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OFFICE OF THE CITY CLERK

AUDIT, FINANCE & ENTERPRISE COMMITTEE

April 11, 2011

The Audit, Finance & Enterprise Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on April 11, 2011 at 9:05 a.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Alex Finter, Chairperson	None	Kari Kent
Dina Higgins		Patricia Sorensen
Scott Somers		Debbie Spinner
Christopher Brady, Ex Officio		

(Items were discussed out of order, but for purposes of clarity will remain as listed on the agenda.)

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation, discuss and make a recommendation on proposed changes to the 2011/2012 Terms and Conditions for the Sale of Utilities.

Business License and Revenue Collection Administrator Tim Meyer reviewed the proposed changes to the 2011/2012 Terms and Conditions for the Sale of Utilities as follows:

- Add statements pertaining to life support customers who may provide written notice of such need in order for the City to manage such accounts per its Life Support Policy.
- Clarify Billing and Terms for lost, stolen and damaged solid waste barrels. The customer is responsible to report the unit count for the monthly billing or a driver count would be utilized.
- Modify the City's credit policy by changing the minimum time that residential account deposits are held from 12 to 36 months and removing the customer's credit history with other utilities/commercial credit scores as a criterion for waiving a deposit. Previous good credit history with Mesa in the last 18 months would continue to be a criterion that would allow a deposit to be waived.

Mr. Meyer reported that staff has determined that credit scores were not dependable with respect to customers paying their utility bills in a timely manner. He also remarked that letters of credit from other utilities might state that an individual was in good standing, although that utility's criterion might be different than Mesa's.

Responding to a question from Chairman Finter, Mr. Meyer confirmed that the proposed changes would assist the City in addressing the write-offs for unpaid utility bills and lost revenue.

Mr. Meyer continued with his presentation of the proposed changes:

- Clarify circumstances for termination or refusal of utility service, including outstanding debt to the City and unauthorized use of utilities.
- Minor language housekeeping changes.

Committeewoman Higgins requested that the Terms and Conditions document more clearly reflect the proposed changes outlined by Mr. Meyer, and in particular, the item with respect to the life support customers.

It was moved by Committeemember Somers, seconded by Committeewoman Higgins, to recommend to the Council that the proposed changes to the 2011/2012 Terms and Conditions for the Sale of Utilities be approved.

Carried unanimously.

Chairman Finter thanked Mr. Meyer for the presentation.

2-b. Hear a presentation, discuss and make recommendations on service fees and utility rates.

Acting Budget Director Candace Cannistraro displayed a PowerPoint presentation **(See Attachment 2)** and reported that each City utility is operated as a separate business center. She explained that the debt service has a significant impact on future rates and stated that the total transfer amount from the Enterprise Fund would remain the same. Ms. Cannistraro also noted that the fund balance was used to "smooth" the rate adjustments year-to-year and added that the combined ending fund balances would adhere to the adopted financial policy of at least 8%.

Ms. Cannistraro displayed a series of diagrams illustrating the proposed rate changes for FY 2011/12 through FY 2013/14 for the Solid Waste, Electric and Gas Programs. (See Pages 3 through 5 of Attachment 2) She stated that staff was recommending a 0% rate increase for Solid Waste and Electric and a 2.5% rate increase for Natural Gas.

Responding to a question from Committeewoman Higgins, Solid Waste Department Director Willie Black clarified that the Solid Waste Department proposes to eliminate the Residential Furlough Program, which is offered between April and September to accommodate customers who do not occupy their premises for three or more consecutive months. He explained that the proposal would impact approximately 1,500 accounts (1.3%). Mr. Black stated that staff has no way of knowing whether a neighbor is setting out the barrel, if another individual is using the barrel, or if the homeowner is home and using the barrel.

City Manager Christopher Brady commented that when staff reviewed the costs associated with the Enterprise Fund, a significant portion were fixed capital costs. He said that with respect to Solid Waste, such fixed costs include the purchase of barrels and trucks. Mr. Brady noted that because the utility rates include not only the capital costs but a portion of the General Fund transfer, customers are paying for public safety services even when they are not in town.

Committeewoman Higgins stated that she would not want Mesa to be the one community that was "cost prohibitive against winter visitors" or that would "make money" on individuals who were not in town.

Mr. Brady stated that staff would bring back this item to the full Council for additional input.

Chairman Finter concurred with Committeewoman Higgins' comments and urged that the matter be fairly vetted among the other Councilmembers.

Water Resources Department Director Kathryn Sorensen remarked that the Water Resources Department also has a Residential Furlough Program, which operates on an honor system. She said that an audit of the program revealed that an estimated 80% of the homeowners who were supposedly on furlough were, in fact, showing usage on their accounts.

Responding to questions from Committeewoman Higgins, Energy Resources Department Director Frank McRae clarified that last fiscal year, the Council directed staff to develop a rate for Magma residential customers so that their bills, at a minimum, would equate to a Southwest Gas customer's bill in FY 2010/11. He explained that a mechanism was created to adjust rates on a monthly basis in order to achieve that equality.

Committeewoman Higgins clarified that the Council wanted to ensure that Mesa residents served by Southwest Gas, and who did not have the option to receive gas service through the City, were paying the same rate as customers in the Magma service area.

Mr. McRae highlighted a diagram titled "Magma Rate Adjustment – February 2011." (See Page 7 of Attachment 2) He explained that because of the differences in rate structure between Southwest Gas and the City of Mesa, if a customer consumed less than 63 therms per month, a surcharge would not be added to the bill.

In response to a question from Committeemember Somers, Mr. McRae advised that during the winter months, with normal weather conditions, the average home would consume 30 to 35 therms per month.

Mr. McRae further remarked that when this issue was initially discussed last year, it was the opinion of staff that there might be a greater difference between Southwest Gas and Magma customers' bills and the City might be able to increase the Magma rates. He explained that Southwest Gas modified its rate structure so that instead of having its rate increase as a customer's consumption increased, it flattened out so that there was the same rate regardless of the number of therms consumed. He said that as a result, Magma's lower consumption customers received bills that were equal to or higher than Southwest Gas.

Mr. McRae referred to a chart entitled "Magma Gas Rate – Revenue," which reflected such revenue through the end of this fiscal year. (See Page 8 of Attachment 2) He noted that for FY

2011/2012, the proposed 2.5% rate adjustment for natural gas services would increase revenue by approximately $528,000. Mr. McRae added that the rate increase, on average, would result in City of Mesa residential rates being $28.62 less than Southwest Gas and Mesa gas customers in the Magma service area would pay $0.70 less per year than Southwest Gas.

Ms. Cannistraro advised that Water Resources was proposing adjustments that would increase rates for domestic water service and flood irrigation service by 6.5% ($2.33 average monthly residential impact) as compared to 5.5% in FY 2010/11. (See Page 9 of Attachment 2) She noted that with respect to the Wastewater Program, the proposed adjustments would increase rates by 5.0% ($1.06 monthly residential impact), as compared to 4.5% in FY 2010/11. (See Page 10 of Attachment 2)

Mr. Brady commented that although staff has identified specific needs for each of the utilities and proposed rate adjustments in certain areas, they also considered "the stresses" that were occurring in the respective programs. He explained that the Water and Wastewater Programs have experienced the most stress and noted that staff recognized the necessity of making rate adjustments in those areas, while not proposing rate increases in other areas in order to keep the consumers' overall utility bill as low as possible. He stated that in reviewing the utility rates, it was important to view them in the full context of where staff chose to make rate increases and where they did not.

Ms. Sorensen displayed a chart titled "Water Program Overall Financial Overview." (See Page 11 of Attachment 2) She noted that in FY 2009/10, there were $104.5 million in revenues, but $109.6 million in expenses, resulting in a net operating loss of -$5.1 million. She stated that the operating loss comes out of the Water Resources Department's ending fund balance.

Ms. Sorensen reported that the City of Mesa has approximately 17,000 non-permanent residential accounts in the water system. She explained that in addition, there has been great volatility in the Water Resources' revenue stream which, in her opinion, was due to a combination of the weather and the economy. Ms. Sorensen also noted that the Budget Office has conducted an analysis of the impact of home foreclosures and vacancies in this regard.

Responding to a question from Committeemember Somers, Ms. Cannistraro clarified that the analysis demonstrated that the number of active accounts was not decreasing, but rather the consumption of water per account. She stated that it was difficult to assess whether the decrease was due to water conservation or empty/foreclosed homes.

