

FINANCE COMMITTEE MINUTES

October 10, 2000

The Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on October 10, 2000 at 4:00 p.m.

COMMITTEE PRESENT

Bill Jaffa, Chairman
Dennis Kavanaugh
Mike Whalen

COUNCIL PRESENT

Keno Hawker
Jim Davidson

OFFICERS PRESENT

Mike Hutchinson
Barbara Jones

1. Hear an update on preparations for the development of a two-year City budget and multi-year revenue forecasts.

Budget Director Jamie Warner addressed the Finance Committee relative to this agenda item and explained that at Council's request, staff is currently developing a two-year City budgeting process which will commence with the 2001/02 and 2002/03 fiscal years. Mr. Warner noted that the system will continue to be structured with each year containing a baseline budget and budget adjustment requests will be submitted on top of each baseline year. Mr. Warner stated that City management will present a preliminary budget to the Council and will identify requests and estimates for two fiscal years as well as revenue for each year's budgets. Mr. Warner indicated that it is the recommendation of staff that the Council review both fiscal year budgets, in addition to the unfunded supplemental requests, and eventually adopt the first fiscal year budget plan while recommending the second fiscal year budget plan.

Mr. Warner commented that in addition to the two-year budget process, staff has also been directed to establish a five-year revenue/expenditure forecasting system to evaluate cash flow management and current/future service needs. Mr. Warner remarked that such a system is also in development and is projected to be completed by April of 2001. Mr. Warner added that City departments will identify supplemental requests over the first two fiscal years and will use the same system to identify changes in growth, anticipated legislation, current levels of service and additional proposed or requested services above that over a five-year period. Mr. Warner indicated that the City is currently utilizing an on-line access system, which staff is in the process of rebuilding to service the multi-year budgeting and forecasting system. Mr. Warner outlined key budget calendar dates (See Attachment).

Chairman Jaffa thanked staff for the presentation and questioned when staff anticipates seeking additional bond authorizations for the citizens.

City Manager Mike Hutchinson advised that staff will develop recommendations for consideration.

Chairman Jaffa stressed the importance of creative planning in order to secure park land.

Mr. Hutchinson noted that the City historically holds bond elections on a four to five year cycle. Mr. Hutchinson stated that should the Council follow this timetable, a bond election would be held in 2004. Mr. Hutchinson discussed difficulties associated with getting the State to put the park land on hold, but said that staff is expending effort to pursue this important matter.

In response to questions from Committeemember Kavanaugh, Mr. Warner clarified that in accordance with public notification/public hearing requirements contained in the City Charter and State law, Council is required to formally adopt the first fiscal year budget plan and may recommend the second fiscal year budget plan. Mr. Warner added that from a flexibility standpoint, if budget adjustments are warranted between the first and second year, the City can legally respond and modify the budget. Mr. Warner commented on the fact that the same requirements will apply to the establishment of preliminary utility rate adjustments each year. Mr. Warner said that there would be an opportunity for input, notice and public comment relative to the second year budget and utility adjustments.

Discussion ensued relative to the fact that staff will forecast revenue expenditures in the first year to create a carryover that will be used to finance the second year; the fact that population, workload and calls for service projections will be estimated based on historical trends and potential anticipated changes in Federal or State legislation or demographics, and the fact that the second-year budget preparation cycle will be significantly lessened.

Mr. Hutchinson expressed the opinion that the implementation of a multi-year budget process will present challenges and will be a learning experience.

In response to a question from Mayor Hawker relative to Master Plan Updates, Mr. Hutchinson clarified that staff will not be able to provide Council with transportation and park costs for the first-year budget, but will be able to provide such information the second year.

Discussion ensued relative to the fact that with regard to the five-year financial forecast and the Capital Improvement Program, City departments will identify project costs and operational maintenance costs as a part of the supplemental request forms utilized to calculate the standard level of service; the fact that the ½ cent sales tax component of the forecast will be established as a separate fund and set aside as a restricted fund; the fact that budget adjustments will be enacted by major categories, and the fact that such a system will permit City departments to update or expand information at times other than during the budget process.

Mayor Hawker requested that when sufficient technology is in place, staff expand the budget process to 20 years to enable the City to match revenue with bond debt repayment.

Chairman Jaffa thanked Mr. Warner for his presentation.

