Minutes of the Work Session held October 10, 2011 at 6:00 p.m. in the Council Chambers.

MEMBERS PRESENT

Mayor Lopez Rogers and Council Members

Jim McDonald, Vice Mayor
Jim Buster
Stephanie Karlin
Frank Scott
Charles Vierhout
Ken Weise

ALSO PRESENT

Charlie McClendon, City Manager
David Fitzhugh, Assistant City Manager
Rogene Hill, Assistant City Manager
Kevin Artz, Finance and Budget Director
Sue McDermott, City Engineer and Development Services Director
Wayne Janis, Public Works Director
Andrew McGuire, City Attorney
Carmen Martinez, City Clerk

1) ROLL CALL BY THE CITY CLERK

2) ENTERPRISE FUND REVENUE ANALYSIS

Presentation of the findings of the latest revenue sufficiency analysis of the water, wastewater, and sanitation enterprise funds.

Mr. McClendon introduced a report on the City of Avondale's enterprise revenue relative to expenditures, noting that revenue funds are designed to be self-sufficient. Kevin Artz reported that customer growth has slowed significantly over the past several years. The State Legislature is also impacting enterprise funds and fees. Over the past two years rates have not increased. From 2005 to 2009, water and wastewater rates rose about 3%. Over that same time, sanitation rose from $14 to $20 per month. When the rate study was done in 2004, Avondale was projected to have 27,000 customers by now, but the actual growth has been fairly flat and estimates have been revised down.

Mr. Artz said the water fund cash flow analysis is based on several assumptions. Staff is comfortable with the 2012 numbers, but projections farther out than that could change enough to require an increase. Currently, staff projects that a water rate increase is not needed over a five year period. The City is spending down its fund balance a bit, but some of it is programmed into the CIP to construct capital projects. Staff also proposes that there is no need for a wastewater increase this year, and the current five-year analysis shows no need for any rate increases during that timeframe. The fund balance is being spent down, with a significant portion being spent in the first year to cover the CIP fund for the Phoenix International Raceway (PIR) sewer line.

Mr. Artz explained that compared to other communities where the average water bill for 9,000 gallons a month is about $28.50, Avondale's is at $22.18. The rate for a 15,000 gallon user is also below average. The average sewer for 8,000 gallons is $26.76, while Avondale is at $25.27. For a 15,000 gallon user, Avondale is slightly above the average at $44, instead of $41. The total cost per month for sanitation is a little over $17.75, while

Avondale is charging $20. The average rate is $19. Sanitation rates are highly dependent on fuel costs.

Mr. Artz reported that the impact of Senate Bill 1525 eliminated the City's ability to collect development fees for sanitation projects. In the past, Avondale used development fees to pay for two new containers for each newly constructed home and the new sanitation trucks required for growth. Both of those revenues now have to be recovered from a different source. Container costs for new homes could either be included in the rates so that everybody in the city pays for them, or a fee could be added for new homes when they sign up for water and sewer service. There is no way to collect the fee up front for vehicles so that cost has been included in the rate analysis.

Mr. Artz stated that the Arizona Department of Water Resource fee for Avondale is almost $95,000. Senate Bill 1624 passed these costs onto the cities to collect. That amount, allocated out to all customers, turns out to add approximately .33 cents per water bill per month. An environmental fee for the National Pollutant Discharge Elimination System (NPDES) program and the PM-10 Air Quality Program has been proposed by the Development Services and Engineering Department. A one dollar fee per customer per month would generate $250,000 a year, which could be used for these two programs. Specifically, it would be used to pay for storm water management, public education and outreach, storm water pollution preventions and dust control.

Council Member Weise noted that the City's policy has been to replace curbside containers every five years, and suggested that it would be more cost effective to replace individual parts as they wear out. Public Works Director Wayne Janis stated that the containers have a ten year warranty. The existing recycling containers will be ten years old in 2013. He advised that it is better to replace them completely because they experience heavy wear and tear. It is expensive to haul them back and forth, and one part could be replaced only to have another break shortly afterwards. Council Member Weise queried whether the study takes into account other fees that the State might add moving forward. Mr. Artz responded that staff only included the known fees; this does not mean a significant fee couldn't come out next year that would require a rate increase.

In response to an inquiry from Council Member Weise, Mr. Artz said the average rate calculations only include the city's portion and not the private side for those cities that are also serviced by a private company. Council Member Weise noted that Avondale's rate might be even lower compared to other communities if private companies were included.

