

TRANSPORTATION & INFRASTRUCTURE COMMITTEE

April 16, 2007

The Transportation and Infrastructure Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on April 16, 2007 at 3:03 p.m.

COMMITTEE PRESENT

Kyle Jones, Chairperson
Rex Griswold
Scott Somers

COMMITTEE ABSENT

None

STAFF PRESENT

Donna Bronski
Jack Friedline

1. Items from citizens present.

There were no items from citizens present.

2. Discuss and make recommendation on adjustments to rates and fees for City of Mesa utility customers as proposed by the Financial Services Operations Department.

a. Fees and Charges for Utility Customers

Financial Services Operations Director Jenny Sheppard reviewed the following proposed fee changes for utility customers:

Administrative Service Connection Charge

An administrative fee, charged when a customer establishes an account for utility services, is based on the total cost for a Customer Service Representative to establish the account. The current fee of \$9 is proposed to increase to \$11 in order to address the added cost for staff to conduct credit research on new customers.

Gas Service Connection Charge

A fee is charged for each type of utility service connection, the cost of which is based on the labor rate for field personnel who perform this type of service. The proposed \$1 increase from \$26 to \$27 per gas service connection reflects the higher cost of gas rather than the cost to provide the service.

Same Day or After Hours Service Charge

This convenience fee is charged to customers who were disconnected for non-payment and wish to re-establish service immediately or to customers moving into a new residence who failed to arrange for service connections at an earlier date. The fee is proposed to increase from \$30 to \$45 for “same day” or “after hours” service.

In response to a question from Chairman Jones, Ms. Sheppard advised that the Administrative Fee and the Gas Service Connection Fee represent cost recovery for the services provided. She explained that the \$15 increase to the “same day” or “after hours” service charge represents more than cost recovery in an effort to generate revenue that could be utilized to increase staffing levels. Ms. Sheppard said that additional staff would enable the City to reinstate the option for “same day” service, which was discontinued approximately eight months ago. She noted that daily service calls are routed geographically in order to maximize efficiency and minimize travel time and fuel expense and that “same day” service calls disrupt that schedule and incur additional costs.

Responding to a question from Committeemember Griswold, Ms. Sheppard reported that staff attempts to provide each customer with a two-hour window of time in which to expect the field service representative to arrive, and that staff has found it increasingly difficult to provide service within that timeframe. She confirmed that the customer is required to be present for a gas service connection, which is a process that takes approximately forty minutes to complete.

Committeemember Griswold suggested that a higher “same day” service fee be established to provide this type of connection service to those customers willing to pay for the convenience.

In response to a series of questions from Chairman Jones regarding the “Utility Fees and Charges – Comparison to other Cities and Utilities” (see Attachment 1), Ms. Sheppard explained that the City of Mesa seldom charges a fee to “replace the water resetter” and that it is typically charged when a customer breaks into the equipment. She added that the “tampering fee” for breaking into the equipment is \$100 for a residential customer and \$1,000 for a commercial customer. Ms. Sheppard noted that many Valley cities do not provide a “same day” or “after hours” connection service or only offer the service in the event of an emergency. She advised that a typical customer calling to request City of Mesa utility services would be advised that service would be connected the next day, and she noted that the only customers required to be present are those requesting gas service.

Chairman Jones stated that the Committee concurred that the proposed fees should move forward for consideration by the Audit and Finance Committee.

Committeemember Griswold emphasized the importance of providing good service for the fees charged, and he stated the opinion that these fees were reasonable and provided for cost recovery to the City.

- b. Terms and Conditions for the Sale of Utilities (A copy is available for review in the City Clerk’s Office.)

Ms. Sheppard advised that most of the changes to the document, which serves as a guideline for providing utility services to the City’s customers, are “housekeeping” in nature, such as

position title changes that reflect the new organizational structure. She stated that other modifications include the following:

- The addition of policies related to the criteria for meter installations and participation in the new payment and billing programs, such as the Select Due Date or Budget Payment system features.
- Language that clarifies the manner in which unpaid utility bills and tax payments are collected before releasing the customer's security deposit at the close of an account.
- Removal of dollar amounts associated with deposits, fees and charges and replacing this information with references to the current Schedule of Fees and Charges.

Committeemember Somers suggested that the language on page 5, item 13D, state that the deposit would be "subtracted from" the final bill rather than "applied to" the final bill.