Discussion ensued relative to Mesa's water consumption history and forecast as it relates to a changing revenue stream (See Page 14 of Attachment 2); that it was anticipated that debt service would increase $8.8 million next year and $20.5 million over the next five years; an overview of the Water Program's debt service (See Page 15 of Attachment 2), including existing and authorized debt service; that over the last three years, staff has experienced increased chemical, energy and commodity costs; and an analysis of the Water Program's costs versus revenues (See Page 16 of Attachment 2), which illustrates that the City anticipated generating more than $16 million in revenue that did not materialize.

In response to a question from Committeemember Somers regarding whether the City could restructure the debt as opposed to increasing the rates, Mr. Brady explained that some but not all of the debt could be restructured. He noted, however, that such an option would not be available until next year.

Ms. Sorensen further displayed a chart titled "Existing Rate Structure Fund Balance Forecast." (See Page 17 of Attachment 2) She explained that in order to address the declining fund balance, staff proposes to do the following: reduce costs, including decrease/defer the Capital Improvement Program (CIP); decrease spending; restructure revenues through rate restructuring; and eliminate the Residential Furlough Program.

Ms. Sorensen advised that according to a national survey, Mesa's Water Program operations and maintenance (O&M) spending per capita is 30% lower than the next lower respondent in the Valley and 11% lower than the national average.

Further discussion ensued relative to the fact that staff proposes to delay $99 million in projects and manage operating costs (See Page 19 of Attachment 2); that the total average cost for a typical resident is $67.46, while the average residential water user pays $34.41/month based on 10,000 gallons consumption in FY 2010/11 (See Page 20 of Attachment 2); and that as a result, the Water Program is required to make up the bulk of its revenues to cover operational costs through charges on consumption.

Ms. Sorensen remarked that with respect to restructuring the water rate, staff proposes to institute a minimum charge of $25.85, which would include the first 5,000 gallons of consumption. She stated that staff also proposes to modify the wastewater rate structure and noted that a residential minimum charge would be set at the equivalent charge for 4,000 gallons of effluent and would include the first 4,000 gallons of effluent.

Committeemember Somers commented that some of the reduced water consumption is due to the fact that many residents have been "water wise," which the City has encouraged them to be. He noted, however, that it was necessary to increase the water rates in order to pay for "the infrastructure in the ground."

Committeewoman Higgins stated that she understood the need for the proposed water rate restructuring, but expressed concern for seniors living alone who might be required to pay more for water than what they are actually consuming.

Mr. Brady responded that staff was working to provide some type of assistance (similar to the ABC Program) to those customers who would be impacted by the flat fee at the lower usage. He commented that even if an individual paid less than $30 a month, they would receive many services they are not paying for.

Additional discussion ensued relative to the fact that staff anticipates the rate restructuring would not impact the average water customer, most of whom use more than 5,000 gallons a month; that part-time resident accounts, vacant properties and a small percentage (8%) of permanent accounts would be most affected by such a restructuring; and that of the 8%, staff believes a high portion are vacant homes or investor-owned properties.

Ms. Sorensen advised that staff did not have a similar presentation regarding the Wastewater Program, but said they proposed similar rate restructuring and adjustments that would increase rates for wastewater services by 5%.

Committeewoman Higgins expressed concern that many seniors on a fixed income would not even consider applying for an assistance program and yet would be impacted by the additional costs.

Mr. Brady responded that based on the trend of consumption, it was the opinion of staff that there should be a mix of rates, with some fixed and some more variable. He stated that staff could phase in the fixed rate, but noted that over time, whether a resident was using 3,000 or 4,000 gallons a month, there would still be a cost to convey the water to the residence.

Committeewoman Higgins inquired if staff could consider the creation of a water recalculation fee for individuals whose water consumption is approximately 3,000 gallons a month so that they could be reimbursed if they were required to pay a higher fee.

Ms. Sorensen clarified that in the next few months, staff would like to meet with the Council, Neighborhood Services and other organizations to discuss what would be the best type of structure for an affordability program to help those individuals who might be impacted by this particular proposal.

Committeewoman Higgins commented that she did not object to the higher water rates since those rates were based on consumption.

In response to a question from Committeewoman Higgins, Ms. Sorensen advised that the State Legislature recently approved legislation that would require Arizona cities, on a per capita basis, to incur certain operational costs generated by the Arizona Department Water Resources. She explained that Mesa's share was estimated at $600,000 annually and said that staff proposes to pass through those costs directly to Mesa's water customers.

It was moved by Committeemember Somers, seconded by Committeewoman Higgins, to recommend to the Council that the Arizona Department of Water Resources costs be included as a separate line item on the City of Mesa water bill.

Carried unanimously.

It was moved by Committeewoman Higgins, seconded by Committeemember Somers, that the proposed service fees and utility rates be forwarded on to the full Council for further discussion and consideration.

Carried unanimously.

Chairman Finter thanked staff for the extensive presentation.

(Chairman Finter declared a recess at 11:28 a.m. The meeting reconvened at 11:31 a.m.)

(Ex-Officio Brady left the meeting at 11:28 a.m. and Deputy City Manager Kari Kent took his place.)

2-c. Hear a presentation, discuss and make a recommendation on adjustments to fees and charges for Transaction Privilege Tax (TPT) as proposed by Business Services, and a potential new Business License.

Business License and Revenue Collection Administrator Tim Meyer displayed a PowerPoint presentation **(See Attachment 3)** and stated that this item was a follow-up to the March 24, 2011 Audit, Finance & Enterprise Committee meeting. He stated that staff was asked to research the possibility of Mesa instituting a business license and whether the City's new tax system could provide a "one-stop shop" for new businesses in Mesa.

Mr. Meyer provided a brief overview of those communities that do and do not have a business license. (See Page 2 of Attachment 3) He said that cities generally have either a business license or a Transaction Privilege Tax (TPT) license, but noted that businesses were not required to have both. Mr. Meyer explained that TPT licenses are issued to all business entities engaged in taxable activity, while business licenses are issued to service-oriented businesses not engaged in taxable activity.

Mr. Meyer highlighted the benefits of a business license and the steps that would be required in order for the City to implement a business license. (See Page 3 of Attachment 3)

Responding to questions from Committeemember Somers, Mr. Meyer stated that it would be important for Mesa to have two different types of licenses in order to comply with the Model City Tax Code (TPT license) and also to license service-oriented businesses (business license). He noted that staff determined that there were approximately 8,000 service-oriented businesses in Mesa.

Mr. Meyer reviewed a chart comparing the cities that have a business license and the associated fees. (See Page 4 of Attachment 3)

Committeewoman Higgins inquired if it was possible to adjust the TPT rates based on the size of a business. She stated that it was unfair that small start-up businesses, such as a bead artist at MACFest or women making quilts for a once-a-year fundraiser, would be assessed the same TPT fees as a major corporation such as Wal-Mart. Committeewoman Higgins also questioned whether the City could have a rate structure that would encourage small businesses to engage in taxable activity without being significantly impacted.

Audit & Tax Collections Administrator Mickey Tait responded that with respect to the Model City Tax Code, there was no allowance to add a different rate structure. She explained that a business license, however, does have that flexibility and noted that Scottsdale's business license fee, for example, is based on the number of employees. Ms. Tait said that a business with one or two employees would pay a much lower fee than a company with hundreds of employees. She further clarified that the Model City Tax Code can only define one license and one flat fee for all businesses across the board. She added that the City has the ability to fluctuate the TPT fees as needed, but stressed that such fees must be the same for all businesses.

Committeewoman Higgins also inquired if the City instituted a business license, whether the City could impose a variable fee.

City Attorney Debbie Spinner explained that the business license fee would only be issued to businesses that are not required to have a TPT license. She remarked that the intent of a license and an application fee is to fund City costs to receive/process the application and issue the license. Ms. Spinner stated that there would have to be “a logical distinction” between whether it would cost the City more to issue a business license to a large corporation as opposed to a small business.

In response to a question from Committeewoman Higgins, Mr. Meyer advised that the City’s costs to generate/issue a license would be about the same for a small business or a major corporation. He said that the time to process a tax form, whether it was a small business or a major corporation, was minimal.

Mr. Meyer continued with his presentation and reported that it was the opinion of staff that the new tax system could be “a one-stop shop,” wherein a new business in Mesa could apply for the Fire Safety Occupational Permit (FSOP), the Police Alarm Permit and the TPT license at one time. He stated that consideration should be given to the fact that the Fire software (Firehouse) and PD software (ALARM) utilize and interface with the Computer Aided Dispatching (CAD) system and that it would be necessary to maintain both systems. He added that it was also important to conduct further research to determine possible cost savings.

Assistant Fire Chief Dan Stubbs addressed the Committee and concurred that more research was necessary to determine whether there would be a possible cost savings by implementing a one-stop shop. He commented that while the efforts to include all of the permits into one system might make it more efficient for a business owner to apply for the necessary permits and licenses, he questioned whether it would lessen the cost responsibility with respect to staff entering all of the information into the Fire Department’s system. Chief Stubbs added that Mesa’s FSOP fee, which is $15, was much lower than most local communities.

