Plan Inflation Impacts
 - Construction Price Index's new normal
 - Utility Construction project costs impacted greatly by inflation (+35-50% increases)
- Major Water Revenue Requirement Drivers Aging Infrastructure & Operating Cost Increases
 - Known Water Impacts
 - Increased new cost over 3 years (+\$126.7M); 187 miles of highest, high, and moderate risk water mains, replaced over 30 years
 - New project in FY 2024-25; redundant 48" transmission line to reduce risk of single failure point (\$152.6M)
 - Increased new cost over 3 years (+\$168M/+79%) of aging plant work and filter media in the 10-year CIP (\$379.7M)
 - Increased water purchase costs are escalating with CAP and SRP (+\$4.2M ongoing over 4 years)
 - Increased cost of treatment chemicals used daily (+\$1.4M ongoing over 4 years)
 - Power costs are increasing (solar savings will offset rate requirement by 0.5%)
 - New and existing personnel costs increasing as competition for certified operators increases

COUNCILMEMBER ORLANDO asked what the total cost of the first three bullet points would be.

MR. DUNBAR said \$450,000,000 is the total cost from the new costs listed in the first three bullet points.

COUNCILMEMBER ORLANDO asked about the rates as affected by the debt service.

MR. DUNBAR explained that water projects are funded by debt service. This will reflect capital projects over a variety of years, the debt service will be over 20 years or more of debt service. The rate may depend on the structure of the debt service.

MS. LANG added for every \$1 million sold, it is roughly \$80,240 in debt service. When a large project occurs, the rate is adjusted gradually to have the appropriate funding by the time bonds are sold.

MR. DUNBAR continued the presentation.

- Major Wastewater Revenue Requirement Drivers: Aging infrastructure & Operating Cost Increases
 - Known Wastewater Impacts
 - Increased to 10 miles of highest risk lines and 7,000 manholes of highest, high, and moderate risk rehabs over 30 years
 - New project in FY 2024-25; 66" underneath Loop 202 to allow for existing pipe rehab (\$40.6M)
 - New project in FY 2025-26; Ocotillo Water Reclamation Facility Influent Pump Station (\$31.4M)
 - Increased new cost over 1 year (+\$26.8M); aging plant work over 10 years (\$219M)
 - Increased cost of treatment chemicals used daily (+\$3M ongoing over 3 years)
 - Power costs are increasing (solar savings will offset rate requirement by 1.8%)
 - New and existing personnel costs are increasing as competition for certified operators increases

MS. LANG added that every 1% increase in the water rate generates \$590,000 ongoing. Every 1% increase in the wastewater rate generates \$526,000.

MR. DUNBAR continued the presentation.

- Other Potential Revenue Requirement Drivers Aging Infrastructure & Operating Cost Increases
 - Unknown Water & Wastewater Impacts
 - New General Plan update and potential regulatory changes will help guide future state of infrastructure planning for any changes to densities or building up
 - Tariffs may have impact on construction materials, certain chemical costs and media filter costs, depending on location of origin (will monitor and adjust contracts if needed)
 - AMI will help plan timing of needed infrastructure as more frequent flow data will be available
 - Impacts of Intel's WATR plant on wastewater treatment and water production levels which reduces water and wastewater flows and therefore revenues decline in both areas
- Utility System Development Fees (SDF)

- SDFs are allowed based on projects that are related to growth and are listed in the Infrastructure Improvement Plan (IIP) adopted in January 2024. Prior periods, if existing SDF revenues were not sufficient to cover project costs, a loan was established to fund the project until revenues were received
- *Annual SDF Loan payback revenues help minimize needed rate increase

COUNCILMEMBER ORLANDO asked if there is roughly \$3.3 million of new projects coming in, as listed in the first column.

MR. DUNBAR clarified that this is \$3.3 million worth of new revenue from new permits and new projects.

COUNCILMEMBER ORLANDO asked where the \$5.6 million amount comes from.

MR. DUNBAR said these funds are kept separate in the fund balance.

COUNCILMEMBER ORLANDO asked if this fund balance is used for debt payments.

MR. DUNBAR said that was correct.

COUNCILMEMBER ORLANDO asked what was in the fund balance.

MR. DUNBAR said staff will follow up.

