



AUDIT & FINANCE COMMITTEE MINUTES

March 27, 2008

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on March 27, 2008 at 10:08 a.m.

COMMITTEE PRESENT

Claudia Walters, Chairman
Tom Rawles
Darrell Truitt
Christopher Brady, Ex-Officio

COUNCIL-ELECT PRESENT

Alex Finter
Dave Richins

STAFF PRESENT

Bryan Raines

1. Items from citizens present.

There were no items from citizens present.

2. Hear a presentation, discuss and provide direction on the audit of Revenue Collection Operations.

Chairman Walters stated that rather than City Auditor Gary Ray making a presentation to the Committee, she had read staff's report and was comfortable with the recommendations and corrective action undertaken relative to this item.

3. Discuss and make recommendation on adjustments to rates and fees as proposed by the Arts and Cultural Department.

- a. Arizona Museum of Natural History
- b. Arizona Museum for Youth
- c. Mesa Arts Center

It was moved by Chairman Walters, seconded by Committeemember Truitt, to recommend to the Council that the adjustments to rates and fees, as proposed by the Arts and Cultural Department, be approved.

Committeemember Rawles expressed opposition to the motion because, in his opinion, the proposed rates and fees for the Arizona Museum of Natural History and the Arizona Museum for Youth are not high enough. He stated that he would prefer to see the fees and charges increased sooner rather than later.

Arizona Museum of Natural History Administrator Tom Wilson clarified that with regard to the Arizona Museum of Natural History, the proposal before the Committee is the result of a benchmarking study that compared Mesa's fees to various local and regional museums of comparable size.

Arizona Museum for Youth Administrator Sunnee Spencer reported that the Arizona Museum for Youth recently performed a benchmarking study that resulted in a fee increase from \$3.50 to \$5.00. She added that staff prefers to implement such increases in \$0.50 increments.

Discussion ensued relative to the results of the benchmarking studies for both museums.

Committeemember Rawles stated that based upon an earlier Study Session presentation regarding the trend at both museums, he appreciates the need for "baby steps" relative to the proposed incremental fee increases. He expressed support for staff's recommendations and noted that staff is "moving in the right direction."

Chairman Walters called for the vote.

Carried unanimously.

4. Discuss and make recommendation to eliminate the fees and charges schedules previously required for the operation of the City's Escobedo facility as requested by the Neighborhood Services Department.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the fees and charges schedules previously required for the operation of the City's Escobedo facility, as requested by the Neighborhood Services Department, be eliminated.

Carried unanimously.

5. Discuss and make recommendation on adjustments to various fees and charges as proposed by the Parks, Recreation and Commercial Facilities Department.

In response to a series of questions from Chairman Walters, Parks, Recreation and Commercial Facilities Director Rhett Evans clarified that by 2022, staff projects the cemetery would be built out. He stated that recent trends indicate that more individuals are selecting cremation instead of traditional burials, which will increase the amount of space available at the site. Mr. Evans added that the proposed fee increase of 3% is necessary in order to sustain operations and maintenance at build out.

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, to recommend to the Council that the adjustments to various fees and charges, as proposed by the Parks, Recreation and Commercial Facilities Department, be approved.

Carried unanimously.

6. Discuss and make recommendation on adjustments to rates and fees as proposed by the Engineering Department.

City Engineer Beth Huning reported that staff proposes an After Hours Inspection Request Fee to put Mesa more in line with other communities regarding the issue of addressing overtime charges for inspection services in the right-of-way. She displayed a document entitled "City of Mesa Engineering Department After Hours Inspection Fee Analysis" and briefly reviewed Mesa's proposed fees and charges as compared to those in Chandler, Gilbert, Tempe, Phoenix and Glendale. (See Attachment 1.) Ms. Huning advised that the proposed \$130 per hour fee would cover the cost of the inspector and overhead.

Committeemember Rawles referred to a document entitled "Engineering Proposed Changes to Fees and Charges" and expressed confusion regarding the language contained under the category "After Hours Inspection Requests." (See Attachment 2.)

Discussion ensued relative to a series of after hours inspection scenarios posed by the Committee; and that on Attachment 2, the second paragraph under "After Hours Inspection Requests" is incorrect and the verbiage "before or after normal City business hours" should be deleted.

Chairman Walters concurred that Attachment 2 does not clearly reflect staff's intent with regard to the proposed fees. She suggested that it might be appropriate for staff to create three categories relative to After Hours Inspection Requests including Saturday, Sunday, and holiday; within two hours before or after normal City business hours; and within three hours before or after normal City business hours and provide greater clarification in this regard.