Council Member Karlin suggested that a smaller incremental increase every year over five years would be easier for residents to take than a sudden large jump in one year. Mr. Artz said the program would be reviewed every year to determine whether rates needed to be increased. The four-year projection is subject to change, based on analysis. Council Member Karlin asked whether the environmental revenue goes to the State or the Federal government. Mr. Artz explained that the money would stay with the City of Avondale to fund its programs for that purpose.

Council Member Scott asked whether the container fee for buyers of new homes would be charged in a lump sum or could somehow be spread out. Mr. Artz explained that the actual

cost is only about $50 per can, noting that this amount isn't a sizeable fee. The City also has some money left in the development fee fund which could be used to purchase new cans for several years.

Responding to an inquiry by Council Member Buster, Mr. Artz confirmed that some containers have been replaced on an as-needed basis. Mr. McClendon added that the City has $75,000 set up each year to replace a portion of the cans, eliminating the need for all of them to be replaced at once. The $75,000 dollar amount is funded by the current rates. Council Member Buster inquired about the request for an additional $100,000. Mr. Artz explained that the study identified the need to start replacing cans at a higher frequency because a significant portion were purchased at the same time in 2003.

Council Member Buster queried what an average bill would be with all of the proposed increases. Mr. Artz explained that the average water bill is currently about $70 and would increase by about 1% to 2%. Council Member Buster noted that Avondale has been complying with NPDES for years because it is a federal program. Mr. Artz noted that the money has come from the General Fund and HURF in the past, but the economic downturn has caused NPDES and PM-10 to become underfunded.

Vice Mayor McDonald remarked that some of the ten-year old containers are still going to be in good condition. He suggested that new homeowners be offered free refurbished cans instead of being asked to pay a bill when they first move in. Mr. McClendon said the fund balance in the development fund gives Avondale some time to start programs of this nature. In response to an inquiry by Vice Mayor McDonald, Mr. Janis explained that the City is using GPS to accurately locate its assets, including valves, sewer lines and meters, but this requires paying for a contractor to locate them and record them on GPS. That information is then placed in the GIS mapping system. Vice Mayor McDonald asked whether a staff person could be used instead of a contractor. Mr. Janis responded that the task would consume all the staff person's time for a long while. An independent contractor is trained, insured, and can accept the liability to go out in the field for that purpose.

Vice Mayor McDonald questioned whether tertiary filters would enable the City to use reclaimed water in ways that would reduce costs in other places. Mr. Janis said the effluent would essentially be treated to the quality of Class A, but to call it that would require testing and bureaucratic costs that are not worth the effort. For the foreseeable future, Avondale could recharge the aquifer and have it used as the potable water supply, which sets the community apart because it would be low TDS water. TDS water is costly to treat. The 100-year plan also identifies this as a water resource. Mr. McClendon added that having tertiary filters might have an effect on operating costs because of the chemical loads required to meet the standards. Mr. Janis said staff is preparing a program for Council's future consideration on this matter.

Vice Mayor McDonald requested a vehicle replacement update. Mr. Artz said staff examined every class of vehicle to determine which could have their life spans stretched out and which could not. The vehicle replacement fund reflects the appropriate useful lives of City vehicles.

Vice Mayor McDonald said he would much rather add a small increase every year to the water/sewer bills than assume the position of having a large increase in one year. He asked whether a larger than expected rate of growth would cause rates to be raised sooner. Mr. Artz said the situation would have to be analyzed each year. Vice Mayor McDonald inquired about the nature of the environmental outreach effort. City Engineer Sue McDermott explained that the outreach would be to teach people about storm water pollution, illicit discharge, and air quality issues.

Mr. Artz explained that separate line items on the water bill would delineate the .33-cent ADWR fee and the $1.00 PDE/PM-10 fees. Council Member Vierhout suggested that this would emphasize the State's role in the increase. In response to Council Member Vierhout's inquiry, Mr. Artz said some containers are lasting longer than their ten-year warranties and the Department is replacing them on an as-needed basis, not simply on schedule. Council Member Vierhout requested an update on delinquent receivables. Mr. Artz said staff will present Council with a receivable analysis report in the near future.

Mayor Lopez Rogers said Federal and State legislators have forced unintended consequences and unfunded mandates onto cities. New growth no longer pays for itself, which is unfortunate given the state of the economy. Residents should be made aware of where their increased fees are coming from.

3) ADJOURNMENT

With no further business before the Council, Vice Mayor McDonald moved to adjourn the work session. Council Member Council Member Weise seconded the motion. The motion carried unanimously.

Meeting adjourned at 6:49 p.m.

Mayor Lopez Rogers

Carmen Martinez, CMC
City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the Council of the City of Avondale held on the 10th day of October 2011. I further certify that the meeting was duly called and held and that the quorum was present.

City Clerk