

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 Street, on Monday, August 12, 2013.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY at 7:13 p.m.

The following members answered roll call:

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| Jay Tibshraeny | Mayor |
| Jack Sellers | Vice-Mayor |
| Trinity Donovan | Councilmember |
| Nora Ellen | Councilmember |
| Kevin Hartke | Councilmember |
| Rick Heumann | Councilmember |
| Jeff Weninger | Councilmember |

Also in attendance:

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| Rich Dlugas | City Manager |
| Pat McDermott | Assistant City Manager |
| Marsha Reed | Assistant City Manager |
| Kay Bigelow | Assistant City Attorney |
| Marla Paddock | City Clerk |

PUBLIC HEARING:

PH1. Increase of certain Water, Reclaimed Water and Wastewater Fees.

MAYOR TIBSHRAENY opened the public hearing at 7:13 p.m.

Management Services Director Dawn Lang explained there were three separate enterprise funds – water, wastewater and solid waste. Based on the city's financial policies, there is a financial review completed on an annual basis to determine if a rate adjustment is needed. She said the presentation tonight is for water and wastewater.

She stated at a minimum of every four years a consultant assists in assessing the rate structures, analyzes the growth assumptions and provides additional detail in comparing the rates in other cities. She said this was utilized this year, but only in the area of reclaimed water rates.

Ms. Lang reviewed the public notification process up to this point and added that additional notices are given above what is required by state law.

Wastewater Enterprise Fund:

Ms. Lang stated the proposed increase is 9% across all user levels. The rate is a flat fee for the single family residential customers. They will see a \$2.00 monthly increase. She explained the three main reasons for the increase is increased debt service costs in the wastewater fund due to expanded facility and rehab capital needs; an increase in operating costs at the expanded facilities; and the need to meet adequate reserves to meet debt covenants on existing bonds. Over the next few years, \$210 million in bonding for wastewater facility expansion, improvements

and new construction. About \$25 million will be added to the wastewater fund debt service cost of the next 10 years.

She displayed the rates showing fee changes included in the ordinance. She added that in addition to this basic charge, there are two very specific charges that only apply to our industrial customers and would only be paid if wastewater strengths exceed specific limits. Currently, there is no revenue from these two fees but they would apply if they exceeded the permitted limit of biochemical oxygen or suspended solids.

Ms. Lang emphasized that even after the 9% increase, the wastewater rate for single family residential in Chandler would be the lowest of all valley cities.

Reclaimed Water:

There is an 18% increase in this category as the study shows the cost of producing reclaimed water exceeds the revenue generated. This cost is only operating and does not include capital. She explained the study showed the need to increase the cost by 36%, but the consensus is that is too large of an increase in a single year and the proposed cost is the split.

Ms. Lang noted that all of the reclaimed water revenue goes to the wastewater fund, so all water users who do not have reclaimed water services, are subsidizing the cost for those that do. This rate increase will at least partially offset this imbalance to more closely meet the operating costs.

Ms. Lang said while it is difficult to determine the impact to a single homeowner as the cost is typically distributed by an HOA through monthly or quarterly assessments. Staff's analysis was that on average a homeowner in an HOA with reclaimed water would see an increase of less than \$3 per year.

She reported that five HOA's were surveyed based on their consumption. The HOA would pay an increase of \$785 per year on average. The per home amount would be \$2.83 per year or 24 cents per month if an HOA chose to pass along the cost to the resident. If an HOA uses reclaimed water, that is 76% less than HOA's that are using potable water.

MAYOR TIBSHRAENY noted that was a good point as some HOA's are using regular water.

Ms. Lang stated that in this category Chandler is in second place to the other valley cities, being slightly higher than the Town of Gilbert. A base of 100,000 gallons was used comparing this rate increase.

Water Enterprise Fund:

Ms. Lang stated there are no recommended changes to the water rates. There are recommended changes to the utility billing fees and deposits. The main reasons are for recovery of costs for trip charges and simplification or standardization of the collection of deposits from customers for utility bills.

The Utility Billing Account Establishment Fee is increasing from \$15 to \$25.

The Utility Account Re-connect After Disconnect Fee is a new fee and is proposed at \$30. This would only be charged in excessive cases where there are multiple trips out to re-connect.

Next is an increase to the Unauthorized Water Use Fee from \$75 plus damages to \$100 plus equipment repair/replacement. This fee applies when meters have been tampered with.

She noted the change to the residential utility deposit without letter of credit. Currently, only deposits on rentals are collected but looking at expanding this to owner occupied for any home that does not have a 12 month satisfactory payment history from a utility company. There will be 3 categories, residential, duplex and triplex.

