Meeting Minutes
City Council Work Session

August 4, 2025 | 4:00 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ

CHANDLER arizona
Community of Innovation

Call to Order

The meeting was called to order by Mayor Kevin Hartke at 4:01 p.m.

Roll Call

Council Attendance

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

Appointee Attendance

John Pombier, Acting City Manager
Kelly Schwab, City Attorney
Dana DeLong, City Clerk

*Vice Mayor Ellis and Councilmember Harris attended virtually.

Staff in Attendance

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
John Knudson, Public Works & Utilities Director
Simone Kjolsrud, Water Resources Manager
Helen Parker, Budget & Research Principal Analyst
Ryan Peters, Strategic Initiatives Director

Discussion

1. Utility Rate Update Discussion Continued

- Recap of Adjustments Presented
- Follow-up Items from Prior Work Session
- Rate Implementation Methodology Options and Directions
- Next Steps and Key Process Dates

MAYOR HARTKE called for a staff presentation.

JOHN POMBIER, Acting City Manager, introduced the discussion item.

MATT DUNBAR, Budget and Policy Director, presented the following presentation.

- FY 2025-26 Utility Rate Update Discussion Continued
- Agenda
  - Recap of Adjustments Presented
  - Follow-up Items from Prior Work Session
  - Rate Implementation Methodology Options and Direction
  - Next Steps and Key Process Dates
- Recap of Adjustments Presented
- Average Residential Cost Comparison for Water, Wastewater and Solid Waste
- 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
- 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 systems safe. The impacts of increased capital replacements, operating costs and capital project costs is driving the rate requirement.
  - The direction needed in this workshop will be what implementation methodology to use to share clear customer classification impacts for public outreach
- Review of Follow-up Items from Prior Work Session
- Looking Back: Utility Rate COS Study Alignment Result
  - Original findings for Water indicated Residential and Multi-Family were slightly subsidizing other classifications
- Looking Back: Utility Rate COS Study Alignment Result
  - Original findings for Wastewater indicated Residential subsidizing other classifications
- Industrial Classification
  - 22 Industrial Businesses with at least one meter designated as industrial
    - Aligned Data Centers (Chandler) Propco LLC
    - Air Products & Chemical
    - Allied Waste Transportation Inc.

    - Applied Materials Inc
    - Avnet Inc
    - Bowman Consulting
    - Chandler Air Services
    - Chandler HFP II LLC
    - CRP III Chandler Airport LLC
    - Dr Horton Inc
    - Emerald On 87 LLC
    - FCL Builders Arizona LLC
    - Ferguson Enterprise LLC
    - First Electronics
    - Gila River Indian Community (Lone Butte)
    - Intel Corp
    - Microchip Technology Inc
    - NXP USA Inc.
    - Rogers Corp
    - South Bay Circuits Inc
    - True Up Companies, LLC
    - Unbound 165 LLC
- Utility SDF Fund Balances
  - SDFs are allocated based on projects that are related to growth and repayments are made to normalize the impact of these revenues.
  - *Annual SDF Loan payback revenues help minimize needed rate increase
  - Once fund balances reach zero, any annual revenues will be used to continue to pay outstanding loans keeping the fund balances at or near $0

COUNCILMEMBER HAWKINS asked what happens when the wastewater SDF fund balance at year-end reaches zero.

MR. DUNBAR explained that it represents the fund balance, so a $0 fund balance indicates that revenue is being used to pay off outstanding loans.

MS. LANG continued that system development fees are collected when developments pull a permit and are then kept in a separate fund. They are not allocated to the water and wastewater enterprise funds until it is determined whether the funds will be used to pay off a loan or directly for a growth-related project. Over the past few years, large permits have been issued for developments, and funds are available in the SDF that can be utilized in the next few years. Once that balance reaches zero, it depends on any new permits coming in on a year-to-year basis to determine how much can be paid back annually. The chart on the slide depicts what has accumulated that has not yet been used.