Committeemember Rawles stated that Attachment 2 should also include a reference to the \$130 per hour fee.

Committeemember Truitt noted that the fee is the same at \$130 per hour and the only difference is the minimum rates.

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, to recommend to the Council that the \$130 per hour rate adjustment, as proposed by the Engineering Department, be approved, and that staff be directed to clarify and bring back the minimum rates prior to Council action on this item.

Carried unanimously.

7. Discuss and make recommendation on adjustments to rates and fees as proposed by Falcon Field Airport.

Committeemember Rawles referred to a document entitled "Airport (Falcon Field) Proposed Changes to Fees and Charges" (See Attachment 3.) and stated that beginning with the category "Deposits and Transfer Fees," there are certain services that include a cost of living adjustment (COLA) of 2.9% that have not been previously tied to market value. He commented that during his tenure on the Council, staff has not conducted a full cost recovery analysis of many of these services and noted that he is uncomfortable including a COLA as a component of the respective fees.

Falcon Field Airport Director Corinne Nystrom responded that the COLA increase of 2.9% for the fees would assist the airport in remaining financially self-sustaining while also staying current with the rates being charged for similar services at other metro Phoenix airports.

In response to a question from Committeemember Rawles, Ms. Nystrom confirmed that when the above-referenced fees were initially established, staff time was estimated to perform, for instance, hangar cleaning. She stated that staff would be happy to perform a further analysis of such functions if that were the direction of the Committee. Ms. Nystrom also briefly reviewed the Waiting List Deposit-Refund Fee (which was approved by the Council earlier this year) and the Fuel Flowage Fee, which is recommended to be adjusted to \$0.10 per gallon.

Ms. Nystrom further reported that staff proposes a new \$25 annual registration fee for airport subtenants (Business Registration Fee). She explained that ground lease tenants have the ability to sublease their property and/or improvements to other entities, but are not required to obtain approval from or notify the City regarding the identity of the subtenant. Ms. Nystrom commented that it is in the City's best interest to know which entities are operating businesses at the airport. She added that such registration would also assist staff in apprising the subtenants of activities occurring at the airport.

Committeemember Rawles stated that the Business Registration Fee, in his opinion, is discriminatory and unnecessary if it is assessed only to an airport subtenant (as opposed to an airport tenant). He noted, however, that he would support the remaining proposed fees and charges.

Chairman Walters suggested that with regard to the Business Registration Fee, it might make sense for the airport to use the same fee that is being proposed for the annual renewal for Mesa's Transaction Privilege Tax (TPT) license, which the Committee will discuss under Item 9a.

It was moved by Chairman Walters, seconded by Committeemember Truitt, to recommend to the Council that the adjustments to rates and fees, as proposed by Falcon Field Airport, be approved, with the exception of the Business Registration Fee, and that staff be asked to consider using the same fee that is being proposed for the annual renewal for Mesa's TPT license.

In response to a question from Committeemember Truitt, Ms. Nystrom explained that the Business Registration Fee would provide information to other City departments regarding which entities are conducting business at the airport, but not necessary engaged in a service that requires a TPT license.

Chairman Walters expressed support for the Business Registration Fee and noted that the City cannot ignore safety concerns at Falcon Field Airport. She stated that if a business located at the airport requires a TPT license, she would be comfortable with the entity obtaining that license as well as paying the Business Registration Fee.

Committeemember Rawles inquired whether the Business Registration Fee, regardless of the amount, is included as part of Chairman Walters' motion.

In response to a question by Chairman Walters, Ms. Nystrom clarified that the Business Registration Fee would result in full cost recovery.

Chairman Walters amended her motion to recommend to the Council that the adjustments to rates and fees, as proposed by Falcon Field Airport, be approved.

Committeemember Truitt seconded the motion.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAY - Rawles

Chairman Walters declared the motion carried by majority vote.

8. Discuss and make recommendation on adjustments to rates and fees for the Transportation Department.

a. Streetlight Equipment Loan Fee

It was moved by Chairman Walters, to recommend to the Council that the Streetlight Equipment Loan Fee, as proposed by the Transportation Department, be approved.

Committeemember Rawles stated that with regard to this fee, a contractor would be required to pay a deposit two times the value of the street light equipment. He expressed opposition to the fee and noted that this is nothing more than an attempt "to obtain money" when the City is not incurring any costs in this regard.

