



MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

March 9, 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 March 9, 2005 at 5:30 p.m.

COMMITTEE PRESENT

Kyle Jones, Chairman
Kirk Adams
Jill Benza
Pat Esparza
Don Grant
Rex Griswold
Greg Holtz
Aaron Huber
Eric Jackson
Dennis Kavanaugh
Mark Killian

Scott Rhodes
Pat Schroeder
Robin White

COMMITTEE ABSENT

Robert McNichols

EX-OFFICIO MEMBER

Mayor Keno Hawker

STAFF PRESENT

Various Members

1. Follow up on items from last meeting.

Chairman Jones welcomed everyone and excused Committeemember McNichols from the meeting. He noted that included in the materials provided the members are copies of e-mails received from residents as well as Committeemembers in response to a request for input regarding discussions that have taken place. He said that the content of the e-mails would be discussed later on in the meeting.

2. Approval of minutes from previous meetings.

Chairman Jones stated that due to time constraints, the City Clerk's Office was unable to complete minutes for approval at this time and added that minutes would be approved at the next meeting.

3. Review and discuss Committeemembers' suggestions and proposals related to revenue alternatives and expenditure options.

Chairman Jones commented that after reading the e-mails received from various citizens, it felt it was important to clarify that the Committee is not simply looking at ways to generate more money for the City, they are looking at the whole spectrum of things that will provide the City better financial stability and attempting to identify ways to reduce costs. He emphasized that the Committee would not be making any decisions at this meeting or giving specific direction regarding any end results, the members are merely looking at issues/suggestions they want to evaluate further. He noted that the Committee's charge is to look at every possibility, the pros and the cons, and said that is why input is so very important. He said that as they complete that process down the road, they will be able to better evaluate which recommendations they want to move forward on.

Chairman Jones referred to a chart displayed in the Council chambers that contained a proposed Committee timeline and said if they plan to put any issues on the ballot for citizen consideration, the proposed timeline must be met by fall.

The first item that was raised was to *"ask the voters to extend a quarter cent Quality of Life Tax"* and explained that when the tax was implemented at a half cent, half of it was for capital improvement and half was for operation and maintenance costs. He announced that half of the Quality of Life (one quarter) sales tax will end on July 1, 2006 and emphasized the importance of looking at the impacts of that loss.

In response to a question from Ex-Officio Committeemember (EOC) Hawker, Financial Services Director Bryan Raines said that the ballot language spoke to how the accounting was going to take place as far as anything related to Quality of Life. He noted that it said the quarter cent tax would be used to operate those projects on an on-going basis. He said that staff has accounted for those separately in order to provide the voters and citizens information on how Quality of Life funds have been spent to date. He added that if that were to be "rolled back" into the overall General Fund and they continued those projects, he believed that could be accomplished but the ballot language did not speak to that. Mr. Raines stated that projections outside of the initial ten-year period indicate that there is a remaining fund balance of approximately \$17 million. He said that the City's revenue streams exceed expenses slightly so that balance grows over time from there on out. He advised that they are currently working on park expansions and stated that park developments that have been built with capital money from Quality of Life funds are utilized for those maintenance activities.

EOC Hawker said he was trying to determine whether the quarter cent tax has enough money to operate what has been built and it appears that it does. Mr. Raines responded to additional questions from EOC Hawker and advised that they would have to obtain an opinion from the City Attorney regarding the future allocation of those funds and whether they would be restricted to the ballot language or are available for other uses.

EOC Hawker commented that he can picture the Arts Center group coming forward and wanting the \$4.5 million forever and he would like to see the facility be more self-sufficient and have it be total cost recovery at some point. He said he would like to know whether they can always rely on those monies.

In response to a question from EOC Hawker, Mr. Raines stated that he does not know whether another election would be necessary in order to discontinue funding the Arts Center.

Discussion ensued relative to the fact that the funds are restricted to the purposes for which the voters approved the tax; whether the new funds, if extended, would be restricted to the same purposes or would lapse and the voters would be asked to approve a different tax with different restrictions or no restrictions at all; Chairman Jones' comment that the quarter-cent extension would be for whatever purposes they identify on the ballot; and the fact that the tax generates approximately \$20 million and staff had anticipated that the number would be closer to \$30 million.

