



COUNCIL MINUTES

December 5, 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 December 5, 2005 at 4:41 p.m.

COUNCIL PRESENT

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

COUNCIL ABSENT

None

OFFICERS PRESENT

Mike Hutchinson
Debbie Spinner

Mayor Hawker excused Councilmembers Jones and Thom from the beginning of the meeting. Councilmember Thom arrived at 4:43 p.m. and Councilmember Jones at 4:44 p.m.

1. Review items on the agenda for the December 5, 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: 4g and h (Hawker); 5b (Hawker and Rawles)

Items added to the consent agenda: None

Items deleted from the consent agenda: None

2. Discuss, consider and provide direction regarding proposed tax changes, budget and election scenarios.

City Manager Mike Hutchinson stated that Financial Services Manager Bryan Raines and Budget Director Jamie Warner are present to provide additional information requested by the Council.

Mr. Raines referred to the document distributed to the Councilmembers titled "Optional Funding Scenario" that also included a spreadsheet and a chart (a copy is available for review in the City Clerk's Office). He advised that two scenarios contained in this analysis include maintaining the

sales proceeds from the Pinal County land in a separate account (item 2) and an estimate of the amount of revenue required in order to retire existing General Obligation (GO) bond debt (item 2b). Mr. Raines said that approximately 60 to 70 percent of the Pinal County land would have to be sold to address the existing GO bond debt.

In response to a question from Mayor Hawker, Mr. Raines explained that the separate account would be maintained in order to track the amount of interest earned and allocation of the proceeds, such as payment of the original debt and an annual payment of the current GO bond debt. He noted that this account would have fewer allocations than the Quality of Life Program.

Mr. Warner advised that staff factored in estimated costs such as brokerage fees, staff time, and interest income.

Responding to a question from Vice Mayor Walters, Mr. Hutchinson stated that he would like to invite the Municipal Development Corporation to meet with the Council next Monday at a Study Session to discuss the Pinal County property.

City Attorney Debbie Spinner noted that the Municipal Development Corporation owns the Pinal County property, and she explained that ownership of the property transfers to the City of Mesa when the debt is paid.

Mr. Warner reviewed the spreadsheet information, and he stated that the forecast is based on a proposed sales tax rate of 1.80 percent. He noted that the items in red in the top left area reflect "general governmental" expenses, which account for 30 cents of the 55-cent tax increase. Mr. Warner explained that the remaining 25 cents is allocated for the Transportation Master Plan and is not included in this forecast. He added that the cumulative total of the sales tax is an estimated \$771 million, and that listed below the sales tax line is the forecasted estimate of the Pinal County water farm sales and the balance that would be available for the General Fund. Mr. Warner noted that the "debt service payment" line is a critical area for the Council review. He noted that the figures are based on the assumption that all new debt authorized by the voters beginning in 2006 would be paid utilizing a secondary tax, and the spreadsheet reflects only existing debt and debt that has been authorized, but not yet sold. Mr. Warner noted that the spike in debt service, which occurs in the year 2017/18, is the result of debt that cannot be refinanced, and that a large amount of the debt could be addressed by utilizing sale proceeds from the Pinal County water farm. He added that as the ending fund balances improve, the City's dependence on Enterprise Fund transfers to the General Fund could be reduced starting in approximately 2018/19 because the secondary property tax would pay for future debt and the increased sales tax revenues designated for "general governmental." Mr. Warner noted that the projection places the City in a position to meet the goal of maintaining a ten percent General Fund Reserve.

In response to a question from Vice Mayor Walters, Mr. Warner confirmed that the projections address the costs to maintain current service levels, in addition to new operation and maintenance (O&M) costs for Capital Improvement Projects (CIP) and the costs for elections and census activities.

Vice Mayor Walters noted that the Council reduced City services in each of the past three years, and she stated that this projection does not allocate funds to restore any of the services.

Mr. Warner advised that this forecast does not include future increased health care costs, but the retirement system costs have been factored into the projection. He noted that the past assumption that future health care costs would increase by nine percent per year is probably low and that recent indications are that the costs may increase at a rate of twelve percent per year.

Mr. Raines reported that the City is reaching the State limitation of six percent of General Obligation bonds, which would affect street bonds.

Discussion ensued relative to the fact that the legislature has discussed changing street bonds to six percent; and that Parks and Recreation and Storm Sewer programs fall under the twenty percent GO category.

Councilmember Jones stated that the recommendations of the Financing the Future Committee indicated that in order to maintain the type of lifestyle enjoyed by the citizens of Mesa, the City's base line should be raised. He expressed concern that the 1.8 percent sales tax would be insufficient to solve the City's financial problems, particularly in view of the impact of continuing increases in health care costs.