Ms. Sheppard advised that she would request that the City Attorney's Office review the language.

Committeemember Somers questioned the reason for eliminating the sentence on page 6, under item 14D, which stated, "Mesa is not responsible for any increased usage that results from problems on the customer side of the point of delivery (metering device)."

Ms. Sheppard advised that the sentence was moved to a different section of the Terms and Conditions and that the customer continues to be responsible for the increased usage under those conditions.

Committeemember Griswold suggested that this information be emphasized by highlighting the sentence with bold print. He noted that many customers are not aware that the City is only responsible for service to the meter and that the homeowner is responsible for that section between the meter and the home.

In response to a question from Committeemember Somers regarding item 17F on page 8, Ms. Sheppard stated that this item refers to a customer's final bill at the closing of an account. She explained that the customer's final bill is deducted from the deposit and that any outstanding sales tax obligations owed to the City would be deducted before the remaining funds are disbursed to the customer.

Deputy City Attorney Donna Bronski said that the City Attorney's Office would work with staff to clarify the language.

Committeemember Somers referred to item 22 on page 10 and stated the opinion that a landlord should not be allowed two delinquent utility payments per year.

Committeemember Griswold expressed the opinion that Mesa has been a "kinder, gentler" City, and he indicated support for allowing two delinquent payments, provided that the payments are made within a reasonable period of time.

Ms. Sheppard noted that when a tenant discontinues service, the property automatically continues to receive service in the landlord's name.

Responding to concerns expressed by Chairman Jones regarding the “30 days’ written notice” included in item 22D, Ms. Sheppard advised that terminating agreements for complexes with several hundred rental units would involve considerable staff time. She noted that staff could process smaller accounts in less than 30 days.

Committeemember Griswold said that homeowner’s associations often request that water service only be provided to vacant units in their complex in order to maintain the landscaping and that the cost be billed to the association. He suggested that staff investigate methods that would enable the City to accommodate these requests.

Chairman Jones stated that the “Exceptions,” as outlined in Section 23 beginning on page 10, relate to requests for service that can be handled by staff. He noted that other requests for service not included within these parameters would be considered by the Transportation and Infrastructure Committee.

Chairman Jones thanked Ms. Sheppard for the presentation.

c. Utility Rates

Acting Budget and Research Director Chuck Odom outlined the following proposed utility rate increases:

Electric	0.0%
Water	4.5%
Wastewater	7.0%
Natural Gas	5.0%
Solid Waste – Barrel Collection	5.0% (composite average)
Solid Waste – Bin Collection	5.5% (composite average)
Solid Waste – Household Hazardous Waste Fee	+\$0.27/residence/month

Mr. Odom referred to the Average Homeowner’s Charges Survey (see Attachment 2), which was updated on April 16th and replaces the copy attached to the Committee Report. He noted that the proposed rate increases place the City of Mesa in the sixth position compared to seven other Valley cities in the survey. Mr. Odom added that the other cities would be considering rate increases in the near future, after which the City of Mesa is likely to rank as having the lowest homeowner’s charges. He also noted that the six-page document titled “Proposed Utility Rate Increases, Forecasted by Major Utility Program” dated April 16th (see Attachments 3 through 8) replaces the version attached to the Committee Report, and he provided an overview of the forecast for each Utility Program Enterprise Fund:

Electric Program Enterprise Fund

Mr. Odom reported that the forecasted revenues (see Attachment 3) have changed from the original model.

In response to a question from Committeemember Griswold, Mr. Odom advised that the electric utility is forecasted to remain profitable and to continue to generate net income without being subsidized by the other utilities. He explained that the number of unfilled linemen positions reduced the amount of maintenance performed in Fiscal Year (FY) 2006/07, which increased the amount of net income.

Committeemember Griswold noted that a failure to maintain the system could negatively affect service to the customers. He expressed support for hiring the additional employees in order to ensure proper maintenance of the electric utility.

Discussion ensued relative to the fact that the electric utility presently requires major repairs; that revenue dollars are budgeted for capital outlays until decisions are made regarding the issuance of bonds; that the amounts transferred to the General Fund will be significantly less in future years; and that the cost of major repairs to the system would not be funded by rate increases.

Chairman Jones stated that the City was attempting to implement rates that are comparable to those of the Salt River Project (SRP) rather than placing an unfair burden on the City's electric utility customers in order to transfer revenues to the General Fund.

