



COUNCIL MINUTES

April 5, 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 5, 2010 at 4:18 p.m.

COUNCIL PRESENT

Mayor Scott Smith
Alex Finter
Dina Higgins
Kyle Jones
Dennis Kavanaugh
Dave Richins
Scott Somers

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Linda Crocker

(Councilmember Richins arrived at the meeting at 4:24 p.m.)

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 declared: None

Items added to the consent agenda: None

Items removed from the consent agenda: 5.1a

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

a. Budget Overview

City Manager Christopher Brady displayed a PowerPoint presentation (**See Attachment 1**) and provided a brief analysis of the City of Mesa's FY 2009/10 Final Budget, which totals \$1.137 billion. He explained that the budget is comprised of funding from a variety of sources including, but not limited to, the Utilities/Enterprise Fund, General Governmental Operations and Maintenance, and Transportation Restricted Funds. (See Page 2 of Attachment 1)

Mr. Brady referred to a diagram of the General Governmental Operations and Maintenance FY 2009/10 Final Budget (totaling \$318.4 million) and reviewed the various revenues that the City receives to support the General Fund. (See Page 3 of Attachment 1) He noted that Public Safety (Police and Fire) represents a significant portion of the City's expenditures in the General Fund, followed by Parks, Library, Arts and Culture and the remaining departments.

Mr. Brady briefly highlighted a chart comparing General Fund Revenue between FY 2008/09 and FY 2009/10, which excludes grants and the sale of City property. (See Page 4 of Attachment 1)

Mr. Brady also displayed a document entitled "FY 09/10 vs. FY 10/11 General Fund Revenue Comparison" (See Page 5 of Attachment 1), and outlined anticipated revenue shortfalls. He stated that with regard to the \$14.2 million shortfall in Urban Revenue Sharing, because the State holds on to the sales tax dollars it collects for two years before they are distributed to cities and towns, the significant decline in sales tax revenues from two years ago would only now be reflected in the FY 2010/11 budget.

Mr. Brady further reported that for FY 2010/11, staff anticipates a \$19.5 million decrease in General Fund revenues. He said, however, that the shortfall is expected to grow due to the City's share of Local Transportation Assistance Fund I (LTAF) monies being diverted into the State's General Fund.

Mr. Brady, in addition, noted that the City of Mesa is collecting approximately the same amount of sales tax today that it received five years ago. He also remarked that the City's current General Fund resources are similar to those of five years ago, despite the fact that Mesa's corporate limits have increased by 10 to 15 square miles and the population has grown by more than 70,000 residents during that period of time.

Mr. Brady displayed graphs depicting FY 2005/06 through FY 2009/10 budgets as it relates to General Fund allocations for Public Safety in comparison to other City departments. (See Pages 7, 8 and 9 of Attachment 1)

Mr. Brady also remarked that with previous and ongoing budget reductions, it has become more difficult for staff to provide "core service" programs throughout the organization. He stated that when staff makes their budget presentations to the Council, they will focus on efforts to maintain those programs. Mr. Brady noted, however, that in order to achieve that goal, it will be necessary to eliminate other programs and implement Full Time Employee (FTE) reductions. He added that management also intends to review personnel costs, compensation, and employee health care benefits.

Mayor Smith commented that City management and staff are still in the budget review process and said that although certain proposals outlined by Mr. Brady are "possibilities" and in some cases "probabilities," the Council will make the final decisions based on their policies and priorities.

b. Solid Waste

Solid Waste Management Department Director Willie Black introduced Operations Research Analyst Ray Froehlich, who was prepared to respond to any questions the Council may have.

Mr. Black displayed a PowerPoint presentation (**See Attachment 2**) and reported that the Solid Waste Department's FY 2010/11 RC budget totals \$22,182,880, which represents a \$2.3 million reduction of the Department's \$24,491,692 baseline budget. He explained that the reductions occurred due to the elimination of the following items: 4 vacant positions (\$221,619); overtime (\$110,833); equipment usage (\$600,000); landfill fees/Arizona Department of Environmental Quality (ADEQ) fees (\$1,219,260); and bins/boxes/containers (\$157,100).