Police Technical Services Division Administrator Shirl Butler explained that entering data for PD would be less of a problem than for the Fire Department due to the fact that the Fire Department uses a commercial system that would require that vendor interface. He concurred that the cost of doing business with respect to the $10 PD Alarm Permit fee requires more study than is currently available to determine whether the fee could be reduced. Mr. Butler added that most of the processing was not entering the data into the ALARM system, but what occurs during the course of the year when staff responds to the alarms and manages the system.

Committeemember Somers suggested that the City Auditor’s Office conduct a process audit with respect to the one-stop shop concept and report back to the Committee in 30 to 60 days with their findings.

Chairman Finter commented that City staff has not yet received feedback from the Mesa Chamber of Commerce Board of Directors regarding the issue of Mesa establishing a business license.

Discussion ensued relative to the number of FSOP and PD Alarm Permits currently issued in the City of Mesa (See Page 5 of Attachment 3); the TPT fee increase proposal (See Page 6 of Attachment 3); that such a proposal would result in $967,130 in increased revenue annually; that the new tax system would cost an estimated $2.3 million to implement, with annual maintenance and software/hardware upgrades estimated at $400,000; and a chart illustrating the cash flow and associated costs for the new tax system in Years 1-5. (See Page 7 of Attachment 3)

Executive Manager Chuck Odom commented that when staff determined that the new tax system could not be financed through CityEdge, they were challenged to develop a plan to fund the project. He explained that given the City's current financial situation, General Fund dollars were not available and said that staff proposed to "cash float" the system over the five to six years, including incurring deficits through Year 3. Mr. Odom further advised that what has not been modeled after that time was the City's commitment to carry out the system into the future. He noted that options include revisiting the TPT fee in Year 3 or, in the alternative, and an option he would not recommend, is lowering the fee and balancing it out over the five to six year period, which would put more pressure on the General Fund.

Chairman Finter stated the opinion that it would be "a hard sale" to present the TPT fee increase proposal to business owners once they understood that Mesa would generate $967,120 in increased revenue annually. He added that does not take into account the addition of 8,000 service-oriented businesses if they were required to apply for a business license.

Mr. Odom responded that what staff failed to mention was if the City does not move forward with the implementation of a new tax system, it will not have a choice in the future.

Responding to a question from Committeewoman Higgins, Mr. Meyer explained that the cash flow diagram depicted on Page 7 reflects only the TPT fees and does not include a business license, FSOP or Police Alarm Permit fees. He stated that if the City instituted a business license, the fees would most likely decrease due to the fact that the City could potentially generate $400,000 in business license income to add to the TPT income.

Chairman Finter remarked that staff's recommendation was "a gutsy proposal" and suggested that the Committee have additional time to review this item.

It was moved by Committeemember Somers, that the TPT fee increase proposal be forwarded to the Council for consideration and that the Committee continue to pursue the concept of a business license.

Committeemember Somers clarified that he was not suggesting that the Council approve the proposal, but merely that the matter be forwarded on for further discussion.

Committeewoman Higgins reiterated her concerns regarding small business owners being charged the same TPT fees as larger corporations. She stated that she would like to further explore a business license fee and determine how the TPT fee could be restructured.

Committeemember Somers concurred with Committeewoman Higgins, but suggested that in the meantime, it would be appropriate to forward the TPT fee increase proposal to the Council for further discussion. He suggested that during next year's budget discussions, the Committee could revisit the possibility of the City instituting a business license.

Ms. Cannistraro clarified that in May, staff would present a preliminary budget to the Council. She explained that today staff was seeking direction from the Committee as to whether they should proceed with this particular financing package, which includes the TPT fee increase proposal. Ms. Cannistraro stated that the Council had the discretion to modify any of the proposed rates.

Committeewoman Higgins commented that if the Committee was forwarding the TPT fee increase proposal to the full Council, she would like to consider it at the same time as a business license fee or she would prefer not to move it forward.

Ms. Cannistraro confirmed that the preliminary budget would include the TPT rate increase proposal as well as the new tax system.

Mr. Odom indicated that Committeewoman Higgins was speaking about adding a component recognizing a business license fee.

Committeemember Somers noted that it was imperative that the Committee conduct their due diligence with respect to this issue. He stated that this was the first time the Committee had discussed a business license in any detail and questioned whether the issue was “ripe” to be included in this year’s budget discussions.

Mr. Odom concurred with Committeemember Somers’ concerns and said he was unclear whether staff had conducted a thorough analysis of the impacts of such a proposal on the budget.

Committeewoman Higgins stated that the TPT license actually affects more businesses (24,000) than a business license (8,000) and questioned whether the Committee had engaged in sufficient discussions with respect to the TPT fee increase proposal.

Chairman Finter requested that Committeemember Somers restate the motion.

It was moved by Commiteemember Somers, that the TPT fee increase proposal be forwarded on to the full Council for consideration.

Chairman Finter seconded the motion.

Chairman Finter clarified that his second was only to forward the item on to the Council and said that he opposed the TPT fee increase proposal.

Chairman Finter called for the vote.

Upon tabulation of votes, it showed:

AYES - Finter-Somers
NAYS - Higgins

Chairman Finter declared the motion carried by majority vote.

Chairman Finter thanked staff for the presentation.

2-d. Hear a presentation, discuss and make a recommendation on the City's Pinal County Lands management policy.

Assistant to the City Manager Natalie Lewis and Executive Manager Corinne Nystrom addressed the Committee relative to this agenda item.

Ms. Lewis displayed a PowerPoint presentation **(See Attachment 1)** and reported that several months ago, Chairman Finter presented a proposal to staff that would provide the City a short-term option to maximize revenues from its Pinal County lands. She stated that the purpose of today's presentation was to outline the preliminary information that staff had gathered thus far.

Ms. Lewis explained that the Pinal County lands were an important investment/asset to the City of Mesa and advised that when the properties are sold, certain proceeds would be committed to fund the new Chicago Cubs spring training facility.

Ms. Lewis remarked that Mesa's goal was to sell the Pinal County lands for the highest value and in a market-driven fashion. She said that in this regard, staff has worked with a real estate broker team that advertises/markets the lands; met with Pinal County, Eloy and Coolidge representatives to discuss their development goals for the area; conferred with the Arizona Department of Transportation (ADOT) to advocate/achieve a future north-south alignment that further enhances the marketability/value of Mesa's lands; and monitored State and electrical utility Requests for Proposals (RFPs).

Discussion ensued relative to the fact that the City currently has nine farming leases on its Pinal County lands; that the most prevalent crops grown on the property include cotton, alfalfa, barley and wheat; that the farmers pay a flat lease rate, which is renegotiated every two years; that the City employs Scythe & Spade, a farm contractor, to ensure that the City has the highest and best market for the flat-lease rates; that the farmers assume all risks/profits of farming the land; and that the current process creates minimum risk to the City, generates a modest net income, and offers the City the flexibility to focus its efforts on selling the lands and meeting certain financial obligations.

Ms. Lewis further reported that Chairman Finter proposed that the City manage the farming operations until the lands were sold, which would require that a manager be hired to operate the farms. She stated that in addition, the annual lease revenues that are collected would be eliminated, thereby creating the potential for the City to generate more revenues than it currently receives. Ms. Lewis added that Mesa would not be eligible for Federal farm subsidies.

Responding to a question from Committeemember Somers, Ms. Nystrom clarified that it was her understanding that if the City managed the farming operations, it would not be eligible for the Federal farm subsidies, nor would a private farmer who worked as a contractor for the City.

Ms. Nystrom remarked that due to global market volatility, weather conditions and crop production costs, U.S. cotton farmers have seen a marked increase in the value of their commodity. (See Page 5 of Attachment 1) She also highlighted a number of fluctuating variables that would be important for the City to consider if it moved forward with the proposal. (See Page 6 of Attachment 1)

Ms. Nystrom noted that if the Committee directed staff to research this item further, it was recommended that the next steps in the process include the following:

- Determine the best area to farm.
- Issue an RFP to gauge professional farming operator interest and cost of service.
- Determine timing to shift farming operations. (Note: The current leases are set to expire in 2012.)
- Create protections to enable the City to sell the land.

Ms. Nystrom advised that staff has compiled various statistical data that was not included in the backup materials, but available for the Committee's review.

Chairman Finter explained that during the Chicago Cubs election campaign last year, he often heard Mayor Smith refer to the Pinal County lands as "a non-performing asset," which prompted him to request staff to research whether the City could maximize the revenues if it managed the farming operations. He invited a number of speakers to come forward, several of whom have been actively involved in reviewing this proposal.

