



## MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

January 12, 2005

The Mesa 2025: Financing the Future Citizen Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on January 12, 2005 at 5:30 p.m.

### COMMITTEE PRESENT

Kyle Jones, Chairman  
Kirk Adams  
Jill Benza  
Don Grant  
Rex Griswold  
Greg Holtz  
Aaron Huber  
Eric Jackson  
Dennis Kavanaugh  
Mark Killian  
Robert McNichols  
Pat Schroeder  
Robin White

### COMMITTEE ABSENT

Pat Esparza  
Scott Rhodes

### EX-OFFICIO MEMBER

Keno Hawker

### STAFF PRESENT

Various Members

Chairman Jones excused Committeemember Esparza from the meeting. He also noted that Ex-Officio Member Keno Hawker was attended another meeting in Phoenix but hoped to join them later on.

### 1. Follow up on items from last meeting.

Chairman Jones stated that there were a number of questions and follow-up requests concerning the previous presentation from Neighborhood Services and said the members should have received that information by now. He added that if they have not, they should contact Denise and said she would make sure that they received the information. He added that they have also been provided copies of the seven fiscal year financial forecast.

Chairman Jones encouraged the members to submit questions and concerns to Denise as well, even pertaining to previous presentations and said if necessary the pertinent department heads would come back and respond to the members' questions.

2. Approval of minutes from the previous meetings.

The minutes of the December 8, 2004 meeting were approved unanimously by the members of the Committee.

3. Presentation on CIP issues.

City Manager Mike Hutchinson wished everyone a happy new year and thanked them for all of the hard work they have put into this process over the last year. He advised that he speaks to a lot of people about the workings of this committee and said there is a lot of interest in what is going on. He said that staff welcomes the opportunity to come back and provide any follow-up information the members would like to review.

Mr. Hutchinson stated that the two items on the agenda this evening are very important to the City and involve large dollar amounts. He said the first is a review of the City's Capital Improvement Program and noted that an extensive amount of planning with regard to capital facilities throughout the City is conducted. He noted that they are mandated by the City Charter to produce a Five-Year Capital Improvement Plan each year and added that in more recent years they have begun some long-term forecasting. He stated that the most recent effort is the 2025 Plan and said that Planning staff did a lot of work to identify needs in specific areas. He explained that public involvement was a strong component of the process. He informed the members that they were going to focus this evening on the first ten years of the forecast and point out items that staff does not believe can be funded over the next ten years. He commented that everyone has different priorities in terms of particular projects and said it appears to him that they don't have the dollars to do the projects that they've talked about, even in the restricted forecast, because of financial issues. He stated the opinion that it is helpful for the Committee to see the items so they gain a sense of what citizens and departments have talked about in terms of capital needs in all areas of the City, not just the utility areas.

Mr. Hutchinson advised that the second issue involves Citywide technology issues and commented on the significant changes that have taken place over the last 20 years. He said that the Information Services staff will highlight a presentation later on in the evening to provide the members with insight into what accomplishments have occurred as well as items that because of a lack of funding are not being done.

Capital Improvement Project Administrator Anthony Araza highlighted a presentation that provided a 10-year look at the 2025 Master Plan for all capital needs. (For detailed information on the presentation, please refer to materials distributed to the members.)

In response to a question from the Committee, Mr. Araza reported that the total cost of all of the capital improvements is \$2.3 billion. Mr. Raines responded to an additional question and said that the largest bond issue the City has ever done was approximately \$400 million. Mr. Araza noted that that was just authorization and Mr. Hutchinson added that "it doesn't pay the bill."

Chairman Jones thanked Mr. Araza for his presentation. He noted that the City recently held a bond election to build a new court facility but said that right now the Council is struggling with moving forward with that, simply because of the costs (debt payment, operation and maintenance costs and other associated expenses). He stated that despite the fact that the bond approve is there, that \$6 million has to come up every year and that's the type of challenge they face on any projects they try to do. He emphasized that the needs is there but the money isn't and this is a task

that has to be looked at very closely. He noted that from everything he has read and witnessed, Mesa has historically operated just at the point of “getting by” as far as maintenance, etc., and the tremendous downturn in the economy when the City was so reliant on sales taxes, has greatly impacted them. He said that Mesa is not on the same playing field as everyone else when they look at it that way, Mesa is operating on much less per capita.

