



COUNCIL MINUTES

January 24, 2008

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 24, 2008 at 7:30 a.m.

COUNCIL PRESENT

Mayor Keno Hawker
Kyle Jones
Tom Rawles
Darrell Truitt
Claudia Walters
Mike Whalen

COUNCIL ABSENT

Scott Somers

OFFICERS PRESENT

Christopher Brady
Alfred Smith

(Mayor Hawker excused Councilmember Somers from the entire meeting.)

1. Hear a presentation and discuss the Electric Utility Evaluation.

City Manager Christopher Brady stated that the purpose of today's presentation is to provide staff an opportunity to report back to the Council regarding the independent consultants' review of Mesa's electric utility and also highlight the utility's significant business characteristics. He added that following the Study Session, the Council will convene an Executive Session to discuss more specific issues related to the impact of the consultants' evaluation.

Special Projects Manager Natalie Lewis introduced Administrative Services Director Kathryn Sorensen, Budget Director Chuck Odom and Electric Division Director Marty Hunter, who were prepared to respond to any questions the Council may have.

Ms. Lewis displayed a PowerPoint presentation (A copy is available for review in the City Clerk's Office) and offered a brief historical chronology of Mesa's electric utility. Her comments included, but were not limited to, the following: that in July 2006, the Council Finance Committee directed the City Manager to begin evaluating whether the City should sell the utility; that at that time, the special projects function was identified (i.e., to manage independent consultant reviews/work of performance-based evaluations and propose recommendations to City management); that in September 2006, the City Manager approached Salt River Project (SRP) to gauge the company's interest in the possible purchase of the utility; that SRP subsequently conducted its own assessment of the utility; and that in June 2007, the City initiated an independent review and analysis of the utility.

Ms. Lewis explained that staff conducted an analysis relative to projected future costs and revenues, including a comprehensive sensitivity analysis on major assumptions. She noted that

the analysis was completed under the oversight and review of Concentric Energy Advisors, Inc. Ms. Lewis advised that staff also worked with Utility Strategies Consulting Group, an independent consulting firm that projected future capital needs and provided an independent analysis for staff's review. She said that the firm met with the Electric Division staff and considered their input during the evaluation process.

Ms. Lewis commented that Concentric Energy Advisors assisted staff as follows: reviewed the design and study methodology of the evaluation; reviewed major assumptions, such as discount rate and commodity cost increases; and provided general insight into industry standards. She also noted that the Utility Strategies Consulting Group reviewed the City's capital costs and defined the current "state of the electric utility" based on industry standards; provided an estimate of capital expenditures needed during the next 30 years to meet industry standards; and considered and incorporated the Electric Division staff's insight, where appropriate, while asserting independent recommendations.

Ms. Lewis further highlighted various short-term and mid to long-term needs recommended by the Utility Strategies Consulting Group with regard to Mesa's electric utility. (See Attachment 1.)

Ms. Sorensen spoke regarding the benefits that Mesa's electric utility provides to the City such as the opportunity to supply quality electrical service to its customers and generate a stream of net revenue to the General Fund. She explained that the utility's existing challenges consist of a small geographic service area with limited growth potential, increasing costs to purchase electrical power, future rate increases and aging infrastructure. Ms. Sorensen referred to the PowerPoint presentation and displayed a map illustrating the electric service area. She also highlighted various charts and graphs depicting customer consumption by month and year, FY 2006/07 operating costs, electric utility historic operating and maintenance (O&M) costs (excluding commodities), and electric utility historic capital spending.

Discussion ensued relative to the FY 2006/07 operating costs, which comprise 78% commodities, 9% personnel and 13% other services (i.e., consultant contracts, purchased goods); that in FY 2003/04, a 2% increase in base rates was implemented; that in FY 2004/05, the City instituted the Electric Energy Cost Adjustment Factor (EECAF), a mechanism that passes through commodity costs to the electric customers; and that since FY 2003/04, there has been no increase in base rates.

Vice Mayor Walters commented that the Council would not vote in Executive Session today with regard to whether Mesa should sell the electric utility or keep it.

Additional discussion ensued relative to the fact that historically, the Enterprise Fund and the Utility Fund were considered one entity and staff did not distinguish the revenues transferred from the various utility programs (i.e., water, wastewater, electric, gas) into the General Fund; that the transfer amount would fluctuate and was based on the difference between the budgeted expenditures and actual expenditures of each utility program at the end of the fiscal year; and that since FY 2006/07, staff has begun to establish "targets" with regard to specific contributions to be transferred into the General Fund from each utility program.

Vice Mayor Walters stated that she "does not care if the City makes hundreds of millions of dollars" as long as the following criteria are met: 1.) The rates paid by Mesa's electric customers are substantially the same as those paid by SRP customers; and 2.) The City invests whatever

is necessary to maintain the electric system. She commented that in recent years when the City has continued to transfer revenue from the electric utility into the General Fund and neither of the above-mentioned criteria has been met to her satisfaction, she has opposed electric rate increases. Vice Mayor Walters also expressed appreciation to staff for their efforts and hard work relative to this matter.

Mayor Hawker thanked staff for the presentation.

2. Hear reports on meetings and/or conferences attended.

Mayor Hawker: Mesa/Queen Creek Joint Council Meeting

3. Scheduling of meetings and general information.

City Manager Christopher Brady stated that the meeting schedule is as follows:

Thursday, January 31, 2008, 7:30 a.m. – Study Session

Thursday, January 31, 2008, 8:30 a.m. – Community & Neighborhood Services Committee

Thursday, January 31, 2008, 1:00 p.m. – Special Aviation Meeting and Bus Tour at Phoenix-Mesa Gateway Airport

Monday, February 4, 2008, TBA – Study Session

Monday, February 4, 2008, 5:45 p.m. – Regular Council Meeting

Mr. Brady announced that Transportation Director Jeff Martin's retirement celebration would take place on Wednesday, January 30th, from 3:00 p.m. to 4:30 p.m. at the Transportation Training Room.

4. Items from citizens present.

There were no items from citizens present.

5. Adjournment.

Without objection, the Study Session adjourned at 7:54 a.m.

KENO HAWKER, MAYOR

ATTEST:

LINDA CROCKER, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 24th day of January 2008. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

pag
attachment (1)