In response to a question from Councilmember Rawles, Mr. Warner advised that General Obligation bonds would be issued for streets to offset the proposed sales tax revenue reduction from 31 cents to 25 cents.

Mr. Raines confirmed that bonds would be issued to provide the local matching dollars required in order to obtain Proposition 400 funds. He noted that staff is continuing to address the issue of the existing six percent debt limitation.

Councilmember Rawles noted that previous budget cuts in facilities maintenance and capital improvements are now funded in the amount of \$11 million in the first year. He added that in 2018/19, transfers from the Enterprise Fund to the General Fund continue at a reduced level.

In response to a comment from Councilmember Jones, Mr. Warner advised that staff is planning to issue bonds to replace aging infrastructure.

Capital Improvement Administrator Anthony Araza advised that the Citizen Bond Committee focused on the four-year needs for the programs, which includes aging infrastructure in all utility bond components.

Councilmember Jones noted that the Financing the Future Committee recommended that the utilities shift to operating as a true enterprise when the City establishes a stable source of revenue. He expressed concern that this forecast does not provide the City with a stable source of revenue for almost fifteen years.

Additional discussion ensued relative to the fact that bonds are proposed in the amount of \$10 million for each utility program (wastewater, water and gas systems); that the model projects a five percent annual rate increase in the first two years and then three percent in the following years; that the City of Mesa's population in 2025 is projected to be 650,000; that the ratio of employees to the number of citizens would continue to decrease in the future; that the capital portion of the Quality of Life Program will end in 2006; that service levels would be impacted if any bond questions were rejected by the voters; that the Proposition 400 funds require a 30

percent City match; that the City would be eligible for approximately \$565 million in regional Proposition 400 funds over twenty years, which would require the City to provide matching funds of approximately \$250 million; and that if the City failed to provide matching funds, the money would be returned to the pool and other cities could apply for the funds.

Transportation Director Jeff Kramer explained that under the scenario presented at this meeting the quarter cent tax for Transportation provides for the O&M requirements and the amount required to retire the existing Highway User Revenue Fund (HURF) debt and a small amount yet to be issued. He advised that the source of the matching funds would be GO bonds, and he noted that the City may not be able to accomplish that within the existing six percent limitation.

In response to a question from Councilmember Griswold, Mr. Kramer confirmed that if the sales tax increase failed on the ballot, the City would not have the necessary revenue for the Regional Plan matching funds or funds for the transportation O&M expense. He noted that without the required revenues, additional operational cuts would be required in 2008/09 in order to pay the existing HURF debt service.

Responding to a scenario suggested by Councilmember Thom regarding the possibility of not selling the existing bond authorization and utilizing the sale proceeds from the Pinal County water farm property to fund the transportation projects, Mr. Raines advised that the option could be considered. He stated that the City has approximately \$102 million in currently authorized bonds that have not been issued.

Additional discussion ensued relative to the fact that the spreadsheet being reviewed does not include any Proposition 400 matching funds; and that GO street bonds are planned to address the Proposition 400 matching funds if the City is able to issue the bonds under the six percent limit.

Mayor Hawker noted that agenda items 2 and 3 somewhat overlap, and he suggested that the Council discussion focus on a specific direction. He expressed support for a scenario that includes a sales tax increase to 1.8 percent, a secondary property tax levied for newly authorized GO bonds, and the sale of portions of the Pinal County water farm to address the existing debt service. He stated that he is comfortable placing the Utility Bonds on the May ballot, but he is not comfortable placing both the GO Bonds and a sales tax increase on the same ballot. Mayor Hawker noted that the deadline for a Council decision is December 19th.

Mr. Hutchinson proposed that the Council schedule a meeting on December 12th to further discuss the various scenarios and the sale of the Pinal County water farm property.

Mayor Hawker stated that he preferred the secondary tax because the rate is established to service the debt and interest payments.

Councilmember Jones noted that some businesses have expressed support for a primary property tax and that some have concerns regarding the impact of an increased sales tax. He advised that he is seeking additional input from the business community.

3. Discuss, consider and provide direction regarding timing and content of future bond election(s).

In response to a question from Mayor Hawker, Deputy City Clerk Linda Crocker advised that the deadline for calling a May election is January 16, 2006.

Councilmember Whalen expressed support for a sales tax rate increase in the range of 1.75 to 1.81. He stated a preference for the 1.75 rate along with a secondary property tax on new bond issues, and placing the sales tax increase, the City's first revenue source, on the May election without any bond questions. Councilmember Whalen also expressed support for the sale of the water farm assets over a period of time that is aligned to the implementation of a primary property tax. He stated the opinion that the primary property tax should be presented to the voters on the May ballot. Councilmember Whalen suggested that the property tax rate be adjusted annually based on the City's financial condition.

