

COUNCIL MINUTES

November 17, 2003

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on November 17, 2003 at 4:45 p.m.

COUNCIL PRESENT

Mayor Keno Hawker
Rex Griswold
Kyle Jones
Dennis Kavanaugh
Janie Thom
Claudia Walters
Mike Whalen

COUNCIL ABSENT

None

OFFICERS PRESENT

Mike Hutchinson
Debbie Spinner
Barbara Jones

1. Review items on the agenda for the November 17, 2003 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflicts of interest declared: 6c (Whalen); 7c, 7d, 7e (Hawker); 9h (Walters)

Items removed from the consent agenda: 9l

Items added to the consent agenda: 9a, 11b

2. Hear an update on Fiscal Year 2003-04 budget.

Deputy City Manager Debbi Dollar addressed the Council and recalled that staff committed to provide the Council with periodic budget updates during the year. She reported that four months into the fiscal year, the budget continues to be problematic. Ms. Dollar stated that sales tax revenues have increased slightly, but utility revenues are lagging.

Budget Director Jamie Warner referred to the budget figures provided to the Council and advised that the fund balance is forecasted to be \$33.1 million, which is \$1.7 million less than the originally projected \$34.8 million. He explained that Mesa's external auditors requested that City losses from the investment in the State pool be reflected in the current year.

Discussion ensued relative to the fact that the write-off totaled approximately \$6 million through Bond Funds, the Quality of Life Fund and the General Fund, and that staff will provide the Council with information on the breakdown of the write-off to each fund.

Mr. Warner advised that offsetting revenue included funds from an electric resale, \$2.5 million in the amount budgeted for salaries, and \$1.5 million as a result of delaying the lease for 800 megahertz, hand-held portable radios until the end of the year. He also noted that a non-budgeted payment was made in the amount of \$459,000 to settle the Enron issue.

Further discussion ensued relative to the fact that a settlement was made with American Electric Power (AEP) at the rates that were in the Enron contract; that the City was paid \$2.54 million up front and all but \$1.1 million was recognized as income in the previous fiscal year; and that the \$459,000 to settle the Enron issue was paid out in the current year from the \$1.1 million, leaving a net to the City of approximately \$600,000.

Utilities Manager Dave Plumb stated he would address the issues of electric power and gas purchases that are projected to be over budget. He explained that any increase in the cost of gas is passed on directly to the customer, that the cost of gas is not marked up, and therefore, the increased projection in gas purchases will not impact the budget.

Mr. Plumb advised that an understanding of the City's profile, which is essentially a bell curve during the course of a day, would assist in understanding the methods used to purchase resources to meet the different levels of electric power requirements. He reported that the City has low-cost contracts to meet seasonal needs that are available in blocks called 7 by 16 (7 days a week at 16 hours per day) or 7 by 24 (7 days a week at 24 hours per day). Mr. Plumb noted that purchasing the blocks of power result in some excess being available for sale. He advised that in the past, the excess power from these blocks could be sold at a profit, but the current market is not very strong and the excess is being sold below cost. Mr. Plumb explained that many contracts are "take or pay" and enable the City to purchase sufficient power to meet customer needs. He noted that staff is considering canceling approximately 10 megawatts of the contract with American Electric Power which could net the City between \$4 and \$5 million. Mr. Plumb advised that the plan is to issue a Request for Proposals to replace that power supply and develop a portfolio to meet the needs of the City in order to bring electric revenues back in line with the projections.

Additional discussion ensued relative to the fact that the utilities peak this year was a little over 90 megawatts; that there has been a reduction in the sale of kilowatt hours due to conservation efforts; that the City has standby gas-fired capacity at a cost of about \$80 a megawatt hour; that the use of the gas-fired units is sensitive to the price of natural gas; that the best price this year has been \$4.54 a dekatherm, or about three times more than the price three years ago, and that long-term deals are difficult to obtain due to the volatility of the fuel market.

In response to a question from Councilmember Whalen as to whether the City obtained outside expertise to evaluate the markets, Mr. Plumb advised that outside consultants have been utilized on occasion. He noted that as a result of advice from the current natural gas supplier, a costless collar was enacted that basically establishes a minimum and maximum price that the City would pay for gas. Mr. Plumb noted that the City would only pay the established maximum if the market price was higher, but would also pay the minimum even if the market price was

lower. He stated that the costless collar limits the range of movement in the price the City pays for natural gas.

Mr. Plumb reported that Western performs some periodic analysis for the City that has provided interesting information. He noted that the City is unable to utilize Western's marketing or attempts to obtain electricity due to the fact that Western does not meet the City's Charter requirements in terms of a Request for Proposal. Mr. Plumb stated that a Request for Proposals was the next step planned by staff in order to obtain supplies to replace the 10 megawatts to be eliminated from the AEP contract.

