



2005 CITIZEN BOND COMMITTEE

August 31, 2005

The 2005 Citizen Bond Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on August 31, 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
Bon Saemisch
Deanna Villanueva-Saucedo

COMMITTEE ABSENT

Scott Rhodes

STAFF PRESENT

Mike Hutchinson

(Committeemembers McHenry and Hisserich arrived at 6:04 p.m. and Committeemember Jenkins arrived at 6:15 p.m.)

1. Approval of minutes of previous meeting.

It was moved by Committeemember O'Neill, seconded by Committeemember Coons, that the minutes of the August 17, 2005 Citizen Bond Committee meeting be approved.

Chairman Jackson declared the motion carried unanimously by those present.

2. View 2005 Citizen Bond Committee Video.

Special Assistant to the City Manager Eric Norenberg reported that Mesa Channel 11 staff have produced a short video which briefly highlights the role of the 2005 Citizen Bond Committee and also the accomplishments of past bond programs. He advised that the video would be aired immediately prior to the start of the Committee's future meetings.

The Committee viewed the video.

Mr. Norenberg added that citizens can also access the video via the Bond Committee's page on the City's website.

3. Hear and discuss an overview of proposed partnerships with ASU Polytechnic and Mesa Community College.

City Manager Mike Hutchinson voiced appreciation to the Committeemembers for their willingness to serve on the 2005 Citizen Bond Committee. He reported that for the first time, the City of Mesa is proposing certain bond funding for Arizona State University Polytechnic (ASU) and Mesa Community College (MCC). He explained that with regard to ASU, the City is proposing to assist with various infrastructure improvements on ASU's campus, and relative to MCC, the City is considering assisting the college in establishing a presence in the downtown area. Mr. Hutchinson added that at a future Bond Committee meeting, representatives of both institutions would make presentations regarding the specific proposals.

Mr. Hutchinson commented that the City of Mesa is vitally concerned that ASU Polytechnic is positioned well and gains greater recognition in the region just like ASU's other campuses in Tempe and downtown Phoenix. He noted that it is important that the City is viewed as an active partner by ASU's administration in this regard. Mr. Hutchinson stated that the proposed infrastructure improvements (i.e. water, wastewater, storm drain and a street related project) are estimated to cost approximately \$33 million.

Mr. Hutchinson further indicated that with regard to MCC's downtown campus, staff is making progress in their discussions with MCC representatives and a consultant to assess the most suitable configuration of the facility, as well as funding arrangements. He stated the opinion that MCC's presence would be a major "lynchpin project" for the downtown area, improve the area's image, and attract individuals to the area. Mr. Hutchinson noted that the partnership would include not only addressing the infrastructure needs, but also the construction of certain buildings that could be utilized by the City and MCC.

Discussion ensued relative to the fact that Maricopa Community Colleges has recently received a significant amount of voter-approved bonding funds; that MCC has made a commitment to the City to use \$10 million for the construction of various buildings and is also considering utilizing additional bond monies for a nursing component at the downtown campus; that the Centennial Center is not currently included as a joint project between MCC and the City; and that the primary improvements would include the Electric Division assisting in building electric infrastructure around the central core.

Chairman Jackson thanked Mr. Hutchinson for his presentation.

4. Hear and discuss a presentation of the Electric Bonds.

Capital Improvement Project Administrator Anthony Araza addressed the Committee and provided a brief analysis of the manner in which the various bond programs would be presented to the Committee. He referenced, by way of example, the Water Bonds spreadsheet and explained that the document is divided into two sections: "Projects to be Funded with Remaining Authorization" and "Projects Requiring Additional Authorization." Mr. Araza explained that the

Committee's primary focus should be on those projects requiring additional authorization. He also stated that the spreadsheets highlight the specific projects in which the City intends to partner with MCC or ASU Polytechnic.

Electric Bonds

Utilities Manager Dave Plumb and Electric Division Director Jeff Gould addressed the Committee relative to this agenda item. Mr. Plumb reported on the City of Mesa's electric service area, the number of customers, revenue, and peak demand. He explained that the City currently has no electric bonds outstanding and that to date, all electric projects have been funded out of the utility's revenues. Mr. Plumb stated that this has created issues in terms of the amount of money that is available for supporting other City operations and suggested that by the Electric Division bonding some of its projects, it would come more in line with the manner in which the City has financed projects in the other three utilities.

