

FINANCE COMMITTEE MINUTES

December 19, 2005

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on December 19, 2005 at 3:03 p.m.

COMMITTEE PRESENT

Tom Rawles, Chairman
Janie Thom
Claudia Walters

COUNCIL PRESENT

None

STAFF PRESENT

Debra Dollar
Paul Wenbert
Jack Friedline

1. Hear a presentation and accept the 2004-05 Comprehensive Annual Financial Report (CAFR).

Controller Kathy Pace introduced Sandy Cronstrom and Carter Smitherman, representatives of Cronstrom, Treovich & Osuch, a certified public accounting firm retained by the City to conduct an audit of the City's financial statements for the year ending June 30, 2005 (a copy of the report is available for review in the City Clerk's Office). She noted that this was the first year that Cronstrom, Treovich & Osuch performed the City audit.

Mr. Smitherman stated that staff was very cooperative in providing the requested information, and he added that the approved report would be submitted to the Government Finance Officers Association for a reporting award, which the City has received in the past. Mr. Smitherman outlined the content of the Comprehensive Annual Financial Report (CAFR). He explained that the auditing term, "unqualified opinion," basically refers to a clean opinion that does not require any qualification. Mr. Smitherman reported that the City's net assets in excess of the liabilities total approximately \$1.6 billion, which reflects an increase of \$26 million during the past fiscal year.

Committeemember Walters commented that she appreciated the fact that areas to be addressed relative to grants were highlighted rather than buried in the report.

Mr. Smitherman clarified that the language indicating that the report is "solely for the information and use of the City Council, management, and others within the organization" reflects the fact that the audit was conducted in accordance with *Government Auditing Standards* and generally accepted auditing procedures. He explained that an audit utilizing different procedures or standards could have a different outcome.

It was moved by Committeemember Walters, seconded by Committeemember Thom, to recommend to the Council that the 2004-05 Comprehensive Annual Financial Report (CAFR) be accepted.

Carried unanimously.

Chairman Rawles thanked staff and the representatives of Cronstrom, Treovich & Osuch for the presentation.

2. Hear a report on the benchmarking process used by the Solid Waste Division to obtain an assessment of operational cost effectiveness.

Environmental Management Director Christine Zielonka displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office), which provided an overview of the Solid Waste operation. She noted that for many years, the Salt River Landfill northwest of the City was the only disposal facility available to the City. Ms. Zielonka reported that the Solid Waste operation has improved as the result of the availability of two transfer stations in the southeast valley and the Apache Junction Landfill. She advised that Solid Waste utilizes only automated vehicles: side load vehicles for trash and recycling services and residential curbside collection, and front load vehicles for multi-family residential collection and commercial business. She added that the City also has a rolloff and compactor operation that primarily services construction sites and large, commercial entities, such as the hospitals.

Ms. Zielonka stated that Solid Waste generates a significant revenue stream to the City, and she reported that in the period of 1999/2000 through 2004/05, Solid Waste contributed more than \$54 million to the General Fund. She explained that private sector expenditures (landfill fees, commodities, and fleet maintenance) accounted for approximately 41 percent (\$8.6 million) of the Division's total 2004/05 expenses of \$20.9 million.

Ms. Zielonka said that one of her major goals is to establish a benchmark for the residential operation. She advised that the City of Phoenix has received international and national recognition for their private/public competitive model. She explained that the City of Phoenix competes with the private sector, and that they continually evaluate their cost effectiveness in order to improve the operation.

Ms. Zielonka advised that the City of Phoenix developed a methodology to determine the average cost per household per month, which includes direct operational costs and vehicle and operator expense. She noted that overhead and disposal costs are not included. Ms. Zielonka stated that Phoenix has 350,000 residential customers compared to 110,000 in Mesa. She explained that Phoenix retains 50 percent of the six service areas in order to ensure that the City maintains the ability to provide trash collection service. She said that each of the six Phoenix service areas is bid out on a rotating basis for a period of six years, and that the City competes with the private sector for each service area. Ms. Zielonka said that the cost model includes the average cost for foremen, equipment operators and service assistants.

In response to a question from Chairman Rawles, Ms. Zielonka confirmed that administrative costs such as billing and other indirect expenses are not included.

