

Audit and Finance Committee Report

Date: March 26, 2009
To: Audit and Finance Committee
Through: Christopher J. Brady, City Manager
From: Jack Friedline, Deputy City Manager
 Kari Kent, Deputy City Manager
 Bryan Raines, Deputy City Manager
Subject: Fiscal Year 2009/2010 Utility Service Fee Adjustments

PURPOSE AND RECOMMENDATION

The purpose of this report is to present alternatives for determining utility service fee adjustments in FY 2009/2010. Staff recommends the City Council use the latest cost of service analysis to adjust the quantity and price of new and existing fees (Option 4).

BACKGROUND AND DISCUSSION

Service fees reduce monthly utility rates by lowering program capital investments and operating costs. Fees also create an opportunity to influence consumer behavior and recover the cost of service more equitably among customers. All utility service fees are now located in a single place (e.g., Utility Rate and Fee Book). The single location will facilitate one-stop shopping and fee administration.

The Utility Service Fee Schedule lists fees in two sections. First, fees in the customer relationship management section (CRM) recover the cost of operating existing facilities. Over 95% of the revenue from CRM related fees is earned by establishing, disconnecting, and reconnecting utility services. Second, fees in the land management (LM) section recover the capital costs of adding new connection and metering facilities to the utility system. LM related fees are collected during the planning and design review process.

Staff's recommendation to adjust utility service fees will accomplish the following two management objectives. First, the price of existing fees will be adjusted according to the cost of service analysis conducted recently. Second, new fees will be added to recover costs from services historically performed without a fee. For example, customers will be charged a fee to turn their master water meters on and off, conduct billing research to gather information available to customers on-line, and turn off services when customers close their accounts. The increase in unit sales from new fees for option 4 will generate \$354,314 of additional revenue (See Attachment 1).

ALTERNATIVES

Four alternatives to adjust utility service fees in FY 2009/2010 are available to the Council are summarized below.

Option	1	2	3	4
Add new fees	No	Yes	No	Yes
Adjust Existing fees	No	No	Yes	Yes
Revenue Impact	\$0	\$354,000	(\$110,000)	\$244,000

1. Status Quo. Do not add new utility service fees. Do not adjust the price of existing fees. Instead of adding new fees, use rates to recover eligible costs among all customers. Continue using existing fees to recover costs regardless of changes in cost responsibility among customers. Additional revenue: \$0.
2. Add new utility service fees. Do not adjust the price of existing fees. Use new fees to recover costs from customers that directly benefit from utility services. Continue using existing fees to recover costs regardless of changes in cost responsibility among customers. Additional revenue: \$354,000.
3. Do not add new utility service fees. Adjust the price of existing fees. Instead of adding new fees, use rates to recover eligible costs among all customers. Adjust existing fees to recover costs according to changes in cost responsibility among customers. Additional revenue: \$(110,000).
4. Add new utility service fees. Adjust the price of existing fees. Cost of Service (Staff Recommendation). Use new fees to recover costs from customers that directly benefit from utility services. Adjust existing fees to recover costs according to changes in cost responsibility among customers. Additional revenue: \$244,000.

FISCAL IMPACTS

Approximately 99% of all unit sales will be generated from establishing, disconnecting, and reconnecting utility services in FY 2009/2010. If staff's recommendation is approved, new CRM related fees will increase unit sales by 22,169 units or 14% from 157,435 to 179,604. In contrast, the relatively small number of sales from adding new connection and metering facilities (LM related fees) will decrease dramatically. LM unit sales will decline by (233) units or (67%) from 350 to 117 due to the steep drop in economic activity.


If staff's recommendation is approved, the price of many existing fees in FY 2009/2010 will be lowered to reflect changes in the cost of service. The adjustments will translate into lower prices and less revenue for some CRM and LM related fees. However, new CRM related fees will more than offset the loss of revenue due to changes in the cost of service, for a net positive revenue impact to the City.

The City of Mesa conducted a survey during December 2008 to determine the average market price of various utility service fees (See Attachment 2). Survey results reveal some water related service fees are higher than those of other cities while others are lower. Natural gas related service fees, while comparable for next day connects, are higher than those of Southwest Gas for same day and non-payment disconnect/reconnects. In contrast, electric related service fees are consistently lower than the market average.

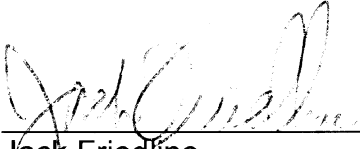
The recent cost of service analysis (COS) provides the best alternative for adjusting utility service fees for three reasons. First, the COS is objective. Fees will recover the direct cost of delivering services (e.g., direct labor, fringe benefits, overhead, material, and equipment). Second, the COS is dynamic. Fees can be updated to reflect the latest costs. Third, the COS is equitable. Fees will respond to changes in cost responsibility among customers. Fees will be charged to customers who directly benefit from services listed in the fee schedule. Costs for other utility services will be collected from all customers using utility rates.

