



OFFICE OF CITY CLERK

## AUDIT & FINANCE COMMITTEE MINUTES

February 14, 2008

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on February 14, 2008 at 9:36 a.m.

### COMMITTEE PRESENT

Claudia Walters, Chairman  
Tom Rawles  
Darrell Truitt  
Christopher Brady, Ex-Officio

### COMMITTEE ABSENT

None

### STAFF PRESENT

Bryan Raines

Chairman Walters noted that City Auditor Gary Ray requested an opportunity to introduce his staff to Committeemember Truitt, who was recently appointed to the Council. She added that Mr. Ray holds one of the few positions that report directly to the Council.

Mr. Ray introduced Senior Internal Auditors Jennifer Ruttman and Gerry Faccone.

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2. Hear a presentation, discuss and provide direction on the audit of the Mesa Cemetery – Fee Collection and Processes.

Mr. Ray reviewed the objectives of the audit (a copy is available for review in the City Clerk's Office) and noted that the four corrective action plans provided to staff received a positive response. He stated that Audit personnel would conduct a follow up review within eight to twelve months.

In response to a question from Chairman Walters regarding the Christmas Wreath Program, Assistant Parks, Recreation and Commercial Facilities Director Kelly Rafferty advised that the fees and charges include an amount to cover the City's administrative costs related to this program.

Golf and Cemetery Supervisor Don Flavell came forward to address the Committee and reported that a five-dollar administrative fee was included in the charge for each wreath, which covered the cost of staff's time, materials and postage.

Chairman Walters thanked staff for the audit report.

3. Hear a presentation, discuss and provide direction on the audit of the Human Resources Department – Employee Recruitment Advertising Costs.

Mr. Ray advised that this item is a follow-up report on an audit originally conducted on November 14, 2006. He advised that the recommended corrective actions were implemented, which resulted in a reduction of newspaper advertising costs by more than 50 percent.

4. Hear a presentation, discuss and make a recommendation on changes to the annexation process including modifications to the Planning and Building Safety fee schedules.

Deputy Building Safety Director Tammy Albright displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office) and advised that staff's methodology for calculating fees is based on the premise that all development should pay for itself as if the property had been developed within the City's boundaries. She reported that the current annexation fee for properties of five acres or less is \$270 and for properties in excess of five acres, the fee is \$500.

Ms. Albright said that staff is proposing a flat fee of \$500 for each application and \$100 for each additional parcel, which represents a thirteen percent cost recovery. She noted that these costs have been maintained at a low cost recovery rate in order to encourage annexation.

In response to a question from Committeemember Rawles, Development Services Director Christine Zielonka noted that the costs reflect the fact that many departments (such as Fire, Police, Code Compliance, Utilities and Transportation) are required to perform inspections of the property in addition to staff discussions regarding the City's ability to provide services.

Responding to a request from Committeemember Rawles for data on the amount of staff time required for a specific case, Ms. Zielonka stated that she would provide that information.

Committeemember Truitt questioned the flat fee concept and suggested that the fee could escalate based on the size of the parcel in order to obtain a higher level of cost recovery.

Ms. Zielonka advised that Zoning has a number of sliding scales for other processes based on acreage. She noted that a large, vacant 2,000-acre parcel could require less staff time than a smaller, complicated parcel. She added that staff could develop a fee proposal based on the number of acres if that was the direction of the Committee.

Committeemember Truitt advised that he was primarily interested in recovering a greater percentage of the costs.

City Manager Christopher Brady stated that staff attempted to simplify the process by proposing a flat fee. He noted that the location of a small parcel in relation to the available utilities and streets could offer a significant challenge. Mr. Brady added that staff would welcome suggestions. He explained that the analysis considers the additional State-shared revenues generated over a period of years compared to the costs to provide services.

Discussion ensued relative to the fact that State-shared revenues average approximately \$312 to \$316 per person; that there are many variable costs associated with unique parcels; and that the cost to a property owner for annexation could include street improvements.

Ms. Albright continued the PowerPoint presentation by noting that the Transportation & Infrastructure Committee (TIC) appeal fee is proposed to reduce from \$1,500 to \$800 because the necessary research would be completed at the annexation review stage. She stated that this amount represents 100 percent cost recovery for approximately ten hours of staff time.

In response to a question from Committeemember Truitt, Ms. Albright said that when staff provides an analysis to an annexation applicant, the applicant has three options: 1) agree and move forward with the annexation; 2) disagree and withdraw the request for annexation; and 3) appeal certain conditions of the annexation to TIC. She confirmed that the cost for staff to conduct research regarding the annexation would be unrecoverable if the applicant withdrew the annexation request.

Ms. Albright advised that the City typically collects fees at the time a building permit is issued or as a condition of entering into a Utility Service Agreement. She advised that staff is proposing a new fee, an "Annexation Equity Fee," for the annexation of properties that received permits from the County and have not entered into a Utility Service Agreement. Ms. Albright said the fee calculation would utilize the impact fee methodology and the applicant would be responsible for off-site improvements or in-lieu payments.

