



OFFICE OF CITY CLERK

## COUNCIL MINUTES

December 20, 2007

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 December 20, 2007 at 7:31 a.m.

### COUNCIL PRESENT

Mayor Keno Hawker  
Kyle Jones  
Tom Rawles  
Scott Somers  
Darrell Truitt  
Claudia Walters  
Mike Whalen

### COUNCIL ABSENT

None

### OFFICERS PRESENT

Christopher Brady  
Debbie Spinner  
Linda Crocker

Mayor Hawker excused Councilmember Rawles from the remainder of the meeting at 9:02 a.m.

1. Hear a presentation, discuss and provide direction on an annual renewal for Mesa's Transaction Privilege (Sales) Tax License as recommended by the Audit and Finance Committee.

Financial Services Operations Director Jenny Sheppard advised that staff is recommending that the Transaction Privilege Tax (TPT) license application fee be reduced from \$50 to \$20 and that an annual fee of \$15 be adopted. Ms. Sheppard displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office) to provide an overview of the department's goals and the current status of TPT audits and collections. She reported that in FY 2006/2007, staff identified 4,000 delinquent taxpayers, licensed 1,800 businesses that were previously operating without a license, and identified 500 existing businesses that had changed addresses or ownership without notifying the City.

In response to questions from Mayor Hawker, Ms. Sheppard stated that approximately 4,000 of the City's 25,000 licensed businesses are delinquent for an undetermined amount of money. She noted that licensed businesses are required to file reports even if no taxes are due.

Tax and Audit Collections Administrator Roger Okin advised that the filing requirements are as follows: at least \$50,000 of annual taxable income requires a monthly report; \$5,000 of annual taxable income requires a quarterly report; and any amount below \$5,000 requires an annual report. He advised that audit assessments in FY 2006/2007 totaled \$4.4 million and that the department presently has an outstanding accounts receivable balance of \$2.3 million.

Ms. Sheppard stated that a renewable TPT license would promote accountability for payment of taxes, provide a level playing field for all businesses, eliminate situations where a new owner utilizes a previous owner's license, and reduce the amount of staff time spent on businesses

that may no longer be in operation. She noted that the City of Mesa is the only Valley municipality that does not have an annual fee.

Responding to a question from Councilmember Rawles, Ms. Sheppard stated that the penalty for failing to file a report or pay an annual fee would be \$50. She added that the department presently does not have sufficient staff to contact and identify all businesses that fail to file reports or are operating without a license.

Mr. Okin advised that businesses found to be operating without a license are penalized a percentage of the tax due.

Assistant City Attorney Jack Shafer stated that under the Model Cities Tax Code, which was adopted by the City of Mesa, the owner of a business operating without a TPT license could be charged with a Class 1 misdemeanor, which could result in a fine of up to \$2,500 and up to six months in jail.

Ms. Sheppard said that staff attempts to assist businesses to comply with the licensing requirements rather than citing them for non-compliance.

Mr. Okin advised that a business that has collected taxes without filing a return is subject to a ten percent late payment fee, plus five percent per month of the tax due up to three months and interest charges on these amounts.

Discussion ensued relative to the fact that the proposed fees are substantially lower than the fees charged by other communities; that the City should establish fees that are adequate to address future needs so that an increase is not required every year; that the State of Arizona does not have an annual renewal fee; and that the State has staff to enforce the regulations.

Ms. Sheppard stated that the department has an unfunded budget adjustment request to purchase the hardware and software that would enable the implementation of on-line reporting and renewal activities.

Mayor Hawker expressed concern that businesses would be charged a fee in order to collect revenue for the City.

Further discussion ensued relative to the fact that the budget adjustment request is for \$270,000 over a three-year period for the system upgrade and continued maintenance; that an annual fee would enable staff to maintain current records of existing businesses; and that the City charges annual fees for other services in order to maintain current records.

It was moved by Councilmember Whalen, seconded by Vice Mayor Walters, that staff be directed to reduce the Transaction Privilege Tax license fee from \$50 to \$20 and to implement an annual renewal fee of \$15.

In response to concerns expressed by Councilmember Jones that this proposal indicates a negative fiscal impact of \$82,500 on the budget, City Manager Christopher Brady explained that additional revenues generated in subsequent years by the annual renewal fee would enable improved enforcement of the licensing requirement. He noted that the Chamber of Commerce and reputable business entities are in support because the proposal "levels the playing field." He added that the on-line system would facilitate improved customer service to the business community.

Responding to comments by Councilmember Somers, Mr. Okin advised that the availability of improved data on existing businesses would enable staff to devote time to identifying businesses that are failing to comply with the regulations and to focus on the collection of sales tax revenues. He added that collection efforts of delinquent taxes are often hindered by an inability to identify the owner of a business.