Councilmember Somers noted that the budget reductions appear to be in response to customers generating less trash and therefore a declining need for its collection.

Mr. Black confirmed Councilmember Somers' statement and explained that on a monthly basis, staff monitors those declines and schedules the collection routes accordingly. He assured the Council that no service changes have been implemented.

Mr. Black offered a brief statistical analysis of the Solid Waste Program budget for FY 2009/10 as compared to FY 2010/11. (See Page 3 of Attachment 2) He noted that the decrease in revenue for FY 2010/11 is due to a decline in roll-off collection and a reduction in recycling revenues.

In response to a series of questions from Councilmember Richins, Budget Director Chuck Odom clarified that the costs associated with Solid Waste employees are captured within the budget of that Enterprise Fund. He added that the only expenses the City continues to pay for retirees, when applicable, are health insurance benefits.

Mr. Black further reported that staff has worked hard to maintain operational costs and stated that no rate increase is recommended for FY 2010/11. He noted that in FY 2011/12 through FY 2013/14, staff has projected 1.4% rate increases.

Discussion ensued relative to the fact that 78% of Mesa's solid waste, 100% of its green waste and 51% of its recyclables go to the Salt River Landfill; that Mesa's current contract with the Salt River Indian Community expires in 2015; that 17% of Mesa's solid waste goes to two Waste Management Transfer Stations; that the City has contract options with Waste Management that expire in 2013; that 5% of the City's solid waste goes to Republic Waste Services, which includes the Apache Junction Landfill and Mesa Transfer Station; that the City's contract options with that entity expire in 2013; and that the remaining 49% of Mesa's recyclables go to Hudson Baylor, with whom the City's contract options expire in 2012.

City Manager Christopher Brady commented that although the landfill/disposal contracts have worked well for the City, from a solid waste perspective, the above-listed contract expiration dates are "very short term." He stated that depending upon the type of contract that the City considers, it often takes an extended period of time before it can be implemented. Mr. Brady added that it is an industry standard that municipalities consider landfill/disposal contracts that extend 10 to 15 years or more and recommended that the Council consider such an option.

In response to a question from Vice Mayor Jones, Mr. Black clarified that the City was currently exercising its contract extension options, but reiterated that such options would expire soon.

Councilmember Richins inquired if staff anticipated increases in disposal costs as part of future contract negotiations. He suggested that if that were the case, staff's recommendation for no

rate increase in FY 2010/11 and 1.4% rate increases through FY 2013/14 might not be the most prudent approach for the City to take.

Mr. Brady responded that once staff concludes their negotiations with the vendors, they would assess what impact such negotiations might have on the rate forecasts presented today.

Mr. Black advised that Mesa is one of the largest landfill/disposal customers in the East Valley and said that the vendors welcome the City's business.

Mr. Black continued with his presentation and highlighted a series of proposed landfill/disposal options. (See Page 7 of Attachment 2)

Further discussion ensued relative to the possibility of Mesa utilizing some of its Pinal County property for a landfill; the fact that such an option would not be viable for an estimated seven to ten years; and that Waste Management's Butterfield Landfill has a 50 year landfill capacity and Republic Services' landfill has more than 300 years of capacity.

Councilmember Finter noted that the Solid Waste Program's reserve fund balance is 17.7% for FY 2009/10 and 27.7% for FY 2010/11 and inquired how those amounts impact the City's goal of maintaining a reserve fund balance between 8% and 10% in the General Fund.

Mr. Brady responded that on occasion, it might be necessary for the Solid Waste Department to purchase, for example, a substantial amount of equipment that would result in a significant decrease to its reserve fund. He stated that staff attempts to schedule those purchases and offset the costs in order to maintain the 8% to 10% range for all of the Enterprise Funds, without any one of those entities having to incur large fluctuations in rates over time.

