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OFFICE OF THE CITY CLERK

COUNCIL MINUTES

April 1, 2010

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 April 1, 2010 at 7:32 a.m.

COUNCIL PRESENT	COUNCIL ABSENT	OFFICERS PRESENT
Mayor Scott Smith	None	Christopher Brady
Alex Finter		Debbie Spinner
Dina Higgins		Linda Crocker
Kyle Jones		
Dennis Kavanaugh		
Dave Richins		
Scott Somers		

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

1. Review items on the agenda for the April 5, 2010 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflicts of interest declared: None

Items added to the consent agenda: None

Items removed from the consent agenda: None

2. Hear a presentation, discuss and provide direction on budget issues, including, but not limited to:

a. Energy Resources (Gas and Electric)

Energy Resources Department Director Frank McRae introduced Deputy Energy Resources Director Mike Comstock and Capital Improvement Projects Coordinator Harry Jones. Mr. McRae advised that all gas and electric services are funded through rates, fees and charges to customers.

Mr. McRae displayed a PowerPoint presentation **(see Attachment 1)** and advised that the replacement value of the electric system is estimated at $243.3 million.

In response to comments by Mayor Smith, City Manager Christopher Brady noted that the City has had inquiries regarding the possible sale of Mesa's utilities or an exchange of territories.

Mr. McRae outlined the manner in which the electric utility supports the Council's Strategic Initiatives (see pages 2 and 3 of Attachment 1), and he noted that the City obtains 19.1 percent of its electrical energy from renewable sources. He referred to a diagram of a typical electric utility network and a map of Mesa's system and service territory (see pages 3 and 4 of Attachment 1). Mr. McRae advised that Mesa's electric system serves 12,700 residential and 2,500 commercial customers. He outlined the suppliers and contracts which provide the City with electric energy supplies (see page 7 of Attachment 1).

Mr. Comstock continued the presentation by advising that Phase 1 of the 69kV rebuild along University Drive was completed in 2009 and approximately $2 million of bond authorization remains for future construction. He added that 69kV lines transmit electricity from the Rogers Substation to the City's distribution system. He referred to diagrams of the phased approach to the 69kV transmission system rebuild and the Rogers Substation and 69kV transmission loop (see pages 9 and 10 of Attachment 1). He explained that the substations reduce the voltage from 69kV to 4 or 12 kV. Mr. Comstock said that of the fourteen existing substations, four will be converted to 12kV and the remaining ten substations will be de-energized, removed from service and the equipment salvaged and exchanged.

Responding to questions from Mayor Smith, Mr. McRae stated that the system will be converted to 12kV in four years at the end of the Capital Improvement Program. He advised that although some forty-year old meters proved to be very accurate, meters are being converted to digital technology over a period of time.

Mr. McRae reported that staff is seeking Council approval for an Electric Bond authorization in the amount of $15.8 million in the 2010 Election, with the debt service recovered by customer rates, fees and charges. He confirmed that capital improvements and debt service are included in rate projections.

Mayor Smith noted that 4kV is old technology, and he stated that other utilities in the surrounding area utilize 12kV.

Mr. McRae stated that 4kV requires more substations and that 12kV is a modern technology that operates more efficiently.

Mr. Comstock outlined the capital requirements for substations and system controls (see page 14 of Attachment 1), the requirements for distribution circuit conversions (see page 16 of Attachment 1), and the costs for electric distribution (see page 17 of Attachment 1).

Mayor Smith commented that debt comparisons of Valley cities do not consider the fact that Mesa is the only city in the Valley that operates gas and electric utility systems. He noted that Phoenix is in a similar situation in that it is the only city in the Valley that operates a large, international airport. He suggested that the comparison data to be provided to the Council on Monday reflect these differences.

Mr. McRae stated that $21,884,000 has been identified in total four-year capital needs and that that with the remaining bond authorization of $6,040,000, the balance proposed for the bond authorization is $15,844,000.

Mayor Smith stated the opinion that most of the proposed system upgrades are long overdue.

Mr. Brady said that during the City's discussions with other utility companies regarding a possible acquisition, a major concern was the City's lack of capital investment in the system. He added that a consultant hired to assess the value of the utility reached the same conclusion.