Mr. Plumb referred to a PowerPoint presentation and briefly highlighted various City of Mesa/MCC development projects requiring new bond authorization; aging infrastructure replacement (transmission improvements, substation capacity upgrade, distribution 4kV conversion work, and pole and cable replacement program); the City's electric distribution system (the 5-7 year project to convert all 4kV lines to 12kV); the underground cable replacement program; and regulation related requirements.

Mr. Plumb responded to questions from the Committeemembers concerning the replacement of underground cable; the fact that staff anticipates only being able to complete one mile of replacement per year; and composite materials being utilized to replace wood and metal transmission poles.

Committeemember Saemisch expressed interest regarding possibly undergrounding some of the City's existing 12kV lines. He commented that Tempe has a program in which \$225,000 to \$250,000 is allocated per year to underground their older electric distribution lines and noted that he would like to see a similar program in Mesa. Mr. Saemisch acknowledged that such a project is often not included in the budget because of monetary limitations and questioned whether it would be appropriate to include it for possible bond authorization.

In response to Committeemember Saemisch's comments, Mr. Gould clarified that much of the City's underground infrastructure, such as conduit systems, is in place and would lend itself to such a program. He concurred that budgetary constraints in the past have been the primary reason that the Electric Division has been unable to underground the existing 12kV lines and also noted that staff felt it was more important to focus on replacement lines for maintenance and system expansion. He added that if the Bond Committee concurs with Committeemember Saemisch's suggestion, staff could include such a project as part of the Electric Division's requests for bond authorization.

Committeemember Saemisch requested that staff come back with a line item to address that issue.

Committeemember Gilbert expressed concerns regarding items 5, 13, 14, 15 and 16. He questioned how staff determined, for example, that items 14 and 15 (which represent projects at

a cost of \$30,000 each) are included in the bond program and upon which the City would incur interest costs, as opposed to being incorporated into the utility's operating budget.

Discussion ensued regarding the fact that if such items were bonded, it would accelerate the City's ability to improve the electric system and that such costs would otherwise have been paid out of the general revenues of the division; Mr. Araza advised that if it was the direction of the Bond Committee, staff would eliminate those types of projects and include them in the operating budget; and that one of the recommendations of the Financing the Future Citizen Committee is that a certain amount of utility funds be set aside that would normally be transferred to the City's general operating fund.

The Committee requested that staff research the following items and report their findings at the next Bond Committee meeting:

- Undergrounding of older 12kV lines.
- Providing historical information, if available, to substantiate the potential savings in terms of the installation/ongoing maintenance of composite material for transmission pole replacement.
- The net operating profit for the Electric Division.
- Items 5, 14, 15, 16 and 17 will be addressed further by staff.

It was moved by Committeemember Gilbert, seconded by Committeemember Hisserich, to preliminarily recommend to the Council that bond authorization for the Electric Program as proposed by staff, with the exception of items 5, 14, 15, 16 and 17, be approved.

Chairman Jackson declared the motion carried unanimously by those present.

5. Hear and discuss a presentation of the Water and Wastewater Bonds.

Water Bonds

Mr. Plumb and Water Division Director Bill Haney referred to a PowerPoint presentation displayed in the Council Chambers and provided a brief overview of the City's Water Division. Mr. Plumb reported that unlike the Electric Division, the Water Division services a much larger portion of the community. He offered a comparison of the customers (residential, commercial and multi-unit) for fiscal years 2004/05 and 2003/04 and advised that although there has been a 1% increase in growth, there has been a 4% decrease in consumption.

Mr. Plumb highlighted the Mesa Central Arizona Project Plant expansion, which was funded through previous bond elections. He also reviewed various items contained on the document entitled "Water Bonds – 9400" such as new development projects (i.e. raw water pipeline from CAP canal to South CAP WTP site and water treatment plant design; drill new wells; transfer station upgrade and pipeline on McKellips Road for CAP canal dryup transfers from Val Vista); aging infrastructure replacement; regulation related requirements (i.e. arsenic remediation); IGA requirements; water line infrastructure for WGA/ASU Polytechnic campus; and the additional estimated operation and maintenance costs and personnel costs added to the Utilities Water Division O & M Budget.

Committeemember Gilbert stated that for purposes of preapproval of these items, he would probably not ask staff to change anything. He requested, however, that for any items that are not linked by “design/build” in amount, staff consider those in the system to determine “the cost over time versus the payment outright.” Committeemember Gilbert also questioned item 97 (Asset Management System) and stated that it does not strike him as rational to predesign projects and then not do anything with them. He stated that he would be disinclined to pay for a study out of a bond authorization just because it does not have a useful life.

