



## 2005 CITIZEN BOND COMMITTEE

The 2005 Citizen Bond Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on August 17, 2005 at 6:00 p.m.

### COMMITTEE PRESENT

Eric Jackson, Chairman  
Craig Ahlstrom  
Beth Coons  
Michele Fiore  
Linda Flick  
Pat Gilbert  
Robert Hisserich  
Greg Holtz  
LaShawn Jenkins  
Albert McHenry  
Judy O'Neill  
Scott Rhodes  
Bob Saemisch  
Deanna Villanueva-Saucedo

### COMMITTEE ABSENT

None

### COUNCIL PRESENT

None

### STAFF PRESENT

Anthony Araza  
Eric Norenberg  
Bryan Raines

### OTHERS PRESENT

Larry Given

Chairman Jackson excused Committeemembers Flick, Holtz, Rhodes and Saemisch from the beginning of the meeting. Committeemember Flick arrived at 6:05 p.m., and Committeemembers Holtz, Rhodes and Saemisch arrived at 6:10 p.m.

### 1. Approval of minutes of previous meeting.

It was moved by Committeemember Gilbert, seconded by Committeemember Fiore, that the minutes of the August 10, 2005 Citizen Bond Committee meeting be approved.

The motion was carried unanimously by those present.

### 2. Hear and discuss a presentation on debt financing and bonding.

Financial Services Manager Bryan Raines displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office), and he advised that the presentation is available on the Bond Committee's page of the City's website. He introduced Larry Given, a principal with Peacock, Hislop, Staley & Given, Inc., the firm that handles the City's bonds.

Mr. Raines outlined the reasons that cities utilize bonds, the history of Mesa's bond elections, and projects addressed by previous bond questions. He stated that the process includes City staff, the Council, and citizens, and he noted that the work of the Bond Committee is a very important part of the process.

Mr. Raines advised that street projects are not being considered at this time because the City has remaining bond authorization for streets. He explained that a bond election requests citizens to authorize bond financing at a future date, and he noted that the City could utilize that authorization all at once or over a period of years.

Mr. Given stated that operating cost is an important aspect of bond authorization considered by the City Council. He noted that a project might not go forward if the operating costs of the facility are not in the budget.

Mr. Raines said that as a part of the budget process, the Council determines whether the City can afford to operate a specific project or facility. He noted that the construction of a new library commits the City to long-term staffing and maintenance expense. Mr. Raines advised that libraries for which the City presently has bond authorization have not been constructed because of the lack of operating funds. He noted that examples of required bond projects include utility line replacements, treatment plant expansion, and the replacement of old fire trucks. Mr. Raines advised that \$113 million in bonds, sold in June at 4.1 percent, included \$11.7 million in General Obligation (G.O.) Bonds, \$11.2 in Highway/Street Bonds, and \$91 million in Utility Bonds.

Mr. Raines stated that fire trucks and helicopters are the only capital equipment purchases that the City finances through bonds. He reported that fire trucks cost in the range of \$500,000 to \$800,000, and that the price of a helicopter is more than \$1,000,000.00. Mr. Raines explained that the City of Mesa repays General Obligation bonds from sales tax and utility revenues while other Valley communities utilize property tax revenues to repay bonds. He noted that the City's legal debt limit is regulated by State law as a percentage of the secondary assessed valuation of homes and businesses in the City of Mesa, which was \$2.6 billion last year.

Mr. Given advised that a 6 percent bonding limitation exists for general municipal purposes, which includes fire stations, police stations, and administrative buildings. He added that a 20 percent limitation addresses storm sewers, parks, and recreational facilities. Mr. Given noted that the City has a greater unused bond capacity in the 20 percent category.

Mr. Raines noted that the City of Mesa has a lower percentage of G.O. Bond debt in comparison to many Valley communities.

In response to a question from Committeemember Saemisch, Mr. Given advised that the City does not utilize the 20 percent bond category for utilities because the City Council made a political decision more than ten years ago that bonding for utilities should be repaid directly out of utility revenues.