Mr. McRae summarized the four-year electric bond authorization proposal (see page 18 of Attachment 1). He said that debt service is accounted for in the financial forecast and that a modest rate increase of 1.7 percent is projected for 2012/13.

Discussion ensued relative to the fact that staff was not requesting Council approval of the proposal today; that the call of a November election would occur sometime in July; and that utility rate increases would be discussed at the Audit and Finance Committee meeting immediately following the Study Session.

Responding to a question from Councilmember Richins regarding the seven substation sites scheduled for closure, Mr. McRae advised that staff was not anticipating any significant environmental issues. He said that Environmental staff would be brought in after the equipment has been removed.

In response to a question from Councilmember Higgins, Mr. McRae advised that several years ago the City removed transformers that had an unacceptable level of polychlorinated biphenyls (PCBs). He noted that the existing transformers are within the legal limits for PCBs or have no PCBs.

Councilmember Richins suggested that any environmental concerns be identified prior to removing the equipment from the substations, and he expressed support for the continued investment in undergrounding the utility lines.

Mr. McRae responded to questions from Vice Mayor Jones by advising that underground vaults in the historic districts are linking existing overhead lines. He said that the plans are to continue to bring overhead lines underground to fully utilize the vaults as funds are available in the Capital Improvement Program.

Councilmember Kavanaugh said he looked forward to discussing the adaptive reuse of the substation sites that could be utilized for redevelopment or transformed to enhance the neighborhood.

Mr. McRae advised that he is working closely with Economic Development regarding the potential for these sites.

Mr. McRae advised that the Gas Utility is a part of the Enterprise Fund and, as is the case for the Electric Utility, the costs for the Gas Utility are funded through customer rates, fees and charges. He displayed a PowerPoint presentation **(see Attachment 2)** and outlined the areas in

which the Gas Utility supports the Council's Strategic Initiatives (see pages 2 and 3 of Attachment 2). He stated that the replacement value of the gas system is estimated $560 million. Mr. McRae referenced a schematic drawing of a natural gas network, a map of the Mesa service area and a map of the Magma certificated service area in Pinal County (see pages 3 and 4 of Attachment 2).

Mr. Comstock said that Mesa serves 52,834 gas customers and operates the 10th largest publicly-owned gas utility in the country. He advised that supplies are acquired from three sources: production, interstate transportation and resource management. Mr. Comstock outlined areas that staff monitors with regard to supply acquisition (see page 7 of Attachment 2). He noted that a 5th gate station would enable expansion of the customer base, and he added that Shell Energy of North America serves as the City's contractor for the scheduling and dispatch of national gas requirements (see page 8 of Attachment 2). Mr. Comstock reported that Mesa has 50,376 residential gas meters, 13,416 of which are in the Magma service area. He added that of a total of 2,458 commercial meters, 55 are in the Magma area. He outlined the meter replacement and management program (see page 11 of Attachment 2).

Mr. McRae continued the presentation by advising that the authorization amount proposed for the 2010 Gas Revenue Bond Election is $48,370,000 and will be recovered through the rates, fees and charges to customers. He stated that $9.6 million in bond authorization is being requested for high pressure gas main projects (see page 13 of Attachment 2).

Responding to a question from Councilmember Higgins, Mr. McRae explained that service areas are designated by the Arizona Corporation Commission and that the high pressure main along Power Road will provide service to areas not served by Southwest Gas and to Mesa customers in the northeastern section of the City.

In response to a question from Councilmember Finter regarding Magma, Mr. Comstock advised that the Council is the governing body with respect to utility rates. He added that the Arizona Corporation Commission does regulate the City's gas utility with respect to safety issues.

Further discussion ensued relative to the fact that when the Magma system was acquired, the City replaced polyvinyl chloride (PVC) pipe that was present in the system; and that steel lines in the intermediate pressure systems are being replaced with polymer pipe to enhance safety and reliability and to extend the life of the system.

Mr. Comstock advised that staff is proposing a bond authorization in the amount of $19.7 million for intermediate pressure replacement projects, $15.9 million of which is targeted for the City of Mesa and $3.8 million for the Magma area.