Kevin Rogers, a Mesa resident, stated that he and his family currently farm in Scottsdale, Laveen and south of Ahwatukee. He noted that he currently serves as President of the Arizona Farm Bureau and is a member of several United States Department of Agriculture (USDA) advisory boards.

Adam Hatley, also a Mesa resident, advised that he farms on the Salt River Indian Reservation in Scottsdale, with his primary crop being cotton. He said that he was President of the Maricopa County Farm Bureau Board of Directors.

Mark Freeman, a Mesa resident whose family has farmed in Mesa and Lehi since the 1880's, stated that he currently serves as Secretary of the Maricopa County Farm Bureau Board of Directors.

Monte Nevitt, Farm Manager and Director of Client Services for Scythe & Spade, remarked that his company manages Mesa's 10,000 acres of Pinal County farmland. He said that he was also a member of Nevitt Farms Partnership, which owns approximately 10,000 acres in five western states.

Jim Weatherford, General Manager, Designated Broker and Director of Operations for Scythe & Spade, noted that he spent a number of years in the U.S. Navy and also worked for the United States Agency for International Development, during which time he studied farming and irrigation systems.

Responding to a question from Committeemember Somers, Ms. Nystrom explained that staff conducted several analyses with regard to the Pinal County lands. She stated that in one such scenario, if the City had farmed cotton for the past five years per the current business model, it would have incurred a cumulative loss given the price of cotton at that time.

In response to a question from City Manager Christopher Brady, Ms. Nystrom clarified that the expenses staff used in the analysis included the cost of the taxes and assessments on the farmland.

Mr. Brady commented that the analysis was incomplete and noted that the City currently pays taxes, assessments, irrigation costs and repairs on the irrigation system. He stated that as part of the analysis, it would be important to include the cost to hire a farm operator to manage the property. Mr. Brady also suggested that it would be appropriate for staff to review commodity prices going forward and research potential operational costs (i.e., diesel fuel, equipment rental, depreciation on equipment and labor), which the City does not currently pay.

Chairman Finter stated that for decades, Mesa "has lost money" on the farming operations and inquired if Scythe & Spade was "given the green light" by the City to maximize revenues.

Mr. Nevitt responded that back in the mid-1980's when the farms were purchased, it was not unusual in the case of a farm sale for there to be "a very forgiving rent" that was agreed upon when a farmer would lease and farm the land for a few years in anticipation of the property being sold, for example, to a home builder. He explained that in 2003 when Scythe & Spade was hired to manage the land and the City no longer intended to use the land as a water farm, to the best of his understanding, rents averaged between $40 and $50 an acre. He stated that once the City paid a management fee to Scythe & Spade, taxes, assessments and various well repairs, limited revenue was generated.

Mr. Nevitt further remarked that when Scythe & Spade is retained to manage a property, it conducts its due diligence to assess soil types, yielding capabilities, the cost of water, the property's proximity to dairies and markets, access to manure to improve productivity, and the current water distribution system, all of which impacts rental rates.

Mr. Nevitt also reported that Scythe & Spade was asked not to raise rents more than 10% and noted that it would have been difficult for the farmers to pay an additional $100/acre increase in rent in a year's time. He advised that Scythe & Spade was asked "to ratchet up" rents over a period of time and said that the two or three times the company negotiated rents, it has done so. Mr. Nevitt added that in the last round of negotiations, Scythe & Spade was asked to increase rents by approximately $50,000 in total rent revenues and also ensure that there was no farmer turnover.

Chairman Finter commented that the staff report reflects that the City's positive cash flow was "a modest" $65,000 and yet lease revenues were $965,000, with costs of approximately $180,000. He inquired whether the actual revenue was $165,000.

Mr. Brady clarified that the $180,000 included taxes and assessments paid by the City, but not certain internal staff costs.

Responding to a question from Committeewoman Higgins, Mr. Hatley clarified that in a year's time, a farmer would yield one crop of cotton on a piece of land. He noted, however, that once an alfalfa crop was established, which takes three or four years, a farmer could yield seven to nine cuttings per year.

Mr. Nevitt noted that since staff conducted their initial analysis, the alfalfa market has changed. He said that if further studies were warranted, he would recommend that alfalfa be included in such analysis.

Chairman Finter invited the speakers to offer their feedback/input with regard to the proposal.

Mr. Rogers stated that in order for the City to evaluate the proposal, it would be important to obtain information regarding the following issues:

- What are the Arizona Department of Water Resources (DWR) water credits on the farmland.
- What has been the history of water usage on the farmland.
- There are three or four different levels of water costs that farms incur. How many acres of each water cost do the Pinal County lands have.
- The City spends $350,000 annually on water assessments and water duties, which allow good water delivery to the land across the irrigation districts. Did the City make similar improvements on the lands to utilize the new high-capacity water delivery systems that it has.
- Soil types, water delivery, field configuration.
- Does the City allow farmers to participate in cost sharing and the Environmental Quality Incentives Program (EQIP).

Mr. Rogers also noted that since water was a key component of farming, if the farmland had small ditches and it took six-acre feet of water to grow a crop of cotton on the property at $50/acre, it would not make sense.

Mr. Nevitt responded that the City showed foresight in subsidizing, allowing and encouraging EQIP. He stated that many farms have been laser leveled, ditches have been dug, and in one instance, a drip system was installed on approximately 200 acres. Mr. Nevitt explained that in the interest of subsidizing such improvements, rents remained low so that the farmers would have time to recoup their investments for such improvements. He added that there came a point in time when the improvements were subsidized, the City owned the system as is and was entitled to raise the rent to recoup fair market value, but said that prior to 2003 that never occurred.

Mr. Nevitt also remarked that when the farms were initially being marketed for sale, Scythe & Spade stopped encouraging additional EQIP work. He explained that of the 10,000 acres, there are approximately 2,000 acres near the Selma Highway/Highway 87 alignment, as well as the southern-most farms, that still require significant work if the City wanted to engage in a long-term perspective. He added that the southern-most farms use six-acre feet of water or more just to achieve average yields.

Committeemember Somers commented that it was admirable and, in fact, necessary that the Committee consider how to maximize the use of the Pinal County lands while the City still owns them. He noted, however, that this issue was extremely technical and complex and could not be resolved by the Committee today.

Committeemember Somers stated that if the City were to move forward with this proposal, he would recommend that the City Manager's Office conduct a business analysis to consider multiple options ranging from maintaining the status quo; the City farming the land; or something in between, such as Mesa charging higher rental rates in order to "maximize its benefit somewhere in between."

Further discussion ensued relative to the fact that Mesa originally purchased the Pinal County lands for water rights, but over time, the City realized that the water rights would not benefit the

City of Mesa; that the City did not want to sell the land too quickly, which would impact land values in Pinal County; that although the land values increased, Mesa also paid higher taxes on the farmland; and that the City had not invested in certain areas along Highway 87 and the railroad tracks, which are located in the "commercial sweet spot" for sale.

Mr. Brady stated that he was intrigued by today's discussion and suggested that it might be appropriate for staff to conduct an analysis with respect to a certain portion of the 10,000 acres that would have the highest and best use for farming. He also noted that perhaps the land brokers could assess which lands should be retained and not sold in the near term. Mr. Brady stated that staff would then bring back the results of these analyses to the Committee for further discussion and consideration.

Chairman Finter acknowledged Committeemember Somers' comments, but stated that he believed there was an effort to "shelve" this matter. He noted that the proposal would generate needed revenue for the City and urged that a strict timeline be established to move forward in this regard. Chairman Finter added that the City's net revenue of $65,000 on the 10,000 acres was "a laughable issue."

Responding to a question from Committeewoman Higgins, Mr. Rogers explained that if the City assumed the farming operations, it would cost between $9 million and $10 million and would take approximately a year to a year and a half to recoup such costs, depending on the commodity that was grown.

Mr. Rogers explained that one of the reasons for the increase in cotton prices was due to flooding in Pakistan and Australia and drought in China. Mr. Rogers noted that there were spikes in the cotton market, but questioned whether it would be sustainable long-term.

Mr. Weatherford reported that over the years, Scythe & Spade suggested several options with respect to Mesa's Pinal County lands as follows: 1.) Crop share, in which for "X" number of dollars, the City receives a percentage over and above a certain price; 2.) A lease-rate indicator, which empirically demonstrates all costs. He advised that in a meeting with City staff, Scythe & Spade utilized the lease-rate indicator and demonstrated that Mesa's farmland, with the current pricing structure, could tolerate substantially higher rents than what were currently being paid. Mr. Weatherford noted, however, that the City did not charge the higher rents due to the fact that "it wanted to be a good neighbor."