Additional discussion ensued relative to a benchmarking process for residential trash and recycle collection using a cost model developed by the City of Phoenix.

Mayor Smith thanked staff for the presentation.

3. Hear a presentation, discuss and provide direction on payment of debt service, capital improvement program bonds and estimated secondary property tax rates for FY 10/11.

Deputy City Manager Bryan Raines and Budget Director Chuck Odom addressed the Council relative to this agenda item.

Mr. Raines displayed a PowerPoint presentation (**See Attachment 3**) and reported that the current outstanding principal for the City's three major bond types include the following: General Obligation (G.O.) Bonds - \$270,020,000; Utility Systems Revenue Bonds - \$820,663,000; and Street & Highway User Revenue (HURF) Bonds - \$140,265,000. He explained that this year, staff proposes to sell an additional \$30.9 million in G.O. Bonds and \$550.4 million in Utility Systems Revenue Bonds. Mr. Raines added that the City has not sold any HURF bonds for several years and does not anticipate doing so in the future.

Mr. Raines reviewed a series of graphs illustrating the debt service costs of the three bond types out into the future. (See Pages 3, 4 and 5 of Attachment 3) He stated that with regard to the G.O. Bonds, in FY 2017/18 there is "a known spike" in the planned bond debt retirement and

said that after significant discussions with the City's financial advisor, staff determined that it would be appropriate for the City to refinance the bond debt at that time.

In response to a question from Councilmember Richins, Larry Givens, representing Wedbush Morgan Securities, Inc., the City's financial advisor, assured the Council that the City has never experienced any difficulty in refinancing its bonds or restructuring its debt and said he would not anticipate any problems in the future. He also remarked that during FY 2017/18, there would be a six-month period of time in which to plan and execute the refinancing as a tax-exempt debt.

Responding to a question from Mayor Smith, Assistant to the City Manager Scott Butler stated that it was his understanding that the State Legislature discussed the issue of "sweeping" the cities and towns' shared HURF revenues, but ultimately did not do so.

Mr. Raines continued with his presentation and reviewed the G.O. Bond Sale Series 2010. (See Page 6 of Attachment 3) He reported that the G.O. Bonds authorized in 2008 total \$25.8 million (\$17.9 million – Public Safety; \$7.9 million – Streets) and the G.O. Bonds authorized prior to 2008 total \$5 million for Neighborhood & Street Flood Control. He said that the debt service after the Series 2010 Sale, assuming a 5% interest rate, would total \$30.9 million.

Mr. Brady advised that one of the options that staff is presenting today for Council consideration is that the \$5 million in G.O. Bonds for Neighborhood & Street Flood Control (i.e., Stormwater bonds) be repaid by using secondary property taxes. (Item 5h on the April 5, 2010 Regular Council agenda.)

In response to a question from Councilmember Richins, Mr. Raines clarified that the Total G.O. Bond Debt Service after the Series 2010 Sale does not include the balance of the 2008 authorization (\$101.6 million), which is anticipated to be sold in 2011, 2012 and 2013.

Responding to a question from Councilmember Kavanaugh, Mr. Raines explained that the graph depicted on Page 7 of Attachment 3 illustrates a combination of the current tax supported G.O. Bond debt that was sold last year and will be sold this year, as well as General Fund supported G.O. bond debt.

Mr. Raines further reviewed a document titled "2008 Election G.O. Bond Project Savings," which identified a net savings of \$28 million in Street projects and \$3.8 million in Public Safety projects. (See Page 8 of Attachment 3)

In response to a question from Mayor Smith, Mr. Brady clarified that the above-referenced document did not include a line item under "Streets" to begin the design/concept plan for Southern Avenue, the costs of which the Council previously committed City funding. He also stated that for scheduling purposes, staff is assuming that the project savings, as highlighted above, would be spent via a bond sale, but further out into the future.