Utilities Manager Dave Plumb explained that the electric utility bonds enable the debt service to be a factor of the annual costs rather than the entire capital expenditure.

Mr. Odom noted that debt service payments are forecasted to begin in FY2008/09.

Further discussion ensued relative to the fact that \$5.7 million of the electric utility's FY2006/07 net income was transferred to the General Fund; that electric utility revenues would fund FY 2007/08 and 2008/09 capital improvements to the electric system without a rate increase; that increased General Fund transfers from the other utilities would offset the reductions in the electric utility transfers; that in the past the electric utility with a smaller number of customers transferred a disproportionate amount to the General Fund compared to the other utilities; and that the method of funding City operations with a seven square mile electric utility, which was established in the 1940's when Mesa had a population of approximately 12,000, is no longer effective.

Mr. Plumb noted that the twenty-year bonds would fund improvements to the electrical system that should last for fifty years.

Gas Program Enterprise Fund

Mr. Odom stated that the forecast for proposed gas rate increases (see Attachment 4) remains the same as the original proposal. He noted that an area that may require attention is the projected increase in future debt service, which affects net income as a percentage of revenue.

In response to a question from Chairman Jones, Mr. Plumb advised that it is cost effective for the City to contract with an outside firm for installations in the Magma area, which continues to be the primary growth area for the gas utility. He noted that as the real estate market declined, there was a corresponding decline in the demand for gas service. Mr. Plumb reported that gas service requests in the Magma area outnumber those from within the City by three to one.

Mr. Odom noted that the gas and electric utilities have the "pass through" component on the commodity purchases, which fluctuate significantly. He stated that the markets were difficult to forecast and that the figures presented were staff's projections regarding prices and volume.

Committeemember Griswold noted that during the past winter, Southwest Gas was unable to provide service to some of their customers, and he complimented staff for anticipating and meeting the demands of the City's customers.

Responding to a question from Committeemember Somers, Mr. Plumb confirmed that the proposed gas rates are less than the amount charged by Southwest Gas.

Committeemember Somers suggested that the City charge the same rates as those charged by Southwest Gas. He noted that the City's profits are utilized for Public Safety and other City services.

Mr. Plumb said that the City's rate is determined by the costs for service and distribution, which do not change significantly from month to month, in addition to the "pass through" costs. He explained that the Arizona Corporation Commission requires Southwest Gas to utilize a different methodology to calculate their rates. Mr. Plumb stated that the City attempts to remain competitive and that at times the City's rate could be higher or lower than the rate charged by Southwest Gas.

Water Program Enterprise Fund

Mr. Odom advised that the large "Transfers Out" indicated on the Water Program forecast (see Attachment 5) are the result of planning and implementing layered rate increases over the past three years to enable the City to address the increased amount of debt service.

Wastewater Program Enterprise Fund

Mr. Odom advised that the Wastewater utility forecast (see Attachment 6) identifies a net loss beginning in FY2011/12, which is addressed by "Transfers In – From Water Program" beginning in that year. He said that the proposed rate increases were changed to 7 percent in FY2007/08 and 4.5 percent in FY2008/09, after which the rate is forecasted to increase by 3 percent annually through FY2012/13. He noted that two years ago the City of Phoenix announced plans to increase their Wastewater utility rates an average of 7 to 9 percent per year in each of the five subsequent years.

Committeemember Griswold said that the City of Mesa, in partnership with two other cities, constructed the new Greenfield Water Reclamation Plant. He stated the opinion that paying for new growth is difficult under the City's existing financial model, which was implemented in 1947 and is inadequate to address the City's requirements in 2007.

Mr. Odom confirmed that the new treatment plant is responsible for the significant increase in debt service.

Mr. Plumb stated that Building Safety Director Terry Williams recently provided information on impact fees, which are proposed to double for water and wastewater in order to address the cost of new growth. He added that information regarding the City's inability to maintain the existing water and wastewater systems was presented to the Financing the Future Committee, and he noted that the planned system assessment could identify additional needs.

In response to a question from Chairman Jones, Mr. Plumb reported that the City entered into a contract for the water system assessment last week, that a contract for the wastewater

assessment should be finalized shortly, and that the data collection process has been implemented by staff.