COUNCILMEMBER ORLANDO asked what the reason would be to not use these funds to pay off all the debt.

MR. DUNBAR said it depends on several things such as the debt service schedule, keeping some balance in the fund to absorb impacts, and it helps flatten payments. It is balanced with the debt service schedules.

COUNCILMEMBER ORLANDO asked about the function of using a high yield account to pay higher. MR. DUNBAR explained that depending on the bond issuance, there are restrictions on what and when bond debt can be paid off. Chandler works with financial advisors on an annual basis to determine what is available to be paid early or refunded.

MR. DUNBAR continued the presentation.

- 5- Year Enterprise Funds Fund Balance Projection & Revenue Requirements

COUNCILMEMBER ORLANDO asked if some of the funds are cash and some are comprised of outstanding loans.

MR. DUNBAR said that this is the cash balance maintained in the funds.

COUNCILMEMBER POSTON asked why the Solid Waste Operating Reserve percentage was at 15% compared to the 20% of the others.

MR. DUNBAR said Solid Waste maintained a 15% reserve because this is mostly contractual work, where there are not as many variables as other services and it is easier to plan. This percentage was determined by Council at the time, but the composition of the Operating Reserves is revisited by staff.

COUNCILMEMBER POSTON asked if the 20% Operating Reserves under the other categories are still appropriate.

MS. LANG said staff will be reviewing the reserve policy again soon, these minimum reserves are enough funds for four months of operation in each category.

MR. DUNBAR said rating agencies favor the 20% mark when preparing ratings.

MS. LANG continued the presentation.

- Changes Impacting Prior Cost of Service Study
- Cost of Service (COS) Analysis
- Cost of Service Benefits
- FY 2025-26 is Final Transition to Full COS Data Impacts

COUNCILMEMBER ORLANDO asked if water and wastewater usage has gone down.

MS. LANG said both water and wastewater usage will go down with the Intel treatment plant. She explained that historically, Intel and Chandler have evenly split costs and developments of water and wastewater infrastructure in the city.

MAYOR HARTKE asked if the new Intel treatment plant is also a city investment.

MS. LANG said no, this is 100% their cost and their plant.

MAYOR HARTKE asked if they have made inquiries into rate requests or other requests regarding water and wastewater.

MS. LANG said the results of the new treatment plant are still unknown.

COUNCILMEMBER ORLANDO asked how the Intel treatment plant works.

JOHN KNUDSON, Public Works & Utilities Director, explained that the capacity of the plant is about 10-12 million gallons. As Chandler's water and wastewater rates rise, it becomes more economical for Intel to recycle more water and send Chandler less wastewater.

COUNCILMEMBER ORLANDO asked if the quality of returned treated wastewater could be used as drinking water.

MR. KNUDSON explained that typically Chandler receives untreated wastewater.

MAYOR HARTKE commented that this treatment plant will affect future rate decisions.

MR. DUNBAR continued the presentation.

- Rate Adjustment Options and Determination on Direction
- FY 2025-26 Utility Rate Adjustment Implementation Methodologies
- Utility Rate Adjustments by Implementation Method

COUNCILMEMBER HAWKINS asked when considering the changes of the Intel treatment plant, what kind of change that would have on the utility rate adjustments.

MS. LANG said the actual consumption is unknown, but considering the average industrial user, the impact of using blended cost of service increase is an annual increase of \$5.9 million for water and wastewater.

MR. DUNBAR added that depending on the efficiency of the water treatment plant, they would likely conduct a cost analysis to determine the benefits of running water through their own plant or pay the city to do it.

COUNCILMEMBER HAWKINS asked if that revenue portion is not acquired from industrial users, then the costs would have to be spread out among other user categories.

MR. DUNBAR said the revenue requirement will not change because those are ongoing revenue requirements. If revenues come down, the next increase would have to be more substantial across all the categories to make up for lost revenue.

VICE MAYOR ELLIS asked if Intel is the biggest water and wastewater customer in the city.

MS. LANG confirmed that Intel is the biggest water and wastewater customer in the city.

COUNCILMEMBER ORLANDO said referring to a previous slide, the projection was 8.5% for the increase to water rate revenue requirements. He asked with that in mind, what is the blended rate for residents.