Councilmember Finter acknowledged the complexity of municipal financing, but inquired if the City did not go into further debt, whether it could continue to assess the secondary property tax to Mesa taxpayers as if the City had sold the G.O. Bonds and apply the assessment to old G.O. Bond debt in order to free up monies in the General Fund to provide vital City services.

Mr. Brady responded that staff's proposal, which Mr. Raines will outline shortly, is to reduce the average homeowner's secondary property tax bill from what it was last year, continue to fund the fire stations that have been added into the bond program, and provide the Council options relative to the repayment of \$5 million in G.O. bond debt for Neighborhood & Street Flood Control (Storm water bonds).

Mr. Raines continued with the presentation and displayed a document titled "Status of G.O. Bond Sales from 2008 Election" (See Page 9 of Attachment 3). He advised that the 2008 Bond Election had two questions, Public Safety (\$58.3 million) and Streets (\$110.9 million), and noted that it has now been expanded to a five-year program as a result of the G.O. bond project savings.

Discussion ensued relative to the fact that in 2010, the City intends to sell \$30 million in G. O. Bonds, which is \$30 million less than what staff anticipated selling as recently as last year; and that this has occurred due to savings the City realized in project costs, such as the construction of fire stations and the completion of street projects.

Councilmember Richins commended staff for their expertise in financial management, which has saved the City millions of dollars.

Mr. Raines continued his presentation and provided an overview of the process by which the current (\$0.2977) and estimated (\$0.3034) secondary property tax rate in Mesa is calculated (See Pages 12 and 14 of Attachment 3); and reviewed various repayment options with regard to the \$5 million in G.O. Bond debt for Neighborhood & Street Flood Control. (See Page 13 of Attachment 3) He explained that if the \$5 million in bond debt was repaid using secondary property taxes, the current rate would adjust slightly to \$0.3034. Mr. Raines noted, however, that due to the reduction in the secondary assessed value of property, Mesa taxpayers would realize an approximate 12% decrease (or an average savings of \$7.60) in their FY 2010/11 secondary property tax assessments as compared to FY 2009/10.

Councilmember Richins inquired what the net effect would be on the General Fund if the City continued to assess the current FY 2009/10 secondary property tax rate and did not decrease it. He stated that perhaps the additional assessment could be applied toward further bond debt, thereby freeing up monies in the General Fund.

Mr. Brady advised that staff would research Councilmember Richins' scenario and bring back information in that regard.

Mr. Odom responded that the City currently supports an estimated \$48 million of debt out of the General Fund.

Councilmember Richins commented that it was appropriate for secondary property taxes to be used to pay debt for the construction of streets and flood control projects that benefit the entire community. He also expressed support for the City keeping the secondary property tax rate flat as opposed to lowering it.

Mr. Raines briefly reviewed Mesa's local property tax rates as compared to those of other Valley communities (See Page 15 of Attachment 3) and highlighted the Series 2010 Sale Schedule. (See Page 17 of Attachment 3)

Mr. Brady stated that at a future Study Session, staff would seek further input and direction from the Council regarding the repayment of the \$5 million in G.O. Bonds for Neighborhood & Street Flood Control.

Mayor Smith thanked staff for the presentation.

4. Appointments to boards and committees.

Mayor Smith recommended the following appointments to boards and committees:

MUSEUM & CULTURAL ADVISORY BOARD

Pamela Williams – Term Expires June 30, 2012

PLANNING & ZONING BOARD

Brad Arnett – Term Expires June 30, 2011

It was moved by Vice Mayor Jones, seconded by Councilmember Higgins, that the Council concur with the Mayor's recommendation and the appointments be confirmed.

Carried unanimously.

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

There were no reports on meetings and/or conferences attended.

6. Scheduling of meetings and general information.

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

April 8, 2010, 7:30 a.m. – Study Session

7. Adjournment.

Without objection, the Study Session adjourned at 5:40 p.m.

SCOTT SMITH, 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 5th day of April 2010. 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 – 3)