Ms. Zielonka explained that the properties requesting annexation after being developed in the County are currently not paying any fees.

Further discussion ensued relative to the fact that the City should not provide an incentive for properties to be developed in the County; that properties developed in the County prior to annexation would have the same impact on City services (fire, police and utilities) as properties developed in the City; and that the fees charged should be equal to the cost of developing in the City.

Responding to a question from Chairman Walters, Ms. Zielonka advised that the Deputy City Manager presently has the authority to waive the requirement for street improvements if a determination is made that a street is not likely to be developed in the future. She noted that the applicant could still appeal to TIC regarding the requirements.

Additional discussion ensued regarding the fact that the Deputy City Manager determines when the requirement for street improvements can be waived; that the Deputy City Manager has the authority under the Code to make appropriate changes to the requirements that are in the best interest of the City; and that staff informs an applicant when it is determined that a street is unlikely to be developed.

Ms. Albright reported that if the City had annexed 100 percent of the 42 applications received between April and November of 2007, the City could have collected \$650,000 under the proposed fee structure (\$350,000 in equity fees and \$300,000 for in-lieu payments and improvements). She advised that under the present system the City actually collected \$67,000 (\$36,000 for Utility Service Agreements and \$31,000 for in-lieu payments). Ms. Albright said that staff plans to present the proposed zoning changes and new guidelines to the Planning and

Zoning Board in February, after which the entire package would be presented to the Council in March or April.

Ms. Zielonka stated that based on the Committee's discussion, it was her understanding that staff is being directed to review and provide additional information on the Annexation Equity Fee, determine the amount of staff time required for the process, and propose other options that could increase the amount of cost recovery.

Committeemember Rawles noted that based on the discussion, it would not be necessary for staff to provide him with the data that he requested earlier.

In response to comments from Committeemember Truitt, Ms. Zielonka confirmed that if the proposed Annexation Equity Fee had been in place during the past year, many of the approved annexations might not have been processed. She added that staff has been concerned regarding the manner in which small "spot" annexations have increased the costs of City services.

Chairman Walters noted that utilizing the Glendale model for allowing the annexation of individual parcels increases the cost burden for existing residents, which raises a question of fairness.

Mr. Brady said that in some cases the annexation of a small development may benefit the City in terms of having public safety and code compliance influences and land use planning in that area. He noted that a failure to address certain areas now could result in negative consequences in the future. Mr. Brady added that the City's available resources must be considered with regard to these issues.

Ms. Zielonka advised that annexation applications currently in the system would not be affected by any changes to the fee structure.

Responding to a question from Committeemember Rawles, Ms. Zielonka confirmed that a proposed Equity Fee of \$3,620 would not include the cost of the water or sewer line or connection to the system.

Further discussion ensued relative to the fact that the Council adopted a modified version of the Glendale annexation model in April 2007; that the proposed policy would require several developed properties located on the same street and requesting annexation to pay the in-lieu portion for street improvements for their frontage; and that under the current policy the City is responsible for maintaining the street and improving the street to City standards.

Committeemember Rawles expressed the opinion that the proposed policy would significantly reduce the number of requests for annexation.

Ms. Zielonka reported that approximately 3,600 County properties receive City water without annexation through a Utility Service Agreement. She explained that the proposal would exempt these properties from the Equity Fee because the fees were paid through the Utility Service Agreement.

Committeemember Rawles stated that although he understands the proposal for an equity fee, he believes that the fee structure is contrary to the intent of the policy adopted in April 2007.

In response to a question from Committeemember Truitt regarding the \$80 per foot cost for street construction, Ms. Zielonka said that staff would provide him with an engineering estimate of the costs. She noted that in-lieu fees could be deferred at the City Manager's discretion for large, commercial projects with collateral, and she stated that staff would investigate the legality of deferring in-lieu fees to a later date or enabling payment over a period of years for smaller projects.

Chairman Walters suggested that the City provide assistance to groups of residential properties that may wish to create a Special Improvement District, and she requested that staff explore that option.

Additional discussion ensued regarding the fact that some County roads in subdivision areas have been improved to a level slightly less than City standards; that the County may not be maintaining the roads in the areas around "wildcat" subdivisions; and that roadways constructed in the County to within 90 percent of City standards would be accepted by the City.

Committeemember Truitt advised that there are many fixed costs and statutory requirements associated with the formation of an Improvement District, and he stated the opinion that this would be a cumbersome process for a small group of properties to undertake.

Ms. Zielonka stated that the Committee has provided staff the necessary direction to proceed.

Chairman Walters thanked staff for the presentation.

#### 5. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 10:25 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 14<sup>th</sup> day of February 2008. I further certify that the meeting was duly called and held and that a quorum was present.

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LINDA CROCKER, CITY CLERK