Mr. Brady advised that gas lines will be replaced in the same areas where water lines are being replaced to minimize the disruption caused by construction projects.

Mr. McRae stated that the majority of growth opportunities are in the Magma service area, which will require new mains and service extensions at an estimated cost of $14.7 million. He said that the costs to extend and provide service will be recovered in five years and capital costs will be financed over 20 years (see page 16 of Attachment 2).

Mr. Comstock advised that staff is proposing a bond authorization in the amount of $4.1 million for meters and system controls, with $3.5 million targeted for meter replacement.

Mr. McRae summarized that the four-year bond authorization proposal totals $48,370,000, and he provided a breakdown of the four-year capital needs (see pages 17 and 18 of Attachment 2).

In response to a question from Councilmember Somers, Mr. Comstock advised that the new meters would be capable of being read remotely in the future, but an additional unit is required to enable that feature.

Mr. Brady said that vendors and technology are being researched .to determine which approach is best for the City.

Deputy City Manager Jack Friedline stated that Mesa is different from other cities in that there may be individual meters at one address for gas, electric and water, all of which are read by the same individual. He said that staff is conducting an analysis to determine the best technology that offers the best return on investment.

Councilmember Finter noted that Magma gas customers pay lower rates than their neighbors who receive service from Southwest Gas. He suggested that establishing rates equal to the rates charged by Southwest Gas would generate a substantial amount of revenue.

Mr. Brady said that staff would review Councilmember Finter's proposal.

Mayor Smith stated the opinion that Councilmember Finter's suggestion for the Magma system to charge rates comparable to those of Southwest Gas would be fair to the citizens of Mesa, and he noted that the Magma area has experienced significant growth.

Mr. McRae explained that the rate difference was based on the fact that there was significant cost differential with regard to providing service. He concluded his remarks by advising that a 2.5 percent increase per year is projected through 2014/15 and a one percent increase in subsequent years. He added that the debt service is included in the financial forecast.

Mayor Smith said that the City's service area is over 100 square miles, and he noted that the capital improvement program amounts are not excessive when the size of the operation is considered. He stated the opinion that the City should not be shortsighted in addressing the needs of these systems. He thanked staff for the presentation.

Mayor Smith announced that the Council would take a short recess at 9:29 a.m. He reconvened the Study Session at 9:41 a.m. with all members present.

b. Transit & Dial-A-Ride

Deputy Transportation Director Mike James advised that he would provide an update on the transit revenues and budget. He displayed a PowerPoint presentation **(see Attachment 3)** and noted that the State budget cuts have significantly impacted the City's transit funds. He provided an overview of the transit funding sources (see page 1 of Attachment 3). Mr. James referred to a chart titled FY10/11 Transit Program (see page 2 of Attachment 3) and noted that there was an omission from the fixed route bus cost estimate, $300,000 for the maintenance of bus stops,

shelters, park and ride lots, etc., which revises the program savings to $440,000 rather than the $740,000 listed on the chart.

Mr. James outlined the revenue impacts (see pages 2 and 3 of Attachment 3) that resulted from the State retroactively sweeping funds from the Local Transportation Assistance Funds (LTAF) I and II in addition to a ten percent revenue shortfall in the City's General Fund. He reported that Light Rail Transit fare revenues exceeded projections, which provided an additional $1.1 million above the budgeted amount to cover the gap in current year funding. Mr. James advised that the target reduction for the next fiscal year is $1.3 million. He clarified that the chart titled "Budget Reduction" (see page 3 of Attachment 3) should reflect program savings of $440,000 rather than $740,000 resulting in a total target reduction of $1,314,000

Mr. James advised that the participating cities and Valley Metro met to develop a plan that addressed the loss of LTAF funding, which resulted in the Regional Public Transit Authority (RPTA) Board allowing cities to recover cost savings from Prop 400 routes (see page 4 of Attachment 3). He explained that savings allowed by RPTA on regionally funded routes can be utilized to preserve local bus routes. Mr. James added that all of the City's proposed service reductions on regionally funded routes would be included in RPTA's public meeting notifications and following the public hearings, the RPTA Board would decide on the service reductions. He reported that service changes would be effective July 26, 2010, and that an additional opportunity for major service adjustments would be available sometime in October. Mr. James noted that the LTAF funding loss has triggered hardship provisions to Title VI requirements regarding impacts on minority populations, which enables the City to make service reductions that would normally not be possible. He referenced the list of service reduction options for fixed route bus service (see pages 5, 6, and 7 of Attachment 3).

