

## Minutes City Council Issue Review Session April 7, 2011

Minutes of the Tempe City Council Issue Review Session held on Thursday, April 7, 2011, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

### **COUNCIL PRESENT:**

Mayor Hugh Hallman  
Councilmember Robin Arredondo-Savage  
Councilmember Mark W. Mitchell  
Councilmember Corey D. Woods

Vice Mayor Joel Navarro  
Councilmember Shana Ellis  
Councilmember Onnie Shekerjian (*via teleconference*)

### **STAFF PRESENT:**

Charlie Meyer, City Manager  
Jeff Kulaga, Assistant City Manager  
Various Department Heads or their representatives

Andrew Ching, City Attorney  
Brigitta M. Kuiper, City Clerk

***Mayor Hallman called the meeting to order at 6:22 p.m.***

### **Call to the Audience**

None.

### **Wastewater Program Evaluation**

Charlie Meyer, City Manager, stated that City staff has conducted an evaluation of the Kyrene Water Reclamation Plant, partially due to maintenance shutdowns at this site. The purpose of this presentation is to give Council a broad overview of the program evaluation. Don Bessler, Director of Public Works, Don Hawkes, Deputy Public Works Director for Water Utilities, and Phil Brown, Senior Civil Engineer introduced themselves as co-presenters. Presentation and discussion highlights are as follows:

- In June, 2010, the Kyrene Water Reclamation Plant (KWRP) shut down due to operational problems
- Approximately \$2.8 million in capital improvements is needed for that facility; not all improvements are due to the shutdown, some improvements were in the planning stages at the time of the plant shut down
- The shutdown provided an opportunity to evaluate the City's reclaimed water program
- A multi-disciplined group of city employees from various departments was formed to evaluate the business plan for reclaimed water; the group also studied options moving forward
- In March 2011, the group completed the evaluation and in-house study
- Follow-up work, outside of the staff work and evaluation, will need to be done
- At the same time of the KWRP shutdown, staff was involved in negotiations for a new agreement involving the operations for the 91<sup>st</sup> Avenue Wastewater Treatment Plant (WWTP); staff will present that agreement to Council this summer
- The new agreement includes flow commitments for the 91<sup>st</sup> Avenue treatment plant to meet contractual obligations
- The contractual obligation is for minimum flow commitments during certain periods of the year