2. Hear an update on the consultant's review and update of the City's Development Impact Fees.

Assistant to the City Manager Bryan Raines provided the Finance Committee with a brief synopsis of this agenda item. Mr. Raines stated that in November of 1998, the City of Mesa initiated an impact fee program, and since its implementation, City revenues have increased from \$7.6 million to \$21.4 million. Mr. Raines stated that it is the desire of Council and staff to periodically review and update the program to reflect changes in Mesa's impact fees.

Mr. Raines commented that the review and update process will be conducted by the consulting firm of Jim Duncan & Associates of Austin, Texas. Mr. Raines added that the first phase of the review will focus on current impact fees for

water, wastewater, police, fire, parks, libraries and cultural facilities and an assessment will be made to determine if such fees are necessary, require adjustments, and whether they accurately reflect current market conditions. Mr. Raines noted that an additional evaluation will occur with regard to residential and commercial development. Mr. Raines indicated that a second phase of the process will entail an assessment of the potential expansion of impact fees into other areas not currently addressed in the City's program, including governmental buildings, arterial streets and stormwater retention facilities. Mr. Raines outlined a tentative schedule for review of the City's impact fee program (See Attachment).

Mr. Raines remarked that impact fees from the black barrel and blue barrel programs, the new East Mesa Regional Library expansion, various park programs, and the City's expansion of the Museum for Youth have already benefited the City of Mesa.

Chairman Jaffa acknowledged Motorola's Manager of Civic and Strategic Programs, Greg Vargo, and thanked him for his attendance at the Finance Committee meeting. Chairman Jaffa also welcomed newly appointed Deputy City Manager Paul Wenbert.

Committeemember Kavanaugh expressed the opinion that the revised cost estimates of various City construction projects such as the aquatic center and the performing arts center illustrate the necessity for timely reviews of impact fees.

Discussion ensued relative to the impact fees and what they may and may not be used for.

In response to a question from Committeemember Kavanaugh, Mr. Raines stated that in order to legally establish a new level of service, the City would be required to raise the level of service throughout the existing community and once the level of service has been increased using General Fund dollars, the City could implement an impact fee that would correspond to providing that level of service.

Committeemember Whalen questioned whether the City could impose impact fees for transportation costs (including buses and light rail) based on either the current level of service or future projections. Mr. Raines advised that the City's current level of service does not include light rail and staff would need to focus on arterial streets and buses.

Committeemember Kavanaugh stated the opinion that assessing impact fees on residential development adds a timeshare component to that purchase because that residential homeowner is really paying for his/her share of the costs for police and fire, library, parks and cultural programs that they are entitled to as a resident of the City.

In response to a question from Chairman Jaffa, Mr. Raines stated that when the consultants perform an analysis on different area parks, police and fire items, they take into account what the bond is in each of those areas and what the City's projects are currently in process in those areas that are being bond-funded. Mr. Raines added that the impact fees may then be used to pay a portion of that debt service, but cautioned that the City must be careful to use impact fees to pay debt service on facilities that were built after the actual implementation date.

Discussion ensued relative to the fact that impact fees are cyclical, bond authorization and issuance, and the fact that the study being prepared by the consultant will include all current bond information.

Chairman Jaffa thanked staff for their presentation.

3. Discuss and consider recommendations pertaining to the abatement of privilege sales tax on sales of aviation fuel.

Tax and Licensing Director Don Ayers presented the Finance Committee with a brief overview of this agenda item. Mr. Ayers explained that in 1987, State law was revised to exempt the sale of aviation fuel from the State Transaction Privilege retail classification. Mr. Ayers commented that based on correspondence with the companies which sell aviation fuel at Williams Gateway and Falcon Field airports, staff determined that all taxpayers in this class failed to properly collect and remit taxes on these types of sales. Mr. Ayers added that under Section 5-10-546 of the Mesa Tax Code, if it is determined that 60% or more of the persons in an affected class have failed to properly account for their taxes due to the same misunderstanding or misapplication of tax laws, the City may enter into a closing agreement with affected taxpayers. Mr. Ayers noted that the purpose of the closing agreement would be to abate past tax, interest and penalties that the affected taxpayers have failed to remit and to commence payments prospectively, which is staff's recommendation.

Councilmember Kavanaugh stated the opinion that staff's recommendation is consistent with Council's intent regarding the 1996 Taxpayer Bill of Rights and that it is a fair approach when an entire class has failed to appropriately account for their taxes.

