



# COUNCIL MINUTES

May 22, 2006

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 May 22, 2006 at 1:07 p.m.

## COUNCIL PRESENT

Mayor Keno Hawker  
Rex Griswold  
Kyle Jones  
Tom Rawles  
Claudia Walters

## COUNCIL ABSENT

Janie Thom  
Mike Whalen

## COUNCIL-ELECT

Scott Somers

## OFFICERS PRESENT

Christopher Brady  
Debbie Spinner

(Mayor Hawker excused Councilmembers Whalen and Thom from the entire meeting. He also noted that Vice Mayor Walters would arrive shortly.)

1. Hear a presentation, discuss and provide direction on budget issues, including the following:

a. Budget Overview

City Manager Christopher Brady commented that relative to the City of Mesa's financial structure, it has "a long way to go" in terms of gaining confidence and trust from its residents. He explained that this is especially true with regard to the manner in which public resources are utilized to provide City services. Mr. Brady stressed the importance of the City continuing to focus not only on its own financial accountability, but also on those entities that engage in business with the City of Mesa. He stated that the City would continue to utilize technology to ensure a more efficient delivery of services, improve customer service, and enhance Mesa's financial system. Mr. Brady added that future Council district meetings would be held to provide information to and solicit input from Mesa residents relative to the City's financial structure and its associated challenges.

Mr. Brady further spoke regarding the proposed realignment of services within the organization to meet reduced resources; performance and benchmark analysis; expansion of service areas and changing service delivery methods; and the improved flow of information and resources throughout the community.

b. FY 2005/06 Budget Status and FY 2006/07 Forecast

Budget Director Jamie Warner reported that staff prepared the FY 2006/07 Preliminary Budget based on the assumption that Mesa voters would approve neither the primary property tax nor a sales tax increase. He said that with the recent passage of the sales tax increase, such changes would be reflected in the Tentative Budget scheduled to be adopted by the Council at their June 5, 2006 Regular Council meeting.

Assistant Budget Director Chuck Odom provided a brief update of the FY 2005/06 year-end estimates, including a summary of significant revenue changes. He also reviewed increased local sales tax revenues; licenses and permits; State sales tax revenue sharing; fines and forfeitures; wages and benefits; other services; and commodities.

Mr. Warner discussed the FY 2006/07 Preliminary Budget, which incorporated \$24.6 million in reductions per the Council's "Cut List." He explained that the budget includes \$3 million in core enhancements for facility maintenance and an additional \$3 million for capital replacement. Mr. Warner noted that with the passage of the half-cent sales tax increase, current service reductions are now projected to equal \$13.7 million (as opposed to \$24.6 million) and said that an additional \$5 million in core enhancements would be included in the Tentative Budget.

Discussion ensued relative to the fact that the FY 2006/07 Preliminary Operating Budget would increase \$32.5 million over the FY 2005/06 Operating Budget due to increased retirement costs, Cost of Living Adjustment (COLA), Police Officer pay range adjustment, increased health insurance costs, gas and electric commodity purchases, debt service expenses, and fuel costs; that the General Fund Contingency would increase \$27 million over FY 2005/06 to establish a reserve towards the anticipated \$40 million debt service payment in FY 2007/08; the sales tax revenue forecast for FY 2006/07; Quality of Life and State-shared revenue estimates; the City's Enterprise Fund; and the fact that \$10 million in Pinal County Water Farm land sales are reflected in the FY 2006/07 water program revenues.

c. Quality-of-Life Program Status

Financial Services Manager Bryan Raines expressed appreciation to Financial Services and Budget staff members for their efforts and hard work relative to the preparation of no less than four budgets within the past few months. He noted that it has been an extremely long and arduous process and thanked everyone for their dedication to the City.

Mr. Raines provided a brief overview of a document entitled "Quality of Life Status Report" and advised that the upcoming fiscal year begins the ninth year of the Quality of Life (QOL) ten-year sales tax program. (The complete document is available for review in the City Clerk's Office).