Committeemember Griswold asked whether sufficient quality of life monies would be available to support two new pools if the City approves moving ahead with such a project. He added that it is not a problem building the pools, the problem is maintaining them. Mr. Raines advised that they have continued to hold an allocation of capital dollars totaling approximately \$25.1 million for construction of aquatic facilities. He said that as part of the City's operational plan, staff has accounted for just under \$1 million of ultimate operational expense for all new pools as well as the expanded current pools, so coverage is available.

Committeemember Griswold stated that he would like to see what it costs to operate one of the new pools per year. He said he knows that the City shares costs with the schools that the pools are located at, but wanted to know operational costs, that each pool will cost the City up to 25 years out.

Chairman Jones commented that other issues brought forward by citizens/members include instituting a property tax and said he is sure that there will be significant discussion regarding that item. He added that the pros and cons of reinstating the sales tax on food could also be addressed and pointed out that the loss of that tax resulted in an \$8 to \$10 million loss to the City a year. Mr. Raines said he believes it would take a vote of the people to reinstate that tax and added that Mesa, Tucson and Phoenix are the only major cities in Arizona without a tax on food.

Chairman Jones further stated that additional topics raises include instituting an impact fee for streets and roads. He said that although the City does have some impact fees, they probably need to have more in-depth discussion regarding how the impact fees are allocated, what they address and do not address and a comparison of Mesa's fees to other municipalities. He added that another topic suggested is consider selling the electric utility to Salt River Project (SRP) or condemn parts of SRP's system on an incremental basis to expand Mesa's service area.

In response to a question from Committeemember Rhodes, Chairman Jones clarified that he wants very limited discussion of what the Committeemembers are looking for at this time and said if there are issues that members want to specifically address at a meeting, they should simply be identified at this time so that staff will have sufficient opportunity to conduct research and provide the necessary information.

Additional discussion ensued relative to operating the utility in an enterprise role where they allocate so much funding to the General Fund and retain the other money within the utility to take care of infrastructure; the fact that it may be premature at this point to associate funding with the ideas until the Committee has narrowed down some of the philosophical underpinnings of where they want to go.

Chairman Jones agreed and said he believes the Committee will have one meeting entirely devoted to this issue. He added that if they do establish enterprise accounts, they have to determine whether it would be possible to run them fully as enterprise accounts and let them act just like a

business with their own surplus funds, projections for what they are going to need (replacement equipment, infrastructure, etc).

Additional discussion ensued relative to the feasibility of selling the electric utility, associated legal restrictions and what can and cannot be done; a suggestion that the Committee separate out the ideas that are on the revenue side from those on the expenditure side and then looking at them in greater detail; and the fact that the City does have the ability to expand its electric utility service area but would have to condemn the property to do so.

Chairman Jones reiterated that what they are trying to accomplish and emphasized the importance of evaluating all of the ideas that are brought up. He said if the Committee reaches a consensus that certain items will not work, then those items will be eliminated but he wants to at least have a discussion take place on the pros and cons of the ideas.

EOC Hawker stated that he would like the group to decide whether they want the utilities to be a source of revenue for the City. He said that if they do not want that as a revenue stream and want to go back to just providing it at cost, deliver the service, then that is going to have other ramifications. He added that they might want to sell the electric utility to generate more money and put it in some type of fund to draw interest from if it is deemed more profitable to operate in that manner.

Chairman Jones further stated that another issue raised was for the social services contribution, a mandatory \$1 tax-deductible charge added to all fees and charges for City services and fines. The Chairman said that this is an interesting concept and something that could be further discussed. He added that another item is whether the Amphitheater should be transferred to the Arts Center and the Amphitheater's proceeds be used to defray the cost of maintenance and operation of the Center. He commented that if the funds are allocated to the Arts Center, then Centennial Center will be negatively impact. Another item was whether the Convention Center should be closed and the property sold with the proceeds of the sale going to support the Arts Center and the City's museums.