MR. DUNBAR said it is hard to judge but the initial value was 3.7%.

MR. DUNBAR continued the presentation.

- Utility Rate Adjustments by Implementation Method
- Chandler Utility Bill Example: Residential

VICE MAYOR ELLIS asked if this chart has updated values.

MR. DUNBAR said yes, the other cities' information was pulled last Friday.

MS. LANG continued the presentation.

- Chandler Utility Bill Example: Multi-Family
- Chandler Utility Bill Example: Non-Residential
- Chandler Utility Bill Example: Industrial
- Chandler Utility Bill Example: Reclaimed and Landscape
- What Chandler Has Done to Keep Utility Rates Lower in Summary
 - Utility rate increases are needed to fund operating, capital, debt service, and reserve requirements. The following steps have been taken to minimize rate impacts to residents and businesses:
 - Offsetting rate need with revenue with SDF loan paybacks
 - Adjusted CIP by planning mains and manhole replacements at a slower rate for water and wastewater aging infrastructure from 20 year to 30 year to spread costs
 - Evaluated a 38-year spread based on Council request
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 - Re-rated facilities to allow for max capacity so as to avoid the need for additional facilities thereby reducing costs
 - Reducing water purchase costs through conservation incentives and xeriscaping (does have revenue impact)
- Chandler Utility Rate Adjustment Direction
 - Determine method of implementing rates prior to public outreach. Allocate revenue requirement based on:
 - Across the Board – uses the same revenue increase rate for all customer classifications, OR
 - Blended Cost of Service- allocating the original revenue requirement following COS and additional revenue requirement across the board to all classifications

MS. LANG explained that significant public outreach is needed in the next few months. She asked for direction regarding the method of implementing rates, either across the board or blended cost of service.

VICE MAYOR ELLIS asked which method would keep revenue stable while ensuring residents have a good value on their utility rates.

MS. LANG said that there is an increase between blended and across the board rate adjustments for the average industrial user who is facing cost increases.

VICE MAYOR ELLIS asked which method staff recommends.

MS. LANG said personally she would pick across the board in order to account for cost of service, inflation, and cost of new projects.

MAYOR HARTKE asked at what point does this expense on industrial users make them consider alternatives to purchasing utilities from Chandler.

MR. KNUDSON said that they calculate the cost from new water and wastewater sent out and balance that against the cost of running the water treatment plant. Adjustments are made quickly to balance costs. However, there are inflationary cost increases for chemicals and other items needed for the plant processing. He was unsure of the direct effect this plant would have.

MAYOR HARTKE added that the water plant could lead to Intel purchasing less water from Chandler which could impact other user categories.

MR. KNUDSON noted that the process will never be completely removed from the Chandler water system because water is lost during processing through evaporation. The city would see less increase in water and wastewater use, rather than a reduction in water and wastewater use.

MAYOR HARTKE said the effect would be under review at the next rate discussion where more impact is known.

MS. LANG said as user characteristics change, it affects the overall alignment between all the user categories as it is rightsized.

MAYOR HARTKE thanked staff for their proactive and innovative work on water and wastewater.

MR. KNUDSON said they are caretakers of an important system with great people supporting them.

COUNCILMEMBER ORLANDO asked if the water treatment plant is proven technology.

MR. KNUDSON said yes. Intel's system was built to meet Chandler's requirements for wastewater treatment. This plant was the first WATR full-scale production but it is becoming standard all over the world. It is proven technology.

COUNCILMEMBER ORLANDO supported the blended cost of service based on the data presented in the presentation.

COUNCILMEMBER POSTON asked about the monthly average bill impact to multifamily units. MS. LANG explained that monthly average bill impact is estimated for a 150-unit complex. The average monthly bill impact to individual units would be either \$3.13 for across the board, or \$5.05 for the full cost of service.

COUNCILMEMBER POSTON supported the blended cost of service method.

VICE MAYOR ELLIS said she supported the across the board method.

COUNCILMEMBER HAWKINS supported the across the board method.

COUNCILMEMBER ENCINAS supported the blended cost of service method.

MAYOR HARTKE shared concerns with the accuracy of this forecast due to outside unknowns regarding the water treatment plant. He supported the across the board method. Other cities have been facing increases to water and wastewater utilities.

