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February 10, 2011

MINUTES OF THE SPECIAL MEETING OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held in the Council Chambers, 88 E. Chicago St., on Thursday, January 27, 2011, at approximately 7:40 p.m.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY.

The following members answered roll call:	Jay Tibshraeny	Mayor
	Trinity Donovan	Vice-Mayor
	Kevin Hartke	Councilmember
	Rick Heumann	Councilmember*
	Matt Orlando	Councilmember
	Jack Sellers	Councilmember
	Jeff Weninger	Councilmember

*Councilmember Heumann participated in the meeting via telephone.

Also in attendance:	Rich Dlugas	Acting City Manager
	Pat McDermott	Assistant City Manager
	Mary Wade	City Attorney
	Marla Paddock	City Clerk

PUBLIC HEARING:

PH1: INCREASE OF CERTAIN WATER, RECLAIMED WATER AND SEWER FEES.

MAYOR TIBSHRAENY opened the Public Hearing at 7:40 p.m.

Management Services Director DENNIS STRACHOTA reviewed proposed water and wastewater increases. He explained that a need to meet increase additional debt service cost, as a consequence of needing to replace or maintain existing infrastructure or expanding it to meet increasing service demands. One of the reasons why the City has to borrow more money to be able to accomplish the improvements is due to a falloff of impact fees that are assessed in new construction. He noted that the impact fees had declined as much as 70% in a period of four years. He stated that the borrowing was occurring in part to be able to make up the difference. He noted that the impact fees would pay overtime the cost of the borrowing.

Mr. Strachota presented to the Council a PowerPoint demonstration showcasing the single family residential average monthly bills beginning April 1. He explained that the average monthly bills would be in existence on April 1, 2011. He noted there were two options before the Council; Option 1, increasing winter and summer rates every year, and Option 2, increasing winter and summer rates every other year. He then went over different scenarios of how the fees would increase. He indicated that the fee increases were both for water and wastewater.

Mr. Strachota explained that in Option 1, for the average household, the monthly increase

would be $4.35. Under Option 2, the increase would be $6.68. He added that the rates were for both water and wastewater. He told the Council that the City's rates would remain the lowest or second lowest compared to other cities in the valley under Option 1. He showed an example of a single-family 12,000 gallon monthly usage ranking lowest among the cities under Options 1 and 2. He then showed an example of 80,000 gallons showcasing the City of Chandler ranking in at second lowest. He noted that the City of Chandler would rank second lowest for a restaurant with a 2-inch meter consuming 80,000 gallons under Option 1 and Option 2. The City of Chandler would rank in third lowest for a big box store, averaging 560,000 gallons a month in Option 1 and would rank fourth in Option 2. He stated that the City would rank third lowest in the valley for industrial customers.

Mr. Strachota stated that 7 public meetings would have been held over a course of four months to discuss the rate options. He indicated that the Council would formally adopt the fee increases on February 10, 2011. He noted that there were talks about having to do the rate increases in 2009.

At the request of Mayor Tibshraeny, Mr. Strachota showed the slides showcasing the 12,000 gallon and 80,000 monthly usages for single families. He stated that the City ranked the lowest for usage of 25,000 and 60,000 gallons.

COUNCILMEMBER ORLANDO asked what was driving the cost increase.

MR. STRACHOTA indicated that the increase was being driven by the increasing debt cost that the City would incur over the next couple of years, as a result of having to do repairs, improvements, or replacements of existing infrastructure, or in some cases, expansion of facilities.

At the request of COUNCILMEMBER ORLANDO, Municipal Utilities Director DAVE SIEGEL explained that staff typically put together a 10-year CIP that included growth related and rehab projects. He explained that the City had replaced water mains behind Chandler High School in the past 5 years. He added that there was one phase left in that project. He noted that staff would also need to work on Hamilton Street, as there were many water main breaks occurring in that area.