Additional items included whether or not to sell the Civic Center to Mesa Community College for \$1.00 to assist in their expansion plans; selling the Convention Center at a fair market value to maximize the return to the City; the fact that they will be "top heavy" if they give everything to the Arts Center; a suggestion that the bed tax be increased and Mr. Raines' opinion that Mesa is about mid-pack as far as the tax; the fact that the tax in Mesa is a direct pass-through, the City collects the tax and it is provided except for a \$25,000 administrative fee that goes back to the Convention & Visitors Bureau which uses it to promote Mesa and the hotel/motel industry throughout Mesa; the fact that they also allocate funds to HoHoKam Stadium; a suggestion that after the Arts Center Opens that a small surcharge be added for event parking to help defray operation and maintenance costs of the MAC and City museums; the fact that the Mesa Town Center has come forward with a proposal to do a parking management plan in downtown and charge for specific events and those revenues would go back into the parking management plan to improve lighting, parking and parking opportunities in the downtown area; and discussions that have taken place regarding placing a surcharge on tickets at the Arts Center to help defray costs and establish a replacement reserve fund for some of the capital equipment (pianos, etc.).

In response to comments from Committeemember Rhodes, Chairman Jones emphasized the importance of reviewing each item for the benefit of the viewing public. He added that another suggestion was to authorize a franchise fee on SRP and the fact that a change in legislation would

be necessary to do so. An additional suggestion was to place advertising on City vehicles, no buses per se, but police vehicles, maintenance vehicles, etc. Mr. Raines noted that in the City of Phoenix, their fire trucks now contain an advertising component. He said that this type of advertising, sponsorship and naming rights appears to be a trend and added that San Diego is the leader in that industry.

Councilman Kavanaugh commented that the Council had discussions a few years ago regarding advertising on bus shelters. He said that this could easily be pursued but noted that the contrary issue is always one of content in terms of what would be placed on the shelters and in/on other areas. He agreed that it does present an opportunity to generate revenue.

Chairman Jones stated that it was also suggested that the City sell the 12,600 acres of water farms.

EOC Hawker commented that the members really need to see the water farm map because there are "out parcels" and some are closer to Coolidge, which might facilitate development in that area and not greatly damage what the City is trying to do as far as water resources. He added that some of the land might go industrial so it would be compatible with the City's long-term plans. He said that the City is currently tracking that and have had some updated reports but right now it is land banked for the water resources to ensure that the City's population projection does come in at what they anticipate.

Committeemember Griswold stated that he believes the City pays \$400,000 per year in lieu property taxes (rather than the \$100,000 listed in the documentation) and said the theory involved a gradual selling off and a revenue stream rather than "dumping" all the land. He questioned how the land was bought and what monies were used. He also asked what the monies could be used for if the land is sold.

EOC Hawker responded that the land was purchased as a Community Facilities District and bond funds did not buy it, it went through the Municipal Development Corporation.

Additional discussion ensued relative to possible land costs; the fact that because of the growth in Coolidge the land there is a hot commodity; the fact that another suggestion was to bring passenger service and increased cargo activity to Williams Gateway Airport; the fact that a lot is already been done in this area and it is just a matter of how soon it can come to fruition; a suggestion that the City charge \$200 per ambulance and fire truck dispatched (27,000 dispatches per year and 3,300 hospital runs); a suggestion to charge auto insurance companies \$200 for each time the Fire Department has to extricate motorists from bad collisions; the possibility of recouping some of the costs on public safety that the City currently pays; a recommendation that Falcon Field Airport be leased and that the leases be redone so that banks are able to loan with long-term leases; the fact that because that was a transfer from the Federal government, there may be restrictions that can be removed; a suggestion from Committeemember Rhodes that they also look at ground leases, and the fact that Falcon Field is currently a ground lease operation.

Committeemember Griswold provided background information regarding Falcon Field Airport and noted that in case of nuclear war, the property reverts back to the government for use as a fighter-training base.

Chairman Jones commented that another idea was to charge a rental tax on new rental property. He said that existing rental properties would be grandfathered in but as the property sells or new

property is built, a rental tax would be assessed. He added that this would especially apply to rental housing and four-plexes as part of the anti-slumlord laws.

Committee liaison Denise Bleyle advised that she conducted research on this issue and reported that in Mesa, if someone owns three or more residential rentals, they are required to pay a rental tax. She added that every commercial piece of property is already charged a rental tax. She estimated that approximately 13% of the General Fund revenues come from the rental tax. She reported that the City's rate is 1.5% and clarified that they have to own three or more properties in the state, not just in the City, in order to be required to pay the tax. She stated that she believes one property with 400 units would be considered on property but indicated that she will follow up on that.