Transportation Director Dan Cleavenger clarified that the fee the City would charge a contractor is a deposit and explained that the contractor would receive back the full amount of the deposit with the exception of what is retained by the City (20% of the cost of the item). He cited, as an illustration, that if an item cost \$1,000, the contractor would be charged a \$2,000 deposit and when the object was returned, the City would retain 10% of the deposit and 20% of the cost. Mr. Cleavenger added that the purpose for the fee is to recover the City's administrative and labor costs involved in providing this service and also to discourage contractors from relying on the City as a convenient source of streetlight equipment.

Committeemember Truitt commented that if contractors and developers plan their workload appropriately, it would not be necessary for them to avail themselves of this service. He stated that he is not concerned if the City makes "a small profit" and disincentivizes contractors from using the service.

Committeemember Rawles stated that he would prefer that staff simply inform the contractors that they will not provide the equipment.

Traffic Engineer Alan Sanderson responded that staff has been unsuccessful in that regard because pressure has been brought to bear on staff to assist contractors and developers to complete projects.

Committeemember Truitt noted that the real issue is whether the City should charge contractors 20% of the value of the equipment for the services provided by staff. He stated that in principle, he is not opposed to such a fee, but is uncertain what the appropriate amount should be.

Deputy City Manager Jack Friedline explained that staff intended the fee as a disincentive for contractors or developers because staff would prefer to not perform the service very often. He assured the Committee that when it is necessary to accommodate a contractor or developer by loaning streetlight equipment, staff is happy to do so, but would like the fee to serve as “a lesson” for contractors or developers to “plan better next time.”

Committeemember Truitt seconded the motion.

In response to a question from Committeemember Rawles, Mr. Cleavenger clarified that the 10% of the deposit amount is “probably a little more” than full cost recovery, but consistent with the Traffic Signal Program.

Chairman Walters called for the vote.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

b. SRP Street Light Cabinet Connection Fee

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, to recommend to the Council that the SRP Street Light Cabinet Connection Fee, as proposed by the Transportation Department, be approved.

Carried unanimously.

c. Temporary Traffic Control Management Fee

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, to recommend to the Council that the Temporary Traffic Control Management Fee, as proposed by the Transportation Department, be approved.

Carried unanimously.

d. Traffic Engineering Fee for Special Events

Chairman Walters stated that she invited the incoming Councilmembers to attend the Committee meeting to learn more about the process. She explained that if those individuals were sworn in as Councilmembers and not members of the Committee, they would not be allowed to participate in the deliberations or discussions regarding any item on the agenda.

Mr. Cleavenger responded to a series of questions posed by Councilmember-Elect Richins with regard to this item.

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, to recommend to the Council that the Traffic Engineering Fee for Special Events, as proposed by the Transportation Department, be approved.

Carried unanimously.

e. Payment in Lieu Amount for Traffic Signals

It was moved by Committeemember Truitt, seconded by Chairman Walters, to recommend to the Council that the Payment in Lieu Amount for Traffic Signals, as proposed by the Transportation Department, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

9. Discuss and make recommendation on adjustments to license fees and requirements as proposed by the Financial Services Operations Department.

a. Transaction privilege tax

Financial Services Operations Director Jenny Sheppard reported that staff recommends the implementation of an annual renewal for Mesa's Transaction Privilege Tax (TPT) license. She stated that several hundred TPT licenses are voluntarily turned in each year.

Committeemember Rawles offered a series of comments and concerns regarding this item. His statements included, but were not limited to, the following: that the March 27, 2008 Audit & Finance Committee report states, "Reducing the TPT license application fee from \$50 to \$25 would reduce General Fund Revenue by approximately \$150,000 in 08/09 Fiscal Year Budget;" that according to the sales tax report that the Council receives each month, from 2006 to 2007, there was a net increase of approximately 1,400 TPT license applications; and that if, for example, that number was rounded up to 2,000 new license applications, at a cost of \$50, the City would generate \$100,000 in revenue and if the application fee was reduced to \$25, \$50,000 in revenue would be generated.

Committeemember Rawles inquired how staff derived the \$150,000 figure and stated that the number suggests \$300,000 in gross revenue from new TPT license applications annually.

Ms. Sheppard responded that the City of Mesa processes approximately 6,000 new TPT license applications each year.

Committeemember Rawles expressed frustration that the numbers generated by staff simply do not make sense.