It was moved by Councilmember Kavanaugh, seconded by Committeemember Whalen, to recommend to the Council that staff's recommendations relative to the abatement of privilege sales tax on sales of aviation fuel, be approved. Carried unanimously.

Chairman Jaffa thanked staff for their input.

4. Discuss additional issues for committee consideration at future meetings.

Chairman Jaffa requested that staff provide input on the impacts of commercial, industrial and residential uses on the City's revenue and income streams, including the amount of income associated with each class of development. Chairman Jaffa stressed the importance of providing information such as this to the Mesa 2025 Shared Vision Committee.

Committeemember Kavanaugh expressed the opinion that an important issue for the Finance Committee to consider at a future meeting is the impact of Internet sales on the City's tax base. Committeemember Kavanaugh also advised that Congress will be considering legislation which could potentially affect Mesa.

Committeemember Kavanaugh said that if the State of Arizona requires all local jurisdictions to conform to one local sales tax rate, this action would remove the ability of local cities to impose a separate sales tax.

Committeemember Whalen spoke in support of additional input from staff relative to the source of Mesa's revenue stream for the first mile segment of light rail into the City that is proposed to occur between 2004 and 2006. Committeemember Whalen added that he has recently become aware of the availability of matching Federal funds, which could be earmarked for construction of the second mile segment of light rail into the downtown area. Committeemember Whalen added that unless a revenue stream is established for that purpose, Mesa will be ineligible to apply for those funds.

Mr. Hutchinson assured the members of the Finance Committee that one of the goals of the Joint Master Plan Update is to examine the City's revenue stream requirements and added that recommendations will be forwarded to the City Council regarding the establishment of revenue streams to qualify for Federal funds.

5. Adjournment.

Without objection, the Finance Committee Meeting adjourned at 5:05 p.m.

Finance Committee
May 18, 2000
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I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the meeting of the Finance Committee of the City of Mesa, Arizona, held on the 10th day of October 2000. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this ____ day of _____ 2000

BARBARA JONES, CITY CLERK

Attachments

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City Council Report

Date: October 5, 2000
To: City Council
Through: Mike Hutchinson
From: Dan Brewer
Subject: Status of Multi-year Budgeting and Five-Year Revenue/Expenditure Forecasting

Purpose and Recommendation

The purpose of this report is to inform the City Council on the status of biennial budgeting and five-year forecasting for the City. This report will identify the new projected budgeting process and discuss some of the policy issues that will face the Council as the City moves towards a biennial budgeting process starting with the 2001-02 and 2002-03 fiscal years.

Background

When the current Council was seated in June, one of the goals expressed was to establish a two-year budget process to help evaluate short-range impacts on more than just a single fiscal year. With concurrence of the City Council a system has been started to create a biennial budgeting system where City agencies and the City Manager will be requesting appropriations over two fiscal years and identifying forecasted revenues over the same period. The City Council will then review both fiscal years during the final phase of the budget process each spring. The City is in the process of converting the present on-line budgeting system to a biennial system. The system will still be structured with each year containing a baseline budget and budget adjustment requests submitted on top of each baseline year.

Also, there was the desire to establish a five-year revenue/expenditure forecasting system to evaluate cash flow management and current/future service needs. This system is also in development and is projected to be complete by April of 2001.

Discussion

The budget process will continue to be based upon a modified zero-base budget system with a baseline budget identified by minor object code and function. Then each dollar above the baseline amount will be identified on a program basis. It is still anticipated that the City Council will meet in November to identify any areas of interest or concern that should be reviewed by City Management during its creation of the Preliminary Biennial Budgets. With the biennial budgeting process, each department will prepare separate fiscal year request with a baseline and budget

adjustment requests identified for each individual fiscal year. The City Manager will then prepare budget recommendations for each of the two fiscal years to be submitted to City Council. The City Council will review both fiscal year budgets along with the unfunded supplemental requests and eventually adopt the first fiscal year budget plan while recommending the second fiscal year budget plan. During the following fiscal year, budget review and adoption for the second year will occur in compliance with key dates according to state law and the City Charter.

Since this is a new budget process for the City, some new issues will need to be addressed and have policies established. They include but are not limited to the following:

Will the City Council want to establish preliminary bond sale amounts for both fiscal years to establish interest/principal budget amounts for both fiscal years in November 2000? These will affect the amount of allocation for baseline dollars to each RC in the City.