COUNCILMEMBER ORLANDO clarified that no matter what method, the revenue is the same.

MS. LANG continued the presentation.

- Next Steps and Key Process Dates
- Questions

MAYOR HARTKE said more information regarding the Intel water plant would be helpful in coming to a decision.

COUNCILMEMBER ORLANDO shared concern with waiting for data when that can be considered later.

COUNCILMEMBER POSTON asked about messaging the rate adjustments to encourage fairness.

MS. LANG said by the fifth year, the subsidy cost would be gone. The concern is distributing the cost to each group, is it better to do across the board and then readdress later or explain how the blended cost of service data came to be. Either method is valid and communicable to residents and interest groups.

COUNCILMEMBER POSTON commented that Chandler has a great working relationship with non-residential and industrial users such as business owners. She said it would be easier to come to a decision with more information about the water treatment plant.

MAYOR HARTKE said there is a risk either way. Council will revisit this subject once more data is collected.

MR. DUNBAR added that more change is expected in the future, at which time other rate adjustments would be considered.

VICE MAYOR ELLIS said clear communication with residents will be beneficial.

Public Comment

None.

Adjourn

The meeting was adjourned at 5:42 p.m.

ATTEST: *Dana R. DeLong*
City Clerk

Kevin Hartke
Mayor

Approval Date of Minutes: August 11, 2025

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 14th day of July 2025. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 11th day of August 2025.

Dana R. DeLong
City Clerk



Agenda Item 1

July 14, 2025 Work Session

From: DUANE LIDMAN <partyorings@msn.com>

Sent: Wednesday, July 16, 2025 3:36:45 AM (UTC) Coordinated Universal Time

To: Kevin Hartke <Kevin.Hartke@chandleraz.gov>; Christine Ellis <Christine.Ellis@chandleraz.gov>; Angel Encinas <Angel.Encinas@chandleraz.gov>; OD Harris <OD.Harris@chandleraz.gov>; Jennifer Hawkins <Jennifer.Hawkins@chandleraz.gov>; Matt Orlando <Matt.Orlando@chandleraz.gov>; Jane Poston <Jane.Poston@chandleraz.gov>

Cc: John Knudson <John.Knudson@chandleraz.gov>; Dawn Lang <Dawn.Lang@chandleraz.gov>

Subject: Utility Rate Workshop - Resident Feedback

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Mayor Hartke
Councilmembers

After attending the recent Utility Rate Workshop #1 and looking at the three proposed options I would like to share my thoughts.

When our consultant RAFTELIS did the Cost of Service (COS) study several years ago it was identified that Single Family had been overpaying while Multi-Family had been underpaying for the COS. At that time, it was a split decision from the Dias to adjust the full COS over time. As a resident, I did not agree with this stepped adjustment and felt that having Single Family continue subsidize Multi-Family over time was not an equitable solution but I respected the split decision from the Dias. And from memory, this years adjustment would have been the final step in full COS and Single Family would no longer be subsidizing another class based on the most recent FAFTELIS COS study.

After looking at the 15% Across the Board (ATB) adjustment option I feel like once again, Single Family is being asked to subsidize another class moving forward and this is not equitable.

I understand that our largest industrial customer is the wild card in the equation since they can adjust their potable water intake and wastewater outflow back to our city to meet their needs on a monthly basis. From my perspective, a decision to do a 15% ATB that is not based on actual data and seems to be based on a "best guess" on what one customer will decide to do on a monthly basis over the next two years is definitely not an equitable decision at this time.

I would suggest that next COS study in the Summer of 2026 will capture additional historical data from our larger "wild card" Industrial Class customer and then a decision on the COS adjustment in 2027 can be based on actual data and not a best guess...

One fact that I do know for certain is that Director Knudson and his team manage and deliver utility services that are second to none in the valley all while being one of, if not the lowest COS in the valley. With the exception of one scheduled water outage (to replace a valve) that was well planned and communicated, water has been delivered to my house 24-7-365 since 1984. And more importantly, very time my toilets have been flushed Chandler's wastewater system has worked 24-7-365 since 1984.

In consideration of the three proposals that are being suggested the Blended COS seems like a good compromise at this time.

Thank you for your consideration of my thoughts and perspective as a Chandler resident since 1984.
Duane Lidman