Chairman Jones noted that another suggestion involved getting more use out of HoHoKam Stadium other than just spring baseball. Mr. Raines commented that they are looking at this in terms of maximizing baseball and bringing in adult tournaments. He said he believes this suggestion is more focused on concerts and things of that nature which would be an issue since residential housing is located across the street and to the east. He stated that a concert has been scheduled for the stadium in the near future.

Discussion ensued relative to an additional idea suggesting that the City determine with the Police Academy is necessary and a revenue generator; the fact that the Academy was built because Phoenix no longer had space to accommodate recruits; the fact that other agencies utilize the facility when space permits; discussions that have taken place regarding pursuing cost recovery; another suggestion was to look at the fees the City charges for services compared to the cost for providing the services; and one to effect that beginning the year after the start of a property tax (should one be proposed and approved) the City should change its method of presenting rates for Council approval to more closely resemble traditional rate proceedings.

The members of the Committee discussed the previous suggestion and it was the consensus of the Committee that this issue be further pursued.

Chairman Jones reported that another idea was to privatize garbage collection and EOC Hawker commented that Park Ranger positions could also be privatized. He said that there are probably a series of different service providers in the City who they may want to meet with and have them do a request to the open market that would allow them to be a bidder on them.

Committeemember Rhodes stressed the importance of the City competing as a private entity, which may even set up separate private corporations that are owned by the City for the purpose of doing that. He said that generally speaking private sector companies are very wary of going into any bidding process where the government entity will also be participating. He added that they assume it is a foregone conclusion who will be awarded the bid.

Additional discussion ensued relative to public/private partnerships and privatization; the fact that at the current time land is more valuable than water at the water farm; the fact that the Committee would have to obtain a legal opinion as to whether statutes are in place that would preclude the City from selling the water to other municipal or industrial users; the importance of having an in-depth discussion in the future regarding the pros and cons of this issue; previous discussion by the Council regarding holding onto the land until at least 2008 when they service the debt load that was paid off; irrigation service and the importance of continuing irrigation in the downtown area; the fact that the City is the number one customer of that service because of all the properties it owns; the

possibility of turning it over to SRP and having the City and its own people do their own irrigating; difficulties associated with being “the master of various businesses,” an additional suggestion that the City maintain a 10% to 20% head count as contract employees to increase the flexibility of down years and lower benefit costs; the fact that one of the biggest threats in the private sector to increasing costs is the cost of providing benefits; the possibility of utilizing temporary and part-time employees more than we do now as a matter of personal management and fiscal management; the down sides to contract labor and the fact that when there are two different workforces, one receiving benefits and one not, problems arise; and a suggestion that the contractor issue be a temporary issue and not a full-time employment practice to avoid negative repercussions.

Committeemember Rhodes expressed the opinion that it makes sense to identify certain project positions or certain positions where it would be more beneficial to the City to utilize contract employees. He added that the City should identify certain positions determined to be competitive in the sense that the best people are filling those positions and in other areas they should look at the fact that people want to work for the City of Mesa, some positions do not have to offer the best salary and benefits. He added that they need to figure out how to market the City and determine what is a reasonable salary and benefit package. He also emphasized the importance of taking into consideration the entire benefit package as well.

Discussion ensued relative to the importance of doing a better job in partnering with educational institutions to involve interns and externs; the possibility of utilizing third year ASU Law School students and having them replace highly paid attorneys; a suggestion that they do the same in other departments as well; the possibility of paying employees based on performance rather than longevity; Committeemember Killian’s opinion that the private sector employees are making more money; the fact that middle management often multi-tasks and assumes vast responsibilities; and the possibility of comparing mid-level private sector positions/salaries to those in Mesa.

City Manager Mike Hutchinson stated that staff will try to bring back information to the Committee on private sector comparisons and added that the City of Mesa did have an intern program in place but it had to be cut over the last five years due to the City’s financial situation. He agreed that the intern program helps develop good people and said he will provide the Committee with more data on this in the near future.

Committeemember White commented that many people are unaware of the fact that some of the City’s top positions, such as City Manager and City Clerk, are specialized fields and the staff has spent a lot of extra time obtaining certifications and specialized education in order to carry out their responsibilities.

