

# COUNCIL MINUTES

November 17, 2005

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 November 17, 2005 at 7:30 a.m.

## COUNCIL PRESENT

Mayor Keno Hawker  
Rex Griswold  
Kyle Jones  
Janie Thom  
Claudia Walters  
Mike Whalen

## COUNCIL ABSENT

Tom Rawles

## OFFICERS PRESENT

Mike Hutchinson  
Debbie Spinner  
Barbara Jones

Mayor Hawker excused Councilmember Rawles from the entire meeting and Councilmember Jones from the beginning of the meeting. Councilmember Jones arrived at 7:36 a.m.

### 1. Review items on the agenda for the November 21, 2005 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: 4e (Hawker)

Items added to the consent agenda: None

Items removed from the consent agenda: 6d; 7b, c and d

Items removed from the agenda: 10f

### 2. Discuss and consider the proposed Pinal County Water Farm Land Release Program.

City Manager Mike Hutchinson stated that the Pinal County water farm, purchased by the City in the mid 1980's, is a valuable asset, and he recommended that disposition of this asset be approached in a thoughtful manner. Mr. Hutchinson expressed the opinion that selling the entire property would not be a solution to the City's current financial problems, and he introduced Williams Gateway Regional Economic Activity Area Project Manager Wayne Balmer, who was present to provide information on various alternatives available to the Council.

Mr. Balmer advised that the City's water farm property is valued at approximately ten times the original purchase price. He stated that the City does not need the water from the property due to the availability of improved, cost effective methods of acquiring water from other sources. Mr. Balmer reported that the City received numerous inquiries regarding the property as a result of

the Financing the Future Committee's recommendation. He added that the Council Report outlines a proposal to release the property over a period of time, and that the sale proceeds are limited to paying bond debt and investing in capital projects such as fire stations and parks. Mr. Balmer advised that proper implementation of the proposal would require two or three additional staff members.

In response to a question from Mayor Hawker regarding the relationship of the City's water farms to the future development of the State Trust Land, Mr. Balmer advised that the Morrison Institute is preparing a report on the Superstition Vistas area that includes the subject of water rights. He noted that the area, which has never been farmed, is not part of the Salt River Project and has very few wells. Mr. Balmer stated that the method of acquiring water for that property is being investigated. He recalled that the City's original plan when the Pinal County property was purchased was that the City of Tucson's Central Arizona Project (CAP) water would be treated in Mesa and then Mesa would pump water from the Pinal County property into the canal to provide Tucson with their share, but the plan was not implemented. Mr. Balmer advised that the current Federal standards require treatment of the water from the Pinal County property in order to reduce arsenic levels prior to being pumped into the CAP canal. He added that the CAP Board has never agreed to this conveyance of water, and he noted that the current cost to pump the water would be significantly higher than the original estimate.

Mr. Balmer advised that extending City utility services to future development east of Meridian Road would require the City to reconsider the existing water portfolio, which is currently based on a population of 650,000 at build out. He stated that providing City water east of Meridian Road could increase the population served to almost 950,000. Mr. Balmer added that staff proposes that the City retain ownership of the largest area contiguous to the CAP canal, which could accommodate future well fields.

Mr. Hutchinson noted that staff is proposing to retain some of the property due to the fact that the value would increase over time.

Mayor Hawker stated the opinion that the Council should study the issue further prior to providing direction to staff. He noted that some of the property along the railroad tracks could complement future operations at Williams Gateway. Mayor Hawker added that he could support selling a portion of the property to eliminate the debt on the property.

Councilmember Thom concurred with the comments of Mayor Hawker, and she also stated her opposition to hiring additional staff.

Mr. Hutchinson explained that staff is proposing a conservative, long-term approach to the disposition of the property. He advised that these types of real estate transactions are very complex and require a great amount of expertise and specialized knowledge.

Mayor Hawker expressed support for the Financing the Future Committee's recommendation to form a study group. He noted that the staff's proposal is geared toward a 20-year program to liquidate the land, and he suggested that the issue be studied to ensure that the best interests of the City are addressed.