Committeemember Griswold noted that when the Val Vista Water Plant was overwhelmed during a recent storm, the City of Phoenix was unable to provide water service to many of their customers. He stated that the City of Mesa disconnected from the system in a timely manner and continued to provide uninterrupted water service to all of their customers utilizing alternate sources. Committeemember Griswold complimented staff for their efforts.

Solid Waste Program Enterprise Fund

Mr. Odom stated that there are no changes to the original forecast for this program (see Attachment 7), and he noted that this program provides a consistent contribution, which is expected to continue into the future.

Responding to concerns expressed by Chairman Jones regarding the fact that Mesa's fees exceed the actual costs, Deputy City Manager Jack Friedline advised that this fee ranks approximately in the middle when compared to other Valley cities. He noted that the plan for the future is to stabilize the "transfers out" to the General Fund and to correlate rate increases to costs.

Mr. Odom stated that future rate increases, forecasted in the range of three percent, are lower than the projected municipal cost index and personal service costs.

Chairman Jones expressed concern that although the City of Mesa's solid waste fees are not the highest in the Valley, the City's fees are higher than the average. He noted that the costs for the Solid Waste Program are considerably less than the fees charged in order to accommodate transfers of revenue to the General Fund, which is the financial model established for the City many years ago. Chairman Jones added that he was also concerned that higher rates could result in the loss of commercial business.

Mr. Friedline said that staff shared these concerns, and he advised that the proposed commercial rates remain competitive. He stated the opinion that the long-term rate increases are consistent with the rate of inflation.

In response to questions from Committeemember Griswold, Mr. Odom said that fuel costs fluctuate monthly and that the costs for employee medical coverage increased by 9.6 percent this year and are projected to increase by 10.7 percent next year.

Mr. Friedline responded to a question from Committeemember Griswold by advising that all costs are expected to increase in future years.

Committeemember Griswold stated the opinion that staff has done an excellent job in implementing savings at a time when costs continue to increase.

Responding to a question from Committeemember Somers, Mr. Friedline confirmed that Solid Waste operates as an "enterprise fund" and that all employee costs are included in the expenses.

Mr. Odom responded to a question from Committeemember Somers by referring to the combined forecast for utilities (see Attachment 8) and he stated that \$65 million of utility revenues would be transferred to the General Fund in the current year.

Chairman Jones noted that the transfer to the General Fund this year is considerably less than the prior year because of increased debt service payments in the current year.

Mr. Odom confirmed that although the transfer to the General Fund is less in the current year, the forecasted transfer to the General Fund in FY2007/08 is \$89 million. He also confirmed that utility revenue transfers to the General Fund account for approximately 25 percent of the City's operating budget.

Committeemember Griswold added that expenses for Police, Fire and the Courts account for almost 70 percent of the General Fund budget.

Discussion ensued relative to the fact that the large increase in FY2007/08 General Fund transfers is difficult to explain to the community; that over a period of three years, staff implemented plans to address the increase in debt service in 2007/08 and to establish a level amount of debt service in future years; and that during the past three years, reserves were accumulated that enable the City to address the increased debt service due in 2007/08.

Mr. Odom said that the monthly rate for household hazardous waste fee is proposed to increase by \$0.27 per month, and he noted that Solid Waste Management Director Willie Black was present to answer any questions. He explained that the funds would enable full implementation of the Clean Sweep Program and doubling the number of roll-offs per week from 20 to 40.

Further discussion ensued relative to the fact that participation in the Clean Sweep Program would continue to be limited to one time per year; and that household hazardous waste collections, held four times per year, collects thousands of gallons of hazardous waste, a large amount of which is recyclable.

Mr. Friedline noted that the number of hazardous waste collection events was reduced from six per year to four and that 900 vehicles attended a recent collection event.

Committeemember Griswold noted that these events provide an opportunity for residents to safely dispose of hazardous materials that might otherwise contaminate the environment.

Chairman Jones summarized that the electric rate is proposed to remain unchanged in order to align the rate with that of SRP and to be fair to the small electric customer base. He added that all other utility rates are proposed to increase, with the largest increase proposed for wastewater in order to address the higher costs. Chairman Jones noted that the forecast attempts to stabilize transfers to the General Fund, and he added that reducing or eliminating the transfer of revenues to the General Fund would negatively affect Police and Fire services.