Responding to a question from Committeemember Thom, Development Services Manager Jack Friedline advised that the City of Phoenix maintains a separate landfill cost center in order to identify and track the costs.

Ms. Zielonka confirmed that the disposal costs are not included in the bid specifications.

In response to a question from Committeemember Walters, Solid Waste Operations Research Analyst Ray Froehlich advised that the City of Phoenix has successfully utilized this approach for 25 years and that the key goal is to maintain the efficiency of the City operation by competing with the private sector.

Discussion ensued relative to the fact that the City of Phoenix model is performance benchmarking; that a private company that is awarded a bid enters into a six-year contract with the City of Phoenix to provide service in a specific area; and that the contract award includes a provision for an incremental annual cost that is aligned to the Consumer Price Index (CPI).

Ms. Zielonka advised that the annual average cost per customer per month is based on direct labor and equipment costs, and that this cost per customer is submitted in competition with the private sector for a particular service area. She reported that Mr. Froehlich spent a considerable amount of time with City of Phoenix personnel to learn the process, after which he calculated Mesa's costs utilizing the same process. Ms. Zielonka advised that Mr. Froehlich's data was confirmed with City of Mesa auditors in addition to a final review and concurrence by a City of Phoenix auditor. She referred to a "Comparison of Mesa Costs" (see Attachment 1) that applied Mesa's cost figures to a bid scenario for one area of the City of Phoenix. Ms. Zielonka stated that the results indicate that the City of Mesa's operation is competitive and cost-effective. She further advised that staff is proposing to provide this benchmarking analysis to the Committee on an annual basis.

Committeemember Walters noted that this analysis indicates that the Solid Waste Department is operating very efficiently, and she expressed support for staff to continue to provide this data to the Committee.

In response to questions from Committeemember Thom, Ms. Zielonka advised that the City of Phoenix does not have the "green barrel" program, and therefore the comparison only included the black and blue barrel programs offered by both cities. She stated that she would obtain additional information on the service provided by the City of Chandler.

Mr. Froehlich responded to a question from Committeemember Thom by advising that he did not know the amount of revenue that the City of Phoenix' Solid Waste operation contributes to their General Fund.

In response to a question from Chairman Rawles, Mr. Froehlich advised that Phoenix presently provides service to five of the six sections. He noted that the City assumes responsibility for each service area for a period of six months during an interim period between contracts.

Additional discussion ensued relative to the fact that the cost per customer data in each of the six Phoenix areas was very similar; that staff will provide the Committee with historical data on costs in each of the six Phoenix zones; that the City of Phoenix does try to maintain an equal number of residents in each service area; that a sparsely populated service area could incur higher fuel and maintenance costs; that staff met with Waste Management and Allied personnel to review the process; and that staff will continue to meet with the private sector regarding the operation.

Mr. Friedline advised that staff also met with Mark Leonard, Public Works Director for the City of Phoenix, and that the Phoenix staff has been very supportive of the fact that Mesa is utilizing their model for benchmarking purposes.

Chairman Rawles clarified that Mesa's cost comparison figure of \$4.94 per month does not include indirect costs.

Deputy City Manager Paul Wenbert advised that no Committee action was required, but he suggested that the information be provided to the full Council.

3. Discuss and consider adjustments to Solid Waste commercial rates and fees for front load bins and roll-offs.

Environmental Management Director Christine Zielonka displayed a PowerPoint presentation titled "Commercial Rate Proposal" (a copy is available for review in the City Clerk's Office) and said that staff is recommending a five percent across the board increase for commercial rates and fees for front load bins and roll-offs, and that the last rate increase was implemented four years ago. She advised that the commercial operation's profit goal has been impacted by significant increases to fuel and fleet maintenance costs. Ms. Zielonka stated that the front-load operation, which includes both multi-family residential (such as apartment complexes) and the commercial sector, accounts for approximately 50 percent of the City's business. She noted that the City serves 43 percent of the market, and that competition with the private sector compels the City to operate in a cost-effective manner.