CONCURRENCE

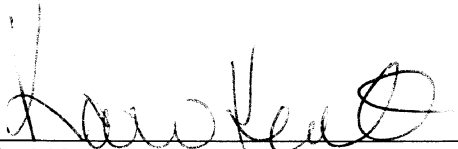
Concurrence with these recommendations has been received from the following appointed officials.



Chuck Odom
Budget and Research Director



Jack Friedline
Deputy City Manager



Kari Kent
Deputy City Manager



Bryan Raines
Deputy City Manager

Attachments:

1. New Utility Service Fees
2. Market Comparison of Utility Service Fees
3. Resolution, Ordinance, and Utility Service Fee Schedule
(Note: Attachment #3 will accompany City Council Report)

New Utility Service Fees - FY 2009/2010
Cost of Service (Option 4)

	Unit Sales	Sales Price	Sales Revenue
1. Establish Service - Turn Off			
Electric	2,199	\$ 8	\$ 17,592
Natural Gas	6,077	\$ 24	\$ 145,848
Water	13,048	\$ 8	\$ 104,384
Total	<u>21,324</u>		<u>\$ 267,824</u>
2. Master Water Meter			
Street Valve (per valve)			
Normal Next Day	56	\$ 154	\$ 8,624
Same Day/After Hours	57	\$ 209	\$ 11,809
Total	113		\$ 20,433
Vault (per vault)			
Normal Next Day	56	\$ 215	\$ 12,040
Same Day/After Hours	57	\$ 298	\$ 16,837
Total	113		\$ 28,877
Total	<u>225</u>		<u>\$ 49,310</u>
3. Environmental Waste Program			
Re-Inspection	40	\$ 116	\$ 4,640
Main Blockage	10	\$ 1,548	\$ 15,480
Total	<u>50</u>		<u>\$ 20,120</u>
4. Billing History Research (per hour)	500	\$ 26	\$ 13,000
5. Diversion Investigation	70	\$ 58	\$ 4,060
 Total Revenue	 <u>22,169</u>		 <u>\$ 354,314</u>

Market Comparison of Utility Service Fees
Cost of Service (Option 4)

	ESTABLISH SERVICE				DISCONNECT / RECONNECT NON-PAY			
	Next Day		Same Day		Next Day		Same Day	
	Fee	Rank (HL)	Fee	Rank (HL)	Fee	Rank (HL)	Fee	Rank (HL)
WATER								
Chandler	\$ 15	3	\$ 27	5	\$ 20	4	\$ 20	5
Gilbert	\$ 15	3	\$ 35	3	\$ 25	3	\$ 25	4
Phoenix	\$ 33	1	\$ 33	4	\$ 33	2	\$ 33	3
Scottsdale	\$ 15	3	\$ 75	1	\$ 25	3	\$ 68	2
Tempe	\$ 15	3	\$ 35	3	\$ 15	5	\$ 15	6
Average	\$ 19	0	\$ 41	0	\$ 24	0	\$ 32	0
Mesa								
FY 2009/2010	\$ 19	2	\$ 64	2	\$ 36	1	\$ 81	1
FY 2008/2009	\$ 20	2	\$ 65	2	\$ 37	1	\$ 82	1
ENERGY								
Electric								
APS	\$ 25	2	\$ 100	1	\$ 25	3	\$ 25	3
SRP	\$ 28	1	\$ 48	3	\$ 65	1	\$ 85	1
Average	\$ 27	0	\$ 74	0	\$ 45	0	\$ 55	0
Mesa								
FY 2009/2010	\$ 19	3	\$ 64	2	\$ 36	2	\$ 81	2
FY 2008/2009	\$ 20	3	\$ 65	2	\$ 37	2	\$ 82	2
Natural Gas								
Southwest Gas	\$ 35	1	\$ 50	2	\$ 35	2	\$ 50	2
Mesa								
FY 2009/2010	\$ 35	1	\$ 80	1	\$ 52	1	\$ 97	1
FY 2008/2009	\$ 38	1	\$ 83	1	\$ 55	1	\$ 100	1
MESA - FY 2009/2010								
Water	Equal to Average		Higher than Average		Higher than Average		Higher than Average	
Electric	Lower than SRP		Higher than SRP		Lower than SRP		Lower than SRP	
Natural Gas	Equal to SWG		Higher than SWG		Higher than SWG		Higher than SWG	

⁽¹⁾ The market survey was conducted in December 2008.

⁽²⁾ Rank is from the highest to lowest sales price (HL). For example, the highest fee is ranked first (e.g., one).