- Wastewater flows have reduced drastically across the valley since 2006 and 2007; this presents an opportunity for staff to evaluate the City's wastewater program
- Water Utilities' Wildly Important Goal (WIG): Develop a sustainable water reclamation strategy for Tempe using a triple bottom line<sup>2</sup> (3BL<sup>2</sup>) approach by March 31, 2011
- 3BL<sup>2</sup> components include environmental, financial and social considerations with priorities weighted as essential, very important and important.
  - Essential: meets all regulatory and legal requirements; not a cause detriment to public health
  - Very important: honor existing inter-governmental and agency agreements; minimize operations and maintenance and capital costs; contribute to the City's assured water supply; control consumer costs
  - Important: maintain or improve surface water quality; be responsive to neighborhood issues and concerns; contribute to sustaining or improving ground water levels; strive to minimize green house gas emissions; provide public education opportunities; be a lead in utilizing advance wastewater technologies; generate revenue; provide employment opportunities; contribute to biodiversity
- KWRP re-start metrics – decision subject to the following considerations:
  - Reclaimed water commitments
  - Wastewater flows
  - Operating and maintenance costs
  - Assured water supply
- Tempe's reclaimed water flow commitment to 91<sup>st</sup> Avenue WWTP per new operating agreement:
  - Buckeye Irrigation District; Arizona Nuclear Power Plant; Tres Rios Wetlands
- In the high peak months of the summer, Tempe sends 17.4 million gallons per day (MGD) of wastewater flow to the 91<sup>st</sup> Avenue WWTP
- In the 2000 Master Plan, wastewater flows continued to increase, which resulted in a decision to invest in capacity in both 91<sup>st</sup> Avenue and at Kyrene Reclamation plants
- There are five partner cities that own the 91<sup>st</sup> Avenue, a plant capable of treating 203 million gallons a day; currently it is treating about 130 million gallons a day
- The shutdown of the Kyrene plant has saved \$675,000 in operating costs in the last year primarily due to electricity and chemical savings.
- Study findings and conclusions are:
  - Decommission or "mothball" KWRP for up to three years
  - Utilize personnel in current vacant positions
  - Maintain plant with minimum staffing
  - Able to restart with 6-month lead time
  - Continuous tracking of benchmarks, as follows:
    - If wastewater flows rise to 23 million gallons per day consistently (likely more than 5 years)
    - If water demand increases to 55 million gallons per day (likely more than 5 years)
    - If the Salt River Project (SRP) reservoir storage drops to a percentage between 35 and 40 percent (likely more than 3 years)
- Mothballing the Kyrene plant would save approximately \$1.4 million a year
- There is an additional \$2.8 million savings in capital costs that have been deferred as the plant remains shutdown
- New Conservation Space:
  - The City of Tempe, along with several other valley cities, invested in raising Roosevelt dam
  - Tempe has approximately 10,800 acre feet in the New Conservation Space, assuring additional water supply
  - Tempe recently used approximately 2,008 acre feet of new conservation space water to fill Tempe Town Lake
- There is controversy regarding Central Arizona Project (CAP) water, which may not be available to Arizona cities in the future due to states upstream on the Colorado River arguing that the water is theirs first
- Presently, wastewater flow is between 17 and 18 million gallons per day; sustained water demand is up to approximately 55 million gallons per day; currently Tempe's rate is 46 to 48 million gallons per day

- Water demand will indicate when there is a need to restart the KWRP
- It will likely be greater than five years before Tempe's sustained water demand exceeds 55 million gallons daily
- By mothballing Kyrene, the intended savings of operations and capital costs are estimated to save or reduce revenue requirements by 3.2%; 13.4% in water and wastewater expenses
- These savings and reductions translate to much lower rate increases for customers
- Water and sewer operations pay for themselves, through water and sewer fees
- There is revenue associated with the contractual obligations of sending water to the 91<sup>st</sup> Avenue WWTP; there are no penalties if the minimum amount is not met.
- The Arizona Nuclear Power Plant contract was presented to Council in January 2010; the first distribution check totaled \$989,000
- Wastewater demand is not anticipated to drop below existing demand; there has been a slight increase of 6% in the beginning months of 2011, compared to 2010; demand is currently 18.2 million gallons per day
- Wastewater flow decreases may be due to a combination of the economic downturn and very aggressive conservation programs along with low flow toilets
- The current 91<sup>st</sup> Avenue WWTP contract with the Arizona Nuclear Power Plant is for twenty-five years
  - The project began in 1968 with a multi-city sewer agreement
  - The first intergovernmental agreement was crafted in 1979; amended in 1992 again in 2006
- Currently it costs Tempe approximately .80 cents per thousand gallons to treat water at 91<sup>st</sup> Avenue WWTP, which is separate from the revenue
- Processing 3.5 million gallons per day at KWRP costs Tempe approximately \$2.50 cents per thousand gallons to treat; three times the cost compared to regionally treating water
- April 28, 2011 – staff will present Council with a request to hire a consultant, Wilson Engineers, to assist in a mothball analysis; there is the potential for increased savings; the consultant will look at 3, 5, and 10 year scenarios and make recommendations on what equipment should be kept and what is required to keep the equipment viable
- Ken McDonald Golf Course has a surface water right to SRP water; they have the ability to take that water directly from the canal; ground water well rights are also on the site.
  - The golf course was not paying for water; it was an equal exchange agreement.
  - Tempe treated the golf course surface water and sent it to other customers while reclaimed water was provided to the golf course
  - The golf course uses raw water; the only cost associated with taking raw water is the transportation cost, which is about 17.00 per acre foot
  - Rolling Hills Golf Course uses potable water
- The reason for mothballing KWRP as opposed to disposing of it is because if at some point in the future water needs and Tempe's assured water supply calls for it, having the ability to utilize and exchange the water is important
- There are no capital costs, other than maintenance, in the capital improvement budget for the KWRP
- The rate plan is based on current costs
  - Costs will be lower and the money will go into a reserve fund creating a reserve balance; will it save Tempe residents money? Perhaps the rates may not have to be raised, as predicted
  - This plan reduces the need for water revenue by 3.2% over the five year period and by 13.4% for wastewater over the five year period
- Staff has completed the rate study and is tentatively scheduled to present it to the Council in May 2011.
- Surrounding cities have increased their rates and have come under fire for that
- It would be good to show how Tempe has looked at a way to at least maintain costs and maybe even reduce costs.
- One of staff's wildly important goals is to have the lowest rates in the valley
- Appreciation was expressed for the data provided; it helps in making decisions
- Capital improvement costs that have been deferred will be necessary when the KWRP is brought back on line.
- Certain improvements are not necessary to get KWRP up and running, but were planned for efficiency purposes if KWRP continued to run.