Ms. Sheppard stated that staff anticipates approximately \$300,000 in General Fund revenue based on a \$50 TPT license application fee and reiterated that such an amount would be reduced by half if the fee was reduced to \$25.

Chairman Walters concurred with Committeemember Rawles' assessment that staff's numbers do not make sense.

Committeemember Rawles expressed support for reducing the TPT license application fee from \$50 to \$25, but reiterated that he does not understand how staff derived their numbers with regard to the fee.

Audit and Tax Collections Administrator Roger Okin clarified that approximately 4,000 to 5,000 TPT licenses are voluntarily returned each year. Ms. Sheppard also noted that an estimated 4,000 business owners do not file their monthly tax receipts with the City.

Discussion ensued relative to the fact that cost recovery for processing the initial TPT license application is calculated at \$25 and \$18 for the annual processing of a license renewal; and the various direct and indirect costs associated with the fees.

It was moved by Committeemember Truitt, seconded by Chairman Walters, to recommend to the Council that a Transaction Privilege Tax license application fee of \$25 and a renewal fee of \$18 for an annual Transaction Privilege Tax license, as recommended by the Financial Services Operations, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

Committeemember Truitt amended his motion to recommend to the Council that a Transaction Privilege Tax license application fee of \$25, a renewal fee of \$18 for an annual Transaction Privilege Tax license, a late application penalty fee of 150% of the applicable fee, and a one-time \$25 fee for a Transient Privilege License, as proposed by the Financial Services Operations, be approved.

Chairman Walters seconded the motion.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

(Item 9b was discussed and considered by the Committee.)

It was moved by Committeemember Truitt, that Item 9a be brought back to be reviewed at the time the Committee reviews Item 9b to determine if there are any impacts regarding Item 9a as a result of the new input relative to Item 9b.

Chairman Walters requested that Budget and Research Director Chuck Odom ensure that the costs are fully loaded with regard to the fees proposed in Item 9a.

Committeemember Rawles clarified that the Committee is seeking information relative to the cost incurred by the Financial Services Operations Department to process license renewals only and also if there is a difference in the processing of liquor licenses and TPT licenses.

Chairman Walters seconded the motion.

Carried unanimously.

b. Liquor License

Committeemember Rawles posed the following questions to staff with regard to this item: 1.) Why does it cost the City more than 28 times as much to renew a liquor license than it does to renew a TPT license; and 2.) Why is the proposed TPT license renewal fee \$18 and the proposed fee for the renewal of an annual liquor license \$510 when the process for both renewals is the same.

Ms. Sheppard responded that the cost is spread over the number of license holders and explained that on a yearly basis, there are approximately 600 liquor license renewals and 20,000 TPT license renewals. She explained that four staff members process sales tax license renewals and one staff member is dedicated strictly to liquor license processing.

Committeemember Rawles commented that one person should not be processing only 600 liquor license renewals if four individuals process 5,000 renewals each. He suggested that the staff member dedicated to liquor license processing should have other job duties to which those costs are attributed. Committeemember Rawles added that in his opinion, all of the clerical costs should be the same to renew both a liquor license and a TPT license.

Committeemember Truitt concurred with Committeemember Rawles' comments and inquired why staff does not assess the same fees for both the TPT license renewal and the liquor license renewal.

Chairman Walters agreed with the comments of her fellow Committeemembers. She explained that her rationale for the fees is that "it costs the City money" (i.e., public safety costs) in terms of the General Fund to have liquor uses in the community, although she cannot quantify a specific amount. She acknowledged that the fees do not reflect full cost recovery, but added that she is not considering this item in terms of such an analysis.

Committeemember Rawles expressed additional comments and concerns relative to this item. His statements included, but were not limited to, the following: that staff's report indicates that costs related to Police and/or Fire Department calls for service at these public establishments are not available and no cost recovery component has been included in the analysis; that in his opinion, staff has justified the \$510 renewal fee solely on a cost recovery basis; and that

because the City has charged \$510 for these renewals, and if the fee were reduced to \$18 (the proposed TPT license renewal fee), the potential revenue loss would be significant.

Committeemember Rawles further commented that although he does not believe there should be a liquor license renewal fee, if one is implemented, it should achieve full cost recovery only, but not speculate as to how much it would cost the City "to have alcohol in the community." He noted that there are many establishments in the community that serve alcohol and do not create problems for the Police Department or the community as a whole. Committeemember Rawles added that he would prefer a liquor license application fee to cover the cost of conducting the State-required investigations for such a license.