In response to Committeemember Gilbert’s comments, Mr. Araza clarified that item 97 is the study to address and establish an Asset Management System for the water utility system.

An extensive discussion ensued regarding item 97 (classified as PD – predesign); the fact that the Water Division had an estimated 38% return on its operating costs over the last five years; that the study would eventually evolve into the replacement of the utility’s aging infrastructure; that staff viewed the study the same as design and inspection costs; that the study would be bonded similar to the City’s master plans; and that because of the City’s current budget constraints, staff determined the Asset Management System would be a worthy investment for the utility system.

Committeemember Holtz expressed a series of concerns regarding item 97 and commented that he has a hard time understanding why the City would borrow money to conduct a preliminary study to look at Mesa’s water infrastructure. He questioned how the City would capitalize the cost and inquired if the City had a way of amortizing or breaking up the cost to different projects that it could capitalize. Committeemember Holtz said, as an example, that if there was one major project identified, staff could capitalize the costs and also do a return on investment analysis. He suggested that because that is not the case, the cost of the Asset Management System (\$500,000 annually for FY 2006/07 and FY 2007/08) should not be bonded, but rather paid out of the utility’s operating budget.

In response to a question from Committeemember O’Neill, Mr. Plumb explained that if the Committee voted in opposition to item 97, it would still be necessary for staff to conduct a study to address its aging infrastructure. He added that depending upon the recommendations of the Financing the Future Citizen Committee, funding may soon become available, but if that is not the case, the project may be delayed for two or more years. Mr. Plumb added that the Asset Management System would eventually result in substantial capital dollars for infrastructure rebuilding.

Committeemember Saemisch commented that in his opinion, he would consider the Asset Management System as a design requirement rather than a study. He stated that he does not view the project as an optional study, but rather a design that is inevitable in order to meet the needs of the community. Committeemember Saemisch also requested that staff provide the Committee with information regarding the overall asset value of the water utility.

Committeemember McHenry concurred with Committeemember Saemisch’s comments.

Committeemember Holtz reiterated his previous concerns, discussed Generally Accepted Accounting Principles (GAAP) with regard to the capitalization of the Asset Management System, and requested that staff provide the Committee with information regarding the City’s capitalization policy.

Chairman Jackson clarified that what staff is doing is merely seeking authorization for needed projects. He commented that the City's ability to bond such projects would be restricted to its ability to meet the operating and maintenance costs through various revenue sources that have recently been addressed by the Financing the Future Citizen Committee.

Committeemember Gilbert stated that with regard to the Asset Management System, he is not debating whether the project is necessary, but rather whether bonding, as opposed to paying for it outright, is the more appropriate method.

Further discussion ensued relative to water pressure issues at Dana Park and Fiesta Mall.

Committeemember Gilbert stated that he would prefer to avoid going line by line, with the exception of the Asset Management System, in his analysis of the proposals at this time. He reiterated his previous comments that if there are items that are not linked by "design/build" and are also less than \$50,000, he would like staff to provide more information regarding such projects.

It was moved by Committeemember Holtz, seconded by Committeemember Saemisch, to preliminarily recommend to the Council that bond authorization for the Water Program as proposed by staff, with the exception of the Asset Management System, regardless of the dollar amount, and if the items can be capitalized under GAAP (Generally Accepted Accounting Principles), be approved.

Committeemember Saemisch amended his second to the motion by stating that he would like staff to research whether the Asset Management System could be considered a Master Design Plan. He also requested information regarding the total assets of the Water Division.

Chairman Jackson clarified that the amendment to the motion is that the Committee would reconsider item 97.

Committeemember McHenry seconded the amended motion.

Chairman Jackson called for the vote.

Chairman Jackson declared the motion carried unanimously by those present.

Wastewater Bonds

Mr. Plumb provided the Committee with background information relative to the City's wastewater system including its growth in customers and revenue generated by the utility. He highlighted previous wastewater projects including the Northwest Water Reclamation Plant; new development projects; aging infrastructure replacement; regulation related requirements; IGA requirements; high profile projects, including the Wastewater Line Infrastructure for WGA/ASU Polytechnic Campus; and additional estimated operation and maintenance costs and personnel costs added to the Utilities Water Division O & M Budget.

Committeemember Saemisch commented that several years ago, the Mayor had requested that the Northwest Water Reclamation Plant, which is a major entrance to the City, be beautified with landscaping. He explained that a concept, which was to create an orchard effect of date palm

trees around the building and into the Riverview area, was approved by Council but never funded. He requested whether such a landscape project could be added to the Wastewater Program.