- Staff was asked to study whether or not the capital improvements are necessary (a trigger) to bring the plant out of the mothball stage. Should capital improvements be necessary, it would require the approval of the Mayor and Council and funding would need to be allocated
- Concerning a reduction in sewer processing needs, perhaps further analysis of billings and business activity would be helpful
- Significant industrial users have been asked a series of questions, such as “why do they see their flows off”, “are they being more efficient with their use of water...”
  - A statistically significant survey should be studied carefully
  - Surveying different sections of Tempe would be helpful
  - This data is important in the decision making process of when to take KWRP out of the mothball status
- It will be helpful to determine whether is it an anomaly that there are some flow increases or if there is some improvement in the economic activity that is driving wastewater flows

## Capital Improvement Program (CIP) follow-up

Mayor Hallman stated that ideally, Council will reach a consensus at various points during the Capital Improvement Program (CIP) presentation and discussion.

Charlie Meyer, City Manager, stated that at the March 24, 2011 Issue Review Session, Council gave staff direction to develop a policy proposal for a secondary property tax levy that would address basic infrastructure needs as outlined in the CIP. The list of capital projects has not changed. Staff welcomes questions pertaining to the projects. The primary focus of this discussion is to determine how to create a stabilized secondary tax levy.

### Discussion highlights include:

- Due to the current economic environment, a cap should be placed on the Consumer Price Index (CPI) inflation factor
- The highest increase in CPI between 2005-2011 was 3.3%
- Safeguards should be placed on the increased amount of the annual levy
- Future Councils have the ability to change policies
- A cap on the levy is different than capping the number of projects or maintaining a fund balance
- CPI could potentially be very extreme in one year which would result in a large levy to collect
- Once Council establishes which projects to undertake, then the levy will be set within the levy limit policy and the restricted fund balance policy.
- A stabilized levy will assure taxpayers a fairly consistent annual tax bill
- If there is no cap on CPI, then inflation could result in large tax bill increases
- Concern was expressed that residents are not involved in the discussions to incorporate new projects into the CIP.
- City Council has bonding authority; residents vote on bonds not specific projects
- 3.3% should be the minimum CPI cap amount
- Staff's recommendation is to cap the CPI inflator, but not cap new growth. This approach does not impact existing taxpayers.
- The levy would be a fixed base amount, plus inflation and new growth
- New growth creates added capacity
- Future changes to the inflation cap would entail a public discussion
- The primary tax rate cap is currently 2% for existing properties.
- Councilmembers agreed that the CPI inflator should be capped at 3.3%
- It is not prudent to set the CPI inflator at less than 3.3%, as referenced in the model
- New growth will add to the tax rolls creating additional capacity
- Examples of outcomes if the inflation rate goes above the 3.3% cap placed on CPI:
  - *Inflation increases to 4%* - minimal impact because projects are scheduled over a long time period and the inflationary increase would be capped at 3.3%
  - *Double digit inflation* – if this trend were to occur over a period of years, then the cap would need to be adjusted in order to finance infrastructure maintenance, due to the increased cost of capital projects.