Vice Mayor Walters stated that she supported selling a portion of the property to pay off the City's bonded indebtedness, and she suggested that retaining consultants might be a more effective alternative to hiring permanent staff.

Discussion ensued relative to the fact that the issue should be carefully studied; that contracting for personnel is preferable to hiring permanent staff; that the City might benefit by having a Pinal County resident participate in the study group; that the future freeway corridor could increase the value of the property; that the benefits to the citizens of Mesa should be optimized; and that the proposed study group should include the Municipal Development Committee with additional members based on staff and Council recommendations.

Vice Mayor Walters cautioned that property values could decrease as well as increase. She suggested that future sale proceeds be placed in some type of trust fund, and that the interest be utilized to address capital projects.

Mr. Hutchinson recommended that the City “build a body of knowledge” within the organization in order to provide continuity. He explained that individuals within the organization could be moved into new positions in order to broaden their knowledge and expertise.

Councilmember Whalen suggested that a Director, supported by contract personnel, be appointed to handle the water farm property. He noted that the City continues to lose a great amount of institutional knowledge as employees leave or retire. He reported that the State of Arizona recently utilized a Request for Proposals (RFP) to select a master developer, and he suggested that the City could also consider that alternative in the future.

Mr. Balmer thanked the Council for their suggestions. He advised that staff was considering contracting with realtors experienced in the Pinal County area in order to identify the valuable parcels.

Mayor Hawker requested that staff provide the Council with additional information as soon as possible. He thanked Mr. Balmer for the presentation.

### 3. Update on secondary property tax issues.

Financial Services Manager Bryan Raines stated that the Council packet includes information regarding an estimated secondary property tax rate based on restructuring the City’s current General Obligation bond debt. He noted that this information is provided in response to a question from Mayor Hawker regarding the amount of a secondary property tax required to restructure and level out the current existing debt. He advised that the secondary tax rate is estimated at 89 cents in 2007/08, 99 cents in 2017/18 and 63 cents in 2024/25.

Mayor Hawker noted that information on the existing debt structure is not included in the packet, and he asked if the secondary tax estimates fit within the parameters of the amounts eligible for restructuring.

Budget Director Jamie Warner stated that staff consulted with the City’s financial advisors regarding the amounts eligible for restructuring, and he reported that the City would not incur additional expense by restructuring the debt. He added the overall savings could be approximately \$200,000.

Mayor Hawker advised that the Council acknowledges the importance of obtaining a stable source of revenue for the City. He stated that the recent Chamber of Commerce survey indicated that voters are likely to approve a sales tax, and that a property tax would not be approved. Mayor Hawker also advised that the survey results suggested that placing a primary property tax and sales tax on the same ballot could negatively impact approval of the sales tax.

In response to a question from Mayor Hawker, Mr. Warner advised that a secondary property tax could be levied in the amount needed in that fiscal year to pay the debt, and that there is no limit similar to the primary property tax limit of two percent of revenue growth.

Mr. Raines advised that the highest estimated rate of 99 cents occurs in 2017/18 because some bonds cannot be restructured. He noted that a property tax rate could be established to pay off the General Obligation (G.O.) bond debt without restructuring the debt, but the amount would vary from year to year.

Responding to questions from Mayor Hawker, Mr. Warner noted that the difference between a primary tax and a secondary tax on a \$250,000 home depends on the limitations of the assessed valuation. He noted that the complicated formula was reviewed during a previous Study Session, and he said that the difference between the primary and secondary rates is reflected by the market valuation of the property. He also noted that the timing of the County Assessor's reappraisal cycle influences the valuation.

Vice Mayor Walters stated that the public is more familiar with the secondary tax concept because it is the same concept utilized for school bonds.

Mr. Raines pointed out that the Council could levy a secondary tax for an amount less than the amount required to cover the debt, but he noted that the secondary tax levy could not exceed the amount required to cover the debt.