Additional discussion ensued relative to the fact that all Valley communities anticipate annual increases in the costs to provide utility services, which will result in annual rate increases; and that although no rate adjustment is proposed for electric service, there may be an adjustment to the electric tariff in order to fund the implementation of the Demand Side Management (DSM) programs approved by the Council on January 8, 2007.

In response to concerns expressed by Chairman Jones regarding Solid Waste rates, Mr. Friedline advised that the profit goal is ten percent for commercial business and thirty to forty percent for residential business. He said that rate increases for commercial services reflect increased costs. Mr. Friedline stated that staff would provide a report comparing the City's commercial service to that of the private sector, and he added that the City's overall market share for this utility has remained at approximately 43 percent for a number of years. He also advised that, by ordinance, the City collects all residential solid waste.

Committeemember Somers concurred with the recommendation to maintain the electric utility rate at the current level, and he stated the opinion that electric utility customers have paid more than their fair share for a long period of time.

Committeemember Griswold noted that his business switched from the private sector to the City for solid waste collection service. He explained that the rates charged by the private sector were similar to that of the City, but the City provides free recycling, the credit for which saved the business a considerable amount of money.

Mr. Odom addressed the fiscal impact of the rate adjustments, and he advised that these adjustments do not equal the increases in operating costs.

Chairman Jones noted that the Transportation and Infrastructure Committee has provided their input on the proposed utility rates and expressed their concerns. He stated that no recommendations were required and that the next step would be a presentation by staff to the Audit and Finance Committee. He thanked staff for the report.

3. Hear a presentation and discuss the rubber speed cushion demonstration project on Pepper Place.

Assistant Transportation Director Dan Cleavenger reported that staff made a presentation on rubber speed cushions to the former Transportation Committee on February 15, 2007. He advised the Committee that the rubber speed cushions would be tested on three streets where speed humps were removed to accommodate resurfacing projects. Mr. Cleavenger outlined the following advantages of the rubber speed cushions:

- The product is manufactured and has a consistent profile.
- The product can be removed and reused at a different location.
- Fire trucks can straddle the cushion and proceed without damage to the vehicle.

Mr. Cleavenger stated that the disadvantages of the rubber speed cushions are that the cost is higher and the life expectancy is shorter than the typical asphalt speed hump. He reported that in addition to two test sites within the City (Maple Street south of Broadway and Dragoon east of Val Vista Drive), which received speed humps through the resident-initiated process, staff plans to install the cushions on Pepper Place. Mr. Cleavenger noted that the original speed humps on Pepper Place were installed at the request of the City Manager's Office rather than the normal resident-initiated process in order to improve conditions for the frequent pedestrian crossings between City facilities.

Mr. Cleavenger advised that two firms manufacture rubber speed cushions, and he stated that each cushion is three inches in height with some differences in design. He reported that one type would be installed on Maple Street, the other type on Dragoon, and one of each type on

Pepper Place, and that the installation should be accomplished within the next few weeks. Mr. Cleavenger noted that the rubber speed cushions are more expensive than asphalt speed humps.

Deputy Transportation Director Lenny Hulme advised that the process to install rubber speed cushions involves drilling holes in the pavement and applying epoxy.

In response to concerns expressed by Committeemember Somers, Mr. Cleavenger confirmed that fire trucks are able to straddle the rubber speed cushions. He also noted that Mesa's residential streets are typically 34 feet wide and that fire trucks would be able to straddle the cushions on a street where parked vehicles are present. Mr. Cleavenger said that he was unaware of the impact of speed cushions on ambulances.

Committeemember Somers suggested that speed cushions could reduce the response time for Southwest Ambulance and possibly affect contractual issues.

Mr. Cleavenger noted the Fire Department has approved a test installation on a collector street that typically would not be qualified for a speed hump installation.

Committeemember Griswold expressed support for testing the rubber speed cushions before adopting the format Citywide.

In response to a suggestion that one of each type of speed cushion be installed at the Maple and Dagoon locations, Mr. Cleavenger advised that staff presently has traffic and speed data for each location, which would enable staff to evaluate the effectiveness of each type of speed hump by comparing the data. He added that if one of each type of cushion were installed at each location, staff would not be able to determine which type was the most effective.

Chairman Jones thanked staff for the presentation.

4. Adjournment.

Without objection, the Transportation and Infrastructure Committee meeting adjourned at 4:30 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Transportation and Infrastructure Committee meeting of the City of Mesa, Arizona, held on the 16th day of April 2007. 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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Attachments (8)