Mr. Hatley concurred with Mr. Weatherford that if the City moved forward with the proposal, that crop sharing would be a viable option. He stated that he would discourage the City from hiring a contractor to farm the land due to the expenses that it would occur.

Mr. Freeman commented that the potential for the City to earn revenue from the farming operation was significant. He noted, however, that it would be prudent for the City to consider the following issues:

- Does the landowner perform all of the well maintenance on the farm.
- Crop insurance.
- Technology to assist in the management of the farm.
- Creating farmer internships.
- Infrastructure costs.

Responding to a question from Chairman Finter, Ms. Nystrom clarified that staff conducted several analyses with respect to the proposal and said that in the best of scenarios, the City could generate up to $4 million in revenue by managing the farming operations.

Committeemember Somers expressed frustration that the Committeemembers were being asked to provide input with regard to this matter and yet were only provided a short PowerPoint presentation and a three-page Council report.

Ms. Nystrom noted that the analyses were available for the Committee's review.

Chairman Finter said that he would have preferred that the Committee be provided the information prior to the meeting.

Mr. Brady remarked that it was his understanding that the $4 million figure did not include operational costs. He explained that one of the reasons that amount was not included in the PowerPoint presentation was because he did not want to show incomplete information.

Ms. Nystrom clarified that the analysis included a comparable $100,000 cost to pay a contractor to work with the City, but said staff was uncertain whether that amount was valid.

Committeemember Somers voiced concern that the information presented by staff and the experts was fragmented and should be consolidated into a single report, including the pros and cons of the various models. He acknowledged Chairman Finter's efforts for moving this item forward, but commented that today was the first time he has been involved in this discussion. Committeemember Somers added that such a report should be completed in a reasonable timeframe and not "shelved," as alluded to by Chairman Finter.

Chairman Finter stated that his purpose in inviting the experts to the meeting was to solicit their input/feedback and suggested that it might be appropriate for staff to create "a menu" that would offer different options for the Committee to consider. He noted that if his fellow Committeemembers were in agreement, he would like the matter brought back to the Committee in approximately a month.

Committeemember Somers suggested that instead of staff developing a full business model assessment, it would be helpful for the Committee if they simply drafted an assessment of three options: 1.) Status quo; 2.) Adjustments to the status quo; and 3.) The City going into business for itself.

Mr. Weatherford indicated that if the Committee wanted to proceed in the most appropriate manner, it would direct Scythe & Spade to hire an entity such as Purdue University, Washington State University, or Texas A&M to conduct a study with respect to the Pinal County lands. He explained that such a study could take up to a year to complete and added that it was "unreasonable" to believe that it could be accomplished in a month.

Chairman Finter commented that "the wave" the Committee was on was to investigate options with respect to the City's financial crisis and also optimize City assets which, in essence, were owned by Mesa residents. He noted that expensive studies were a challenge, but said he was confident that "reasonable options" could be achieved. Chairman Finter added that the challenge for the City was to have Scythe & Spade operate for another year under a system that "its representatives have admitted is not optimal."

Mr. Weatherford responded that all the City has to do is direct Scythe & Spade to implement new options and the company would be happy to do so. He reiterated that Scythe & Spade presented the City with a lease-rate indicator option and was told the City did not want to pursue it.

Chairman Finter thanked Mr. Weatherford for his frankness and said that when he learned of that fact prior to the meeting, it was "a bombshell" to him.

Committeemember Somers acknowledged Mr. Weatherford's opinion since he was an expert in this field. He stated that if it takes a year to complete the study, not only does the Council owe it to Mesa residents to maximize the Pinal County land revenues, but also to ensure that they are not basing their decision at the height of the cotton market, only to find out if the City did eventually manage the farming operations, that it "ends up in the red." Committeemember Somers cautioned, however, that if it takes a year to do what could be accomplished in 30 days, he would take issue with that.

Chairman Finter remarked that staff had already spent months working on the proposal and said he was surprised to hear that it would take another year to complete a study.

Mr. Weatherford remarked that if the City of Mesa wanted to generate significant income from the farmland, Scythe & Spade, pending City authorization, was prepared at the end of business today to provide Chairman Finter the names of five industrial-type farming entities that would be interested in contracting the 10,000 acres for 20 years.

Chairman Finter thanked Mr. Weatherford for his candor.

Committeemember Somers commented that from one perspective, it could be said that the City was losing money on the farmland because it was not engaging in a 20-year contract with an industrial farmer who would pay a higher rental. He stated, however, that the City was interested in maintaining the flexibility to sell the land when appropriate offers come along.

Mr. Nevitt noted that historically, cotton costs approximately $1000/acre to produce and that farmers traditionally only make an estimated $200/acre profit at the end of the year, with $50 to $150/acre subsidized through the Federal subsidy program.

Committeewoman Higgins expressed appreciation to Chairman Finter for bringing this item forward. She also thanked the speakers for their input and feedback.

Mr. Brady thanked Ms. Lewis, Ms. Nystrom and Scythe & Spade for their efforts and hard work in this matter. He said that he wanted to ensure that whatever information/data was presented publicly was accurate and acknowledged that because this was a new area, staff was "pushed outside their comfort zone."

Mr. Brady further remarked that it was important that staff was diligent in their efforts due to the fact that the City did not have $9 million to invest in the Pinal County farmland. He stated that he would be happy to meet with Scythe & Spade to discuss options regarding how best to manage the property.

Mr. Brady also advised that the City of Mesa, Pinal County and the farmers have a long history and said "that is where the reluctance comes from" with respect to increasing rents. He noted that if the Council directs staff to shift this policy, they would do so, but added that the City is "risk averse and does not take chances on things we are not familiar with."

Mr. Brady requested that staff be given a month to conduct further research with regard to this issue, after which time they would update the Committee.

Chairman Finter stated that was a reasonable solution and voiced appreciation to staff for their efforts and hard work. He also thanked the speakers for attending today's meeting and providing valuable insight.

(Chairman Finter declared a recess at 10:30 a.m. The meeting resumed at 10:38 a.m.)

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 12:04 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 11th day of April 2011. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

pag
(attachments - 3)

Mesa's Pinal County Lands Management

Audit, Finance & Enterprise Committee
April 11, 2011

Background

- Mesa's Pinal County lands are an important investment and asset.
- Sales proceeds are committed.
- Goal = City actively working to sell lands for highest value and in a market-driven fashion:
  - Real Estate broker team
  - Pinal County, Coolidge, Eloy – aligning development goals
  - Advantageous North-South Freeway alignment
  - State, electric utility RFP's

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Today's Process

- Nine farming leases.
- Cotton, alfalfa, barley and wheat.
- Flat lease rate (renegotiated every two years).
- Farmers assume risks and profits.
- Minimum risk to City; generates modest net income.
- Retain flexibility to focus efforts on selling lands and meeting financial obligations.

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Proposal

- City manages farming operations until lands are sold.
  - Shift farming responsibility to City
  - Retain farm operator (expertise)
  - Eliminate annual lease revenues
  - Create potential to generate more net revenues than what City receives from leasing