It was moved by Committeemember Rawles, to recommend to the Council that a liquor license application fee of \$230 and a liquor license renewal fee of \$20, be approved.

Chairman Walters stated that she would not support the motion.

Committeemember Truitt stated that he is sympathetic with Committeemember Rawles' philosophy, but not with the numbers because, in his opinion, the Committee does not know what the correct numbers are.

Ms. Sheppard referred to a document and provided a brief overview of the manner in which the numbers contained in the Audit and Finance Committee Report were generated. (See Attachment 4.) She assured the Committee that the information was obtained from the department's accounting system and that the numbers were not made up.

Chairman Walters acknowledged Ms. Sheppard's comments, but questioned whether the data reflects an inefficient model of doing business as compared to the efficiency level of the projected TPT license renewal.

Committeemember Truitt commented that it is incredible to believe that it costs 28 times as much to renew a liquor license as it does a TPT license. He suggested that staff go back and conduct further research with regard to these numbers and added that it might be appropriate to increase the \$18 renewal fee for the TPT license.

Budget and Research Director Chuck Odom concurred with Committeemember Truitt's suggestion and acknowledged that there may be inefficiencies relative to the liquor license model. He also voiced concern regarding the numbers associated with the renewal fee for the annual TPT license and suggested that those figures be recalculated.

Committeemember Rawles withdrew his motion.

Committeemember Truitt further suggested that in conjunction with Item 9b, that staff revisit Item 9a to conduct a further analysis relative to the renewal fee of \$18 for the annual TPT license.

Committeemember Rawles commented that it might also be appropriate for staff to review the application and annual renewal fees for the Fortune Teller licenses as contained in Item 9c.

Chairman Walters reiterated her previous comments that the City “pays a cost” for having liquor in the community and stated that there should be a recovery of at least a portion of that cost “from those who are having that adult beverage.” She noted that in her opinion, the renewal fee, although not a scientific number, is a means by which such costs can be partially recovered. Chairman Walters also expressed a willingness to consider a higher renewal fee, but not to eliminate it. She added that when staff brings these fees back to the Committee, she would vote no on those items that do not take into account her above-referenced comments.

(Councilmember-Elect Finter left the meeting at 11:15 a.m.)

It was moved by Committeemember Rawles, that Item 9b be continued until such time as staff, with Budget and Research Director Chuck Odom’s involvement, recalculates the actual operational costs of the Financial Services Operations Department relative to the liquor license application and renewal process.

Committeemember Truitt stated that he would not second the motion. He noted, however, that he would propose a motion that would include Committeemember Rawles’ direction and would also like the Committee to come back and discuss the principle just enumerated by Chairman Walters. Committeemember Truitt added that if staff cannot quantify the numbers, perhaps they could inquire of other communities, on a qualitative basis, the reason they charge certain fees and the manner in which those fees are derived.

(City Manager Christopher Brady arrived at the meeting at 11:30 a.m.)

Committeemember Rawles withdrew his motion and expressed support for Committeemember Truitt’s restatement of his original motion.

Chairman Walters requested that the motion be restated.

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, that Item 9b be continued; that staff be directed to respond to the Committee’s inquiry regarding the reason it costs the City 28 times more to process a renewal of an annual liquor license than it does a renewal of a TPT license; that staff inquire of other communities, on a qualitative basis, why they charge certain fees and the manner in which those fees are derived; and that staff come back and make a presentation to the Committee relative to their findings.

Upon tabulation of votes, it showed:

AYES - Rawles-Truitt
NAYS - Walters

Chairman Walters declared the motion carried by majority vote.

(Councilmember-Elect Richins left the meeting at 11:33 a.m.)

c. Fortune Teller Licenses

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, that Item 9c be continued under the same philosophy as Item 9b.

Carried unanimously.

d. Licensing for Multiple Rental Properties

Mr. Okin provided a brief overview relative to the licensing of multiple rental properties owned by the same entity for collection of Transaction Privilege Tax. His comments included, but were not limited to, the following: that it is the recommendation of staff that each individual property, whether commercial or residential, be required to have a separate TPT license, per the requirements of the Model City Tax Code; that each such license be subject to the application and renewal fees as set forth by the Council; and that such a process would allow staff to better track that all rental properties subject to the TPT license are properly reporting the tax.

Chairman Walters inquired why staff is recommending that each individual property be required to have a separate TPT license as opposed to, with the implementation of the annual renewal, an entity could simply list the addresses of the properties on the license.