COUNCILMEMBER HAWKINS asked once the third year is reached and permit fees still come in, would that be the time to look at adjusting rates.

MS. LANG said the revenue would come into the SDF water fund and become an incoming revenue stream that helps minimize any rate adjustments. The revenue is applied to loans owed to the water operating fund. Whatever comes in is paid back against the loan, as there are no further growth projects to apply it to.

MAYOR HARTKE said impact fees pay for pre-existing infrastructure that is used by developers, in essence, paying for the work that others have paid for in the past.

MS. LANG added that in the past, the city sold bonds and used utility rates to pay bonds, and now that there are no more growth projects to apply the revenue to, the loans can be paid back into the operating funds. This helps in this high-inflationary period.

COUNCILMEMBER ORLANDO noted that the current SDF fund balance is approximately $12 million, which then reduces to $9 million in FY25-26, reflecting a $3 million buydown. In FY26-27, the balance reduces to $3 million, reflecting $6 million in buydown. He asked why this pattern is followed.

MR. DUNBAR said the city must maintain the structure, as the general obligation bonds' debt service has a statutory cap on it, so they must ensure the balance of the secondary tax revenues remains within 10% of the current existing debt service. If there is too much loan repayment at one time, then the balance will rise above the allowed 10%. Repayment must be staggered to stay below the statutory cap.

COUNCILMEMBER ORLANDO asked if this fund is only used to pay back debt service on bonds.

MR. DUNBAR said yes, some of these are only used for capital outlays in the enterprise fund themselves, and some are for debt service. Then, when paying back loans, there is a provision that the loan is in the debt service fund, it has to be paid back there because that is the fund that made the original payments. There is an offset from secondary taxpayers by subsidizing this loan repayment so that the secondary property tax users that have already paid do not have to repay. There is a statutory cap on this fund, so they must be careful to ensure that they do not add too much fund balance to raise the balance above the cap.

MR. DUNBAR continued the presentation.

- 5-Year Enterprise Funds Fund Balance Projection
    - Fund balances is being drawn down to support Pay-go capital, One-time and Ongoing O&M, and Debt Service

COUNCILMEMBER POSTON asked how much above the threshold is the current balance.

MR. DUNBAR explained that sometimes fund balances accumulate because there is a large pay-go capital project coming up. It is another option for financing large-dollar projects.

COUNCILMEMBER POSTON summarized that the balance kept in the enterprise fund above the minimum is not kept as a savings account, it is kept in advance of expected expenditures to use for water or wastewater projects.

MR. DUNBAR continued the presentation.

- Rate Adjustment Options and Determination on Direction
- FY 2025-26 Utility Rate Adjustment Timing Methodology
    - A change from rate adjustments every other year to every year would affect estimated planned rates as follows for Water & Wastewater

COUNCILMEMBER HARRIS asked about the history of past rate adjustments conducted every other year.

MS. LANG explained that in the past, rate adjustments did use to take place every year. Then, it changed to every other year but at the time the rate increases were not as high as they currently are.

COUNCILMEMBER HARRIS said this is another example of rate increases for taxpayers. He asked if there would ever be a point to look at a rate adjustment to bring down rates.

MS. LANG explained that over the past few years, inflation has had such a large effect on capital plan projects. Chandler also faces the issue of aging infrastructure, and gaps need to be addressed quickly. In considering that, the interest rates have increased so despite Chandler remaining AAA bond rated, the debt costs more in a higher inflation environment. All of these impacts in the rate model show double digit increases every other year. If the rate adjustments are implemented every other year, it could make it more predictable for residents and businesses. The high-cost environment is not going away anytime soon.

COUNCILMEMBER HARRIS asked why the aging infrastructure projects were not considered in the current bid for bonds.