Responding to a question from Committeemember Hisserich, Mr. Raines confirmed that the City's bonding limitation increases as the assessed valuation increases.

Chairman Jackson commented that the City's ability to bond is limited by the amount of debt service and the City's ability to repay the bonds.

Mr. Given stated that Mesa's 20 percent bond category is comparatively low because other cities utilize G.O. Bonds for utility projects.

Mr. Raines advised that Standard & Poor's and Moody's Investors Service perform a rating of the City's bonds prior to marketing the bonds. He referred to the page titled "Bond Ratings Classifications for Moody's Investor Service and Standard and Poor's" (see Attachment 1) that indicates the range of ratings. He noted that the City's ratings are comparable to other Valley cities.

Mr. Given stated that each agency approaches the rating process differently, and he explained that these firms provide a filter for investors by comparing Mesa to other cities across the country.

Discussion ensued relative to the fact that summaries of rating reports are available for review; that the City's G.O. Bond ratio may be understated because utility bonds are not included; that a comparison of ratios is difficult because of different financing methods, such as the non-profit corporation subordinate lien revenue bond financing method utilized by Phoenix; and that the rating companies evaluate the ability of each City to repay the bonds;

Mr. Given advised that costs for repayment of Utility and G.O. Bonds and annual operating expenses impact the utility rate increases.

In response to a question from Vice Chairman Villanuevo-Saucedo, Mr. Given stated that the City of Mesa has a lower bond rating because the City does not have the same steady stream of property tax revenue as other Valley cities.

Mr. Raines advised that the City of Mesa has been on Moody's "negative watch list" for a number of years.

Further discussion ensued relative to the fact the City is able to maintain a triple A bond rating in the market by purchasing an insurance policy that covers the repayment obligation of the debt service; that the bond insurance costs more for cities with a lower rating; that the City is currently paying approximately 25 basis points for insurance; that a higher rating with a lower interest rate opens the market to an increased number of potential bidders; and that implementing a property tax would not immediately improve the City's rating as the rating companies would review the City's management of the additional revenue.

Mr. Raines stated that projects financed by G.O. Bonds, such as wastewater treatment plants and the natural gas and electrical distribution systems, are also repaid by utility revenues. He noted that Mesa's rating for Utility Bonds is similar to that of the Town of Gilbert, but lower than other cities in the Valley.

Mr. Given added that the City's Utility Bond rating is very respectable on a national comparison basis.

Mr. Raines advised that Highway User Revenue (HURF) Bonds are used to finance freeway and street construction, street widening and related improvements, which are repaid by funds received from the State of Arizona.

Mr. Given explained that HURF funds are primarily generated by gas tax revenues, which the State collects and then allocates a percentage to the cities, towns and counties. He noted that in the recent years the State made small changes in the formula and the State retains a greater amount in order to address their budget needs, which reduces the funds available for allocation. Mr. Given added that the allocation became a political issue, and that local governments find it necessary to lobby the legislature in order to maintain the funding levels, which also impact the bond rating. He noted that the State utilizes HURF dollars to fund the Department of Public Safety prior to any fund allocation to the cities, towns and counties.

Additional discussion ensued relative to the fact that the varying amounts of HURF funding allocations poses budgeting problems for the City; that the City of Mesa did not utilize HURF bonds until 1997 while other cities have been using this bonding source for twenty years; that the lower bond rating results from the City's decision to establish the potential bonding level at 1-1/2 times coverage although the City maintains the level at two times coverage; that a portion of HURF revenues are utilized on a cash basis for other highway-related projects; that copies of the HURF official statement will be provided to the Committee in order to explain the State's allocation formula; that the City of Mesa ranks in the middle of comparable cities for debt per capita; that "Debt Valley" resulted from the City structuring debt in anticipation of higher interest rates that did not occur; that "Debt Valley" coincided with the downturn in the local economy; that the City's sales tax revenue per capita dropped approximately 20 percent in recent years because of the retail competition from Gilbert and Chandler; and that the City's debt returns to the level of prior years at a time of decreased revenues.