In response to a question from Mayor Smith regarding the impact on Light Rail ridership if the LINK provided 30 minute peak service rather than 15 minute service, Mr. James advised that although a ridership count has not been completed, Route 40 operates in the same corridor and has high ridership.

Mr. James said that the LINK along Main Street stops at one mile intervals and the Route 40 bus stops at one quarter mile intervals. He noted that the area served by the Route 40 bus includes a significant amount of senior housing and manufactured home communities.

Discussion ensued relative to the fact that staff would provide the Council with ridership figures and performance criteria developed by RPTA; that eliminating Route 40 and maintaining the LINK would save approximately $1 million per year; that Route 40 provides local bus service and the LINK serves as an extension of Light Rail; that the Council could consider half-mile stops on Route 40 rather than at the quarter mile; and that reducing Route 40 service could increase the demand for Dial-A-Ride service.

Mayor Smith noted that this is a difficult process because the City has worked very hard to improve bus service in the community.

Councilmember Somers stated that the City needs a transit system that moves people from where they live to where they play and work, and he added that the City should continue to work with Arizona State University (ASU) Polytechnic regarding their transit options.

Mayor Smith suggested that as the process moves forward staff should identify points of interest along the bus routes, such as a hospital, a major shopping destination or a specific activity.

Mr. James provided information on Dial-A-Ride service and the options available (see pages 8, 9, 10 and 11 of Attachment 3), and he noted that the Dialysis Voucher Program is completely grant funded.

Further discussion ensued relative to the fact that the cost of the Dialysis Voucher Program per trip is higher than the Coupons for Cabs because the drivers receive additional training relative to the condition of the individuals being transported; that the Coupons for Cabs Program covers only a portion of the cost of a trip; that individuals requesting Dial-A-Ride service are made aware of the lower cost options; and that RPTA has contracted to have in-person ADA (Americans with Disabilities Act) eligibility assessments conducted.

Mr. James advised that staff would continue to refine the various options for Dial-A-Ride.

Additional discussion ensued regarding Dial-A-Ride relative to the fact that regional travel could be an issue; that the average distance for a Mesa resident is five or six miles per ride; that reducing Dial-A-Ride may result in a higher number of 911 calls; that the City of Mesa has elected to partner with Tempe, Scottsdale, Chandler and Gilbert to offer Dial-A-Ride service; that past discussions have considered the possibility of the City offering its own ride service, as is the case with the City of Glendale; and that some insurance companies reimburse a client for cab fares to a medical appointment and that Southwest Ambulance may wish to expand into that type of market.

Mr. James advised that another option that may become available from Valley Metro is a plan wherein the City could provide service in any area and could impose its own restrictions.

Mayor Smith expressed his appreciation to staff for seeking to find the best solution. He added that the goal is to minimize the inefficiencies in providing services. Mayor Smith said that in the future citizens may have to adjust their habits in order to avail themselves of services.

Mr. Brady said that staff will present the options to the Council at a future meeting and all of the options will be presented to the Region for consideration.

Assistant to the City Manager Scott Butler came forward and stated that when the Legislature swept the LTAF funds, the effect was immediate and staff was unable to make adjustments for the current year. He explained that the Region requested that each City provide a menu of possible cuts for the regional public process, after which the Council will receive input from the public process with which to address the issues and make the necessary changes. He advised that the LTAF funding cut is permanent and there will be no future LTAF funding for transit, which had comprised 25 percent of the City's transit budget.

In response to a question from Vice Mayor Jones, Mr. Butler confirmed that the City's list of possible transit cuts will be forwarded to the Region for the public process, after which the Council will consider the options available at a future meeting.