Additional discussion ensued relative to the fact that on July 1, 2006, the sales tax revenues allocated to the QOL Program would decrease from one-half of one percent to one quarter of one percent; that for FY 2005/06, QOL revenues will exceed the budget by \$2.6 million, of which \$1.5 of additional capital/equipment expenditures have been allocated to the Police Department and \$1 million of additional capital/equipment expenditures have been allocated to the Fire Department; that Mesa anticipates \$615,000 of additional reimbursements of Local Government Investment Pool (LGIP) losses at the end of the fiscal year; that \$3.1 million has been allocated to the Fire Department in FY 2007/08 for the construction of Fire Station 218; and that excluding

Carson Pool, \$20.5 million of QOL capital funds remain earmarked for future pool rehabilitation and construction projects.

d. Capital Improvement Program

Capital Improvement Project Administrator Anthony Araza offered a short synopsis of the 5-Year Capital Improvement Program (FY 2006-2011). His comments included, but were not limited to, the following: the total 5-Year Capital Improvement Program (CIP) budget is approximately \$860 million for five program areas (transportation, utilities, parks and recreation, general government, and public safety); that an estimated 87% of the total five-year budget amount consists of utility and transportation capital improvements; and that an estimated 66% of all capital projects are bond funded. Mr. Araza also briefly highlighted current and future CIP projects.

2. Hear a presentation, discuss and provide direction on the Utility Department budget, including:

a. Department Budget

Utilities Director Dave Plumb displayed a PowerPoint presentation and provided an extensive overview of the Utilities Department's proposed FY 2006/07 budget. (The complete PowerPoint presentation is available for review in the City Clerk's Office.) He cited a series of significant impacts on the Department including, but not limited to, the following: reduced funding for pole replacement, pole reinforcement and tree trimming, engineering consulting services, and training to meet regulatory standards; the fact that funding for Federally mandated arsenic removal in City wells is estimated at \$2.6 million in FY 2006/07 and \$8 million through 2010; that inadequate staffing in Utility Services continues to result in a delay in maintaining the water, gas and electric meter exchange/maintenance programs; that staffing in the Water Division is inadequate to properly maintain the water and wastewater systems; and that the maintenance of the water and wastewater infrastructure is currently in the "reactive repair" mode as opposed to scheduled preventative maintenance.

(Vice Mayor Walters arrived at the meeting at 2:07 p.m.)

Discussion ensued relative to the Utilities Department's debt service payments for FY 2006/07.

b. Utility rates and Terms and Conditions for the Sale of Utilities

Mr. Raines referred to a PowerPoint presentation entitled "FY 2006/07 Utility Rate Recommendations." He explained that staff has identified the following recommended rate increases for the upcoming fiscal year: Water – 6.6%, Wastewater – 5.0%, Solid Waste – 5.0% and Natural Gas – 5.0%. Mr. Raines advised that revenues equating to 2% of each of the adjustments would be retained as reserves for future debt service payments. He commented that the Solid Waste rate increase would include a .20/month charge to offset expenses related to the City hosting the Household Hazardous Waste collection events (to be billed only to residential customers). Mr. Raines added that staff is not recommending a rate increase for City of Mesa Electric utility customers.

Further discussion ensued relative to an analysis of Mesa homeowner charges for the current and proposed rate increases as compared to other communities; and an overview of the total

revenues, costs, total net income, net income as a percentage of revenue, and transfer as a percentage of revenue for each of the Electric, Natural Gas, Water, Wastewater and Solid Waste utilities through fiscal years 2005-2011.

c. Federal Environmental Compliance Fee

Environmental Management Director Christine Zielonka reported that staff is recommending a proposal to initiate a Federal Environmental Compliance Fee to support stormwater and air quality programs mandated by Federal and State regulatory requirements. She explained that the programs are currently funded by General Fund allocations. Ms. Zielonka stated that total compliance for the stormwater program would cost an estimated \$4 million, with an additional \$355,000 for storm drain infrastructure capital improvements. She added that the program to address specific control measures required under the Clean Air Act for particulate matter less than 10 microns (PM-10) would cost approximately \$249,000.

Ms. Zielonka provided an extensive analysis of the compliance program (stormwater and air quality control measures); stormwater program responsibilities; stormwater permit program; costs associated with the stormwater permit program (retention basin and storm drain maintenance, street sweeping, stormwater administration, public education and compliance inspections); and the Air Quality PM-10 Program.

Ms. Zielonka concluded her presentation by commenting that \$4.6 million has been budgeted in FY 2006/07 for the stormwater and air quality programs, with unfunded needs amounting to \$1.4 million (a total cost of approximately \$6 million). She explained that staff is proposing a \$3 per month fee to be assessed on all residential and commercial City utility accounts, which would generate approximately \$4.4 million in revenue, with a projected shortfall of \$1.6 million. She added that alternatives to staff's recommendation include continuing to fund the costs associated with the programs through the General Fund; reduce the fee amount to provide only partial cost recovery; or increase the fee to \$4.09 per month per account to fully fund the compliance programs.