Chairman Jones pointed out that the Art Center, because it is funded directly out of the Quality of Life Tax, does not have any debit on it, it is paid for in cash and hence the \$95 million actual cost. He expressed the opinion that as a committee this is going to be one of the most challenging issues they look at, Citywide needs without funding sources. He added that before becoming involved in these issues, he never realized that it is the operations and maintenance costs that really impact them over the long-term. He said a fire station could be built for “X” amount of money, but then when you add staffing needs, trucks and year-to-year on-going maintenance and operations costs, the final amount far exceeds the cost to build the initial building.

Committeemember McNichols thanked Mr. Araza for his presentation and said he had three questions. He stated that they are looking at a 20-year forecast when they start crunching numbers and staff has provided them with 10 years worth of capital needs. He asked how he suggests they treat the second 10 years of the study in terms of capital requirements.

Mr. Araza responded that the 10-year amount is “hard to swallow as well,” given the act that the 20-year CIP amount will probably just about “choke everyone.” He said they intended to provide the committee with a 10-year look initially and give the members and opportunity to “digest” that and come up with ideas no how they would improving the funding of capital needs. He noted that the budget forecast at the current time only goes out seen years. He explained that the projects have to undergo a prioritization process and said those projects still have to go through that process.

Mr. Hutchinson expressed the opinion that the second 10 years could be done based on some of the revenue streams for the first 10years. He said what that will do is reduce the second 10-year projects. He added that he doesn’t know what the number will be, but he believes that is the best way to do it.

Committeemember McNichols commented on the fact that infrastructure is not affected by that, it ages at its own pace so if there are transportation expenses and utility costs where they forecast the replacement of aging utility systems, those certainly can be forecast out beyond the 10 years because some of them are going to last 10 years and some are going to give out in 12 or 15. He said they need to be able to tell the Committee what their capital requirements are for known categories and stated that categories of infrastructure is one of the easiest to understand.

Mr. Hutchinson responded that staff could provide an estimate on water and wastewater and gas and electric, streets police and fire. He noted that when they get into libraries and parks, it becomes more difficult. Committeemember McNichols said they could peg them to population growth and demand per citizen, etc. Mr. Hutchinson commented that because of the revenue streams they have today, they are not doing libraries, parks and cultural items other than the Quality of Life fund. Committeemember McNichols stated that that makes it hard to extrapolate from existing expenditures because they are making up new staff that they might now have the money for in the future.

Committeemember Mc. Nichols asked Mr. Araza asked what the City’s current bond rating is and how that is affected by the City’s current financial condition.

Larry Given, the City's Financial Consultant, discussed the current bond ratings and said that the General Obligation Bonds are AA minus by Standard & Poore's and A-1 by Moody's. He added that the ratings have remained fairly standard except in some extremely downturns like the early 1990's when the real estate recession took place. He agreed that the City's ability to pay is the primary driver of the bond ratings. He added that in Arizona there are basically three revenue streams for all the cities except Mesa and that is a property tax, utility systems and sales tax. He stated that then they have the governmental sharing from the State, etc. He said that without a property tax, it has always been a challenge to maintain ratings in Mesa and emphasized that it puts the City at a comparative disadvantage.

Mr. Given reiterated that the agencies base their rating on the City's ability to pay looking at the revenue stream to the General Fund. He said that Moody's Investor Service take a more dynamic approach to things and conducts more of a comparative study between cities. He again emphasized that without the third source of revenue (a property tax) they have great concerns.

(Ex Officio Member Keno Hawker joined the meeting.)

Mr. Given advised that they hear firsthand last year that the City already set a precedent with Moody's and has been on their negative list for a downgrading in our bond rating. He said they have been on it for four years and the longest anyone is supposed to be on that list is three years but they have given the City a break. Mr. Given expressed the opinion that Moody's is giving the City an opportunity to address revenue issues (two versus three) and come up with a plan. He noted that they are very technical in their analysis. He stated that a lower bond rating primarily affects the cost of the money borrowed, the City would be charged more because of the risk involved.

Committeemember Killian asked whether staff has looked into what the typical cost per home would be if the City imposed a property tax compared to number of new businesses the City would have to attract in order to generate revenue through a sales tax stream.