Councilmember Somers expressed concern that the City of Mesa, which funds operations through sales tax revenues, is failing to capture millions of dollars in taxes. He added that both the proposed and the current fees charged to businesses are less than the fees charged by other Valley communities. He suggested that the initial application fee remain at \$50 in addition to implementing an annual renewal fee.

Councilmember Rawles said that the City has been charging an application fee of \$50 to cover administrative costs of approximately \$18.72. He stated the opinion that the proposal would not improve the City's access to current information because the same businesses would fail to apply for a license and fail to report sales tax collections.

Additional discussion ensued relative to the fact that the increased fees could fund additional positions to collect revenues; and that the Council would be provided with information on the staffing levels of other cities.

Vice Mayor Walters expressed support for the proposed fees. She noted that the Chamber of Commerce also favored the establishment of a business license, but the Audit and Finance Committee chose not to move forward on that recommendation.

Councilmember Whalen said that every city in the Valley has different fees. He noted that the City of Phoenix charges a 4.5 percent telecommunications tax while the City of Mesa charges only 1.5 percent. He said that every city in the Valley is raising fees, and he added that all of those cities have a primary property tax.

Further discussion ensued relative to the fact that a new business would pay both the application fee and the annual fee for a total of \$35 in the first year; that charging an application fee and an annual fee is consistent with the practice of other Valley cities; that \$18.72 represents the amount of direct costs and does not include overhead; and that the \$15 fee is an annual fee and not a renewal fee.

Councilmember Whalen withdrew his motion with the concurrence of the seconder.

It was moved by Councilmember Whalen, seconded by Vice Mayor Walters, that staff be directed to reduce the initial Transaction Privilege Tax license fee from \$50 to \$35 and to implement an annual fee of \$15 for each subsequent year.

Councilmember Rawles stated the opinion that the fees being charged are in excess of cost recovery.

Vice Mayor Walters suggested that staff provide additional information regarding the indirect costs that are applicable to this process.

Councilmember Somers noted that although sales tax is the "lifeblood" of the City of Mesa's operations, Mesa is charging a lower fee than the amount charged by other Valley cities. He

said that the higher fee could fund additional personnel for improved enforcement of the TPT regulations.

In response to a suggestion from Vice Mayor Walters, Councilmember Whalen withdrew the motion and Vice Mayor Walters withdrew the second.

Additional discussion ensued relative to the fact that an annual fee would enable the City to obtain current information on businesses; and that staff is directed to provide additional information on indirect costs.

Responding to a question from Councilmember Whalen, Mr. Okin advised that before the inception of the Model Cities Tax Code in 1987, several cities in the Valley had certain exemptions that remain in place today. He stated that the differences in the codes of Valley cities are decreasing.

Mayor Hawker thanked staff for the presentation.

2. Hear a presentation and discuss the financial forecast.

Budget Director Chuck Odom displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office) that addresses the City's medium and long-range forecasts. He reported that although the economy continues to grow, sales tax revenues are decreasing. Mr. Odom advised that the forecast addresses the General Fund and the Enterprise Fund, which are the areas where decisions can be made regarding expenditures. He said that the FY 2008/09 forecast model reflects the current level of staffing, utility rate adjustments of three percent (except for the Electric Utility, which will be reviewed on January 24, 2008), and a 10.6 percent annual increase in medical benefit costs. Mr. Odom noted that housing program subsidies are being discontinued due to the closing of the Escobedo facility. He reported that the General Fund balance goal of ten percent is not sustainable after FY 2009/10 unless adjustments are made to revenues or expenditures.

Discussion ensued relative to the fact that in the past few years, the General Fund balance has ranged from a low of six percent to a high of fourteen percent; and that the fund balance affects the City's bond rating.

Mr. Odom advised that the General Fund sales tax revenues are expected to be lower than the adopted budget by approximately \$4.6 million in FY 2007/08 and by \$8.2 million in FY 2008/09.

Mr. Brady noted that the City of Mesa is different from other cities in that a significant portion of the City's sales tax revenue is utilized to pay for debt service.

Mr. Odom noted that downward trends are projected for State-shared revenues.

Government Relations Director Scott Butler reported that the Legislature is discussing the possibility of lowering the percentage of State-shared revenues from 15 percent to 14.8 percent, and he added that the reduced percentage would be based on a smaller amount of revenue.

Mr. Odom advised that other negative impacts on the General Fund forecast include significant increases in retirement contributions for police (35 percent) and fire (29 percent), which would cost the City a total of \$4.3 million annually. He added that higher than expected inflation levels could also negatively affect the projection.