4. Discuss and consider possible changes to Desert Uplands lighting standards.

Councilmember Griswold advised that the developers have expressed support for Alternative C (see Attachment), which provides for area lights at subdivision entrances, as outlined in the Council Report.

It was moved by Councilmember Griswold, seconded by Councilmember Rawles, to direct staff to draft an ordinance to implement Alternative C.

In response to a question from Councilmember Whalen, Councilmember Griswold confirmed that under Alternative C, lights would be installed at the front gate of a gated community.

Mayor Hawker expressed opposition to Alternative C. He noted that he could support reduced lighting standards, but he recommended that lights continue to be installed at intersections.

Vice Mayor Walters concurred with the comments of Mayor Hawker.

Mayor Hawker called for the vote.

Upon tabulation of votes, it showed:

AYES – Griswold-Jones-Rawles-Thom-Whalen
NAYS – Hawker-Walters

Mayor Hawker declared the motion carried by a majority vote.

5. Discuss and consider continuation of the personal day benefit.

Mr. Hutchinson noted that financial information on the impact of the "Personal Day" is included in the Council packet.

Vice Mayor Walters noted that many employees will utilize their "Personal Day" during December, and therefore the total financial impact is not yet available. She expressed support for providing a "Personal Day" in the next fiscal year without implementing it as a permanent, on-going benefit at this time.

Councilmember Whalen noted that adding an annual "Personal Day Off" as a permanent benefit would enable Human Resources to include that information in their recruiting process.

It was moved by Councilmember Whalen, seconded by Councilmember Thom, that the City employee benefits' package include a "Personal Day Off" during each calendar year.

Upon tabulation of votes, it showed:

AYES – Thom-Whalen
NAYS – Hawker-Griswold-Jones-Rawles -Walters

Mayor Hawker declared the motion failed.

It was moved by Vice Mayor Walters, seconded by Councilmember Griswold, that City employees be granted a "Personal Day Off" during the 2006 calendar year.

Carried unanimously.

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

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

7. Scheduling of meetings and general information.

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

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

Monday, December 12, 2005, 4:00 p.m. – Police Committee - Cancelled

Monday, December 12, 2005, TBA – Study Session

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

Thursday, December 15, 2005, 8:30 a.m. – General Development Committee

Monday, December 19, 2005, 3:00 p.m. – Finance Committee

Monday, December 19, 2005, TBA – Study Session

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

Thursday, December 22, 2005, 7:30 a.m. – Study Session

Thursday, December 29, 2005, 7:30 a.m. – Study Session

8. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

9. Adjournment.

Without objection, the Study Session adjourned at 5:42 p.m.

KENO HAWKER, MAYOR

ATTEST:

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 5th day of December 2005. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

baa

Attachment (1)

There are a number of alternatives Council could adopt for this area of the Desert Uplands.

Alternatives

ALTERNATIVE A: LIGHT INTERSECTIONS ONLY

This alternative would be similar to the Desert Uplands standard for local streets, where a single light is placed at each intersection. It would also correspond to Scottsdale's standard of lighting intersections on collector and larger streets in areas with the density of dwelling units planned along Range Rider Trail. The lights would be low wattage (70 watts) at a relatively low mounting height of 25 feet. Under this alternative any public street intersections, and private street intersections for multi-unit developments would be lighted.

ALTERNATIVE B: NO LIGHTING

Providing no lighting on Range Rider Trail or other public streets would result in maintaining the dark character of the area. A higher risk of crashes can be expected under this alternative, although it is not possible to quantify the level of risk.

ALTERNATIVE C: AREA LIGHTS AT SUBDIVISION ENTRANCES

This alternative would not attempt to provide roadway lighting. Rather it would provide a low mounted area light (approximately 16 feet high) to be installed at the entrance to each multi-unit subdivision. This would serve to mark the location of the entrance to each subdivision, and provide some light for students waiting for a school bus on winter mornings. As with Alternative B, a higher risk of crashes can be expected under this alternative, although it is not possible to quantify the level of risk.

Fiscal Impact

Operation and maintenance cost for a streetlight averages \$84 per year per light. Thus eliminating or reducing the streetlighting requirement for this area would reduce future operations and maintenance costs by the number of lights not installed. The cost of responding to potential liability claims, if any, could vary widely and is unknown.

Concurrence

The Development Services Department and the City Attorney's office concur with the recommendation to maintain the existing Desert Uplands streetlighting standards.