In response to a question from Councilmember Heumann, MATT DUNBAR, Revenue and Tax Manager explained it wouldn't be a credit report, just a letter of credit from that utility stating they have a 12 month history of good payment. He explained the city does not do a credit history report. The letter can be faxed or e-mailed from the utility and is fairly common in the utility business. Councilmember Heumann asked if the deposit was refundable after 12 consecutive payments. Mr. Dunbar said that was correct.

COUNCILMEMBER HARTKE asked what assistance is available for those who had a reconnect based on them not being able to pay their bill. Ms. Lang noted the language has been changed from "shall" to "may" and the intent is to not impose a hardship.

She said other deposits affected would be in the area of multifamily, commercial, landscape and industrial. The meters will be based on four types, down from seven. Deposits are for recovery when there is non-payment and will be reimbursable after 12 months of good credit.

The proposed fire hydrant meter deposit is for cost recovery. The deposit is returned when the meter is returned.

COUNCILMEMBER HEUMANN asked if there are meters not being returned. Ms. Lang said there are quite a few incidences when the meter is not returned and the deposit did not cover the cost. COUNCILMEMBER HEUMANN asked if the CO (certificate of occupancy) is issued if the meter isn't returned. MR. ZEDER said sometimes CO's are issued as build outs are completed and they would need to do more research whether that would be a viable option especially if the development is done in phases.

Mr. Heumann said he did not want to put an onus on a business if there is another way to get the meter back.

MS. LANG commented that even after the proposed rate increases, the typical Chandler household will pay the lowest amount for their combined water, wastewater and solid waste service as compared to other valley cities.

The Mayor asked for any public comment. There was none.

MAYOR TIBSHRAENY closed the public hearing at 7:33 p.m.

1. CITY CODE AMENDMENT: Chapter 50 Ord. #4465

INTRODUCED AND TENTATIVELY APPROVED Ordinance No. 4465 amending Sections 50-2, 50-3, 50-5, 50-6, 50-8, 50-9, 50-10, 50-11.1, 50-12, 50-13 and 50-19 of the Chandler City Code to change certain water, reclaimed water and wastewater fees.

BACKGROUND

As required by the City's Financial Policies, a review of current, Water, Wastewater (including Reclaimed Water), and Solid Waste Enterprises was conducted as part of the FY 2013-14 Budget process. The review of the Water and Solid Waste current financial situation and future revenues and expenses determined that no rate increases for residents was required at this time. However, as explained below, there are proposed changes to fees related to Utility billing operations that will impact water users. The review of Wastewater's current financial situation (including the Reclaimed Water component) determined that rate increases were required for FY 2013-14. Those increases have been incorporated into the proposed ordinance as summarized below:

Wastewater: The multi-year financial plan prepared by Staff indicates that a FY 2013-14 rate increase of 9% is necessary to meet current and future financial commitments, specifically to cover additional debt service costs tied to new construction and expansion of facilities. The proposed 9% increases will result in the typical household wastewater bill increasing \$2.00 from \$22.17 per month to \$24.17 per month. Outside City rates will continue to be calculated using the current differentials of 1.4 times the Inside City rates.

Reclaimed Water: As part of the FY 2013-14 review of utility rates, the City engaged a consultant to evaluate the City's Reclaimed Water services. The review determined that the City spends approximately \$1.4 million per year for operations to provide Reclaimed Water to users but only recovers about \$1.0 million in revenues. Although a 36% increase is needed to break even, it is proposed to initially increase the rate by 18%. The proposed increase in Reclaimed Water fees will add approximately \$200,000.00 in revenue to partially offset operating production costs. The primary users of Reclaimed Water are Homeowner Associations (HOA) and golf courses. Although the use of reclaimed water varies from one HOA to another, a survey of five typical HOAs showed that, on average, this increase equates to a change in the monthly cost per home from approximately \$1.30 per month to \$1.54 per month. Outside City rates will continue to be calculated using the current differentials of 1.6 times the Inside City rates.

Utility Billing: In addition to the fee increases noted above to support operating and debt service costs, the proposed Ordinance would enact several changes to business operations fees and deposits managed by the Utility Billing Division. These fees are necessary to offset cost of service and to standardize and simplify the processing of deposits.

PUBLIC NOTIFICATION

The notice of the proposed increases in rates and fees was published on the City's website on May 31, 2013. In accordance with State Statutes, the "Official Notice of Intention to Increase Certain Water, Wastewater and Reclaimed Water Rates" was approved by Council on July 11, 2013 and posted on the City's website and published in the Arizona Republic newspaper showing the date, time and place of the Public Hearing. As is also required by State Statutes, a copy of the documents supporting the revised Water, Wastewater and Reclaimed Water fees was filed with the City Clerk for public review 30 days prior to the hearing. Lastly, notice of the Public Hearing was published on the utility bills starting July 15, 2013, and social media was used to inform citizens of the public hearing and possible increases in fees.

COUNCILMEMBER WENINGER commented that he believes a system has to pay for itself and not be subsidized by other areas.