Mayor Smith thanked staff for the presentation.

3. Hear a presentation, discuss and provide direction on the Series 2010 Bond Sales.

City Manager Christopher Brady advised that that the proposed Bond sale is for existing Bond authorization previously approved by the voters and is comprised of the Capital Improvement Program projects which were presented to the Council in February.

Deputy City Manager Bryan Raines stated that the proposal is for the sale of Utility Systems Revenue Bonds, General Obligation Bonds, and Highway Project Advancement Notes. He explained that the $25 million in Highway Project Advancement Notes (HPANs) would be utilized to acquire land and to develop the initial design for State Route 802, which will be repaid by the Arizona Department of Transportation and Proposition 400 funds.

Mr. Raines stated that Capital Improvement Program Administrator Anthony Araza, Larry Given of Peacock, Hislop, Staley & Given, Inc., the City's financial advisor, and Scott Ruby and Sarah Smith of Gust Rosenfeld, the City's bond counsel, were present to answer any questions.

At the request of Mr. Brady, Mr. Raines outlined the dollar amounts proposed for each category of bond sales **(see Attachment 4)**.

Mayor Smith clarified that recent presentations to the Council regarding Water and Wastewater bonds are proposals for future projects and are unrelated to the Bond sale presently being discussed, which were previously approved by the voters.

Discussion ensued relative to the fact that the costs for projects are less than anticipated and the costs of borrowing are less; that the City was able to utilize the Build America Bonds, which saved the City approximately $12 million; and that the projects will be presented to the Council for approval.

Mr. Brady said that a discussion regarding the tax rate, assessed valuation and future debt is scheduled for Monday's Study Session.

In response to a question from Mayor Smith, Mr. Given advised that a small portion of the authorization is from 1987 for storm drains and the remainder is from 2006.

Mr. Raines said that the City has partnered with the Maricopa County Flood Control District to leverage the 1987 authorization dollars over time.

City Engineer Beth Huning explained that since 1987, development has been required to retain water on site for smaller projects and that the larger drainage projects that were formerly handled on a local level shifted to become regional projects.

Councilmember Finter noted that the Council has approved 33 of the 168 projects listed in the proposal. He said that he would oppose bond debt from 23 years ago that negatively impacts the General Fund in the amount of approximately $275,000 per year. He added that he still has questions regarding the G.O. bond debt.

Mayor Smith asked Councilmember Finter to clarify his position regarding bond debt.

Councilmember Finter noted that the General Fund budget currently has $28 million in bond debt service payments, and he is philosophically opposed to increasing the amount of bond debt paid out of the General Fund.

Mayor Smith asked if Councilmember Finter was opposed to issuing any pre-2008 G.O. bond authorization or did he wish to issue that authorization with a secondary property tax.

Councilmember Finter suggested that the Council consider utilizing contingency funds or have staff develop a funding source other than the General Fund or a secondary property tax.

Mr. Brady noted that the City made a commitment to the County to participate in these projects. He said that the City could issue the bond and pay for the projects over time, or the City could pay $5 million in cash, or identify another source for payment, such as a secondary property tax or utilize storm water revenue to address the debt.

Ms. Huning confirmed that the City has entered into Intergovernmental Agreements to complete these projects.

Mayor Smith said that the City has three options: 1) pay for the debt service out of the General Fund, 2) pay cash for the projects, or 3) attach a secondary property tax to the bond sale.

Councilmember Richins commented that regardless of the manner of payment, the Mesa taxpayer is paying for the cost of the project. He stated the opinion that paying for bond debt out of sales tax revenues was not an appropriate model, and he expressed support for levying a secondary property tax to pay for the debt. Councilmember Richins added that flood control projects benefit Mesa's properties, and therefore a secondary property tax was an appropriate revenue source for the costs.

Mr. Brady advised that options would be presented to the Council at Monday's Study Session.

Councilmember Finter suggested that a "shelf life" be attached to bond authorizations so that this type of situation can be avoided in the future.

Vice Mayor Jones noted that regardless of the date of the bond authorization, projects exist that should be completed. He noted that historically the City of Mesa has less bond debt per capita than other cities, and he suggested that this information be available at Monday's Study Session.

