

UTILITY COMMITTEE MINUTES

January 8, 2004

The Utility Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 8, 2004 at 9:32 a.m.

COMMITTEE PRESENT

Janie Thom, Chairman
Kyle Jones
Mike Whalen

COUNCIL PRESENT

Mayor Hawker

OFFICERS PRESENT

Paul Wenbert

1. Discuss and consider utility rates for Williams Gateway Airport North General Aviation Fire Protection Area.

Williams Gateway Regional Economic Activity Area Project Manager Wayne Balmer addressed the Committee and stated that staff was present to provide information on proposed rates for the fire protection system currently under construction on the north apron of Williams Gateway Airport. He noted that the utility system left by the Air Force has been a recurring issue of concern during the past ten years of redevelopment at Williams Gateway, as most of the Air Force hangars did not have sprinkler systems.

Mr. Balmer advised that the system presently under construction was approved by the Council in August 2003 and is necessary in order to comply with new construction standards and meet the needs of new private, commercial activity. He reported that potential tenants request information regarding the cost to connect to the City's fire protection system when considering the lease of a lot on which to construct a hangar. Mr. Balmer added that a potential tenant has expressed an interest in constructing a hangar to accommodate a 737. He advised that staff reviewed several alternatives for proposed rates in an effort to create a win/win situation for both the tenants and the City of Mesa.

In response to a series of questions from the Committeemembers, Mr. Balmer explained that the fire protection system consists of two parts: one is a series of tanks to store the water, and the other are the water lines from the tanks to the leased lots. He added that the tenant would construct and own the lines on the leased lot on which the hangar is constructed. Mr. Balmer stated that the tanks would provide a supply of water and adequate pressure. He also clarified that the fire protection water system is separate from the drinking water system and the water system that services other areas of the airport.

Resources Division Director Frank McRae stated that staff was proposing recommended rates for fire protection services in the north general aviation area. He advised that the proposal consists of two separate components: one is the initial connection fee and the other is the

demand charge or monthly fee for service provided. Mr. McRae noted that copies of the proposed ordinance and resolution are included with the Council Report provided to the Committee.

Mr. McRae stated that the Fire Protection Master Plan identified two options for tenants at Williams Gateway: one was the common utility system that was approved by the Council, and the other was the individual stand-alone system where each tenant would provide the fire protection system for their building. He advised that the common utility system provides economies of scale and that funds totaling \$2.75 million were authorized by the Council in August 2003 for construction of the facilities that are designed to provide complete fire protection services for the tenants. Mr. McRae explained that the stand-alone approach would cost each tenant four to eight times more than the cost to utilize the common utility system. He noted that the cost savings and efficiency provided by the common utility system would be a valuable tool to attract tenants to Williams Gateway. Mr. McRae added that the proposed rates are formulated to insure that the City of Mesa recovers full capital costs as well as the operating and maintenance costs associated with providing this service. He also explained that the proposal distributes costs equitably among the tenants. Mr. McRae noted that the proposed rate structure initially generates revenues in excess of costs to ensure that City of Mesa expenditures are covered in the event that tenant connections occur at a slower pace than anticipated. He stated that if development occurs at a faster pace than forecasted, the City could consider lowering rates or using the funds to expand the utility system to other areas within the airport.

Mr. McRae advised that staff was requesting that the Committee recommend approval of the proposed ordinance and resolution to the full Council.

In response to a series of questions from Committeemember Whalen, Lynn Kusy, Executive Director of Williams Gateway Airport, advised that Arizona State University (ASU) is served by the municipal water system and that the University does not own any property on the flight line. He noted that ASU is considering leasing a lot on which to construct a hangar, and the utility system would service the hangars constructed on the flight line by ASU or any others. Mr. Kusy confirmed that the present municipal system has been adequate, but any increased utility requirements on the campus would be the City's responsibility.

Discussion ensued relative to the fact that Phillips Aviation has a lease for one lot and an option on another lot for construction of a hangar in which to park a 737; that presently there are no hangars available in the metropolitan area to accommodate a 737; that in addition to Phillips Aviation, ASU Chandler/Gilbert Community College has expressed an interest in locating a hangar on the south edge and discussions are ongoing with another aviation company regarding a location on the north edge; and that in order for negotiations to proceed, the potential tenants require utility rate information to complete their decision making process.