Mr. Hutchinson responded that such a comparison has not been done but said he could tell them what would be generated if the City imposed a property tax compared to other cities. He noted that the information is reflect in the chart provided to the Committee and added that at the next meeting, they will review a chart that shows all of the revenue streams, property tax, sales tax, utilities, etc. compared to other cities. He added that they would discuss what kind of an income they would generate if Mesa had the same revenue streams as other cities.

Committeemember Killian emphasized the importance of knowing what that cost would be and asked whether the City touts the fact that it does not charge a property tax. He questioned why the lack of that tax has not helped the City. He stated that he would like to know what the City has in the pipeline, the status of the project in northwest Mesa, how much revenue it could generate and how much revenue or how many other projects like that could they bring to Mesa to generate the revenue needed to accomplish the goals.

Mr. Hutchinson advised that at the next meeting staff will provide a more extensive briefing on the City's economic development activities, broken down by regions within the City. He stated the opinion that the bonding companies like property taxes because they are a consistent source of revenue.

Committeemember Killian asked whether the threat of a decrease in the City's bond rating was eminent and Mr. Given said it was difficult to say for certain. He noted that Mesa has a very high level of debt associated with the CIP and noted that it costs the City all across the board. He stated that the bond ratings are important and the cost of borrowing is significant but not nearly as significant as the amount of debt. He added that one of the reasons why the City has not been downgraded is because of the aggressive nature of debt retirement in the past.

Discussion ensued relative to the fact that many neighboring cities are experiencing forecasted budget shortfalls and the conclusion to be drawn is that having a property tax does not necessarily mean that financial trouble can be avoided; the fact that the cities of Glendale, Tempe, Tucson and Chandler all have higher bond ratings for specific reasons; the fact that Chandler and Tempe are closer to the build-out stage than Mesa, the fact that Mesa has to deal with replacing aging infrastructure while meeting increasing new infrastructure needs; utility revenues and negative impacts that have occurred when larger companies go out of business or relocate (Motorola and Rosarita), the fact that in the early 1990's, the City of Glendale chose instead of restructuring or extending debt, they were going to increase the property tax rate and this is the type of action bonding companies look for; and the fact that other cities have implemented property taxes and have the ability to fund transportation out of the General Fund because of the property taxes.

Committeemember Holtz commented that the report is a good one but said if they look at the past 10 years and they compare the \$2.355 billion on this forecast, he would like to know what they have done and how much they should split it, if any. He also noted that Parks & Recreation has put in a figure of \$270 million and asked whether that was merely a "wish list." Mr. Araza estimated that on average approximately \$110 to \$125 million was expended per year or approximately \$1.4 billion over a ten-year period of time. He emphasized that although over the ten years the projects add up significantly, a significant amount of money represents land acquisition costs. Mr. Hutchinson added that the City cannot afford \$270 million and said he believes staff was trying to show the Committee what the master plan had reflected through the citizen process.

Committeemember Holtz noted that there are other figures that stand out as well, such as \$31 million for the Convention Center and \$43 million for Town Center and said during the next "round" he would like to see more realistic figures. He commented that even if the City implemented a property tax, based on the magnitude of the capital project funding requests, he does not believe the City's bond rating would change. Mr. Given stated that he does not know what the ratings would show but said he wouldn't count on receiving a bond upgrade. He added, however, that a property tax would, in his opinion, lessen the chances of the City's bond rating being downgraded.

Committeemember White pointed out that the City has not opened a new park over the last three years and said she doubts they will open any over the next three years. She stated that the monies for bonds are for the purchase of property for future parks only and expressed the opinion that it is prudent to continue in that manner.

In response to a question from the Committee, Mr. Araza reported that the Millennium Space Master Plan that he previously referred to involved interviews with departments regarding anticipated growth. He said that interviews were conducted in 2000 and updated in 2002. He stated that the projected needs are not based on a standard "2% across the board," it was based on the interviews of the different department about their specific needs.

Mr. Hutchinson informed the Committee that staff is meeting with various departments and telling them that there are not going to be any new people next year except for Quality of Life officers, the

12 officers whose salaries will be funded by the Quality of Life Program. He commented that when you are talking about a City the size of Mesa, 12 officers does not sound like a practical number but noted that this issue will be worked on as they go through the budget process.