- The Town Lake dam is the most expensive CIP project at approximately ½ of the total CIP budget
  - Technology selected for the dam is towards the high end, but not the most expensive available; it is a Wing Gate System
  - Replacement of dam bladders has not been ruled out as an alternative
  - The bond repayment timeframe for a project should match the lifespan of a project; otherwise replacement needs arise before paying for the initial project
  - A new dam must be installed in less than five years
  - Staff is preparing an engineering scope of services for the replacement of the dam
  - Consideration is being given to work that has already been completed and also to new technologies
  - Funding in FY 2011-12 has been allocated from cash reserves held for the dam replacement
  - Staff will schedule a discussion with Council on this topic during the summer
- Additional information was requested regarding projects that require voter approval
- The amount listed under authorized general obligations bonds is what is needed for current projects
- Facility maintenance has historically been cash funded; staff is exploring ways to continue to cash fund facility maintenance
- Projects begin before bond funding is issued; bond funding reimburses the City for projects
- Future discussion should be held regarding when to schedule a bond election. The earliest a bond election would be scheduled is Spring 2012; it could be postponed up to a year beyond that timeframe
- The Citizen Satisfaction Survey indicated that parks are important to residents
  - There are City parks located near schools that are slated to be closed
  - Value engineering should be considered
  - Investing in neighborhood parks is important
  - Instead of improving three parks a year, perhaps only one park receives upgrades in a given year
  - There is no money in the current fiscal year's budget for parks; in FY 2011-2012, there is only money budgeted to address park repairs
  - Staff is in the process of exploring value engineering; it is more than just repairing equipment
  - The intent is to address City parks in a more constructive fashion, a long range plan.
  - Consider making minor improvements to several city parks, instead of only addressing one park at a time
  - \$400,000 annually to maintain parks may not be enough to address emergencies
  - Additional options include considering other revenue sources and working with schools
  - \$400,000 is designated for capital improvements; it does not include funding operations
  - There are 48 City parks
  - Some park equipment is being removed versus replaced
  - Replacement of some equipment requires compliance with the Americans with Disabilities Act and other standards
  - No specific parks are currently slated for improvements; budgeted funds are general in nature
  - Previously parks were prioritized and numbers refined; 3-4 parks were selected for improvements
  - There are safety, quality of life and property value concerns associated with parks
  - It is important that community input be incorporated into this process
  - \$8 million is designated in the CIP for parks improvements for items such as sports facility re-lamping, Kiwanis Park Batting Range, Kiwanis Recreation complex infrastructure and equipment; the parks are not being ignored
  - Concern was expressed for neighborhood parks versus destination parks
  - The Community Satisfaction Survey distinguished between neighborhood and regional parks; that data should be considered in discussions
- A future discussion should be scheduled concerning a long term strategic view of addressing alleys; curbside recycling in conjunction with alley trash collection does not make sense
- When Council adopts a 5 year CIP, year one projects are actually budgeted; projects in years 2-5 are proposed, but not included in the annual budget.

- The CIP project list should continue to include unfunded projects for future discussion and consideration
- \$60,000 in funding for the next phase of Fire Station #7 has been allocated from the operations budget; this amount will be removed from the CIP budget document
- CIP budget priorities have been established and are illustrated by the colors green, yellow and red

## **Formal Council Agenda Items**

None.

## **Future Agenda Items**

- Permanent supportive housing project update

## **Mayor's Announcements/Manager's Announcements**

None.

*The meeting adjourned at 7:40 p.m.*

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Brigitta M. Kuiper, City Clerk