Ms. Zielonka stated that during the past four years Mesa experienced significant growth in population, and that the costs for Solid Waste personnel increased by only two percent in the same time period. She advised that the Salt River landfill costs increase by an average of two to three percent per year based on the Consumer Price Index (CPI). Ms. Zielonka added that although staff continues to address fleet maintenance costs, a major portion of the maintenance expense is attributed to an aging fleet that is being utilized beyond the normal life cycle. She reported that since 1996, the CPI increased 24 percent while the City's front load rates increased only 8.2 percent. Ms. Zielonka said that another service provided to Mesa's residents is the availability of a single-use roll-off container at a rate lower than that offered by commercial businesses. She explained that commercial entities are not interested in serving the single-use customer.

Ms. Zielonka advised that the rates were restructured to institute a base minimum charge for amounts up to three tons, plus incremental costs for amounts in excess of three tons. She stated that an analysis of historical data indicated that the City loses money on a roll-off of one or two tons. Ms. Zielonka further advised that staff recommends increasing the "blocked container" fee in order to recover the additional costs incurred by the City during a second collection effort. She stated that the availability of the two transfer stations in the southeast has significantly reduced the cost to transport trash in zones 2 and 3 (see Attachment 2). She advised that staff recommends that the City of Mesa be considered as one zone with a uniform cost for roll-off service. Ms. Zielonka stated that based on a February 2006 effective date for the proposed changes, the fiscal impact would result in increased revenue of approximately \$159,000 in 2005/06 and \$381,000 in 2006/07.

In response to questions from Committeemember Walters, Ms. Zielonka advised that the City typically enters into three-year service agreements with commercial customers. She advised that the rate increase would normally be implemented at the time a service agreement is renewed unless a rate increase is permitted under the existing agreement.

It was moved by Committeemember Walters, seconded by Committeemember Thom, to recommend to the Council that staff's recommendations, as listed below, be approved.

- Five percent increase to rates and fees for Solid Waste bins and roll-offs.
- Increase the "blocked container" fee from \$50 to \$60.
- Restructure the base fee to reflect a three-ton minimum charge.
- Consider the City of Mesa as one zone rather than dividing the City into three different zones.

Committeemember Thom stated the opinion that the proposed rate increases are very moderate, and she commented that rates have not been increased for a long period of time.

Responding to a question from Committeemember Thom, Ms. Zielonka stated that their customers are aware of the increased fuel costs, and she expressed the opinion that the City would remain competitive in the market.

Solid Waste Operations Research Analyst Ray Froehlich responded to a question from Committeemember Thom by providing the following costs per ton at the landfill sites listed below:

Salt River	\$21.40
Waste Management	\$23.00
Apache Junction	\$21.25
Cactus Waste	\$21.00

Ms. Zielonka advised that Mr. Froehlich developed an analysis to determine the most cost effective landfill facility to be utilized on a truck-by-truck basis, which insures the absolute minimum bottom line costs to the City. She noted that the new transfer stations in the southeast valley have proven to be very valuable to their operation.

Chairman Rawles advised that he did not have an opportunity to review the report prior to the meeting, but he expressed support for moving the proposal forward for Council consideration and he added that he might have additional questions at that time.

Chairman Rawles called for the vote.

Carried unanimously.

Chairman Rawles thanked staff for the presentation.

4. Discuss and consider change in customer furlough policy.

Assistant Financial Services Manager Jenny Sheppard stated that she and Customer Service Supervisor Lori Ball were present to provide an update on the furlough service for residential

customers. She noted that the Committee Report provides background information on the program, and she added that staff is not recommending any changes to the existing policy.

Ms. Sheppard advised that many seasonal customers utilize the furlough program. She explained that the reduced rates are applicable for a minimum of three months during the months of April through the end of September.

Discussion ensued relative to the fact that the City of Mesa is the only Valley community that offers furlough rates; that customers are informed about the program when they call in their temporary address change for billing purposes; that information on the program is included in the Open Line publication; that regular rates become effective on October 1 with or without notice from the customer; and that seasonal customers also have the option to completely disconnect services, which could incur additional "turn on" fees when service is resumed.

Committeemember Thom stated the opinion that the program is very worthwhile.

Chairman Rawles noted that the concurrence of the Committee was to maintain the existing policy, and therefore no Committee action was required. He thanked staff for the presentation.

5. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 3:52 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Finance Committee meeting of the City of Mesa, Arizona, held on the 19th day of December 2005. 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 (2)