Mr. Okin responded that by having a separate license, each property address would be in the City's tax database. He explained that if a property is sold and the license is cancelled, the City would be able to identify those properties to follow up with the new owner. He added that staff could consider different programming options, but explained that at the present time, the only way that staff can input an individual address into the database system is through a license number.

Chairman Walters expressed concern with regard to staff's recommendation and stated that an entity that owns multiple rental properties would now be required to obtain a separate license for each property as well as an annual renewal. She suggested that staff look at an alternative programming option that would allow staff to update the addresses of an entity's rental properties every year.

Discussion ensued relative to the fact that the language in the Model City Tax Code requires a separate license for each location; that in the 1990's, City management made a decision to allow one license for each owner of taxable residential properties; and that the language in the Mesa City Tax Code was never revised to reflect such changes.

Chairman Walters suggested that if the City implements an annual renewal of the TPT license, which she has supported, she believes that process should trigger seeing that there has been a change (i.e., the sale of property or the acquisition of new property) in an entity's rental property addresses.

It was moved by Chairman Walters, that the Mesa City Tax Code be revised to require the annual renewal of a TPT license for multiple rental properties; that one of the requirements for the annual renewal would be that the entity must update the addresses of their properties; and that the entity would not be required to obtain a separate TPT license for each property that they own.

Ms. Sheppard confirmed that Chairman Walters' motion was in reference to residential rental property.

Committeemember Rawles suggested that it might be more appropriate to send this item back to staff to draft a change in the Mesa City Tax Code that would accomplish Chairman Walters' purpose as opposed to acting on her motion.

Mr. Okin clarified that Chairman Walters' proposed modifications are more administrative in nature and he did not believe it would be necessary to make any changes to the Tax Code.

Mr. Okin further reported that at the February 14, 2008 Study Session, Mayor Hawker expressed concern regarding entities that own multiple commercial properties and whether they should pay one fee and receive multiple licenses or if they should be required to pay separate fees for each property. He explained that most communities generally issue one license per commercial property and not necessarily for each subtenant.

Chairman Walters stated, after further discussion, that it was the consensus of the Committee to defer a decision regarding this item.

10. Discuss and make recommendation on adjustments to business rules, rates and fees for City of Mesa utility customers as proposed by the Utilities and Financial Services Operations Departments.

a. Fees and Charges for Utility Customers

Committeemember Rawles commented that in light of the Committee's discussion regarding Item 9a, he no longer knows what full cost recovery means. He stated that unless he could receive some assurance that the numbers for the above-referenced fees and charges are more accurate than those provided in Item 9a, he could not support staff's recommendations.

Deputy City Manager Jack Friedline responded that when staff reviewed the utility service fees, he questioned the service models and required staff to justify all of the costs (i.e., number of staff, hourly rate, benefits, overhead and equipment) on a line-by-line basis. He acknowledged that the costs have increased appreciably, but explained that they have not been reviewed for quite sometime.

It was moved by Chairman Walters, seconded by Committeemember Rawles, to recommend to the Council that the Fees and Charges for Utility Customers, as proposed by the Utilities and Financial Services Operations Departments, be approved.

Carried unanimously.

b. Terms and Conditions for the Sale of Utilities

It was moved by Committeemember Rawles, seconded by Chairman Walters, to recommend to the Council that the Terms and Conditions for the Sale of Utilities, as proposed by the Utilities and Financial Services Operations Departments, be approved.

Carried unanimously.

c. Utility Service Fees

In response to a question from Committeemember Rawles, Mr. Friedline assured the Committee that the proposed fees are based on a cost of service analysis.

It was moved by Committeemember Rawles, seconded by Committeemember Truitt, to recommend to the Council that the Utility Service Fees, as proposed by the Utilities and Financial Services Operations Departments, be approved.

Carried unanimously.

d. Utility Rates

Chairman Walters thanked Solid Waste Management Director Willie Black for proposing the name change of the Clean Sweep/Green Sweep Program to Mesa Green and Clean.

Chairman Walters inquired whether it would be possible for the City to offer blue recycle barrels to commercial businesses that are not solid waste customers of the City. She suggested that the cost recovery associated with the City obtaining and selling the recycled material from those entities and keeping it out of the landfill would be greater than the costs associated with the City providing and picking up the blue barrels.

Mr. Black responded that in today's market, such a proposal might be cost effective. He explained, however, that when there is a downturn in the economy and the City does not receive as much for the recyclables, there would be less of a cost incentive.