Mr. Plumb advised that the scope of item 20 includes fencing and limited landscaping at the Northwest Water Reclamation Plant. He stated that it has always been staff's intention to do more extensive landscaping, but said that the project was delayed in anticipation of a project such as Riverview at Dobson.

Chairman Jackson directed staff to research the issue relative to the landscape design referenced by Committeemember Saemisch and bring back information including additional monies in item 20 in order to fully landscape the Northwest Water Reclamation Plant.

Committeemember Saemisch advised that he was hired as the design architect for the Water Reclamation Plant and would need advice from staff as to whether it would be necessary for him to declare a potential conflict of interest when the Committee votes on item 20.

Discussion ensued regarding item 33 (Rehab Baseline Road/101 Siphon) and staff's efforts to complete that project; that with regard to item 14, Update Wastewater Master Plan/CMOM, staff will determine whether it could be directly allocated to a specific capital project; and that staff will also provide the Committee with the Wastewater Division's net operating return.

It was moved by Committeemember Holtz, seconded by Committeemember Villanueva-Saucedo, to preliminarily recommend to the Council that bond authorization for the Wastewater Program as proposed by staff, with the exception of item 14, that staff will come back with a recommendation regarding item 20, and that item 33 be escalated with the existing authorization, be approved.

Committeemember Saemisch amended the motion that staff come back with a proposal for item 14 if the item can be capitalized under GAAP.

Committeemember McHenry seconded the amended motion.

Chairman Jackson called for the vote.

Chairman Jackson declared the motion carried unanimously by those present.

6. Hear and discuss a presentation of the Natural Gas System Bonds.

Mr. Plumb introduced Gas Division Acting Director Mike Comstock and referred to a PowerPoint presentation in the Council Chambers outlining the City's natural gas service territory. He reported that the division serves not only a portion of the City of Mesa, but also a large territory outside the area called the Magma Gas System. He discussed the City's purchase of the Magma Gas System and the fact that the system serves approximately 236 square miles in Pinal County. Mr. Plumb added that the remaining customers in Mesa are serviced by Southwest Gas Company.

Mr. Plumb highlighted previous projects funded by bond elections (remote supervisory control and data acquisition (SCADA) towers, increased real time data acquisition; reduced site visits to

charter recorders); new development projects (i.e., infrastructure development for continued growth of the system in the City and Magma, third gate station for Mesa); aging infrastructure (gas line replacement); and additional estimated operation and maintenance costs and personnel costs added to the Utilities Gas Division O & M Budget.

Discussion ensued relative to the fact that the City of Mesa provides builder incentives for homeowners to install gas in their homes and thereby generates ongoing revenues for the City; that natural gas rates are based on distribution and service charges; and the SCADA system.

Mr. Plumb indicated that item 29, Condition Assessment for Gas Aging Infrastructure, is an asset management issue similar to item 97 under the Water Program. He stated that staff would bring back information regarding the issue of capitalization as discussed previously. Mr. Plumb added that staff would also provide information regarding the Gas System's profits.

It was moved by Committeemember Holtz, seconded by Committeemember O'Neill, to preliminarily recommend to the Council that bond authorization for the Gas Program as proposed by staff, with the exception of item 29 which staff will bring back information on regarding the issue of capitalization, be approved.

Chairman Jackson declared the motion carried unanimously by those present.

Chairman Jackson thanked staff for the presentations.

7. Scheduling of meetings and general information.

Mr. Norenberg referred to a document entitled "2005 Citizen Bond Committee Tentative Schedule for Upcoming Meetings" and advised that a date has not been set for the presentations by the representatives of MCC and ASU Polytechnic. He suggested that it might be possible to include such presentations on October 19th prior to the Committee's final consideration of the bond package. He requested input from the Committeemembers.

A discussion ensued among the Committee and staff and the following suggestions were made:

- The Committee will continue to preliminarily approve the bond programs as they are presented.
- The Committee would prefer adding another meeting to the calendar in order to accommodate the additional presentations. (Mr. Norenberg would check on the availability of the Council Chambers for October 26, 2005.)
- The Committee would like the opportunity to discuss possible projects that have not been addressed by staff.
- That regarding the upcoming Parks and Recreation Program presentations, the Committee would like to be provided a map depicting the locations of the various projects.

8. Items from citizens present.

There were no items from citizens present.

9. Adjournment.

Without objection, the 2005 Citizen Bond Committee meeting adjourned at 8:45 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 31st day of August 2005. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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