Discussion ensued regarding the possible assessment of a secondary property tax and the impact of a secondary property tax on the City's long-term financial stability.

In response to a question from Councilmember Whalen, Mr. Raines explained that G.O. bond indebtedness is utilized for police facilities, fire stations, park facilities (including land acquisition), storm drains, and libraries.

Mayor Hawker suggested selling a portion of the Pinal County water farm in order to provide the City with some immediate cash and then levy a secondary tax until the City reaches a sustainable level. He requested that staff prepare a model in order to determine the feasibility of the scenario.

Mr. Warner said he would prepare a model, but he noted that the scenario might be prohibitive because the City may be required to sell a significant amount of land in order to reach a sustainable level.

Vice Mayor Walters noted that the City's financial problems are so serious that the Council has no choice regarding the secondary property tax for future bonds, but she explained that her opposition to levying the secondary tax for prior bonds was an issue of personal integrity.

Responding to a question from Councilmember Jones, Mr. Warner advised that the City's outstanding bond principal amounts through 2028 include \$550 million in utility system revenue bonds, \$202 in G.O. bonds, and \$120 in Highway User Revenue bonds for a total of \$872 million.

Councilmember Griswold noted that utility revenues pay for Utility bonds, and that G.O. bonds have no revenue source.

City Attorney Debbie Spinner stated that the Council presently has the authority to levy a secondary property tax on outstanding bonds. She added that the City could prepare educational material for future bonds stating that the bonds would be paid for with a secondary property tax, but the language could not be included on the ballot.

Mr. Hutchinson advised that the City's bond counsel could review the issue.

Vice Mayor Walters stated that in the past the language was included in the ballot arguments, which indicated that although a secondary property tax could be the revenue source for G.O. bonds, the City has never utilized this revenue source in the past.

Mayor Hawker thanked staff for the information.

#### 4. Discuss Taxpayer Bill of Rights (TABOR).

Mayor Hawker advised that the State of Colorado has implemented a Taxpayer Bill of Rights (TABOR), which restricts a government's level of expenditures to population growth and inflation rates. He said that excess revenues would be placed in reserve funds, and when the reserve funds reach a certain level, refunds are issued to the citizens. He noted that although the Financing the Future Committee rejected this approach, he would like the Council to consider implementing the concept.

Councilmember Griswold noted that the State of Colorado experienced success in some areas of the program and failure in others. He stated the opinion that a cap on expenditures is desirable, and he expressed support for the concept.

Vice Mayor Walters stated the opinion that the Consumer Price Index (CPI) does not relate to municipal governments because municipalities purchase a large quantity of items such as fuel, asphalt, and concrete. She also noted that changes in population do not account for changes in demographics, such as an aging population.

Councilmember Thom advised that the State of Arizona presently provides for expenditure limitations, which impacts school districts and municipal governments. She stated that cities could exempt themselves from the limitations with voter approval. Councilmember Thom expressed the opinion that spending limitation initiatives are a reflection of the public's perception regarding excess government expenditures. She stated that she embraces the concept of spending limitations, and she expressed the opinion that the Council should continue to study the issue.

Councilmember Jones indicated support for the concept, but he expressed concern regarding a formula that does not address aging infrastructure and changing demographics.

Vice Mayor Walters expressed the opinion that a sunset provision should be included so that future Councils are not bound by the decision of the current Council. She stated that determining a base year would be a difficult task. Vice Mayor Walters added that the concept encourages bonding of projects rather than paying cash.

In response to comments by Councilmember Thom, Mr. Warner advised that although a few Arizona cities still operate under the State limitation, the vast majority have implemented either Home Rule or a base adjustment.

Councilmember Jones stated that he could support a formula that reflected a price index related to municipalities rather than one based on the CPI.

Discussion ensued relative to the fact that Home Rule legislation was enacted in Arizona in order to address citizen concerns regarding spending; that determining the base and the index would pose the greatest difficulty; that the election results will impact the base and indicate the type of City and quality of life desired by the residents; that the impact of a possible future disaster should be considered; and that the Council will continue to discuss this issue.