MS. LANG said they have worked closely with the Public Works and Utilities Department in gathering information. Studies completed in the last few years have illuminated the need for faster replacements of existing critical vertical infrastructure. The project impacts costs in the capital plan. From the debt standpoint, it can be cash-funded or bond-funded. More upcoming capital needs have shifted to be bond-funded, which impacts the rate increases for debt service. There are multi-million-dollar projects and replacements completed, but the debt service coming on over the next decade will likely double.

COUNCILMEMBER ORLANDO asked when projected in the past, what did the 2026 water rate adjustment projection look like.

MS. LANG said as of the last presentation, they had projected the 2026 rate adjustment to be 8.4%.

COUNCILMEMBER ORLANDO asked if they had projected out to 2028 at the time.

MS. LANG said no, but a cost of service adjustment would have been conducted.

COUNCILMEMBER ORLANDO asked when projected in the past, what did the 2026 wastewater rate adjustment projection look like.

MS. LANG said as of the last presentation, they had projected the 2026 rate adjustment to be 8%.

COUNCILMEMBER HAWKINS said if Council looked at an annual model, would it be prudent to reexamine the rate every year.

MS. LANG said yes, Council has the authority to reexamine the rate every year through the budget.

COUNCILMEMBER POSTON asked if there are any opportunities to scale back CIP projects to mitigate the immediate cause.

MS. LANG said there are large projects projected out in the second five years. If those were not expected in that time frame there could be more flexibility. Pushing or delaying projects set for the first five years would then delay everything else. A 30-year projection was conducted but it still affects the large replacement projects coming up.

JOHN KNUDSON, Public Works & Utilities Director, added that CIP projects for Public Works and Utilities are derived from ongoing assessments conducted at all city facilities. Staff determines the highest priority projects, and then works with the budget team to place the projects in the years ahead to manage rate increases. The CIP projections can be changed, but it may affect the quality of the city facilities. Currently, the 30-year projection addresses only 186 miles of pipe out of the city's 1,200 miles of pipe, which typically lasts only about 50 years. He suggested that the city should stay ahead of replacements for infrastructure.

COUNCILMEMBER POSTON asked if the recent water main breaks show this.

MR. KNUDSON said the water main breaks are not unusual, there are typically 3-5 a month, either contractor-caused or due to old pipes. The difficulty is putting in new projects without replacing old pipe because it is not in the budget for that project.

COUNCILMEMBER POSTON said previously items were presented at different levels of priority, but all of the projects seem necessary.

MR. KNUDSON said correct. Some items like water quality at the water and wastewater treatment plants are due to regulatory requirements. These changes are expected within the next year, followed by an implementation period.

COUNCILMEMBER POSTON commented that there is a region of the city where the infrastructure is the same age, due to the rapid expansion of Chandler historically.

MR. KNUDSON agreed, there is a map of the years of when city pipe was put in. Materials installed in the 1980s are considered to be problematic materials.

MAYOR HARTKE supported the current plan for infrastructure improvements and suggested that Council address these infrastructure needs now rather than delay action.

COUNCILMEMBER HAWKINS asked about the suggested rate of pipe replacement.

MR. KNUDSON said 24 miles a year would address the 1,200 miles of pipe over a 50-year span.

COUNCILMEMBER HAWKINS asked if the proposed rates support that rate of pipe replacement.

MR. KNUDSON said no, currently the program supports five miles of replacement a year. It depends on the lifespan estimate of the pipes as well.

MS. LANG said pipe replacement projects were categorized by highest, high, and moderate risk.

MR. DUNBAR continued the presentation.