Chairman Jones stated that there are those who perpetrated the myth that during the downturn, the City did not lay any people off, did not reduce staff at all, but said that in reality staff was reduced considerably because of attrition and other things. He asked how much the City reduced personnel during the downturn over the last few years. Mr. Hutchinson responded that he does not have the exact numbers with him but he would estimate that a couple of hundred positions were cut out of the budget. He added that they are also shifting people around in terms of when they leave and consider the current process to be a "selective hiring freeze." He said that the City was not going to put off hiring 9-1-1 operators, police officers, firefighters, meter readers, etc. but there were reductions in staff, 200 and probably more, as they continue to downsize the organization.

Mr. Hutchinson expressed the opinion that the City's services have degraded and said that realistically they can't get the job done with the people they have. He noted that demands continue to increase but the downgrade can be seen in the streets system and other areas throughout the City. He said they staff has attempted to minimize impacts as much as possible and emphasized that the City has great employees who are going the extra mile, working hard every single day, but there does come a time when the envelope cannot be pushed any farther.

In response to a question from Committeemember Huber relative to departmental priority projects, Mr. Araza explained that after the departments submit their needs and priorities, a priority ranking system occurs that takes into consideration a lot of criteria and then the projects are scored. He noted that the result is a master list of all of the projects that they use to determine which projects they can afford for the current fiscal year and which ones should be prioritized for future fiscal years.

Committeemember Huber asked whether the Committee could obtain a list of the various priorities within the groups (i.e. #1 for Parks & Recreation), perhaps the top five priorities. Mr. Hutchinson said that staff would prepare a list for the Committee to review.

Committeemember Jones commented that there will be a significant amount of discussion about these issues in the future and said it will be helpful to "plug in the real numbers" and determine where they are at.

Committeemember Griswold stated that he hopes the City can embrace more technology in the future and reduce growing employee costs.

Chairman Jones thanked staff for the presentation.

#### 4. Presentation on Citywide Technology Issues.

Information Services Director Karen Kille addressed the Committee regarding this agenda item.

Committeemember Adams commented that frequently when the public sector implements technology, it is done for two reasons, to improve the quality of service and to create efficiencies, which result in cost savings. Ms. Kille stated that most of the department's projects are to improve customer service and provide enhanced efficiency. She added that department's report that because of lack of personnel, our efforts enable them to keep up with the workload the best they

can. She emphasized that many departments are reluctant to state that if certain processes are implemented they will be able to reduce staffing or budget levels.

Committeemember Adams said that his business is operating at approximately one half of the employees he had six or seven years ago because of technology implementation and improvements. He asked whether the figures in her report are dollar figures or whether they factor in the declining cost of technology over time. Ms. Kille responded that the figures are pretty much today's dollars based on a percentage increase. She explained that they have found that individual item costs do go down but overall there is a greater demand for technology so costs tend to increase. Committeemember Adams commented that they are forecasting today's dollars for technology but don't know what the corresponding reduction in costs will be by implementing this technology.

Committeemember Killian said that when it comes to government and IT, there is not necessarily a lot of savings. He noted that the customers, the taxpayers, are used to the retail environment and pay their bills on line and expect government to react the same way as the stores at the mall or catalogues. He said as a result, government at all levels has had to change their systems and it is a very expensive process. He stated that a tremendous amount of savings is not realized as a result of paying bills on line, but the customer satisfaction increases and for convenience sake, they are willing to bear the added costs. He commented that as a result, there are a lot of risks associated with converting from the old legacy systems to the new systems. He asked whether the City has taken on the burden of the risk or whether they are trying to shift that onto the vendors.

Ms. Kille responded that staff has not done the kind of partnership approaches that the State has done.

Committeemember Killian expressed the opinion that staff should research whether the laws that were changed for the State apply to cities as well. He explained that there is a benefit sharing program whereby the vendors come in and frontload the costs of building the systems. He said that the State in this case doesn't have to write a check and the revenue to pay off the system is based on the additional revenues that come into the State based on the increased and/or new technology. He added that a baseline is established for revenues and any revenues that come in are directly attributed to the new technology and there is an 80/20 split. He added that the State doesn't have to hand out hundreds of millions of dollars all up front to pay for the new systems. He noted that the vendors take all the risks, they design the systems and they work with the State (or cities). He recommended that staff pursue this issue and said it might result in a significant amount of savings over a period of time. Committeemember Killian said that this could apply to any kind of system – sales tax, income tax, etc.