Chairman Walters also noted that relative to the Mesa Green and Clean Program, she would like to encourage residents to reduce the usage of their black barrels by 10% and increase the usage of their blue barrels. She suggested that if additional recycling revenues could be realized and quantified as a result of the residents' efforts, she would support the transfer of a portion of those funds to the Library's budget in order to purchase items for the department in the following fiscal year. Chairman Walters commented that such a program could serve as an incentive for residents to do something positive that would benefit the entire community.

It was moved by Chairman Walters, to recommend to the Council that the Fiscal Year 2008/09 Utility Rate Adjustments, as proposed by the Utilities Department, be approved.

Chairman Walters further commented that in light of the fact that Arizona Public Service (APS) and Salt River Project (SRP) have proposed rate increases, it is important that Mesa's electric rates remain consistent with SRP's. She noted that she is not saying that Mesa's electric rates should never be raised.

City Manager Christopher Brady advised that during the Utilities Department's budget presentation to the Council, staff would explore a series of topics, including the differences between applying an electric rate increase now as opposed to in the future.

Discussion ensued relative to the future capital needs for Mesa's utilities and the cost accounting of the electric utility.

Committeemember Truitt expressed concern that staff has not proposed an electric rate increase for the upcoming fiscal year.

Committeemember Truitt seconded the motion, with the caveat that the Council would have the opportunity to conduct a further review of the City's electric utility rate.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

11. Discuss and make recommendation on changing the name of the Residential Development Tax to the Residential Solid Waste Development Fee and adjusting the rate as proposed by the Solid Waste Department.

(This item was deleted.)

12. Discuss and make recommendation on adjustments to rates and fees as proposed by the Development Services Department.

a. Planning Fees

In response to a question from Chairman Walters, Planning Director John Wesley clarified that although Mesa is competitive with other communities relative to its proposed rezoning fees for 5 acres, 25 acres and 100 acres, the City's 500 acre recommended rezoning fee is approximately \$15,000 less than other Valley cities. He stated that staff could look at adjusting the fee, but noted that the vast majority of Mesa's rezoning cases are 25 acres or less.

It was moved by Chairman Walters, seconded by Committeemember Truitt, to recommend to the Council that the Planning Fees, as proposed by the Development Services Department, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
NAYS - Rawles

Chairman Walters declared the motion carried by majority vote.

b. Building Safety Fees

City Engineer Beth Huning reported that in an effort to achieve 100% cost recovery of the civil engineering inspections, staff intends to phase in the proposed fee in a manner that would be more acceptable to the community. She explained that in the past, staff reached 30% cost recovery and added that the proposed fee would increase that number to 65%.

It was moved by Committeemember Truitt, seconded by Committeemember Rawles, to recommend to the Council that the Building Safety Fees, as proposed by the Development Services Department, be approved.

Carried unanimously.

c. Annexation Fees

Principal Planner Laura Hyneman reported that staff previously made a presentation to the Committee and brought forward a model showing a 19% cost recovery on the Planning Annexation Application Fee. She explained that staff subsequently conducted an analysis of their costs to evaluate and process the applications and have brought back a proposal for 100% cost recovery. She added that at the February 21, 2008 Planning & Zoning (P&Z) Board meeting, the Board recommended approval of the 100% cost recovery option.

Mr. Brady expressed concern regarding P&Z's recommendation and suggested a balance between full cost recovery and not creating disincentives for individuals considering annexation. He stated that staff has proposals of either 30% cost recovery or 100% cost recovery for the Annexation Application Fee.

Chairman Walters stated that she is more concerned with the Annexation Equity Fee, so individuals do not have a disincentive from developing in the City, as opposed to achieving full cost recovery with regard to the Annexation Application Fee.

Ms. Hyneman responded that the way in which this model changes from the current process is that there is an incentive in the proposal to bring in multiple parcels. She explained that if an applicant and the surrounding neighbors work together to annex into the City, not only would there be a benefit to the City, but also a financial benefit to the applicant.

Discussion ensued relative to the fact that it costs, on average, \$2,600 for staff to evaluate an annexation request, regardless of the size of the parcel; that the majority of the acreage available for annexation is two acres or less; the future annexation of various RV and mobile home parks into the City; and that Code Compliance, Fire and Solid Waste staff conduct site visits associated with an annexation application and staff from 12 additional departments also conduct internal research.