- FY 2025-26 Utility Rate Adjustment Implementation Methodologies
  - Implement Across the Board (ATB)
    - Increase needed (revenue requirement) for FY 2025-26 applied evenly ATB to all classifications, therefor all classifications increase at the same percent
    - Allows full inflation and new projects to be allocated over the next COS update
  - Implement Blended (COS/ATB blended rates)
    - Continues using FY 2019-20 data to align COS rate increases for anticipated increase needed based on the prior projection, then
    - Additional increase needed for FY 2025-26 applied evenly ATB to all classifications
  - Implement ATB **and** Blended for one or the other
    - Use ATB with one utility, and Blended for another
- Utility Rate Adjustments by Implementation Method
- Utility Rate Adjustments by Implementation Method

  - Prior year A-OK donations were $25,509. An additional $25,000 could assist customers most at risk
  - Current average residential bill of $75 is $37 lower than closest valley city
- Chandler Utility Rate Adjustment Direction
  - Determine method of implementing rates prior to public outreach and allocate revenue requirement
    - Across the Board (ATB) – 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 ATB to all classifications
    - Blended Cost of Service mixed with ATB – allocating the original revenue requirement following COS and additional revenue requirement across the board to one utility, and full
  - Advise on timing of future utility rate changes (every other year or annually)

COUNCILMEMBER HARRIS supported the across the board policy.

COUNCILMEMBER ENCINAS asked how long it would take to conduct another cost of service (COS) study.

MS. LANG said the increase is still based on the 21-22 cost of service study. This would be the fifth year. There are some things that have changed in the data. The next study is planned to kick off summer 2026, typically they wait until the five-year period ends. COVID affected the prior COS results and planning. Once engaged with a COS, it takes anywhere from six to eight months to do the study, results then come to Council to determine implementation.

MAYOR HARTKE said the results are fluid each year, as the data is reexamined to see if the COS is in alignment.

COUNCILMEMBER ORLANDO asked if there is a way to conduct a COS in shorter period of time.

MS. LANG said no, COS studies take longer than three to four months to conduct.

MAYOR HARTKE asked if a future COS shows a rate adjustment increase is not needed, does that set the city up for success with additional funds that can be allocated for these needs.

MS. LANG explained COS is allocating a revenue requirement or need a different way depending on the classification’s impact in the system. It would not change the need for the revenue as long as the city has to sell debt and pay for the capital, but it could change how it gets implemented.

COUNCILMEMBER POSTON asked what the next steps in this process would be.

MS. LANG said they had hoped to get direction on what the increases will look like for each classification. The methodology will inform residents what the impact will be. Staff conducts modeling for residents and businesses. Staff meets with community partners and highlight projects that impact rates. There are also resident open house events. Then staff will return at a future Council meeting in November to bring back the results of public outreach.

MR. POMBIER asked what would be brought back in November.

MS. LANG said public outreach would consist of sharing what the city's need is, the revenue requirement needs, and the impact to users on a monthly bill basis. Staff would report back to Council on feedback received grouped by classification.

COUNCILMEMBER POSTON said this is not a final vote today.

VICE MAYOR ELLIS supported increasing the A-OK fund, and supported the replacement program for critical infrastructure. She supported seeking feedback from residents and business owners while taking care of the city's needs.

MAYOR HARTKE determined Council consensus was the 15%. He asked about the implementation of funding the A-OK program increase.

MS. LANG said if there is consensus, staff will research funding the increase to the A-OK fund.

MAYOR HARTKE supported the one-year timing of future utility rate changes, there was Council consensus on the timing of one-year.

COUNCILMEMBER ORLANDO asked about when the timing of this would go into effect.

MS. LANG said that information will be presented at the follow-up meeting.

COUNCILMEMBER HARRIS requested to look deeper into the rate of replacement of infrastructure.

MAYOR HARTKE asked if that would be part of next year's budget presentation.

MS.LANG said yes.

- Next Steps and Key Process Dates
- Questions?

Public Comment

None.

Adjourn

The meeting was adjourned at 4:56 p.m.

ATTEST: Dana R. DeLong
City Clerk

Kevin Hartke
Mayor

Approval Date of Minutes: September 15, 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 4th day of August 2025. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 15th day of September, 2025.

Dana R. DeLong
City Clerk

CITY OF CHANDLER CORPORATE SEAL ARIZONA