Mr. Hutchinson said that staff would look into this matter.

Discussion ensued relative to the fact that the City's method of implementing applications is a team approach that includes IT staff as well as other departmental staff who will use the system; the fact that most applications are brought about as the result of a procurement process and staff from both areas participate in the decision-making process; broadening processes to include electronic payments or registrations; the fact that the Council and staff are criticized by citizens who demand to know why the most up-do-date systems are not in place; the fact that when the 200 positions were eliminated, IT lost 20 positions because they were vacancies; the fact that the economy is not strong at the current time and employees are seeking stable positions; and the fact that salaries

appear to be competitive at this point, not the highest when compared to private industry but not the lowest either.

In response to a question from Committeemember Grant, Ms. Kille advised that staff attempts to solve most desktop issues via the telephone. She said that they have a remote access process and can actually gain access to the systems and fix most problems. She reported that 80% of the problems are handled by the Help Desk without having to go to the site. She stated that the department has not outsourced or talked about outsourcing the Help Desk. She added that when it is necessary to actually go to the site to determine and fix problems, that work is outsourced to a service provider who visits the desktops.

Committeemember Benza commented that the School District operates in a similar manner and said she is happy to hear that the City is going from client-based applications to a server-based product. She said she wonders whether the City is doing anything for employees (IT staff) to help them obtain the training they need to be able to work with the new technology. Ms. Kille responded that they do invest in training for their staff and retraining as well to move them from the mainframe environment.

Additional discussion (details in Committeemembers' packets) ensued relative to the fact that the department currently employs 153 people; the fact that the department contracts out for PC maintenance at a cost of \$300,000; the department's cost benefit analysis, equipment purchase and replacement; the fact that the department's budget is \$22 million and a request from the Committee for a breakdown of IT staffing.

Chairman Jones thanked Ms. Kille for her presentation.

##### 5. Current issues/miscellaneous items.

Committeemember Killian asked whether anyone had done an analysis on how much revenue Mesa has lost to Chandler because of the new mall. He asked how many of Mesa's citizens are shopping in Chandler and asked whether the City has a revenue sharing arrangement with Chandler. Mr. Hutchinson responded that they did not but added that it is an interesting idea. Committeemember Killian asked whether staff could look at the revenue that is coming in and determine exactly what kind of business, what kind of establishment, generates the most revenue and is the most lucrative for the City. Mr. Hutchinson said that that information is confidential and cannot be shared but added that auto dealerships do very well. He also commented that Costco's and Super Wal-Marts are also very high sales tax generators, the big box type venues.

Committeemember Killian said that he would like to know what other municipalities have done to attract businesses, what incentives they offer, etc. Mr. Hutchinson advised that the information will be discussed at the next session when incentives are addressed. He stated that staff will provide the Committee a chart at the next meeting that shows the incentives that were used on the east side of Scottsdale, Chandler, Mesa and Tempe.

Committeemember Kavanaugh commented on the fact that the economy has shifted to a service based economy over the past decades and it may not be as foreign a concept to people because the entities that provide the services consume City services and create demands on City services.

Chairman Jones commented that future discussions will include all kinds of possibilities and urged the citizens to attend the February 9, 2005 meeting and provide their input and suggestions. He

added that a capsule summary of what has transpired over the last few months is being prepared and will be released to the media well in advance of the meeting.

Additional discussion ensued relative to the importance of receiving citizen input; a request from Committeemember Killian for information regarding the deficit figures; and future discussions regarding revenues and growth.

Chairman Jones thanked everyone for their attendance at the meeting.

6. Items from citizen present.

There were no items from citizens present.

7. Schedule next meetings:

Wednesday, January 28, 2005, 5:30 p.m.

Wednesday, February 9, 2005, 5:30 p.m.

8. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 7:48 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Mesa 2025: Financing the Future Citizen Committee meeting of the City of Mesa, Arizona, held on the 12<sup>th</sup> day of January 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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