Mayor Hawker advised that he would prepare additional information for consideration by the Council at a future Study Session.

5. Discuss, consider and provide direction on recommended budget reductions.

Mr. Hutchinson referred to revised spreadsheets and a summary page titled "Forecast Results" (copies are available for review in the City Clerk's Office) that were provided to the Council.

Mr. Warner outlined the alternatives listed on the page titled "Forecast Results," and he noted that a Police Department pay range adjustment and a 2-1/2 percent Cost of Living Adjustment (COLA) was factored into the totals for a 2006/07 budget. He advised that he would calculate the alternative discussed by the Council under agenda item 3, which includes a secondary property tax on future G.O. debt and selling a portion of the Pinal County water farm property. Mr. Warner explained that the spreadsheets list proposed budget cuts in a priority order, and he added that the "red" indicates that a cut would be made under the listed alternative, and that "green" indicates a cut that would not have to be made under a specific alternative. He noted that some items are listed for budget cuts in phases; i.e., item 48 would cut the Crime Free Program by two-thirds and item 103 is the other third of the reduction. Mr. Warner said that the budget figures require additional refinement.

In response to a question from Mayor Hawker, Mr. Warner advised that certain areas of the Mesa Arts Center are included in the list, but that Council discussion could address additional cuts to the Arts Center or other areas of City departments and divisions. He also noted that if a branch library that receives Quality of Life funds is closed, those funds could be assigned to the Main Library, which would reduce the amount of General Fund dollars required to support that facility.

Responding to a question from Vice Mayor Walters, Mr. Warner advised that no fuel cost adjustments were included in these figures because State-shared revenues could offset increased fuel costs.

Vice Mayor Walters expressed concern that cutting specialty police units will increase the number of calls for service.

Mr. Raines advised that the outlined budget cuts are for the 2006/07 budget year, and that the list is a starting point for Council discussion and consideration.

Mr. Hutchinson advised that a few days ago the September sales tax report showed a 14.8 percent increase in revenue. He added that on the same day he was notified that effective July 1<sup>st</sup> the City's contribution to the Public Safety Retirement System would increase.

Councilmember Thom indicated support for a suggestion made by Councilmember Whalen at the Council Retreat that the City should contract with a private sector consultant to review the City's practices and management structure. She also expressed concern that the Building Safety permitting area hired 22 people at a time when building permit applications were down 49 percent.

Mr. Hutchinson suggested that the Building Safety Division make a presentation at an upcoming Study Session to provide an opportunity for Councilmember Thom to pose questions.

In response to a comment by Councilmember Thom that Mesa Police officers told her their paycheck deductions would be higher due to an increased contribution to the Public Safety Retirement System, Mr. Raines explained that the Public Safety employee retirement contribution is a fixed amount. He advised that the entire burden of the increased contribution is borne by the City of Mesa as the employer.

Responding to a question from Councilmember Griswold, Mr. Warner stated that the Federal arsenic remediation expense is factored into the Capital Improvement Project budget.

Additional discussion ensued relative to the fact that other cities and agencies are recruiting Mesa public safety employees; and that the City has incurred substantial costs to train officers.

Mr. Raines acknowledged the extraordinary efforts of Mr. Warner and Assistant Budget Director Chuck Odom in preparing the budget alternatives. He noted that the Budget area recently experienced a staff reduction, and that they produced a budget in a few weeks that in the past required almost six months to prepare.

Further discussion ensued relative to the fact that a review of the organization by a professional consultant would lend more credibility to Council decisions; that the selected consultant should be knowledgeable regarding the types of businesses in which the City participates; that staff should consider the timelines required for issues related to future elections; and that efforts are being expended to keep employees informed regarding the City's financial situation.