Mr. Raines stated that the City of Mesa has grown to almost 500,000 people, and he noted that the City continues to finance bond debt and current operations with revenues that are impacted by weather and economic conditions.

Mr. Given advised that the City's successful conservation efforts negatively impacted utility revenues. He added that development impact fee revenue has decreased because fewer homes are being constructed each year.

Mr. Raines said that the City saved approximately \$15 million in the past few years by refinancing debt. He referred to handouts provided to the Committee, and he noted that the first outlines the bond ratings classifications (see Attachment 1) and the second lists the City's combined debt service through the year 2029 (see Attachment 2). Mr. Raines stated that staff conducts annual reviews of the City's bond status, and that they forecast that approximately \$100 million in bonds will be issued annually in the future.

In response to a question from Committeemember O'Neill, Mr. Given advised that the data being presented to the Committee is intended to serve as background information.

Mr. Raines explained that the Mesa Arts Center (MAC) was the major capital project addressed by Quality of Life funding, and he noted that the MAC is the largest non-bonded project constructed in the State of Arizona.

Responding to a question from Vice Chairman Villanuevo-Saucedo, Mr. Given advised that solid waste vehicles have a three-year life span and are financed utilizing short-term, lease-purchase agreements.

Mr. Raines noted that a fire truck financed by a twenty-year bond would have an advanced payoff that reflects the life of the asset.

In response to a question from Committeemember Flick, Mr. Raines advised that staff prepares a seven to nine year revenue forecast, which is extended twenty years into the future in order to address build out.

Capital Project Program Administrator Anthony Araza advised that his recent presentation to the Financing the Future Committee included a ten-year projection of utility projects, and that the projection was extended to 2025. He explained that the utility projects in the Master Plan that will be addressed by the Bond Committee reflect the City's existing needs although the projects may not be financially feasible at this time. Mr. Araza noted that in addition to infrastructure for new development, the anticipated increase in the number of infill projects would place stress on the City's aging infrastructure.

Mr. Given explained that the Bond Committee would address projects that are required in the next three to four years.

Mr. Raines noted that three years ago, a new fire station in west Mesa was not a consideration. He explained that new development, infill projects and an increased call volume created a need for a new fire station in the western section of Mesa.

Responding to questions from Committeemember Rhodes regarding the legal use of Utility Bond proceeds, Mr. Given advised that the funds could be utilized to purchase existing utility assets if the bond question to the voters is worded properly. He also advised that the funds could be utilized to construct or purchase assets outside the Mesa City limits.

Mr. Given confirmed that no provision exists in the State Statutes that allows bond proceeds to be utilized for operational expenses.

Mr. Given responded to a question from Committeemember Holtz regarding the City of Phoenix by advising that Phoenix pledges excise taxes to non-profit corporations in order to finance long-term bond projects. He noted that this process enables Phoenix to issue bonds without voter approval.

Mr. Raines stated that the City of Mesa prefers to present all bond proposals to the voters.

### 3. Scheduling of meetings and general information.

Special Assistant to the City Manager Eric Norenberg advised that a schedule of Optional Tours (see Attachment 3) was provided to each Committeemember. He suggested that Committeemembers contact him to make arrangements for tours of City facilities.

Mr. Norenberg noted that tonight's PowerPoint presentation is also available on the Bond Committee's page of the City's website ([www.CityofMesa.org](http://www.CityofMesa.org)).

### 4. Items from citizens present.

There were no items from citizens present.

5. Adjournment.

Without objection, the 2005 Citizen Bond Committee meeting adjourned at 7:30 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the meeting of the 2005 Citizen Bond Committee of the City of Mesa, Arizona, held on the 17<sup>th</sup> day of August 2005. I further certify that the meeting was duly called and held and that a quorum was present.

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BARBARA JONES, CITY CLERK

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Attachments (3)