  Note: City is not eligible for federal farm subsidies

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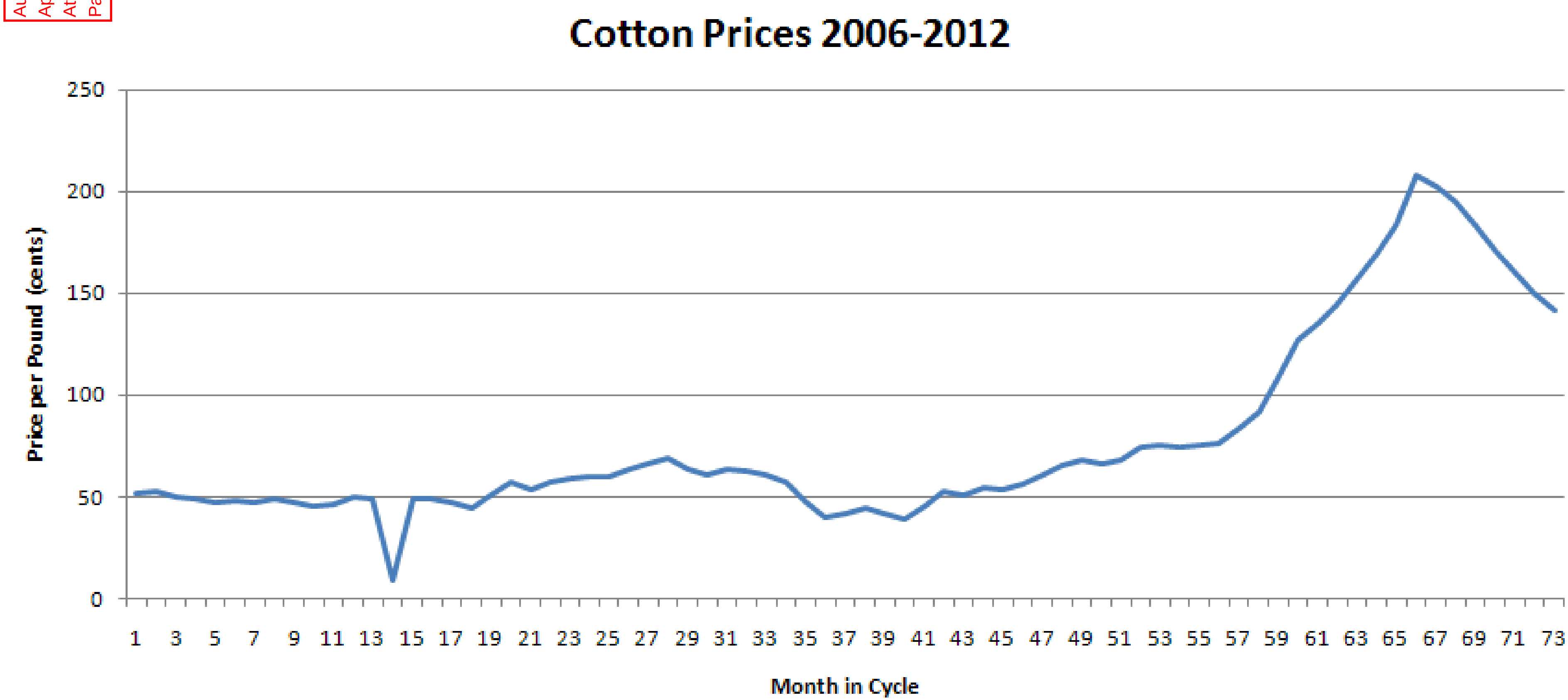
Cotton Market

Preliminary Data



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Some Fluctuating Variables

- Changes in global commodities market
- Cost of seed, fertilizer, herbicides, fuel, irrigation water
- Ability and cost to procure expert farm operator
- Weather uncertainties

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Land Management Policy
Next Steps

- Determine best area to farm.
- Issue RFP to gauge professional farming operator interest and cost for service.
- Determine timing to shift farming operations.
- Create protections to enable City to sell the lands.

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Questions?
Discussion?

Audit, Finance &
Enterprise Committee
April 11, 2011

City of Mesa

Utility Rates for 2011/12
and Forecasted Future Rates

April 11, 2011

Presented by the Budget & Research Office

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Enterprise Operations Financial Summaries

- Each utility is operated as a separate business center
- Debt Service has a significant impact on future rates
- Total Transfer amount from Enterprise fund will remain the same
- Fund balance was used to smooth the rate adjustments year-to-year
- Combined Ending Fund Balances will adhere to the adopted financial policy of at least 8%

Proposed Rate Changes
2011/12 through 2013/14
Solid Waste Program

	2011/12	2012/13	2013/14
SPRING 2010			
Pct Rate Adjustment	1.4%	1.4%	1.4%
Average Monthly Residential Impact	$0.33	$0.34	$0.34
SPRING 2011			
Pct Rate Adjustment	0.0%	1.4%	1.4%
Average Monthly Residential Impact	$0.00	$0.33	$0.34

Proposed Rate Changes
2011/12 through 2013/14
Electric Program

	2011/12	2012/13	2013/14
SPRING 2010			
Pct Rate Adjustment	0.0%	1.6%	1.6%
Average Monthly Residential Impact	$0.00	$1.25	$1.27
SPRING 2011			
Pct Rate Adjustment	0.0%	1.6%	1.6%
Average Monthly Residential Impact	$0.00	$1.22	$1.23

Proposed Rate Changes
2011/12 through 2013/14
Gas Program

	2011/12	2012/13	2013/14
SPRING 2010			
Pct Rate Adjustment	2.5%	2.5%	2.5%
Average Monthly Residential Impact	$0.58	$0.60	$0.61
SPRING 2011			
Pct Rate Adjustment	2.5%	2.5%	2.5%
Average Monthly Residential Impact	$0.58	$0.60	$0.61

Magma Gas Rate Update

- City Council directed development of a rate for Magma residential customers so that, at a minimum, bills would be equal to a Southwest Gas Corp. bill in FY 2010/11.

- Adjustments to rate monthly.

MAGMA RATE ADJUSTMENT
FEBRUARY 2011

BILLED CONSUMPTION (THERMS)	**SURCHARGE**	**TOTAL BILL**
10	$ 0.00	$ 25.82
25	$ 0.00	$ 44.19
50	$ 0.00	$ 70.09
63	$ 0.12	$ 83.67
75	$ 1.59	$ 97.57
100	$ 4.66	$ 126.53
125	$ 7.72	$ 155.49
150	$ 10.78	$ 184.45

MAGMA GAS RATE - REVENUE

BILLING MONTH	**REVENUE**
SEP 2010	$ 2,451.44
OCT 2010	$ 4,342.25
NOV 2010	$ 1,345.39
DEC 2010	$ 2,739.14
JAN 2011	$ 14,532.31
FEB 2011	$ 29,422.11
TOTAL THRU FEB 2011	$ 54,832.64
ESTIMATE MAR THRU JUN 2011	$ 13,000.00
FORECASTED FY 2010/11 TOTAL	$ 68,000.00

Proposed Rate Changes
2010/11 through 2012/13
Water Program

	2011/12	2012/13	2013/14
SPRING 2010			
Pct Rate Adjustment	5.5%	5.5%	5.5%
Average Monthly Residential Impact	$2.11	$2.23	$2.35
SPRING 2011			
Pct Rate Adjustment	6.5%	6.0%	6.0%
Average Monthly Residential Impact	$2.33	$2.29	$2.43

Proposed Rate Changes
2010/11 through 2012/13
Wastewater Program

	2011/12	2012/13	2013/14
SPRING 2010			
Pct Rate Adjustment	4.5%	4.5%	4.5%
Average Monthly Residential Impact	$0.96	$1.00	$1.05
SPRING 2011			
Pct Rate Adjustment	5.0%	5.0%	5.0%
Average Monthly Residential Impact	$1.06	$1.12	$1.17

Water Program Financial Overview

Based on FY 09-10 Actuals

- $104.5 million revenues
  - $94.9 million in rate revenue
  - $9.6 million in other income
- $109.6 million expenses
  - $47.2 million transfer to the general fund
  - $42.0 million in O&M/capital services
  - $20.4 million in debt service
- Net Operating Loss of -$5.1 million