Mr. Siegel indicated that the staff had deferred as many maintenance rehab projects as they could. He stated that water wells and tanks also had to be rehabbed. In regards to the wastewater side, Mr. Siegel stated there were two projects that were driving the increase. He stated that the Lone Butte lease will expire in 2017. He explained that the project would cost close to $180 million dollars to build a pipeline in West Chandler and bring it back to South-central Chandler and to build a replacement 10-million gallon treatment. He added that the second project being looked at would cost nearly $100 million dollars and would be a 5 million gallon expansion for future growth.

In response to a question from COUNCILMEMBER ORLANDO, Mr. Siegel stated that the City replaced 27,000 meters. He explained the differences with the new meters that have the automatic meter reading. He explained that in order to save money, staff was trying a combination of converting to automatic meter reading and replacing old meters for accurate billing. He stated that the City was 50% complete with that program.

COUNCILMEMBER ORLANDO noted that there had been extensive cost cutting by the Municipal Utilities Department.

MR. SIEGEL concurred. He told the Council that in the last 3 years, 17-18 positions had been eliminated. He noted that the he eliminated 2 Assistant Directors and was in the process of eliminating another high ranking position and noted other cost saving measures. He further explained that the City benchmarked against other utilities to ensure that on the O&M side, the City is efficient as it possibly can be.

COUNCILMEMBER ORLANDO asked if the City was still on the cost per usage scenario.

MR. SIEGEL concurred.

COUNCILMEMBER SELLERS stated that it was important to explain to people that the funds generated from the fees had nothing to do with the General Fund revenues. He stated that the fund was a self-sustaining enterprise fund. He stated that the water and sewer/wastewater system had to pay for itself to reflect the actual cost of service.

MR. SIEGEL stated that there were three separate funds in the Municipal Utilities Department, which were water, wastewater and solid waste. He noted that each of the funds was kept separate and were each a self-going business. He added that the money did not go into the General Fund with the exception of the services that were used and paid for, such as postage for billing. He stated that the money collected from utilities goes toward the operation, the debt service and to pay for the general fund services that were used.

COUNCILMEMBER HEUMANN noted the public hearings that had been done on the issue. He questioned the differences among the two options. He stated that in looking at the differences, he noticed that Option 2 frontload a lot of the increase, with an increase not being done the second year. He expressed concern over Option 2 and questioned what the dollar increase for smaller user would be going from the current rates to Option 2.

MR. STRACHOTA stated that the difference for smaller users of single-family residential would be $2.50/month.

COUNCILMEMBER HEUMANN asked if that was the difference between Option 1 and Option 2.

MR. STRACHOTA concurred.

COUNCILMEMBER HEUMANN asked what the difference was between the current rates and Option 2.

MAYOR TIBSHRAENY stated that the difference was $6.68 for Option 2 over current rates, versus $4.35 over current rates.

COUNCILMEMBER HEUMANN stated that he looked over the rates for the industrial users and noted that the difference between Option 1 and Option 2 was about $35,000.00. He expressed concern over Option 2 and believed things would be frontloaded for businesses and citizens during the tough economic times. He questioned the rationale for Option 2 and

asked why it had been proposed.

MR. STRACHOTA believed that the rationale was in terms of whether the Council wanted to look at rate increase occurring every year or every other year. He stated that staff projected that rate increases would have to occur for the next 5 years. He stated there would be some stability and continuity if it was done every 2 years. He noted that the rate could be lower or higher if it was done every year. He concurred that the rate increase was being frontloaded in Option 2, due to there not being an increase in the second year.

COUNCILMEMBER HEUMANN concurred that the rates could be lower or higher. He stated that it was his understanding that it had not been determined whether the shared facility with Gilbert would be expanded in the next year. He believed that Option 1 would keep dollars in citizens' pockets longer.

In a response to a question from COUNCILMEMBER HARTKE, Mr. Strachota explained that the City was behind and had pushed out as much as possible need of replacement and repair. With respect to the shared facility with Gilbert, Mr. Strachota clarified that even if the expansion to the facility was not done, rate increases would still be needed for the next 2 years. He stated that other factors that could come to play would be an increase to utility costs, further reductions or efficiencies in either the water or wastewater side. He clarified that staff did have good estimates of what the costs would be, but noted that if efficiencies or savings were achieved or if costs were higher, then the rate increase would change.