In response to a comment by Councilmember Thom, Mayor Hawker stated that he did not recall that Councilmember Rawles attributed the City's financial problems to the Light Rail Transit project, and he suggested that Councilmember Thom discuss the issue with Councilmember Rawles upon his return.

Councilmember Thom requested information regarding the City's cost to acquire land for the Light Rail Transit system and the City's expenses for the terminal facility and the line. She also requested cost information relative to the City's participation in the Interlibrary Loan Program.

Councilmember Griswold stated that discussion of the Light Rail Transit is a mute point because Mesa is contractually committed to participate in the project, and that no cost savings would be realized by withdrawing from the project. He advised that a recent book titled, "The Price of Government," rates the best values in local governments (the least expensive city per capita) as Las Vegas, followed by Arlington, Texas and then Mesa, Arizona. Councilmember Griswold noted that bonds which address the East Mesa growth will come due at the same time that aging infrastructure will need to be replaced in West Mesa.

Mr. Raines advised that bond debt is not the only factor contributing to the City's financial situation, and that increased construction costs, health insurance costs and retirement contributions add to the problem.

Vice Mayor Walters noted that the City must cut the budget by \$37.7 million a year, every year, and that operating costs for Light Rail are estimated at \$1 million a year. She explained that the Arts Center did not contribute to the City's financial problems because the citizens voted for the tax to pay for the Arts Center. Vice Mayor Walters added that if the citizens did not vote to approve the project, the Arts Center would not exist and the money would not exist. She stated that the Quality of Life funds are not the problem; the problem is with the General Fund. Vice Mayor Walters added that the cost to live in Mesa has increased substantially, and she expressed concern that this could cause problems for businesses that are attempting to attract entry-level employees.

Mayor Hawker thanked staff for the presentation.

6. Discuss, consider and provide direction on the Financing the Future Committee's recommendation regarding an enhanced audit function.

This agenda item was continued until the November 21<sup>st</sup> Study Session.

7. Appointments to boards and committees.

Mayor Hawker recommended the following appointments to Boards and Committees:

HISTORIC PRESERVATION COMMITTEE

Nathan Ricks                      Expiration of Term: June 30, 2007

It was moved by Vice Mayor Walters, seconded by Councilmember Whalen, that the Council concur with the Mayor's recommendation and the appointment be confirmed.

Upon tabulation of votes, it showed:

AYES –            Griswold-Hawker-Jones-Thom-Walters-Whalen  
NAYS –            None  
ABSENT –        Rawles

Mayor Hawker declared the motion carried unanimously by those present.

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

Vice Mayor Walters:	Mayor's Breakfast in conjunction with the United Way Westwood Amphitheater Dedication
Councilmember Whalen:	Joint Mesa/Tempe Council Meeting
Councilmember Thom:	Southwest Ambulance Facility Groundbreaking Ceremony at Williams Gateway Airport
Councilmember Griswold:	Falcon Field Alliance Meeting Chamber of Commerce Board Retreat Crime Free Seminar Red Mountain Homeowners' Association Meeting

9. Scheduling of meetings and general information.

City Manager Mike Hutchinson stated that the meeting schedule is as follows:

Monday, November 21, 2005, TBA – Study Session

Monday, November 21, 2005, 5:45 p.m. – Regular Council Meeting

Thursday, December 1, 2005, 7:30 a.m. – Study Session

Monday, December 5, 2005, TBA – Study Session

Monday, December 5, 2005, 5:45 p.m. – Regular Council Meeting

Thursday, December 8, 2005, 7:30 a.m. – Study Session - Cancelled

Thursday, December 15, 2005, 7:30 a.m. – Study Session

Monday, December 19, 2005, TBA – Study Session

Monday, December 19, 2005, 5:45 p.m. – Regular Council Meeting

10. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

11. Items from citizens present.

There were no items from citizens present.

12. Adjournment.

Without objection, the Study Session adjourned at 9:58 a.m.

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KENO HAWKER, MAYOR

ATTEST:

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BARBARA JONES, 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 17th day of November 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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