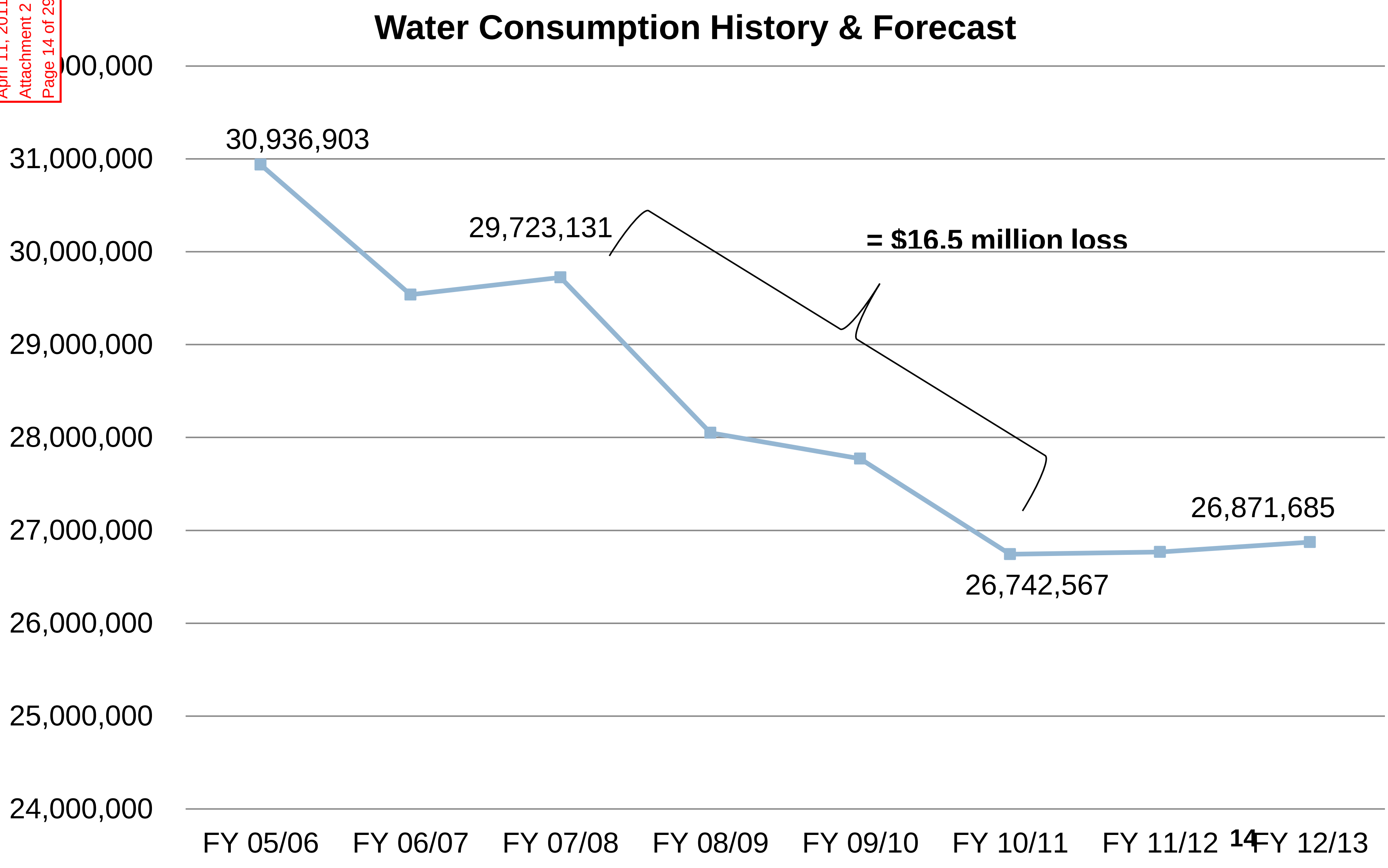
Concerns

- Seasonal/part-time residents
  - Approximately 17K non-permanent residential accounts
- Volatile revenue stream
  - Decreased Consumption
  - Economic Impact
    - Weather patterns
    - Economy

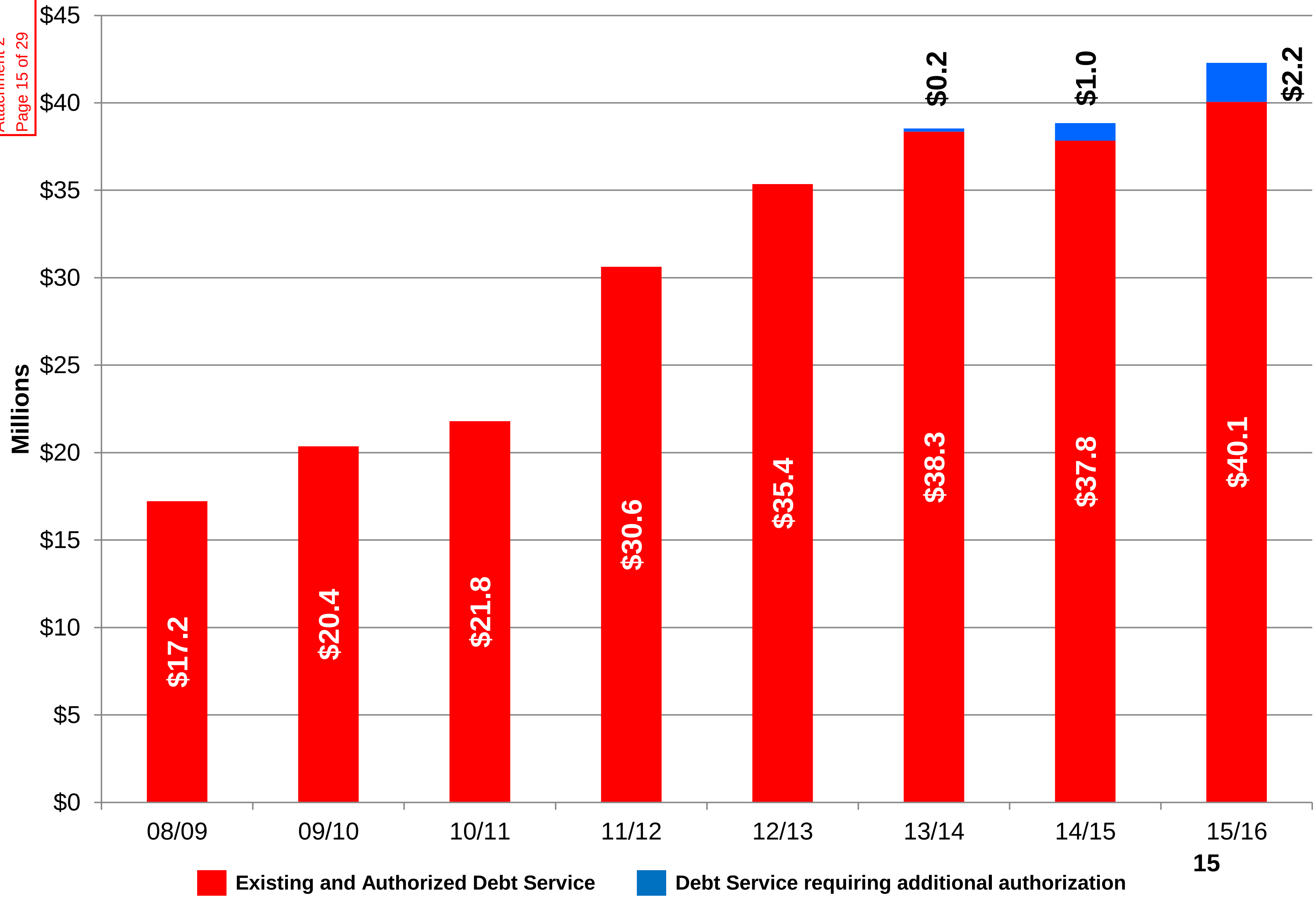
Concerns

- Expenditures Increasing
  - Debt Service
    - $8.8 million increase next year
    - $20.5 million jump in the next 5 years
  - Increases in chemical, energy and commodity costs
- Ending Fund Balance goal not obtained