Further discussion ensued relative to the fact that the increased retirement contribution rates for police and fire are determined by the Public Safety Personnel Retirement System (PSPRS) Board; that the contributions are fully funded by the City; and that civilian employees and the City share equally in the contributions to the Arizona State Retirement System.

Mr. Odom reported that positive impacts on the General Fund forecast include a reduction in the civilian retirement contribution rate by 1.6 percent; reductions in personal services due to an increasing number of retirements and lower salaried replacements; higher Pinal County land sales than previously scheduled; and improvements to the Employee Benefit Trust Fund balance.

Mr. Odom said that most economists believe that the current conditions reflect a two-year cyclical event. He advised that the recommendation for the General Fund is a \$12.5 million reduction of ongoing expenses in FY 2008/09 in order to maintain the General Fund balance at ten percent through FY 2010/11. Mr. Odom added that if the current conditions are not cyclical or continue to erode, staff would present additional recommendations to the Council.

Mr. Odom advised that the proposal to address the \$12.5 million reduction to the General Fund includes evaluating all vacant positions before initiating recruitment, reviewing all capital expenditures, and instructing all non-enterprise/non-restricted departments to develop a reduction plan. He noted that other areas being reviewed for possible adjustments are fees and charges, program offerings, utility transfer targets, personal services, and construction activity. Mr. Odom reviewed the major forecast assumptions. He noted that the forecast indicates a negative impact to contingency reserves in the period of FY 2010/11 through FY 2016/17.

Mr. Raines added that the General Fund forecast does not include any additional funds for new or expanded operations and maintenance activities.

Mr. Odom said that the Home Rule Election in March of 2008 and the proposed bond package for the November 2008 Election are important issues. He noted that the Bond Election does not affect the budget because the secondary property tax should provide the offset that makes the issue neutral. Mr. Odom said that other important areas affecting the budget include the fact that utility rate adjustments continue to lag behind inflation rates. He also noted that although "baby boomers" account for 33 percent of the national labor force, approximately 50 percent of the City's employees are of the "baby boomer" generation or older, which indicates a higher than normal retirement rate in the next few years.

In response to a comment from Mayor Hawker, Mr. Brady advised that staff met with the Council and Mayoral candidates yesterday and offered to provide information and budget training.

Vice Mayor Walters suggested that future comparisons of the average homeowner costs for Valley cities also include the average business owner costs. She noted that businesses in cities with a primary and/or secondary property tax share in the costs, while the burden in Mesa is placed on the homeowner.

Additional discussion ensued relative to the fact that the \$328.1 million in the General Fund represents the discretionary funds; that the remaining funds in the budget are restricted and that staff and the Council are unable to reallocate these funds; and that approximately 70 percent of the General Fund is directed to Public Safety.

Mayor Hawker noted that the Council could consider across-the-board budget reductions or consider the reductions by prioritizing City services.

Mr. Odom advised that staff is in the process of reviewing the budget prioritization developed by the Council in FY 2006/07, after which a recommendation for budget adjustments would be prepared for Council consideration.

Mr. Brady confirmed that staff is attempting to identify services that may not be necessary rather than implementing reductions that could diminish the effectiveness of critical departments. He noted that eliminating a department such as Neighborhood Services would have an impact on Public Safety, and he expressed the opinion that Quality of Life services are very important for the community.

Further discussion ensued regarding the fact noted that although the City relies on sales tax revenues, staffing in that area is inadequate to enforce the regulations; and that revenues from Pinal County land sales are directed to debt service or long-term capital needs rather than ongoing operations.

Mayor Hawker thanked staff for their efforts to create the financial models that enable the Council to discuss budget alternatives and identify the implications of various decisions on the budget forecast.

Vice Mayor Walters credited Mayor Hawker for his leadership in the development of the financial modeling system. She noted that financial modeling has enabled the City to save millions of dollars in health care costs.

Mayor Hawker thanked staff for the presentation.

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

Mayor Hawker: Light Rail Transit meeting.  
MAG Building Lease Working Group meeting.

Councilmember Jones: Bomberos event at Lowell Elementary School to donate bicycles.

4. Scheduling of meetings and general information.

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

Thursday, January 3, 2008, 7:30 a.m. – Study Session

Monday, January 7, 2008, TBA – Study Session

Monday, January 7, 2008, 5:45 p.m. – Regular Council meeting

5. Items from citizens present.

There were no items from citizens present.

6. Adjournment.

Without objection, the Study Session adjourned at 9:23 a.m.

\_\_\_\_\_  
KENO HAWKER, 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 20<sup>th</sup> day of December 2007. I further certify that the meeting was duly called and held and that a quorum was present.

\_\_\_\_\_  
LINDA CROCKER, CITY CLERK

baa