MR. SLATER voiced his opposition of the rate increase. He stated that he was aware of the fact that water would have had to been supplied to new residential areas, but he believed that they should have been factored in at the time of development. He believed that the developer should have been charged prior to allowing the right to develop, to pay for the infrastructure that was required. He stated he lived in a middle to older Chandler neighborhood. He noted there were vacancies in his neighborhood and that costs had increased. He recalled a time when utility rates had gone up and believed that economizing utility use was counterproductive since it cost residents more for the same amount of power. He realized that the City was stuck between services and debt, but he believed that the amount of people available to pay for the debt was decreasing as less tax payers were available. He further thanked the members of the Council for their public service.

COUNCILMEMBER ORLANDO asked staff to elaborate on impact fees. He asked staff to explain how growth was paying for itself. He noted that impact fees had helped the City in the past by offsetting some fees.

MR. STRACHOTA stated that the impact fees were assessed at the time that they take out permits. He added that the fees were based upon an improvement plan over the course of a number of years through what would be build up for the community. He clarified that staff would determine what projects were brought on. He stated that the projects were all new construction, expansion and improvements that would have to be completed. He explained that growth paid for itself in the sense that the developers were participating upfront in the cost to having to expand the facilities. He noted that there was robust growth in Chandler prior to three years ago. He explained that the fees would come in quicker, faster and were being paid in cash. He stated that as growth has slowed down, the fees had dropped off. He further stated that the fees were still in existence and would eventually catch up, with

repayment of any borrowed money being done.

COUNCILMEMBER ORLANDO asked if there would be reimbursement to the fund for a project that was based on growth in the CIP that would normally have been picked up by impact fees.

MR. SIEGEL concurred.

COUNCILMEMBER ORLANDO stated that if there were areas that had to be developed, the City would reimburse funds based on impact fees assessed at the time that the area became developed.

MR. STRACHOTA concurred. He stated that there were still impact fee revenues that were being applied to projects but noted that they could not cover the entire costs.

COUNCILMEMBER ORLANDO stated that another issue facing the City was maintenance and capacity.

MR. SIEGEL concurred.

MAYOR TIBSHRAENY credited the impact of development fees as one of the reasons that the rates have been able to be kept at low levels compared to other cities. He believed that many of the other cities did not have growth pay for itself until after Chandler did.

COUNCILMEMBER WENINGER stated he understood Mr. Slater's frustrations. He believed it was a conservative thing for the fund to pay for itself. He referenced the graph shown to the audience regarding the rate increase. He stated that the Chandler would still have the lowest water rates in the valley, lowest taxes and the least amount of employees per thousand residents in the valley. He credited financial policies in the City as being a reason as to why Chandler is doing well compared to other cities. He believed that some people were comparing the increase to that of the City of Phoenix. He believed it was not the same thing as Phoenix's rates would be $26.00 more for the same amount of water.

MAYOR TIBSHRAENY CLOSED THE PUBLIC HEARING AT 8:09 P.M.

1: <u>CITY CODE AMENDMENT:</u> Chapter 50 Ord. #4263

MOVED BY COUNCILMEMBER HEUMANN, SECONDED BY VICE-MAYOR DONOVAN TO INTRODUCE AND TENTATIVELY ADOPT ORDINANCE NO. 4263, OPTION 1, AMENDING CHAPTER 50, SECTIONS 50-11 THROUGH 50-12 OF THE CODE OF THE CITY OF CHANDLER TO CHANGE CERTAIN WATER, RECLAIMED WATER AND SEWER FEES.

MOTION CARRIED UNANIMOUSLY (7-0).

Adjournment: The meeting was adjourned at approximately 8:10 p.m.

ATTEST: _____ _____
City Clerk Mayor

Approved: February 10, 2011

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the special meeting of the City Council of Chandler, Arizona, held on the 27th day of January 2011. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this _____ day of February 2011.

_____
City Clerk