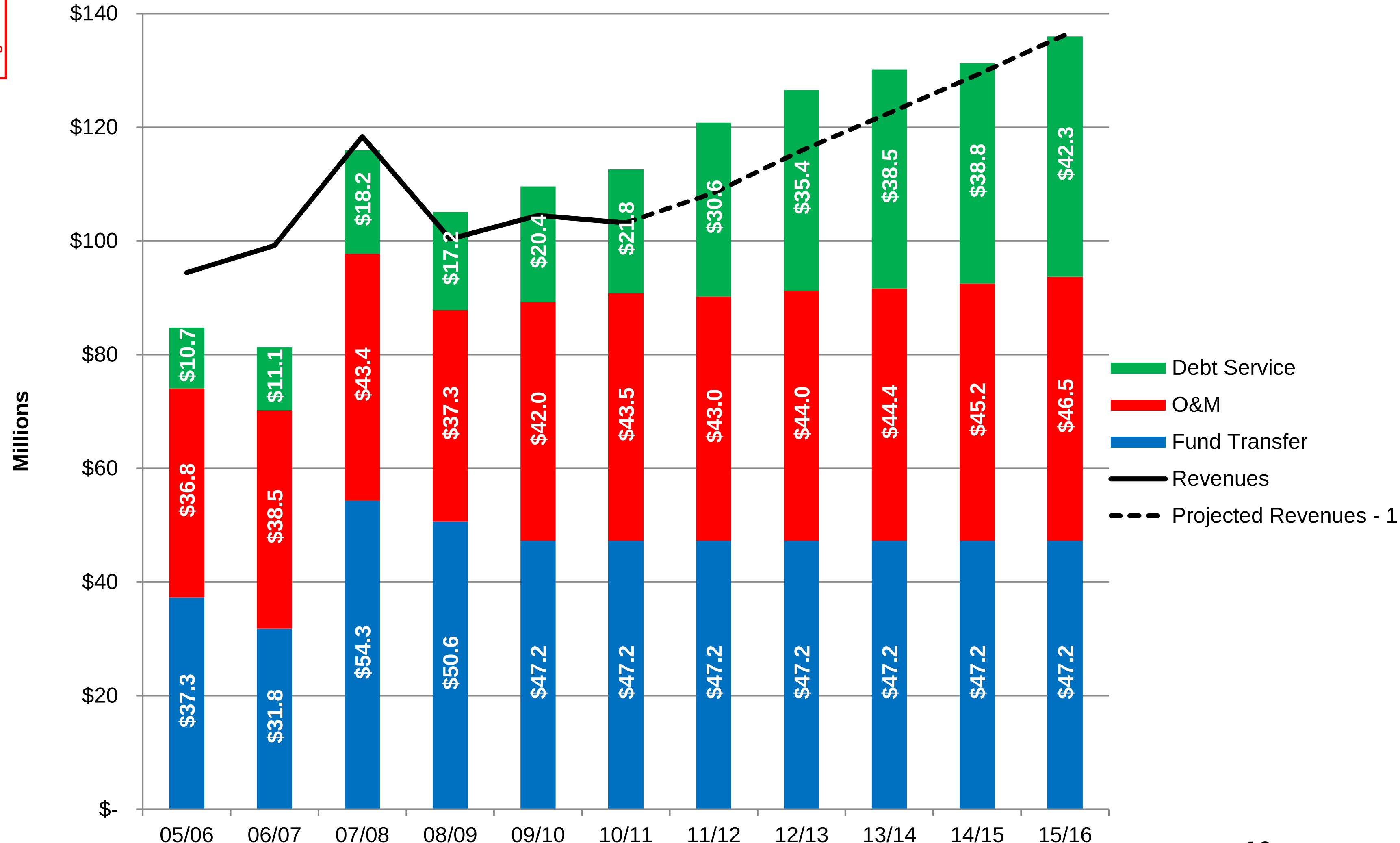
Changing Revenue Stream



Water Program – Debt Service



Water Program Costs vs. Revenues



Existing Rate Structure Fund Balance Forecast

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Combined EFB	$45,287,324	$40,259,278	$27,916,159	$14,811,523	$4,764,150	$3,583,241	$7,831,213
% of total cost	38.0%	30.2%	19.0%	9.8%	3.0%	2.2%	4.7%

Proposal

- Reduce Costs
  - Decrease/Defer CIP
  - Decrease Spending
- Restructure Revenues
  - Rate restructure
  - Eliminate Discount Program

Reducing Costs

- Delayed $99 million in projects
  - Signal Butte Water Plant
  - Signal Butte Water Plant waterline to CAP
  - Replacement of aging infrastructure
- Managing Operating Costs
  - Increased expenses over the past three years
    - Chemical expenses increased 210%
    - Commodity expenses increased 20%
    - Energy expenses increased 10%
  - Direct operating expenses increased 4%

Costs per residential account

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Direct Costs	$ 25.84	$ 26.80	$ 26.44	$ 27.08	$ 27.33	$ 27.84	$ 28.60
Debt Service	$ 12.54	$ 13.42	$ 18.85	$ 21.76	$ 23.72	$ 23.91	$ 26.03
GF Transfer	$ 29.08	$ 29.08	$ 29.08	$ 29.08	$ 29.08	$ 29.08	$ 29.08
Total Costs	$ 67.46	$ 69.30	$ 74.37	$ 77.92	$ 80.13	$ 80.83	$ 83.71

The average residential water user pays $36.41/month based on 10K gallon usage in FY 10-11

Proposed Rate Changes
2011/12 through 2013/14
Water Program

	2011/12	2012/13	2013/14
Proposed:			
Pct Rate Adjustment	6.5%	6.0%	6.0%
Average Monthly Residential Impact	$2.33	$2.29	$2.43

Proposed Rate Changes
2011/12 through 2013/14
Wastewater Program

	2011/12	2012/13	2013/14
Proposed:			
Pct Rate Adjustment	5.0%	5.0%	5.0%
Average Monthly Residential Impact	$1.06	$1.12	$1.17

Proposed Rate Restructure

- Water Rate Proposal
  - A minimum charge to include the first 5K gallons of consumption
- Wastewater Rate Proposal
  - A minimum charge to include the first 4K gallons of usage

Proposed Water Rate Restructure

	Current Bill	Proposed Bill
6 kgal	$28.44	$28.44
5 kgal	$25.85	$25.85
4 kgal	$23.26	$25.85
3 kgal	$20.67	$25.85
2 kgal	$18.08	$25.85
1 kgal	$15.49	$25.85
0 kgal	$12.90	$25.85

Proposed Wastewater Rate Restructure

	Current Bill	Proposed Bill
7 kgal	$24.65	$24.65
4 kgal	$16.41	$16.41
3 kgal	$15.17	$16.41
2 kgal	$13.93	$16.41
1 kgal	$12.69	$16.41
0 kgal	$11.45	$16.41

Rate Restructure Impact

- No Impact to Average Customer
- Main impact to part-time residents, vacant properties
  - 8% of permanent customers (9,600 accounts) impacted every month
  - Approximately 6,200 meters showed zero usage on average per month
- Ending Fund Balance goals achieved

Furlough Program - Wastewater

- Accounts
  - 1,876 accounts furloughed in FY 09-10
  - 8,983 months of lost revenue
  - Loss of $84K over a 12 month period
- Profile
  - Accounts located across the city
  - 85% of all furlough accounts are showing year-round activity

Utility Rate Schedule for FY 11/12

- **May 16** – Adopt Utility Rate Notice of Intention
- **June 6** – Introduce Utility Rate Ordinances
- **June 20 (tent.)** – City Council Action on Utility Rates
- **August 1** – Effective date for Utility Rate changes

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City of Mesa

Audit, Finance & Enterprise Committee
Tax System Recommendations
FY 2011/2012

April 11, 2011

Questions

- **Should we look at instituting a Business License?**
- **Can the new tax system provide a one stop shop for new businesses in Mesa?**

Business Licenses in Comparison Cities

- **Business License** - Glendale, Peoria, Scottsdale, Tucson
  - Cities have either a Business License or a TPT (Tax) License.
  - Businesses are not required to have both
- **No Business License** - Phoenix and Tempe

TPT License/Business License

- **What are the differences?**
  - TPT (Tax) licenses are issued to all business entities who engage in a taxable activity.
  - TPT licenses are regulated by the Model City Tax Code.
  - Business licenses are issued to service oriented businesses who do not engage in a taxable activity.

Business License

- **What are the benefits of a Business License?**
  - Economic Development –provide comprehensive list of businesses and business types
  - Provide data for Fire to aid in FSOP program
  - Promotes accountability-all applicable sales and use tax collected

Business License

- **What would it take to implement a Business License?**
  - A City Ordinance would need to be adopted
  - Determine which businesses the license would apply to
  - Determine the fee schedule

Cities with a Business License

Current Fees

Fee	Glendale	Scottsdale	Tucson	Average
Application	$20	$12	$25	$19
License	$50	*$50	$45	$48.33
Renewal	$50	*$50	$45	$48.33
Late License	$0	$25	$22.50	$15.83
Late Renewal	$0	$25	$22.50	$15.83

*Scottsdale license fees based on # of employees-range $50-$200

No Business License – Phoenix, Tempe

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One Stop Shop

- **Can the new tax system provide a one stop shop for new businesses in Mesa?**
  - License input and issuance is possible

One Stop Shop

- **Considerations:**
  - Fire software (Firehouse) and PD (ALARM) software utilize/interface with the CAD system-Firehouse and ALARM would still need to be maintained
  - More research is needed to determine possible cost savings
    - » Capability to share date
    - » Licensing Office to issue FSOP/Alarm permits

Other Permits

- **Fire Safety Operational Permits (FSOP)**
  - 8,392 business have permits
- **Alarm Permits**
  - Residential Permits-17,671
  - Commercial Permits-6,587

New Tax System

Will be Web Enabled – Application, e-Filing, Payment

- The new system will improve efficiency, provide more information, and enable more effective enforcement.
- Supports Initiatives to Streamline the Public's Interaction with the City
- Part of the Council's Strategic Initiatives for Financial Stability
  - Submitted to iMesa
    - 15 Votes

TPT Fee Increase Proposal

- Proposal Raises our Fees to be Comparable to Our Benchmark Valley Cities

Proposed Fees

Fee	Mesa		Chandler	Glendale	Phoenix	Scottsdale	Tempe	Tucson
	Current	**Proposed**						
Application	**$30**	**$20**	$15	$0	$20	$12	$20	$25
License		**$50**	$50	$50	$50	$50	$50	$45
Renewal	**$20**	**$50**	$50	$50	$50	$50	$50	$50
Late License	**$15**	**$25**	$25	$25	$25	$25	$15	$25
Late Renewal	**$10**	**$25**	$25	$25	$45	$37	$15	$25

New Tax System

- Revenue Increase of $967,130 Annually
- Tax System
  - $2.3 Million implementation Cost
  - Annual maintenance and upgrades (hardware and software)
    - » Costs estimated to be $400,000

QUESTIONS?