Committeemember Jackson stated that he was impressed with the number of grants that several of the City’s departments had obtained and said he would like to see this area pursued. He added that he would like to see something in place that would provide employees incentives for ideas about providing more efficient service at a decreased cost.

Additional discussion ensued relative to whether the City can legally do and not do when it comes to providing salary packages and incentives; a suggestion that perhaps an attorney who specializes in this area could speak to the Committee; the fact that the City of Mesa has had an incentive award program in place over the last 20 years to award innovative ideas; and Mr. Raines intention to provide the Committee with information on the program.

Chairman Jones said it was also suggested that the City eliminate the fixed wing aircraft for police as opposed to the use of helicopters.

In response to a question from the Chairman, Mr. Raines reported that the City saves millions of dollars as a result of volunteers and said he would provide that information (a breakdown) to the Committee as well.

Committeemember Griswold spoke in support of having measured results in place and said he agrees with Committeemember White that performance based production should be in place and employees should be rewarded based on their accomplishments.

Chairman Jones said it was also suggested that staffing be reduced in some departments and/or some departments be combined and that the County jail be reopened in Mesa so that the City does not have to pay to transport prisoners to west Phoenix. Mr. Raines commented that the facility is being utilized but he is not sure what for.

Additional ideas included considering technology changes when looking at FTE counts and asking executives to come back to the Committee with their analysis and recommendations on how the City can become a leader.

Committeemember Adams emphasized the importance of having departments initiate internal controls to identify inefficiencies, correct them and develop cost saving ideas.

Additional discussion ensued relative to the importance of having sufficient personnel to provide the service levels needed in the community and the fact that reducing the number of employees is not necessary the right fix; the fact that measurements and outcomes are the responsibility of the City Manager and the Council and will be discussed in more depth; Mr. Hutchinson's staff and their goals/measurements/reporting mechanisms; a question regarding how the managers are actually operating within the framework of City government and Mr. Hutchinson's intention to provide more information on this issue including various performance management reports; the fact that the City Manager's role is to try to achieve efficiency and meet the Council's objectives through the budget; major goals and priorities; and the fact that every September the Council conducts a Planning Session and go through a facilitative process where the Council identifies issues and develop a Council Work Plan.

Committeemember Kavanaugh expressed the opinion that as they move forward in their discussions, they need to simplify their approach and recommendations. He added that he supports an outcome base budgeting process that encompasses many of the suggestions that they have before them because it encourages competition and resourcefulness. He emphasized the importance of letting the voters know exactly what the needs are, what funding is required to meet those needs and then letting them decide whether or not they want to fund the various projects. He said he is worried about streets, transportation, public safety and courts and hopes as they move forward they can come to some themes and try to fit some of these other suggestions within them. He said they need to talk about what processes they will use, begin to identify categories and then go back to their ideas and determine which ones will work and which ones will not.

Committeemember Griswold said that one of the tools they use to measure processes and efficiencies are surveys and spoke in support of the utilizing that tool.

Committeemember Adams agreed that the Committee needs to get a handle on the budget process. He said it's not a matter of going in an cutting positions, it is a matter of determining what the number one results they want for a specific activity and then aligning the funding to obtain those results. He also spoke in support of accountability and said once they determine what the process is, they can come back and "plug in the various details."

It was the consensus of the Committee that Committeemember Kavanaugh's points were well made and accurate.

Additional discussion ensued relative to the fact that the City is one year into a process called Activity Based Budget; a request from the Committee for additional information on this issue.

Chairman Jones said he believes they have identified the next step, looking at how they want to put the process together, looking at every aspect of it because population and inflation are great until build-out but that's not going to take care of the old infrastructure that has to be replaced. He thanked everyone who submitted information and ideas and encouraged everyone to continue to do so.

Ms. Bleyle indicated her intention to condense the report she put together as a result of the last meeting and remove repetitive comments and ideas.

Chairman Jones asked the Committee to indicate whether they would like to continue discussion regarding the budget process at the next meeting and it was the consensus of the Committee that they do so.

4. Scheduling of meetings and general information:

Wednesday, March 23, 2005, 5:30 p.m.

Wednesday, April 13, 2005, 5:30 p.m.

5. Items from citizens present.

There were no citizens wishing to speak at this time.

6. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 8:17 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 9th day of March 2005. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK