

# FINANCE COMMITTEE MINUTES

October 11, 1999

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 11, 1999 at 8:35 a.m.

## COMMITTEE PRESENT

John Giles, Chairman  
Jim Davidson  
Bill Jaffa

## COUNCIL PRESENT

Keno Hawker

## STAFF PRESENT

C.K. Luster  
Jan Amdahl  
Anthony Araza  
Neal Beets  
Dan Brewer  
Candace Cannistraro  
Linda Crocker  
G. T. Fowler  
Joe Holmwood  
Mike Hutchinson  
Karl Kohlhoff  
Wayne Korinek  
Dorinda Larsen  
Jeff Martin  
Keith Nath  
Kathy Pace  
Joe Padilla  
Ellen Pence

## STAFF PRESENT (CONT.)

David Plumb  
Bryan Raines  
Tom Remes  
Jan Strauss  
Jamie Werner  
Mike Whalen  
Larry Woolf  
Others

## OTHERS PRESENT

Larry Givens  
Sam Montez  
Others

1. Hear a presentation and consider the Annual Financial Report for the fiscal year ending June 1999.

Finance Director Larry Woolf introduced Sam Montez, a Manager with the auditing firm of KPMG, which has performed City of Mesa audits for the past several years. Mr. Woolf stated that as the audit reflects, an operating fund balance of \$52 million remained at the end of the fiscal year, which reflects a \$9.5 million increase over the previous year. Mr. Woolf noted that this 22% increase does not include Quality of Life funds that were carried forward into this year and added that the \$24 million this represents is restricted and remains in the City's General Fund. Mr. Woolf informed the members of the Committee that the City's General Enterprise Fund, which is the area of funding typically reviewed by the various bonding companies, is in the best condition it has been for the past four years. Mr. Woolf also reported that the City's sales tax growth decreased from 7% the previous year to 6.4%, but noted that the City experienced significant increases in the construction building area and reported that number of new residential building permits issued reflected a 35% increase over the previous year. Mr. Woolf added that sales tax revenues generated as a result of construction activities reflected a 20+% increase and the City's impact and development fees generated in excess of \$20 million, compared to \$14 million the previous year.

Mr. Montez commended the City's Finance Department staff on their expertise and reported that the City of Mesa continues to issue Comprehensive Annual Financial Reports approximately two months prior to other municipalities. Mr. Montez provided the Committee with a brief overview of KPMG's audit of the general-purpose financial statements of the City of Mesa for the year ended June 30, 1999.

Mr. Montez stated that the responsibility of the auditing firm is to provide an opinion on the general-purpose financial statements of the City of Mesa based on the audit and added that Government Auditing Standards also require the firm to report their opinion of the City's internal control over financial reporting in addition to the results of tests performed to determine compliance with certain provisions of laws, regulations, contracts and grants.

Discussion ensued relative to the fact that the firm did not determine that any transactions occurred for which there was a lack of authoritative guidance or consensus, the fact that the City did not adopt any new accounting policies during the year ended June 30, 1999, that there were no material changes in the application of other existing accounting policies in Fiscal Year 1999, audit adjustments, and other issues associated with the audit.

Additional discussion ensued relative to the importance of balancing City revenue streams, the fact that staff will continue to review the issue of impact fees charged by the City, the importance of remaining competitive, the fact that the City's electric utility is a viable revenue generator, the fact that other communities have implemented property taxes, the City's bond rating, potential impacts of the citizen initiatives which will be on the ballot of the March 2000 Primary Election, and the fact that when the City sells bonds, it is required to ask the voters to approve the sale and a property tax is approved to cover that process.

It was moved by Committeemember Davidson, seconded by Committeemember Jaffa, to recommend to the Council that the Annual Financial Report for the Fiscal Year ending June 1999 be approved.

Carried unanimously.

2. Discuss and consider the recommendations for a Fall 1999 Bond General Obligation and Highway User Revenue Bond Sale.

Assistant to the City Manager Bryan Raines and Finance Director Larry Woolf addressed the Committee relative to this agenda item. Mr. Raines advised that in order to provide an adequate reserve of bond funds to pay for the completion of several significant capital projects which remain to be started during the current fiscal year, staff is recommending that the City initiate a \$38.5 million General Obligation and \$7.9 million Highway User Revenue Bond sale.

Mr. Raines added that staff is also recommending that, pending the outcome of citizen initiatives to be voted on at the March 2000 Primary Election, which may impact the City's Sales Tax revenue stream, several of the projects originally identified to be initiated this year, not be sold at this time and be delayed. Mr. Raines highlighted the projects staff is proposing to delay, which total \$7,832,085, and explained that until future revenues are identified, delaying the proposed projects will reduce the annual debt service expenses associated with the sale. Mr. Raines stated that in addition, the delay will allow future operational costs paid for with either General Fund revenues or half-cent sales tax revenues from the "Quality of Life" program to be saved until the availability of necessary revenues to operate these facilities are identified.

Mr. Woolf provided an overview of the City's debt structure as outlined in a handout.

Chairman Giles commented that the impact of the citizen initiatives on Mesa may amount to \$15 million and questioned why staff is only recommending that that \$7.8 million be delayed.

Mr. Raines explained that the \$7.8 million would be debt service and the annual cost would be lower. Mr. Raines added that there are a number of projects listed but many of them are service oriented and must be completed to meet increasing demands. Mr. Raines noted that additional recommendations may be presented at a future date.

Chairman Giles commented on his disappointment regarding the proposed delay in the construction of the sports center planned for Recker and Thomas Roads.

Assistant City Manager Mike Hutchinson stated the opinion that the proposed sport facility that will be built at Greenfield and McDowell, should address the needs of northeast Mesa residents for this type of project. Mr. Hutchinson said that the project will include four baseball fields and four soccer fields and added that staff's goal is to complete the sports center project by the Spring of 2001. Mr. Hutchinson informed the Committee that several conceptual plans have been developed for the Recker and Thomas sports facility and stated that staff will present the Council with those plans in the near future. Mr. Hutchinson commented that staff recommends that a public hearing be held regarding the sports center at this location to solicit public input. Mr. Hutchinson informed the Committee that the subject of golf courses will be discussed at the October 14, 1999 Council Study Session.

Committeemember Davidson commented on the serious financial impacts of the proposed initiatives on the City of Mesa and noted that the proponents of the measures have not proposed any recommendations to recuperate the revenues they are proposing be eliminated. Committeemember Davidson expressed concern regarding delaying the \$7.8 million in projects and stressed the importance of advising citizens that the proposed initiatives, if approved, will affect services and quality of life issues in Mesa.

Committeemember Jaffa concurred with Committeemember Davidson and said that public hearings should be held to educate citizens on the contents and impacts of the initiatives.

In response to a question from Committeemember Jaffa, City Attorney Neal Beets advised that the City may provide "factual" information relative to the initiatives and said that as elected officials, members of the Council are permitted to articulate their points of view. Mr. Beets reiterated that materials distributed to the public regarding this matter must be "factual" and said that the City can "explain" the initiatives but cannot take a position one way or another on the various issues.

Additional discussion ensued relative to scheduling a future bond sale, the fact that interest rates are increasing, and the fact that although the proponents of the initiatives are describing the financial impacts on the City as "insignificant," the revenues that would be lost represent approximately 1/7th of the City's Quality of Life Sales Tax, which is a significant amount of revenue.

It was moved by Committeemember Davidson, seconded by Committeemember Jaffa, to recommend to the Council that the Fall 1999 Bond Sale be approved and that bonds totaling \$7,832,085 for six projects originally identified to be initiated this year, not be sold at this time and be delayed until the future of the City's Sales Tax revenue stream is determined by the voters at the March 14, 2000 Primary Election, as recommended by staff.

Carried unanimously.

3. Discuss and consider placing various City bond questions on the March 2000 Primary Election Ballot.

Mr. Hutchinson addressed the Committee regarding this agenda item and noted that during the development of the FY 1999-2000 budget, the issue of depleted or reduced authorizations in several bond programs was

noted. Mr. Hutchinson said that since the budget was adopted, various City departments have prepared preliminary lists of significant capital projects that are anticipated to be needed over the next four fiscal years. Mr. Hutchinson advised that historically projects such as these have been funded from the sale of bonds and are in addition to the various capital projects identified under the Quality of Life half-cent program.

Mr. Hutchinson stated that staff is recommending that the City Council pursue the placement of nine individual bond authorization questions on the March 14, 2000 Primary Election ballot and said that preliminary estimates indicated that the total amount for the recommended authorizations is \$399,600,000. Mr. Hutchinson added that staff is also recommending that the City Council's Finance Committee serve as the coordinating group reviewing recommendations from various Council and citizen committees which will evaluate the requested projects contained in the nine selected programs.

Discussion ensued relative to staff's recommendation that the various Council committees and standing citizen advisory boards review the list and that their recommendations be forwarded to the Finance Committee which will provide a final recommendation to the City Council within the next three to four weeks, staff's intention to schedule the meetings if the proposal meets with the Committee's approval, staff's recommendations relative to the committees that would review the items, proposed publicity and the possibility of televising the meetings and the fact that programs are rebroadcast a minimum of three times, and a recommendation to hold the meetings at junior high schools.

Mr. Hutchinson stated that an additional option would be to have the various committees provide the Finance Committee with their recommendations, and the members of the Finance Committee would then present the list of projects to the citizens of Mesa at meetings held in junior high schools throughout Mesa. Mr. Hutchinson informed the Committee that staff will review this issue and provide recommendations on the best manner in which to proceed to gain the most input on this issue.

In response to a request for input from Committeemember Davidson, Assistant to the City Manager Ellen Pence stressed the importance of initiating a massive publicity program, combined with broadcast meetings from the Council Chambers (since staff does not have the ability to televise meetings held at the junior high schools), fact sheets, posting information on the City's web site, and news releases to the media. Ms. Pence emphasized that broadcasting the meeting is only one small part of the process and stated the opinion that Channel 11 has the ability to reach the most significant amount of people.

Chairman Giles clarified that the Committee is considering directing the members of the Finance Committee to review the various recommendations from the Council and citizen boards and committees and that the groups recommended by staff discuss and provide recommendations on the proposed authorizations they are assigned to review. Chairman Giles noted that in the past, a citizens committee was formed specifically for the purpose of providing recommendations on the appropriateness of all of the bond issues and requested input relative to the manner in which to proceed.

Mr. Hutchinson questioned whether Council committees, which possess long-term knowledge and experience dealing with the various projects, should provide recommendations to a "blue ribbon committee."

Chairman Giles stated that he prefers staff's proposal as long as it includes public comment in public hearing type meetings.

Committeemember Jaffa recommended that staff determine the type and amount of information that should be disseminated at the various meetings.

Councilmember Hawker stated that he prefers the concept of allowing the different committees to "fine tune" the proposals but encouraged the Committee to consider the formation of a "blue ribbon committee" that

would be represented by the Chairmen of the committees reviewing the various proposals. Councilmember Hawker stressed the importance of recruiting "blue ribbon committeemembers" from areas such as Dobson Ranch, retirement communities, and larger homeowners' associations in order to disseminate the most information and educate the citizens on the various issues. Councilmember Hawker stated that the "blue ribbon committee" would be charged with a final review of the items prior to submitting recommendations to the City Council.

Chairman Giles questioned whether citizen members could be added to the Finance Committee to expand that group into a "blue ribbon committee."

Mr. Hutchinson stated the opinion that a separate "blue ribbon committee" should be formed, the composition of which would be smaller than those committees formed in the past. Mr. Hutchinson clarified that the groups recommended by staff would review all of the projects and said that at the same time, the "blue ribbon committee" would be established. Mr. Hutchinson added that the various Council and citizen committees would make presentations and recommendations to the "blue ribbon committee" which would present final recommendations to the Finance Committee in approximately 45 to 60 days. Mr. Hutchinson said that public meetings would be held by the various committees and the "blue ribbon committee."

Chairman Giles concurred with Councilmember Hawker's comments and emphasized the importance of extensive citizen involvement. Chairman Giles noted that the only citizen advisory boards in place are the Transportation Advisory Board and the Parks and Recreation Board and said that the remaining committees are Council committees.

Mr. Hutchinson advised that staff will develop a revised proposal which will include the formation of a "blue ribbon committee" and said that the issue will be further discussed at the Thursday, October 14, 1999 Council Study Session.

City Manager Charles Luster said that this item will be placed on the agenda of the October 14th Study Session for full Council consideration.

4. Discuss and consider a staff recommendation to place a question regarding City Expenditure Limitations on the March 2000 Primary Election Ballot.

Mr. Hutchinson informed the Committee that in the early 1980's, the State Legislature, in an effort to control expenditures and limit future expenditure increases due to inflation and population changes, recommended an expenditure limitation for political subdivisions. Mr. Hutchinson stated that if no adjustment is made, the State imposed expenditure limit for the City of Mesa may be exceeded in FY 2001-02. Mr. Hutchinson added that the reason for the increase in expenditures is population growth and additional expenditures allowed based on the "Quality of Life" half-cent sales tax. Mr. Hutchinson advised that staff is recommending that the City propose to the voters at the March 14, 2000 Primary Election, that the Alternative Expenditure Limitation, known as Home Rule, be enacted to allow the City to expend revenues authorized by the citizens and City Council. Mr. Hutchinson noted that the voters will have the ability to reauthorize future expenditure levels every four years and said that this option will provide local control when establishing the annual budget for the City of Mesa.

Mr. Hutchinson noted that the City asked the citizens to approve Home Rule in 1982 and 1986 and said that the final extension lapsed in 1990 and has not been required since that time.

Budget Director Jamie Warner and Assistant to the City Manager Bryan Raines also addressed the Committee relative to this agenda item. Mr. Warner provided a brief overview of staff's recommendations and discussed expenditure limits, carry-overs, the importance of meeting future needs, the fact that 51 cities in the State of

Arizona currently use the Home Rule option, possible alternatives, and the fact that in all instances, should the voters fail to approve the limit question, the issue cannot be resubmitted to the voters until an additional two years have elapsed.

Mr. Warner emphasized that if the measure is approved, the adjustment would not occur until the next fiscal year and noted that two public hearings would have to be scheduled prior to Council action to place the issue on the ballot. Mr. Warner advised that staff is recommending that the second public hearing be held on December 13, 1999 and the first will be held during the prior week. Mr. Warner added that four public notices are also required and said that the Home Rule option must be approved by five of the seven members of the Council in order to place the issue on the ballot. Mr. Warner noted that the Auditor General's Office is required to review the City's information, including ballot language and the publicity pamphlet, within 60 days and said that they will forward any changes and/or adjustments to City staff.

It was moved by Committeemember Jaffa, seconded by Committeemember Davidson, to recommend to the Council that staff's recommendation to place a question regarding City Expenditure Limitations (Home Rule) on the ballot of the March 14, 2000 Primary Election Ballot, be approved.

Carried unanimously.

5. Discuss and consider 10-year revenue and expenditure projections.

Mr. Warner and Mr. Raines addressed the Committee relative to this agenda item. Mr. Raines stated that during the development of the FY1999-2000 budget, the City Council requested that staff prepare an analysis on projected future revenues and expenditures over a time line of ten years or more. Mr. Raines said that Mr. Warner has prepared assumptions and revenue forecasts and will provide an overview of the report distributed to the Committee. Mr. Raines emphasized that the items presented are for discussion purposes only and said that future adjustments will have multiplying effects on the various ten-year projections.

Mr. Warner stated that he reviewed the historical expenditures from 1991 to 1998 based on an annual average percentage change and a weighted annual average percentage change. Mr. Warner said that he has attempted to establish a range rather than a specific forecast line.

Discussion ensued relative to data included in the report, assumptions utilized in development the forecasts, including the continued addition of 147 to 150 full time employees each year and an annual increase of 3.5% in staff costs, revenue growth over the forecast period, projected program enhancements based on department identification and the Five Year Capital Improvement Program operation and maintenance costs, a forecast ending fund balance, a forecast ending fund balance representing the potential loss of food and services sales tax, and annual increases in water, wastewater and gas utilities.

Committeemember Jaffa thanked Mr. Warner for his presentation and expressed concern regarding the fact that the City of Mesa does not contain a signature development. Committeemember Jaffa commented on the importance of increasing the City's fund balances and recommended that information prepared for distribution to the citizens indicate the potential negative impacts of the passage of the citizens' initiatives on the City of Mesa.

Committeemember Davidson discussed a possible decrease in the number of full time employees and questioned what effect that action would create. Committeemember Davidson recommended that Mr. Warner contact the University of Arizona, Arizona State University and Salt River Project relative to forecasts those organizations have prepared.

Councilmember Hawker recommended that staff prepare a 20 to 25 year forecast for build-out for the entire community, including Williams Gateway Airport requirements. Councilmember Hawker also discussed enterprise accounts and stated the opinion that more consistent utility rate adjustments may be necessary in the future.

Committeemember Davidson requested that the additional information that will be compiled by staff regarding full time employees include breakdowns such as Police and Fire. Committeemember Davidson also recommended that this issue be presented to the full Council at a televised meeting.

Mr. Warner indicated his intention to further refine the report and provide additional information to the Committee.

Chairman Giles thanked staff for their presentation.

6. Adjournment.

Without objection, the meeting of the Finance Committee adjourned at 10:39 a.m.

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 11th day of October 1999. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this \_\_\_\_ day of \_\_\_\_\_ 1999

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BARBARA JONES, CITY CLERK