Committeemember Truitt inquired regarding the possibility of one staff member being cross trained as an Annexation Specialist to review cases on behalf of all of the related departments in an effort to reduce staff costs.

Ms. Hyneman responded that staff intends to streamline and make improvements to the annexation process, although it is quite involved and complicated. She explained that staff is in the process of developing annexation agreements, which would require negotiation between the applicant and staff.

Committeemember Truitt stated that he could envision an incremental fee system, with one fee for a basic annexation process and an incremental fee if it is necessary for staff to negotiate an annexation agreement with an applicant.

(Committeemember Rawles was excused from the meeting at 12:20 p.m.)

Deputy Building Safety Director Tammy Albright clarified that the Annexation Equity Fee would only be applied to those parcels already developed.

Committeemember Truitt stated that he is not supportive of full cost recovery on the Annexation Application Fee because he would like to see staff's costs reduced by implementing a more efficient and streamlined process.

Mr. Brady inquired if the Committee would be supportive of a 50% cost recovery option for the Annexation Application Fee.

It was moved by Committeemember Truitt, seconded by Chairman Walters, to recommend to the Council that a Planning Annexation Application Fee, which includes a 50% cost recovery option, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
ABSENT - Rawles

Chairman Walters declared the motion carried unanimously by those present.

d. Federal Environmental Compliance Fee

It was moved by Chairman Walters, seconded by Committeemember Truitt, to recommend to the Council that the Federal Environmental Compliance Fee, as proposed by the Development Services Department, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt
ABSENT - Rawles

Chairman Walters declared the motion carried unanimously by those present.

13. Discuss and make recommendation on the proposed Pawnshop Transaction Fees as proposed by the Mesa Police Department.

Police Officer Richard Milburn responded to a series of questions from the Committee regarding this item. His comments included, but were not limited to, the following: that the proposed \$3.00 fee for pawn tickets/transaction reports filed with the Police Department's Recovered Property Unit is consistent with those imposed by Phoenix, Peoria, Scottsdale, Gila County and Kingman; that the fee would offset existing staffing levels, as well as future staff and related equipment; that as part of the fee implementation, it is also recommended that a software/hardware package be purchased to track pawnshop transactions; that the implementation of such technology would free up staff time to conduct the pawn transaction investigations and the transactions would no longer be manually entered; and that by utilizing such technology, the number of items identified would increase substantially.

Chairman Walters expressed support for the concept, but commented that she is unsure whether the costs should be captured in a model of cost recovery. She stated that she would like to see a model of being able to implement the new technology and the Police Department becoming more efficient in pursuing criminal activity.

Mr. Brady advised that he would also like to see the program implemented and operating for a period of one year, at which time staff could provide a status report to the Council as to whether the proposed fee has offset staffing costs and also present an update with regard to the available technology.

It was moved by Committeemember Truitt, seconded by Chairman Walters, to recommend to the Council that the proposed Pawnshop Transaction Fees, as proposed by the Mesa Police Department, be approved.

Upon tabulation of votes, it showed:

AYES - Walters-Truitt

ABSENT - Rawles

Chairman Walters declared the motion carried unanimously by those present.

14. Discuss and make recommendation on the development of an ordinance to charge fees for false fire alarms.

Deputy Fire Chief Rich Kochanski reported that staff is seeking the Committee's approval to proceed with the development of a false fire alarm program and associated ordinance(s) similar to those developed for the Mesa Police Department.

Mr. Brady clarified that pending approval of the program, staff would come back at a later time with proposed fees.

Chief Kochanski explained that in researching this item, he learned that in the last year, approximately 90% (2,500 out of 2,600) of the fire alarm calls received by the Fire Department were false alarms. He advised that the Department's recordkeeping capabilities do not differentiate between residential and commercial properties. Chief Kochanski noted that with increasing response times and limited resources, the Department recognizes the importance of addressing this issue. He added that the false alarm calls could include, for instance, malfunctioning smoke detectors or defects in equipment.

Mr. Brady clarified that the proposal would provide entities with the opportunity to remedy the cause of the false alarms. He stated that if the matter was not resolved, escalating penalties and fees would be imposed.

Discussion ensued relative to the fact that nursing homes, hospitals, and malls may have outdated equipment that could cause the false fire alarm calls to occur.

Chairman Walters stated that it was the consensus of the Committee that the Fire Department proceed with the development of a false fire alarm program and associated ordinance(s) similar to those developed by the Mesa Police Department.

15. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 12:41 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 27th day of March 2008. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

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(attachments – 4)