In response to a question from Chairman Thom, Mr. Kusy advised that the Airport Authority has constructed a fire protection system to provide service to a single building. He explained that existing jet fuel tanks were reconfigured to hold water and to provide sufficient pressure for fire protection service for a new hangar that was constructed on the south ramp. Mr. Kusy noted that the system could be expanded to service other buildings in the general area. He expressed the hope, on behalf of the Airport Authority, that the City could eventually assume responsibility for the system as the airport preferred not to operate a utility service.

In response to a series of questions from Chairman Thom, Mr. McRae advised that offering this type of fire protection service is unique to Williams Gateway due to the fact that most other airports do not have the opportunity for industrial development in the surrounding area. He noted that staff approached the rates in terms of the options that are available to prospective tenants as well as the options that would be economically feasible for both the tenant and the City of Mesa. Mr. McRae stated that the Fire Protection Engineering Study completed several years ago indicated that costs for a developer to provide fire protection service to a building would be four to eight times greater than the proposal recommended by staff. He also advised that stand-alone systems would require capital investment by tenants outside of their core business interests in addition to the operating and maintenance costs. Mr. McRae noted that new hangars are not being constructed at Sky Harbor or the Chandler Airport. He added that each building at the Scottsdale Airport is required to have its own system due to the situation with their municipal water supply.

Mr. Kusy addressed Chairman Thom's comments by noting that discussions have been held with Boeing relative to expanding their facilities at Williams Gateway. He noted that he was unaware of any current plans, but he explained that Boeing was more likely to lease facilities from a developer rather than construct their own buildings.

Mr. Balmer clarified that the connection fee is a one-time expense while the demand fee would be billed monthly.

It was moved by Committeemember Jones, seconded by Committeemember Whalen, to recommend to the full Council that staff's recommendation be approved.

Further discussion ensued relative to the fact that the City Council could waive utility fees to attract an employer, but this type of action was not within the purview of the Airport Authority; that this type of incentive could be structured into the lease negotiation; and that the utility system could be utilized to reduce the City's "up-front" contribution to the Airport Authority.

Chairman Thom requested that staff invite industry representatives to be present when the Council considers this item or arrange for industry representatives to speak individually to Councilmembers prior to the meeting. She indicated that she wanted to be certain that the infrastructure and environment being created would attract business to Williams Gateway Airport.

Mr. Kusy advised that the proposed rate structure has been discussed with the two developers that are presently at the airport: Phillips Aviation Realty Company, mentioned earlier by Mr. Balmer, and Mr. Himovitz of Himovitz Properties, a firm that has constructed four buildings at the Airport. He reported that both developers are supportive of the rate structure, and he could invite their representatives to attend the Council Meeting.

Chairman Thom expressed the opinion that the developer passes the costs on to the potential customers, and she would like the customer's viewpoint. She asked if staff contacted any manufacturers, such as Piper or Lear, to obtain their viewpoint.

Mr. Kusy stated that the subject has not been discussed with potential customers. He advised that the Utility Department structured the rates to divide the connection fee and the monthly

demand fee. Mr. Kusy explained that the connection fee would typically be a capital expense for the developer and the demand charge would be a monthly operating expense to the customer.

Mr. Balmer clarified that staff's recommendation to the Committee was for Option 2 in the Council Report, which includes a one-time connection fee and lower monthly demand charges.

In response to a question from Chairman Thom, Committeemember Jones stated that his motion was to recommend Option 2 as presented by staff.

Chairman Thom called for the vote.

Carried unanimously.

Chairman Thom thanked staff for the presentation.

2. Discuss and consider sale of long-term water storage credits.

Utilities Manager Dave Plumb addressed the Committee and advised that as a result of receiving an increasing number of requests from developers to purchase groundwater credits from the City, staff prepared a report on the availability of the resources and a recommendation regarding these types of requests.