Will the City Council want to establish preliminary utility rate adjustments for calculating available revenues towards baseline figures for each of the fiscal years.

The five-year revenue/expenditure forecast will be presented in April of 2001 to the City Council prior to reviewing the Preliminary Budget Plans for the biennial periods. The intent of the forecast is to identify the cost to maintain the current service levels and the cost and timing of expanding services to meet projected demands. This system will identify the projected costs and an estimate of available revenues during the forecast period. This will allow a review of cash balances over the forecast period so Council can identify long range strategies to obtain desired results.

Key budget calendar dates are tentatively identified as follows:

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|--------------|---|
| Mid November | City Council meets with the City Administration to provide direction for the development of the biennial budgets 2001-02 and 2002-03. |
| Mid April | City Council reviews five-year forecast of revenues and expenditures. |
| Early May | The Preliminary Budget Plan for two fiscal years are submitted to the City Council for review. |
| Mid May | City Council reviews budget plans with City department staff. |
| Late May | City Council identifies areas for further review by the Administration. |

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| Late May | City Council identifies changes to either year of the Preliminary Budget Plans to create the Tentative budget for fiscal year 2001-02 and the Tentative Recommended budget for fiscal year 2002-03. |
| June 4 | City Council adopts the Tentative Budget for 2001-02 and identifies the Tentative Recommended Budget for 2002-03. |
| June 25 | City Council adopts the Final Adopted Budget Plan for 2001-02 and identifies the Recommended Final Budget Plan for 2002-03. |

Concurrence

While the change to biennial budgets affects every department, this document is being presented as a status on our progress to-date. The Budget and Research Division will continue to work with the individual departments to implement this program.

Jamie Warner, Staff Originator

Dan Brewer, Management Services
Manager

Debbi Dollar, Deputy City Manager

Mike Hutchinson, City Manager

City Council Report

Date: October 6, 2000
To: City Council
Through: Mike Hutchinson
From: Bryan Raines, Assistant to the City Manager
Subject: Impact Fee Review - Schedule Summary
Citywide

Purpose and Recommendation

The following is an update on the tentative timeline for the updating of the City's development impact fees.

Background

In November, 1998 the City of Mesa initiated an impact fee program. This date marked the change from the previous water, wastewater and residential development fee program to one of specific, targeted, impact fees for residential and commercial development. Included with this program was the stated requirement to periodically review and update the program to reflect changes in the City's. The City is currently involved in the first phase of this periodic update.

Discussion

As planned, it is the intent of the City to break this review into two sections. To provide the required professional expertise to ensure the continued accuracy, applicability and legality of Mesa's fees the City has retained a consulting firm, Jim Duncan & Associates of Austin, Texas to assist in this review.

The first of the two sections is currently in process. In this section the established impact fees for water, wastewater, police, fire, parks, libraries and cultural facilities are being reviewed to determine if the fees accurately reflect current market conditions or if they require adjustment (up or down). Also, as part of this initial review, the specific categories for residential and commercial development are also being evaluated to ensure that they remain appropriate.

The second section of this review process will evaluate the potential for expanding the coverage of impact fees into other areas not currently addressed in the City's program. These include governmental buildings, arterial streets and stormwater retention facilities. This section of analysis is not anticipated to begin until the first "adjustment" section has been approved by Council.

Following represents a tentative schedule for the review of the City's impact fee program.

| | |
|--|---------------------|
| Presentation of the Fee Revision draft to the Finance Committee and City Council. Section #1 | First week of 12/00 |
| Public review of the Fee Revision draft | 12/00 through 01/01 |
| Council approval of Fee Revisions | late 01/01 |
| Presentation of the Additional Fee draft to the Finance Committee and City Council. Section #2 | late 01/01 |
| Public review of the Additional Fee draft | 02/01 through 03/01 |
| Council approval of Fee Revisions | late 03/01 |

It should be noted that additional time for analysis, review or public input may be required which are not reflected in this schedule.

Fiscal Impact

The specific fiscal impacts of this review will become more apparent as recommended adjustments are evaluated. It should be noted though, that as with any elastic revenue source, the revenues derived from impact fees are reflective of the condition of the economy in general and the development and construction market specifically.

Concurrence

While many departments benefit from impact fees, this report is being provided only as a status update and other department's concurrence were not sought.

Bryan Raines, Asst. to the City Manager

Mike Hutchinson, City Manager