Mr. Warner pointed out that the budget was based on a zero growth in sales tax, but in the first four months, a 3.2% increase was realized. He advised that based on forecast models, staff is projecting a 2.7% growth in sales tax that would generate approximately \$2 million.

Discussion ensued relative to the fact that the City experienced a 2.7% increase in sales tax, but the State experienced a 5% increase; that July and August were very poor months for the City, but October showed a 10% increase in sales tax receipts; and that a one-month lag in sales tax receipts meant that October receipts are actually based on September activity.

Mr. Warner reported that gas revenues are at the expected level, but water revenues are down significantly. He noted an error in the printed material provided to the Council and clarified that the correct percentage of growth in water consumption is forecasted to be $\frac{3}{4}$ of one percent, significantly less than the 3% utilized in preparing the budget, with a corresponding decrease in water revenue of \$3.7 million. Mr. Warner added that a similar decline is expected for wastewater revenue with a projected decrease of \$3.3 million from the original budget. He summarized that overall, the projected ending fund balance will be \$6.2 million less than the amount in the original budget.

Mr. Hutchinson advised that efforts are being made to address the budget shortfall, including continuation of the selective hiring freeze. He noted that a series of retirements would occur in the next few weeks and that the City was losing some great people with long tenure. Mr. Hutchinson expressed the opinion that there are some positions that the City cannot afford to leave vacant. He noted that areas such as preventive maintenance are required to maintain utility systems and streets. Mr. Hutchinson advised that a bond sale may be delayed for a few months, and staff is being advised to cut back further on training and travel expenses.

Mr. Hutchinson expressed concern relative to the next budget year, but added that he was anxious to have the new committee begin their work relative to the City's financial future. He noted that not being able to compensate employees in certain areas, such as cost of living, could cause the City to fall behind in a competitive posture, particularly in the area of public safety.

In response to a series of questions from Councilmember Walters, Mr. Plumb stated that the City's generators have a capacity of approximately 12.8 megawatts and that if the City terminates the 10-megawatt contract with AEP, the generators might not be the most efficient way to replace that power. He explained that staff would consider utilizing power that is higher priced per unit, but due to the fact that fewer units would be needed, the City would realize a cost savings. Mr. Plumb also noted that a judge concluded that the California energy crisis a few years ago was the result of the markets being manipulated. He expressed the opinion that

retail competition cannot exist without wholesale competition and that utilities should be a regulated monopoly to assure reasonable prices and excellent reliability for the citizens.

Mr. Warner responded to questions from Vice Mayor Kavanaugh by stating that if an increase in sales tax receipts continued beyond October, the budget would be revised to reflect the expected higher revenue. He added that although the October figures were unexpected, the increase could be considered a positive sign.

In response to a series of questions from Councilmember Thom, Mr. Warner stated that the revenue figures for State sales tax and Highway User Revenue Fund (HURF) bonds are fairly close to the budgeted amounts; that vehicle license tax receipts are volatile, but appear to be in line with the budget; that revenue from building permits or development fees is included under "permits and licenses," and that water and wastewater impact fees are included under utilities. He also stated that he would prepare an analysis relative to the impact of the rate increase on utility receipts.

In response to a question from Councilmember Thom, Ms. Dollar clarified that the current number of City employees is between 3800 and 3900.

Mr. Hutchinson stated that in addition to a monthly report in December, staff would provide the Council with a more formal update on the budget in January.

Mayor Hawker added that if budget problems continue, the Council would like recommendations from staff regarding available options.

3. Hear reports on meetings and/or conferences attended.

The following members of the Council provided brief updates on various meetings/conferences they attended as follows:

Councilmember Griswold	Veterans Day Parade Urban Institute League Meeting Tour of Mesa Arts Center Construction Site First Baptist Church Groundbreaking
Councilmember Walters	MARC Center Annual Banquet
Councilmember Thom	Economic Development Forum
Councilmember Jones	East Valley Building Blocks for the Future Needs Assessment Meeting

4. Scheduling of meetings and general information.

City Manager Mike Hutchinson stated that the meeting schedule is as follows:

Monday, December 1, 2003, TBA – Study Session

Monday, December 1, 2003, 5:45 p.m. – Regular Council Meeting

Thursday, December 4, 2003, 7:30 a.m. – Study Session
Thursday, December 4, 2003, 9:30 a.m. – Police Committee Meeting
Thursday, December 11, 2003, 7:30 a.m. – Study Session (Cancelled)
Monday, December 15, 2003, TBA – Study Session
Monday, December 15, 2003, 5:45 p.m. – Regular Council Meeting

5. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

6. Adjournment.

Without objection, the Study Session adjourned at 5:41 p.m.

KENO HAWKER, MAYOR

ATTEST:

BARBARA JONES, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 17th day of November 2003. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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