Vice Mayor Walters suggested that staff research the possibility of Mesa charging a fee for the inspection of industrial or commercial sites located within the community. She stated that the City should attempt to recover the cost of conducting such inspections from the individuals who benefit from the service and not disseminate those fees throughout the community. Vice Mayor Walters added that relative to the City's arsenic remediation efforts, she urged that the City's water bills reflect the fact that a portion of the water utility rate increase is being passed on to the customers in order to recover those costs.

Councilmember Rawles questioned whether assessing a fee to the City's utility customers is the most equitable way in which to recover costs for the environmental programs. He requested that staff research whether other options are available prior to the Council taking final action on the matter.

Further discussion ensued among the Council relative to this agenda item.

Mayor Hawker stated that it was the consensus of the Council that staff proceed with the implementation of a Federal Environmental Compliance Fee. He cautioned, however, that if the proposed utility rate increases are approved, the Council might wish to address the timing for

the implementation of the fee to ensure that Mesa residents are not “hit too hard” with various increases at the same time.

Vice Mayor Walters stated that it might be appropriate for staff to consider a fee that is less than \$3, especially in light of her previous suggestion that Mesa impose an inspection fee for commercial and industrial businesses.

3. Hear a presentation, discuss and provide direction on compensation and organizational issues.

Mr. Brady displayed a PowerPoint presentation in the Council Chambers and offered a brief overview of this agenda item. He reported that the proposed pay and benefit recommendations include the following:

- Provide a Retirement Health Savings Program for employees to contribute pre-tax earnings.
- Initiate steps to implement a performance pay system during FY 2007/08.
- Institute moderate increases in employee medical and dental premiums beginning in December 2006.
- Provide a market range adjustment to the salaries of Police Officers, Sergeants, Lieutenants and Commanders.
- Increase monthly car allowance by \$50 for eligible employees.
- “Range and Step” Employees – Provide a 2.5% Cost of Living Adjustment (COLA) and two Personal Leave days annually.
- “Open Pay Range” Employees – Provide a 2% COLA and three Personal Leave days annually.

Mr. Brady also highlighted various organizational changes he is proposing such as those divisions that currently report through the General Services Department being reassigned to the Deputy City Managers, an Assistant to the City Manager, and other City departments. He explained that pending the hiring of an Economic Development Manager, the efforts of Falcon Field, Williams Gateway Economic Activity Area, Town Center and Economic Development would be consolidated under the management of Deputy City Manager Debbi Dollar. Mr. Brady stated that a program to share Public Information and Communications resources throughout the City is underway and added that a review to optimize the organizational structure of the Police Department has been initiated.

Discussion ensued relative to the possible update of the City’s financial reporting system.

(Mayor Hawker declared a recess at 3:30 p.m. and reconvened the Study Session at 5:00 p.m.)

4. Review items on the agenda for the May 22, 2006 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: 3, 7n, 7q, 9c (Hawker-Whalen); 7m (Griswold-Hawker);  
7o (Hawker); 9a (Whalen); 9f (Griswold)

Items deleted from the agenda: 8b

Items added to the consent agenda: None

Items removed from the consent agenda: 8f, 9q

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

Councilmember Griswold: Williams Gateway Airport Authority Board Meeting.  
25<sup>th</sup> Anniversary of the Salt River Tubing Event.  
Tour de Phoenix Bicycle Race Meeting.  
Lunch meeting with Police Chief candidates.

Vice Mayor Walters: National League of Cities Community and Economic  
Development Steering Committee Meeting.

6. Scheduling of meetings and general information.

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

Tuesday, May 23, 2006, 7:30 a.m. – Study Session

Thursday, May 25, 2006, 7:30 a.m. – Study Session

Monday, June 5, 2006, TBA – Study Session

Monday, June 5, 2006, 5:45 p.m. – Regular Council Meeting

Monday, June 8, 2006, 7:30 a.m. – Study Session

5. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

6. Items from citizens present.

There were no items from citizens present.

7. Adjournment.

Without objection, the Study Session adjourned at 5:28 p.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 22<sup>nd</sup> day of May 2006. 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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