Mayor Smith said that each City has to do what is right for their situation, and a comparison with other cities does not indicate that one city is better than another. He explained that there are legal limits to the amount of debt that can be incurred, and he requested that staff provide the Council with that information. He added that although these are difficult economic times, the City must continue to invest in and maintain the infrastructure.

Councilmember Somers expressed support for issuing the bonds and noted that the bonds were an investment in the City's future.

Further discussion ensued relative to the fact that the City maintains a fund balance of between eight and ten percent in order to support a good debt rating and to provide funds in the event of an immediate need for cash; that without a fund balance, the City would be operating on a month-to-month basis; and that a fund balance indicates to the market that the City is able to pay for its debt.

Budget Director Chuck Odom advised that the year-end balance of the Enterprise Fund is expected to be between $35 and $42 million, which falls within the target of eight to ten percent.

Responding to a question from Mayor Smith regarding the fund balance, Mr. Given stated that there is currently no requirement for the City to maintain reserve funds for debt service provided that the City maintains a certain debt service coverage ratio. He explained that the bond rating agencies suggest that the City have a reserve fund of approximately ten percent of operating expenses, which would enable the City to address an emergency situation.

Additional discussion ensued relative to the fact that the City incurs different types of risks when paying cash or incurring debt; that the fund balance could be adjusted for a one-time expense; that a recurring expense to the fund balance over time could result in the City being vulnerable to an emergency situation; that the fund balance was established over a period of many years; and that rates charged by the City are adjusted in order to maintain the eight to ten percent fund balance.

Mayor Smith requested that the Bond Sale continue to be listed as an item on Monday's agenda and that following the discussion on Monday, the Council make a decision regarding the sale. He thanked staff for the presentation.

4. Acknowledge receipt of minutes of various boards and committees.

Councilmember Higgins noted that the Council addressed fees and charges prior to receiving the minutes of the Parks and Recreation Board meeting that addressed this issue. She requested that in the future the Council receive the relevant minutes before considering an issue.

Mr. Brady pointed out that the Parks and Recreation Board minutes also addressed the issue of parks and dogs, which will be presented to an upcoming meeting of the Community and Neighborhood Services Committee.

a. Parks and Recreation Board meeting held January 13, 2010
b. Public Safety Committee meeting held March 18, 2010

It was moved by Councilmember Somers, seconded by Councilmember Kavanaugh, that receipt of the above-referenced minutes be acknowledged.

Carried unanimously.

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

Councilmember Richins: Mesa Grande Ruins Open House

Councilmember Somers:	Pancake Breakfast at Station #205 Spoke to the East Mesa Rotary Club 25th Anniversary of the Mountain Vista Community
Councilmember Higgins:	Walk for Water Safety sponsored by the Fire Department
Mayor Smith:	Kick-Off of the First Tee Program at Longbow Golf Course

6. Scheduling of meetings and general information.

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

Monday, April 5, 2010, 10:00 a.m. – East Valley Men's Shelter Groundbreaking

Monday, April 5, 2010, TBA – Study Session

Monday, April 5, 2010, 5:45 p.m. – Regular Council Meeting

7. Items from citizens present.

Nate Caine addressed the Council and asked if only electric customers paid for the electric bonds and if only gas customers pay for the gas bonds.

Mayor Smith confirmed that electric customers pay for the electric bonds and gas customers pay for the gas bonds.

Mr. Caine asked to be advised of the amount of money that is transferred from the Enterprise Fund to the General Fund, and he suggested that the money be retained in the Enterprise Fund to pay bond debt. He also suggested that gas meter replacements be advanced in order to generate additional revenue.

8. Adjournment.

Without objection, the Study Session adjourned at 10:54 a.m.

_____
SCOTT SMITH, MAYOR

ATTEST:

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LINDA CROCKER, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the action minutes of the Study Session of the City Council of Mesa, Arizona, held on the 1st day of April 2010. I further certify that the meeting was duly called and held and that a quorum was present.

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LINDA CROCKER, CITY CLERK

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Attachments: 4