Water Resources Coordinator Kathryn Sorensen stated that developers are interested in purchasing effluent long-term storage credits. She explained that the developers are not interested in long-term storage credits with a Central Arizona Project (CAP) designation due to the fact that the use of effluent water enables them to avoid certain restrictions imposed by the Department of Water Resources relative to the amount of turf and the types of water facilities that can be utilized in their development. Ms. Sorensen advised that staff reviewed the types of restrictions that are imposed on the sale of the City's long-term storage credits and what credits would be available for sale. She noted that long-term storage credits that are pledged to the 100-year assured water supply cannot be sold or transferred. Ms. Sorensen added that all of the effluent long-term storage credits that were created through recharge at the Northwest Water Reclamation Plant were posted to the City's 100-year assured water supply account and therefore are not available to be sold. She said that another restriction to the sale of credits is that when the City signed the comprehensive agreement with the Roosevelt Water Conservation District (RWCD), the RWCD imposed a \$500 per acre-foot fee on any credits created within their facility that the City may want to sell or transfer. Ms. Sorensen noted that the existing restrictions limit the resources that the City has available for sale. She reported that approximately 4,600 acre-feet of CAP long-term storage credits were created through the Salt River Project groundwater savings facility, but the City may want to retain these credits in the event the current drought situation continues. Ms. Sorensen advised that staff's recommendation is that the City prohibit the sale or transfer of any long-term storage credits at the present time.

Mr. Plumb explained that staff considers the sale of any long-term water storage credits to be a policy decision for consideration by the Utility Committee and, if appropriate, by the full Council.

In response to a question from Committeemember Jones, Mr. Plumb advised that developers are not interested in the purchase of long-term credits when the cost information is provided.

Mayor Hawker inquired about the possibility of withholding some of the Northwest Water Treatment Plant storage credits for potential sales to developers rather than applying all of the credits against the City's 100-year assured water supply.

Ms. Sorensen advised that the last application for the 100-year assured water supply designation occurred in 1995, and a reapplication will be due in the year 2010. She noted that the application process involves years of preparation, but the City could apply to the Department of Water Resources to modify the City's designation of assured water supply. Ms. Sorensen stated that the possibility exists to remove some of the Northwest Water Reclamation Plant credits from the designation and replace them with CAP credits, which would essentially be a trade off of the credits. She cautioned that the City would have to be very careful due to the fact that opening the assured water supply could subject the City to new provisions or restrictions from the Department of Water Resources. Ms. Sorensen expressed the opinion that the subject is worth further investigation.

Mayor Hawker noted that if the City sold credits for \$100 and then obtained other credits at \$25 to \$50, the transaction would be very positive for the City of Mesa. He suggested that staff consider this alternative during the next application process.

Ms. Sorensen concurred with Mayor Hawker that the long-term effluent water credits were more valuable than the CAP water credits.

Mr. Plumb stated that staff might have a report in the near future on negotiations currently being conducted with the RWCD relative to contract changes that may impact the City's plans for effluent from the Northwest Water Treatment Plant. He added that staff would provide an update when specific information is available. Mr. Plumb advised that staff was requesting a policy decision from the Council regarding the possible sale of long-term water credits to developers.

Discussion ensued relative to the fact that it has been declared that Apache Junction does not have a 100-year assured water supply and a restriction has been placed on building permits; that the Department of Water Resources may eventually close the Johnson Ranch development; and that Apache Junction may be able to overcome some of the restrictions by processing paperwork and taking other action.

Chairman Thom questioned the reason why 4,642 SRP/CAP (Salt River Project/Central Arizona Project) credits were listed for 1997, but none in the years before or since that date.

Ms. Sorensen noted that the credits occurred prior to her employment, but information in the files indicates that at the time the City believed that partnering with SRP in the groundwater savings facilities would be politically beneficial. She explained that the City provided SRP with inexpensive water that could be defined legally as groundwater and in return, water that the City recovered from the ground could be defined legally as CAP water. Ms. Sorensen advised that the City has not partnered with SRP since 1997 due to the City's effort to reduce the water obligation to RWCD and receive the long-term storage credits.

Discussion ensued relative to the fact that negotiations with RWCD may not result in a reduction to the acre-foot transfer fee; that the City could manage the long-term credits in a different manner; that the effluent credits are the most valuable; and that when the City reapplies for designation of the 100-year assured water supply, other changes could be implemented to allow credits to be available for transfer or sale.

It was moved by Committeemember Whalen, seconded by Committeemember Jones, to recommend to the full Council that staff's recommendation be approved.

Carried unanimously.

3. Adjournment.

Without objection, the Utility Committee Meeting adjourned at 10:17 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Utility Committee meeting of the City of Mesa, Arizona, held on the 8th day of January 2004. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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